



MAG SILVER CORP.

(An exploration stage company)

*Independent Auditors' Report and
Consolidated Financial Statements*
For the year ended December 31, 2008

Dated: March 13, 2009

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 are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 CSA and SEC as required in Canada by Multilateral Instrument 52-109 and in the United States as required by the Securities Exchange Act of 1934.

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 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 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 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 is responsible for establishing and maintaining adequate internal control over financial reporting.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2008 using criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2008.

/s/ "Daniel MacInnis"
Daniel MacInnis
Chief Executive Officer

/s/ "Frank Hallam"
Frank Hallam
Chief Financial Officer

March 13, 2009

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
MAG Silver Corp.
(An exploration stage company)

We have audited the accompanying consolidated balance sheets of MAG Silver Corp. and subsidiaries (an exploration stage company) (the “Company”) as at December 31, 2008 and 2007, and the related consolidated statements of loss and comprehensive loss, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2008 and the cumulative period from incorporation April 21, 1999 to December 31, 2008. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of MAG Silver Corp. and subsidiaries as at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 and the cumulative period from incorporation April 21, 1999 to December 31, 2008 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2009 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ “*Deloitte & Touche, LLP*”

Independent Registered Chartered Accountants
Vancouver, Canada
March 12, 2009

Comments by Independent Registered Chartered Accountants on Canada - United States of America Reporting Differences

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the changes described in Note 2 to the consolidated financial statements. In addition, the standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that raise substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the Board of Directors and Shareholders dated March 12, 2009 is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles or permit a reference to such conditions and events in the auditors' report when these matters are properly accounted for and adequately disclosed in the financial statements.

/s/ "Deloitte & Touche, LLP"

Independent Registered Chartered Accountants
Vancouver, Canada
March 12, 2009

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
MAG Silver Corp.
(An exploration stage company)

We have audited the internal control over financial reporting of MAG Silver Corp. and subsidiaries (an exploration stage company) (the “Company”) as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Report of Management 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 and the cumulative period from incorporation April 21, 1999 to December 31, 2008 of the Company and our report dated March 12, 2009 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Differences referring to changes in accounting principles, and conditions and events that raise substantial doubt on the Company's ability to continue as a going concern.

/s/ "Deloitte & Touche, LLP"

Independent Registered Chartered Accountants
Vancouver, Canada
March 12, 2009

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

(expressed in Canadian dollars)

	December 31,	
	2008	2007
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 52,262,561	\$ 60,147,307
Accounts receivable (Note 3)	2,339,204	647,027
Interest receivable	81,934	173,308
Marketable securities (Note 4)	4,116	-
Prepaid expenses	110,151	49,668
TOTAL CURRENT ASSETS	54,797,966	61,017,310
EQUIPMENT AND LEASEHOLDS (Note 5)	66,539	22,116
INVESTMENT IN MINERA JUANICPIO S.A. DE C.V. (Note 6)	8,166,747	5,948,361
MINERAL RIGHTS (Note 7)	6,879,060	5,071,407
DEFERRED EXPLORATION COSTS (Note 7)	25,237,198	13,002,738
TOTAL ASSETS	\$ 95,147,510	\$ 85,061,932
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,503,417	\$ 637,180
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Authorized - unlimited common shares, without par value		
Issued and outstanding at Dec. 31, 2008 - 49,155,566 common shares (Dec.31, 2007 - 46,954,196)	107,023,016	91,105,640
Common share purchase warrants	-	2,218,444
Contributed surplus	9,583,860	7,879,650
Accumulated other comprehensive loss	(1,027,690)	(716,778)
Deficit	(21,935,093)	(16,062,204)
TOTAL SHAREHOLDERS' EQUITY	93,644,093	84,424,752
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 95,147,510	\$ 85,061,932

CONTINUING OPERATIONS (Note 1)

ON BEHALF OF THE BOARD

/s/ "Derek White"

Derek White, Director

/s/ "R. Michael Jones"

R. Michael Jones, Director

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Cumulative amount from April 21, 1999 to December 31, 2008
EXPENSES				
Accounting and audit	\$ 415,647	\$ 319,896	\$ 211,168	\$ 1,392,793
Amortization	39,945	13,909	16,820	102,455
Bank charges and interest	3,343	2,466	2,214	29,156
Filing and transfer agent fees	148,886	405,844	48,782	782,098
Foreign exchange (gain) loss	(96,596)	260,598	12,479	240,811
Legal	884,000	232,980	89,810	1,638,940
Management and consulting fees	1,528,630	778,228	485,993	3,565,324
Mineral property costs written off	1,221,019	763,434	-	1,984,453
Property investigation expense	7,432	43,464	-	55,747
Shareholder relations	404,776	354,075	288,687	1,299,977
Stock compensation expense	2,539,011	5,256,566	2,341,159	11,071,525
Telephone and office	506,332	389,980	365,880	1,809,794
Travel	235,144	243,422	212,168	1,044,298
Other write-offs	-	-	-	255,093
	<u>7,837,569</u>	<u>9,064,862</u>	<u>4,075,160</u>	<u>25,272,464</u>
LOSS BEFORE THE FOLLOWING	(7,837,569)	(9,064,862)	(4,075,160)	(25,272,464)
INTEREST INCOME	1,964,680	915,604	208,593	3,337,371
NET LOSS FOR THE PERIOD	<u>\$ (5,872,889)</u>	<u>\$ (8,149,258)</u>	<u>\$ (3,866,567)</u>	<u>\$ (21,935,093)</u>
OTHER COMPREHENSIVE LOSS				
CURRENCY TRANSLATION ADJUSTMENT	(304,458)	(716,778)	-	(1,021,236)
UNREALIZED LOSS ON MARKETABLE SECURITIES	(6,454)	-	-	(6,454)
COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (6,183,801)</u>	<u>\$ (8,866,036)</u>	<u>\$ (3,866,567)</u>	<u>\$ (22,962,783)</u>
BASIC AND DILUTED LOSS PER SHARE				
	<u>\$ (0.12)</u>	<u>\$ (0.19)</u>	<u>\$ (0.10)</u>	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
	<u>48,791,348</u>	<u>42,411,815</u>	<u>37,055,631</u>	

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Consolidated Statements of Shareholders' Equity

(expressed in Canadian dollars)

	Common shares without par value		Common share purchase warrants		Contributed Surplus	Accumulated other comprehensive loss ("AOCL")	Deficit accumulated during the exploration stage	Total Deficit and "AOCL"	Total shareholders' equity
	Shares	Amount	Number	Amount					
Balance, December 31, 2005	36,191,648	\$20,812,185	-	\$ -	\$915,979	\$ -	(\$4,046,379)	(\$4,046,379)	\$17,681,785
Issued for cash	245,716	577,433	-	-	-	-	-	-	577,433
Issued to obtain mineral property option rights	85,043	204,431	-	-	-	-	-	-	204,431
Warrants exercised	944,503	1,275,079	-	-	-	-	-	-	1,275,079
Stock options exercised	461,700	564,814	-	-	(197,944)	-	-	-	366,870
Stock options expense	-	-	-	-	2,341,159	-	-	-	2,341,159
Net loss	-	-	-	-	-	-	(3,866,567)	(3,866,567)	(3,866,567)
Balance, December 31, 2006	37,928,610	23,433,942	-	-	3,059,194	-	(7,912,946)	(7,912,946)	18,580,190
Issued for cash (Note 8 (a))	5,760,000	59,955,443	1,380,000	2,692,571	-	-	-	-	62,648,014
Warrants exercised	2,883,486	6,468,783	(243,000)	(474,127)	-	-	-	-	5,994,656
Stock options exercised	382,100	1,247,472	-	-	(436,110)	-	-	-	811,362
Stock options expense	-	-	-	-	5,256,566	-	-	-	5,256,566
Translation adjustment	-	-	-	-	-	(716,778)	-	(716,778)	(716,778)
Net loss	-	-	-	-	-	-	(8,149,258)	(8,149,258)	(8,149,258)
Balance, December 31, 2007	46,954,196	91,105,640	1,137,000	2,218,444	7,879,650	(716,778)	(16,062,204)	(16,778,982)	84,424,752
Issued for cash	-	11,936	-	-	-	-	-	-	11,936
Warrants exercised	1,137,000	13,588,444	(1,137,000)	(2,218,444)	-	-	-	-	11,370,000
Stock options exercised	1,064,370	2,316,996	-	-	(834,801)	-	-	-	1,482,195
Stock options expense	-	-	-	-	2,539,011	-	-	-	2,539,011
Translation adjustment	-	-	-	-	-	(304,458)	-	(304,458)	(304,458)
Unrealized loss on marketable securities	-	-	-	-	-	(6,454)	-	(6,454)	(6,454)
Net loss	-	-	-	-	-	-	(5,872,889)	(5,872,889)	(5,872,889)
Balance, December 31, 2008	49,155,566	\$ 107,023,016	-	\$ -	\$ 9,583,860	\$ (1,027,690)	\$ (21,935,093)	\$ (22,962,783)	\$ 93,644,093

See accompanying notes to the consolidated financial statements.

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

(expressed in Canadian dollars)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Cumulative amount from April 21, 1999 to December 31, 2008
OPERATING ACTIVITIES				
Net loss for the period	\$ (5,872,889)	\$ (8,149,258)	\$ (3,866,567)	\$ (21,686,965)
Items not involving cash:				
Other write-offs	-	-	-	255,093
Amortization	39,945	13,909	16,820	102,455
Mineral property costs written off (Note 7)	1,221,019	763,434	-	1,984,453
Non-cash stock compensation expense	2,539,011	5,256,566	2,341,159	11,071,525
Changes in operating assets and liabilities				
Accounts receivable	(1,692,177)	(373,992)	(167,963)	(2,339,203)
Interest receivable	91,374	(58,081)	(88,815)	(81,934)
Prepaid expenses	(60,483)	(8,703)	(18,729)	(110,152)
Accounts payable and accrued liabilities	605,237	(52,188)	(43,253)	903,417
	(3,128,963)	(2,608,313)	(1,827,348)	(9,901,311)
INVESTING ACTIVITIES				
Purchase of equipment and leasehold improvements	(84,368)	(4,693)	(8,238)	(171,667)
Purchase of marketable securities	(10,570)	-	-	(10,570)
Advances to Minera Los Lagartos, S.A. de C.V.	-	-	-	(113,139)
Acquisition of Minera Los Lagartos, S.A. de C.V.	-	-	-	(357,500)
Investment in Juanicipio JV	(2,522,844)	(3,620,630)	(98,957)	(9,104,650)
Mineral rights	(2,025,488)	(819,789)	(441,598)	(3,359,021)
Deferred exploration costs	(12,976,644)	(5,760,230)	(3,896,504)	(26,103,912)
Other	-	-	-	(252,420)
	(17,619,914)	(10,205,342)	(4,445,297)	(39,472,879)
FINANCING ACTIVITIES				
Issue of share capital	12,864,131	69,454,032	2,219,382	101,509,879
Issue of special warrants	-	-	-	375,000
	12,864,131	69,454,032	2,219,382	101,884,879
INCREASE (DECREASE) IN CASH	(7,884,746)	56,640,377	(4,053,263)	52,510,689
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	60,147,307	3,506,930	7,560,193	-
CASH AND EQUIVALENTS, END OF PERIOD				
(Note 2 (e))	\$ 52,262,561	\$ 60,147,307	\$ 3,506,930	\$ 52,510,689
Interest paid	\$ -	\$ -	\$ -	\$ 12,500
Non-cash investing and financing activities:				
Issue of shares in connection with acquisitions	\$ -	\$ -	\$ -	\$ 430,000
Issue of shares in exchange for mineral property option rights	\$ -	\$ -	\$ 204,431	\$ 3,220,472

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Notes to the Consolidated Financial Statements

1. CONTINUING 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. On October 5, 2007, the Company moved to the TSX. Unless the context requires otherwise, references in these consolidated financial statements to the Company include the subsidiaries of the Company whose financial results are consolidated in these financial statements.

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

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and does not currently have any revenue generating operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity to the public, will be sought to finance the operations of the Company. If the going concern assumption was not appropriate, the financial statements would require revision and restatement on a liquidation 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and include the following significant policies outlined below. These policies conform, in all material respects, with accounting principles generally accepted in the United States of America (“US GAAP”), except as described in Note 16 to these consolidated financial statements.

(a) *Principles of consolidation*

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable interest entities (“VIEs”), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline (“AcG”) 15, *Consolidation of Variable Interest Entities* (“AcG 15”), are entities in which equity investors do not have the characteristics of a “controlling financial interest”

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Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) *Principles of consolidation (continued)*

or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company does not believe that it has any VIEs subject to consolidation. All significant intercompany balances and transactions have been eliminated upon consolidation. The principal subsidiary at December 31, 2008 is Minera Los Lagartos, S.A. de C.V. ("Lagartos") which holds several properties in Mexico.

Investments where the Company has the ability to exercise significant influence, generally where the Company has a 20% to 50% equity interest, are accounted for using the equity method. Under this method, the Company's share of the investee's earnings or losses is included in operations and its investments therein are adjusted by a like amount. Dividends received from these investments are credited to the investment accounts.

The Company's 44% interest in the Juanicipio Joint Venture (Note 6) is recorded using the equity method.

(b) *Measurement uncertainty*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Significant estimates used in preparation of these financial statements include estimates of the net realizable value of mineral properties and deferred exploration costs, asset retirement obligations, stock based compensation, income tax provisions and contingencies. Actual results may differ from those estimated.

(c) *Asset retirement obligations*

The Company records the present value of asset retirement obligations including reclamation costs when the obligation is incurred and it is recorded as a liability with a corresponding increase in the carrying value of the related mining assets. The carrying value is amortized over the life of the related mining asset on a units-of-production basis commencing with initial commercialization of the asset. The liability is accreted to the actual liability on settlement through charges each period in the statement of operations.

(d) *Financial instruments*

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

Price risk is the risk that the value of the Company's financial instruments will vary because of fluctuations in foreign exchange rates and the degree of volatility of these rates. Certain of the Company's accounts receivable, accounts payable and accrued liabilities are

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Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Financial instruments (continued)*

denominated in Mexican pesos. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange rates.

(e) *Cash and cash equivalents*

Cash and cash equivalents consist of cash and short-term money market instruments which are readily convertible into cash and have original maturities of 90 days or less. The Company holds no asset backed commercial paper.

Details of cash and cash equivalents are as follows:

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2007</u>
Cash	\$ 52,262,561	\$ 912,205
Short-term deposits	-	59,235,102
	<u>\$ 52,262,561</u>	<u>\$ 60,147,307</u>

(f) *Mineral rights and deferred exploration costs*

The Company is in the exploration stage with respect to its activities and accordingly follows the practice of capitalizing all costs relating to the acquisition, exploration and development of its mining rights and crediting all revenues received against the cost of the related interests. At such time as commercial production commences, these costs will be charged to operations on a units-of-production method based on proven and probable reserves. The carrying values related to abandoned interests are charged to operations at the time of any abandonment.

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

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

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

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Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) *Equipment and leaseholds*

Equipment and leaseholds are recorded at cost and are amortized at the following annual rates:

Computer equipment and software	30% declining balance
Field equipment	30% declining balance
Leasehold improvements	2 years straight line

(h) *Income taxes*

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

(i) *Translation of foreign currencies*

The Company's functional currency is the Canadian dollar. For integrated foreign operations, monetary assets and liabilities are translated at year end exchange rates and other assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to operations.

The accounts of self-sustaining foreign operations are translated at year end exchange rates, and revenues and expenses are translated at average exchange rates. Differences arising from these foreign currency translations are recorded in accumulated other comprehensive income as a cumulative translation adjustment until they are realized by a reduction in the investment.

(j) *Stock-based compensation*

The fair value of all stock-based compensation and other stock-based payments are estimated using the Black-Scholes-Merton option valuation model and are recorded in operations over their vesting periods.

The total compensation expense recognized in the statement of operations for share purchase options granted during the year ended December 31, 2008 amount to \$2,539,011 (2007 - \$5,256,566). Please refer to Note 8 (b) for a summary of stock options granted in the current year and the related valuation assumptions.

MAG SILVER CORP.

(An exploration stage company)

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) *Earnings (loss) per common share*

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

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

For the year ended December 31, 2008, the Company had 3,312,407 (2007 – 4,942,700) common share equivalents consisting of the common shares issuable upon the exercise of outstanding exercisable stock options and share purchase warrants. These common share equivalents were not included for the purpose of calculating fully diluted earnings per share as their effect would be anti-dilutive.

(l) *Comparative figures*

Certain of the prior years' comparative figures have been reclassified to conform with the classifications used in 2008. The Mineral Rights and Deferred Exploration costs table in Note 7 and the Differences between Canadian and United States Generally Accepted Accounting Principles disclosure in Note 16 have been reclassified.

(m) *Comprehensive Income*

Effective January 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3861, *Financial Instrument Presentation and Disclosure*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3865, *Hedges*, and CICA Handbook Section 3251, *Equity*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, transaction costs incurred on financial instruments, as well as standards on when and how hedge accounting may be applied. CICA Handbook Section 1530 also introduces a new component of equity referred to as other accumulated comprehensive income. Comprehensive income includes changes in shareholders' equity during a period arising from non-owner sources and, for the Company, other comprehensive income includes currency translation adjustments on its net investment in self sustaining foreign operations. The new standards also require all derivatives to be recorded on the balance sheet at fair value and establish new accounting requirements for hedges. The Company has adopted these standards effective January 1, 2007. The adoption of these new standards had no material effect on the financial position or opening account balances on January 1, 2007.

In accordance with these new standards, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and

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Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) *Comprehensive Income (continued)*

receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations. Transaction costs are expensed as incurred.

Upon adoption of these new standards, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and other are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities, property and mining taxes payable, convertible debentures, notes payable, and accrued site closure costs are classified as other liabilities, which are measured at amortized cost.

The impact of adoption of these new standards on the results of operations for the year ended December 31, 2007 and financial position as at that date was the reporting of a currency translation loss of \$716,778 recognized on December 31, 2007 as an item of other comprehensive loss for the year and the inclusion of that balance in accumulated other comprehensive loss within a separate component of shareholders' equity.

(n) *Adoption of new accounting pronouncements*

On January 1, 2008, the Company adopted four new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3031, Inventories – ("Section 3031"), Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments - Presentation ("Section 3863").

(i) *Capital disclosures – Section 1535*

Section 1535, Capital Disclosures, establishes disclosure requirements regarding an entity's capital, including (i) an entity's objectives, policies, and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new standard has had no impact on the consolidated financial position or results of operations for the year ended December 31, 2008.

(ii) *Inventories – Section 3031*

Section 3031, Inventories, provides more guidance on the measurement and disclosure requirements for inventories. Specifically, the new pronouncement requires inventories to be measured at the lower of cost or net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new standard has had no impact on the consolidated financial position or results of operations for the year ended December 31, 2008.

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Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) *Financial instruments – Sections 3862 and 3863*

Section 3862, Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation replace Section 3861 Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements while leaving presentation requirements unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards have had no impact on the consolidated financial position or results of operations for the year ended December 31, 2008. Refer to the additional sensitivity disclosure in Note 10.

(iv) *Business Combinations*

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interest. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

(o) *Recent Accounting Pronouncements*

(i) *Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This Section is effective in the first quarter of 2009, and the Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

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Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) *Convergence with International Financial Reporting Standards*

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

3. ACCOUNTS RECEIVABLE

	Dec. 31, 2008	Dec. 31, 2007
Goods and services tax recoverable	\$ 44,633	\$ 50,314
Mexican value added tax ("IVA") recoverable	2,190,188	596,713
Other	104,383	-
	<u>\$ 2,339,204</u>	<u>\$ 647,027</u>

4. MARKETABLE SECURITIES

At December 31, 2008, the Company has the following marketable securities:

Available-for-sale securities	Number of Shares	Cost (\$)	Accumulated Unrealized Losses (\$)	Fair Value (\$)
Fresnillo PLC	1,000	10,570	6,454	4,116

During the year ended December 31, 2008 the Company recognized an unrealized loss of \$6,454 (2007 - \$nil) on marketable securities designated as available-for-sale instruments in other comprehensive income. Management believes that the change in fair value of its marketable security is only temporary.

Fresnillo PLC

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

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Notes to the Consolidated Financial Statements

5. EQUIPMENT AND LEASEHOLDS

	December 31, 2008		
	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 60,709	\$ 33,018	\$ 27,691
Field equipment	67,201	38,135	29,066
Leasehold improvements	26,084	16,302	9,782
	<u>\$ 153,994</u>	<u>\$ 87,455</u>	<u>\$ 66,539</u>

	December 31, 2007		
	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 33,755	\$ 21,152	\$ 12,603
Field equipment	35,191	25,678	9,513
Leasehold improvements	15,680	15,680	-
	<u>\$ 84,626</u>	<u>\$ 62,510</u>	<u>\$ 22,116</u>

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

Computer equipment and software	30%
Field equipment	30%

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

6. INVESTMENT IN MINERA JUANICPIO S.A. DE C.V.

Pursuant to an original option agreement dated July 18, 2002 and subsequent corporate acquisitions the Company acquired a 100% interest in the Juanicipio Property in exchange for total consideration of \$919,458. Of this amount, \$656,125 was paid in cash and 366,667 common shares of the Company were issued at a value of \$263,333.

Pursuant to a letter of intent dated March 17, 2005 and a formal agreement effective July 1, 2005 (the "Agreement") with Industrias Peñoles, S.A. de C.V. ("Peñoles"), the Company granted to Peñoles or any of its subsidiaries an option to earn a 56% interest in the Juanicipio Property in Mexico in consideration for Peñoles conducting US\$5,000,000 of exploration on the property over four years and Peñoles purchasing US\$1,000,000 of Common Shares of the Company in two tranches for US\$500,000 each.

In mid 2007, Peñoles met all of the earn-in requirements of the Agreement. In December 2007, the Company and Peñoles created an operating company named Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio") for the purpose of holding and operating the Juanicipio Property. In 2008, Peñoles restructured and transferred its 56% interest of Minera Juanicipio into a new company called Compania Fresnillo S.A. de C.V., which then transferred its interest to Fresnillo plc ("Fresnillo") pursuant to a statutory merger. Minera Juanicipio is held as to 56% by Fresnillo and 44% by the Company. In December 2007 all mineral rights and surface rights relating to the Juanicipio project

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(An exploration stage company)

Notes to the Consolidated Financial Statements

6. INVESTMENT IN MINERA JUANICIOPIO S.A. DE C.V. (Continued)

held by the Company and Peñoles, respectively, were ceded into Minera Juanicipio. Minera Juanicipio is currently governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio.

To capitalize Minera Juanicipio, the Company invested 63.40 million pesos (\$6.025 million) into Minera Juanicipio while Peñoles invested 80.69 million pesos (\$7.668 million). MAG then received a payout from Minera Juanicipio of 26.41 million pesos (\$2.510 million) against its contribution of the Juanicipio mineral rights while Peñoles received 70.28 million pesos (\$6.679 million) against its contribution of surface rights and the Company's 44% share of exploration costs incurred by Peñoles subsequent to the completion of their earn-in and up to December 31, 2007.

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

Effective December 31, 2007 the Company concluded that the functional currency of Minera Juanicipio was the Mexican peso as expenditures in Minera Juanicipio were principally being incurred in pesos and funded by advances from the venturers which were denominated in pesos. The Company translates its net investment in Minera Juanicipio using the current rate method with translation gains and losses recorded in other comprehensive loss which is a component of shareholders' equity, until there is a realized reduction in the net investment.

The Company owns a 44% interest in Minera Juanicipio. The Company's historical investment relating to its interest in the Juanicipio property and Minera Juanicipio are detailed as follows:

	Dec. 31, 2008	Dec. 31, 2007
Camp costs	\$ 14,024	\$ 13,108
Geological	78,452	66,190
Geophysical	8,163	10,905
Gov't fees and licenses	10,131	8,764
Travel	5,736	3,906
Site administration	1,667	2,292
Cash contributions to the Minera Juanicipio	2,404,671	6,025,018
	2,522,844	6,130,183
Balance, beginning of year	5,948,361	3,044,509
	\$ 8,471,205	\$ 9,174,692
Recoveries	-	(2,509,553)
Translation adjustment	(304,458)	(716,778)
Balance, end of year	\$ 8,166,747	\$ 5,948,361

Summary of the Audited Statements of Minera Juanicipio

At December 31, 2008 the assets of Minera Juanicipio consisted of cash and short term investments in the amount of 18.67 million pesos (\$1.65 million), value added taxes recoverable and other receivables in the amount of 7.74 million pesos (\$0.68 million) and mineral, surface rights and exploration expenditures in the amount of 175.35 million pesos (\$15.52 million). Payables to Peñoles and other vendors for exploration work amounted to 0.66 million pesos (\$58,800) while shareholders equity was 201.09 million pesos (\$17.80 million).

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Notes to the Consolidated Financial Statements

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS

	Year ended December 31, 2008								
	(Batopilas)	Guigui	Lagartos NW	Lagartos SE	Sierra de	Cinco de	Sello	Other	Total
	Don Fippi				Ramirez	Mayo			
Acquisition costs of mineral rights									
Bal., beginning of year	\$ 1,422,672	\$ 1,571,172	\$ 50,032	\$ -	\$ 800,736	\$ 610,448	\$ 105,852	\$ 510,495	\$ 5,071,407
Incurred during year	-	-	-	36,458	559,011	762,968	12,983	555,068	1,926,488
Less amounts written off	-	-	-	-	-	-	(118,835)	-	(118,835)
Balance, end of year	\$ 1,422,672	\$ 1,571,172	\$ 50,032	\$ 36,458	\$ 1,359,747	\$ 1,373,416	\$ -	\$ 1,065,563	\$ 6,879,060
Deferred exploration costs									
Camp costs	\$ 92,205	\$ -	\$ 22,855	\$ 79,831	\$ 19,892	\$ 322,858	\$ 13,429	\$ 65,541	\$ 616,611
Drilling	913,389	-	778,171	537,063	-	6,084,484	485,327	458,376	9,256,810
Geochemical	59,362	-	4,623	45,229	847	384,988	13,584	19,432	528,065
Geological	260,151	-	93,775	209,652	55,298	807,465	48,665	258,769	1,733,775
Geophysical	63,829	-	8,162	3,398	2,063	214,263	-	-	291,715
Gov't fees and licenses	9,774	12,529	162,886	204,838	37,440	77,380	27,424	101,617	633,888
Site administration	14,863	-	6,453	12,120	4,426	44,452	2,535	13,252	98,101
Travel	36,988	-	6,377	17,522	10,677	58,062	6,696	33,694	170,016
Transport and shipping	2,623	-	805	629	-	3,405	50	151	7,663
	1,453,184	12,529	1,084,107	1,110,282	130,643	7,997,357	597,710	950,832	13,336,644
Bal., beginning of year	3,344,413	1,450,400	120,853	4,220,148	434,628	2,775,679	504,474	152,143	13,002,738
Less amounts written off	-	-	-	-	-	-	(1,102,184)	-	(1,102,184)
Balance, end of year	\$ 4,797,597	\$ 1,462,929	\$ 1,204,960	\$ 5,330,430	\$ 565,271	\$ 10,773,036	\$ -	\$ 1,102,975	\$ 25,237,198

	Year ended December 31, 2007									
	(Batopilas)	Guigui	Lagartos NW	Lagartos SE	Sierra de	Cinco de	Sello	Other	Total	
	Don Fippi				Ramirez	Adargas				Mayo
Acquisition costs of mineral rights										
Bal., beginning of year	\$ 1,422,672	\$ 1,571,172	\$ 50,032	\$ -	\$ 527,645	\$ 432,061	\$ 428,610	\$ 28,143	\$ 124,344	\$ 4,584,679
Incurred during year	-	-	-	-	273,091	-	181,838	77,709	399,253	931,891
Less amounts written off	-	-	-	-	-	(432,061)	-	-	(13,102)	(445,163)
Balance, end of year	\$ 1,422,672	\$ 1,571,172	\$ 50,032	\$ -	\$ 800,736	\$ -	\$ 610,448	\$ 105,852	\$ 510,495	\$ 5,071,407
Deferred exploration costs										
Camp costs	\$ 126,424	\$ 439	\$ 1,596	\$ 65,246	\$ 2,814	\$ -	\$ 76,692	\$ 14,942	\$ 9,112	\$ 297,265
Drilling	477,758	-	-	1,367,777	-	-	1,048,855	385,505	-	3,279,895
Geochemical	54,735	-	299	51,220	-	-	54,195	8,316	-	168,765
Geological	398,558	8,469	7,517	169,436	31,323	-	229,781	47,994	43,852	936,930
Geophysical	117,382	50,890	36,666	206,199	205,468	875	56,175	36,606	-	710,261
Gov't fees and licenses	6,495	12,320	73,381	128,604	35,500	882	58,327	3,105	96,767	415,381
Site administration	27,449	1,136	831	18,085	658	-	14,897	2,842	1,061	66,959
Travel	51,445	226	563	13,110	9,735	-	23,283	5,164	1,406	104,932
Transport and shipping	1,322	627	-	3,110	-	1,681	-	-	-	6,740
	1,261,568	74,107	120,853	2,022,787	285,498	3,438	1,562,205	504,474	152,198	5,987,128
Bal., beginning of year	2,082,845	1,376,293	-	2,197,361	149,130	314,778	1,213,474	-	-	7,333,881
Less amounts written off	-	-	-	-	-	(318,216)	-	-	(55)	(318,271)
Balance, end of year	\$ 3,344,413	\$ 1,450,400	\$ 120,853	\$ 4,220,148	\$ 434,628	\$ -	\$ 2,775,679	\$ 504,474	\$ 152,143	\$ 13,002,738

MAG SILVER CORP.

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Notes to the Consolidated Financial Statements

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (continued)

(a) *Don Fippi (Batopilas) Property*

The Company has a 100% interest in the Don Fippi mining concessions located in the Batopilas, Chihuahua district of Mexico, subject to a royalty of 4.5% of the Net Smelter returns obtained from the property. To December 31, 2008, the Company has incurred \$4,797,597 in exploration costs on the property.

(b) *Guigui Property*

The Company has a 100% interest in mining concessions located in the Santa Eulalia (Guigui), Chihuahua district of Mexico, subject to a royalty of 2.5% of the Net Smelter returns obtained from the property. To December 31, 2008, the Company has incurred \$1,462,929 in exploration costs on the property.

(c) *Lagartos Properties*

The Company has acquired a 100% interest in exploration concessions on mining claims (Lagartos) on the Fresnillo trend to the northwest and southeast of the Juancipio property. This exploration concession enables the Company to explore the mining claim covered by the concession to December 2009, subject to the Company paying any applicable annual tax or other regulatory charges.

During the year ended December 31, 2008, the Company entered into an option agreement to acquire a 100% interest in certain mining concessions internal to the Lagartos SE property. The Company is obligated to make scheduled cash payments totalling US\$500,000 (of which \$ 36,458 (US\$30,000) has been paid) to June 10, 2011.

To December 31, 2008, the Company has incurred \$1,204,960 in exploration costs on the Lagartos NW property and \$5,330,430 in exploration costs on the Lagartos SE property.

(d) *Sierra Ramirez Property*

Under a 2003 agreement, as later amended in 2006, the Company has an option to acquire a 100% interest in certain mining concessions located in the Sierra Ramirez district in Durango, Mexico. Under the amended terms, the Company will issue Minera Rio Tinto S.A. de C.V. 20,000 common shares (\$55,000) of the Company (issued) and make scheduled cash payments totalling US\$1,300,000 (of which US\$375,000 has been paid or accrued) to December 14, 2010, with a final payment of US\$650,000 of which up to US\$500,000 may be paid in the common shares of the Company. The Company also paid a finder's fee of 25,000 common shares (\$25,746) of the Company in relation to this property. To December 31, 2008, the Company has incurred \$565,271 in exploration costs on the property.

During the year ended December 31, 2007, the Company entered into five separate option agreements to acquire a 100% interest in certain mining concessions all of which are internal to the Sierra Ramirez property. The Company is obligated to make scheduled cash payments totalling US\$5,537,325 (of which \$485,749 (US\$415,625) has been paid) to December 31, 2013.

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Notes to the Consolidated Financial Statements

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (continued)

(e) *Adargas Property*

On February 14, 2004, the Company entered into an option agreement to acquire a 100% interest in the Adargas property. During the period ended June 30, 2007 the Company terminated its option agreement, and consequently, total deferred acquisition and exploration costs of \$750,277 were written-off.

(f) *Cinco de Mayo Property*

On February 26, 2004, the Company entered into an option agreement to acquire a 100% interest in the Cinco de Mayo property (the "Cinco de Mayo Property"), subject to a 2.5% net smelter returns royalty. Under the terms of the agreement, as later amended, the Company was obligated to make scheduled cash and share payments together worth US\$1,000,000 (US\$650,000 in cash and share payments made) and incur certain exploration expenditures totalling US\$1,000,000 by July 26, 2009 (incurred). To December 31, 2008, the Company paid \$661,721 (US\$550,000) in cash, issued 165,670 common shares at a value of \$266,630 and completed approximately \$10,773,036 in exploration costs.

During the year ended December 31, 2008, the Company acquired a 100% interest in certain mining concessions internal to the Cinco de Mayo property from two separate vendors. The Company made a one-time payment of \$445,065 (US\$350,000) for these mining concessions.

(g) *Sello Property*

On December 8, 2006, the Company entered into an agreement to acquire a 100% interest in the Sello and Sello Uno claims located in Zacatecas State, by making scheduled option payments totalling US\$1,000,000 plus applicable value added tax over a three year period (of which \$52,816 (US\$50,000) has been paid to March 31, 2008). During the current year the Company entered into an agreement to acquire a 100% interest in the El Oro claims located in Zacatecas State, by making scheduled option payments totalling US\$125,000 plus applicable value added tax over one year (of which \$66,019 (US\$62,500) was paid to March 31, 2008). It was decided in April 2008 that the Company would terminate these option agreements, and consequently, total deferred acquisition and exploration costs of \$1,221,019 were written-off as of June 30, 2008.

(h) *Other Properties*

During the years ending December 31, 2006 to December 31, 2008, the Company optioned other exploration concessions on several mining claims in Mexico. To December 31, 2008, the Company has paid \$1,065,563 in acquisition costs. The Company is obligated to make additional scheduled cash payments totalling US\$2,180,000 to October 31, 2013 if it plans to maintain these concessions.

The other properties consist of the Zacatecas claims, the La Lorena claims, the Nuevo Mundo claims, the Camino Duro claims, and the Salemex claim options. During the year ended December 31, 2008, the Company completed approximately \$812,814 in exploration costs including \$458,376 in drilling costs on the La Lorena claims. Another \$138,018 in exploration costs were spent on the remaining other properties.

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Notes to the Consolidated Financial Statements

8. SHARE CAPITAL

(a) *Issued and outstanding*

At December 31, 2008, there were 49,155,566 shares outstanding.

During the year ended December 31, 2008, 1,137,000 share purchase warrants were exercised for proceeds of \$11,370,000 and 1,064,370 stock options were exercised for cash proceeds of \$1,482,195.

During the year ended December 31, 2007, 2,883,486 share purchase warrants were exercised for proceeds of \$5,994,656 and 382,100 stock options were exercised for cash proceeds of \$811,362.

On November 27, 2007, the Company closed a brokered private placement for 3,000,000 common shares of the Company at a price of \$15.50 per share for gross proceeds of \$46,500,000. The Company paid a 5.0% commission to the underwriters on this placement. Legal, syndicate, and filing costs totaled an additional \$208,484.

On February 14, 2007, the Company closed a brokered private placement for 2,550,000 units at \$7.25 a unit for gross proceeds of \$18,487,500. Each unit was comprised of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of \$10.00 until February 14, 2008. Of the gross proceeds, \$15,999,799 was assigned to the common shares included in the units and \$2,487,701 to the warrants. The Company paid a 6.0% cash commission to the underwriters on this placement. Legal, syndicate, and filing costs totaled an additional \$127,902.

On February 14, 2007, the Company closed a non-brokered private placement for 195,000 units, while a further 15,000 units were closed February 15, 2007 for a total of 210,000 at \$7.25 a unit for gross proceeds of \$1,522,500. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of \$10.00 until February 14, 2008 (and in some cases February 15, 2008). Of the gross proceeds, \$1,317,630 was assigned to the common shares included in the units and \$204,870 to the warrants. The Company paid a 6.0% finder's fee on this placement comprised of \$91,350 in cash.

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Notes to the Consolidated Financial Statements

8. SHARE CAPITAL (Continued)

(b) Stock options

The Company has entered into Incentive Stock Option Agreements (“Agreements”) with directors, officers and employees. The maximum number of stock options which may be granted is limited to 10% of the issued and outstanding shares. The Company has proposed an amendment to the existing plan for approval by Shareholders at the upcoming Annual General and Special Meeting which includes fixing the maximum number of stock options which may be granted to 4,921,056 (10% of the current issued and outstanding common shares of the Company). For more information on the current Stock Option Plan or the Amendments to the Stock Option Plan go to www.sedar.com.

The following table summarizes options outstanding at December 31, 2008:

Exercise price	Number outstanding at Dec. 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price
\$ 1.00	60,000	1.92	1.00
1.06	525,000	1.05	1.06
1.14	15,000	1.76	1.14
2.00	50,000	2.46	2.00
2.46	145,000	2.56	2.46
3.00	505,000	2.10	3.00
3.12	18,000	2.67	3.12
3.56	13,000	2.22	3.56
4.04	152,830	2.25	4.04
5.36	477,500	2.95	5.36
7.56	35,000	3.07	7.56
7.62	50,000	4.73	7.62
8.80	200,000	3.15	8.80
9.40	45,000	3.25	9.40
10.01	241,202	4.50	10.01
12.91	279,875	4.12	12.91
13.75	25,000	3.77	13.75
14.15	425,000	3.79	14.15
14.70	50,000	3.59	14.70
	3,312,407	2.81	\$ 6.59

At December 31, 2008 a total of 3,269,907 of the outstanding share options were exercisable, having a weighted average remaining contractual life of 2.80 years and a weighted average exercise price of \$6.55.

At the date the Agreements are entered into, the exercise price of each option is set no lower than the fair value of the common shares at the date of grant.

MAG SILVER CORP.

(An exploration stage company)

Notes to the Consolidated Financial Statements

8. SHARE CAPITAL (Continued)

(b) *Stock options (continued)*

The following table summarizes the Company's options:

	Period ended Dec. 31, 2008	Weighted average exercise price	Period ended Dec. 31, 2007	Weighted average exercise price
Balance outstanding, beginning of year	3,805,700	\$ 4.44	3,352,800	\$ 2.31
Activity during the period				
Options granted	578,765	11.23	835,000	11.93
Options forfeited	(7,688)	11.75	-	-
Options exercised	(1,064,370)	1.39	(382,100)	2.12
Balance outstanding, end of period	3,312,407	\$ 6.59	3,805,700	\$ 4.44

During the year ended December 31, 2008, the Company granted 578,765 stock options, of which 7,688 were later cancelled, (December 31, 2007 – 835,000 granted and nil cancelled). The Company has recorded \$2,539,011 (December 31, 2007 - \$5,256,566) of compensation expense relating to stock options vested to employees and consultants in the year ended December 31, 2008.

For the year ended December 31, 2008, stock-based compensation expense was determined using an option pricing model assuming no dividends are to be paid, a weighted average volatility of the Company's share price of 49%, an annual risk free interest rate of 3.37% and on expected remaining term to expiry of three years. (December 31, 2007 – assuming: no dividends are to be paid, a weighted average volatility of the Company's share price of 81.5%, an annual risk free interest rate of 4.27% and an expected remaining term to expiry of three years.)

(c) *Share purchase warrants*

	Number of warrants	Weighted average exercise price
Balance at December 31, 2006	2,640,486	1.35
Issued in connection with issuance of common shares	1,380,000	10.00
Exercised and converted into common shares	(2,883,486)	2.08
Balance at December 31, 2007	1,137,000	\$ 10.00
Exercised and converted into common shares	(1,137,000)	10.00
Balance at December 31, 2008	-	\$ -

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Notes to the Consolidated Financial Statements

9. CAPITAL RISK MANAGEMENT

The Company's objectives in managing its liquidity and capital are to safeguard the Company's ability to continue as a going concern and to provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued share capital, common share purchase warrants, contributed surplus, accumulated other comprehensive loss and accumulated deficit.

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

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

As at December 31, 2008, the Company does not have any long-term debt and is not subject to any externally imposed capital requirements.

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating period.

10. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

(i) Trade credit risk

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

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Notes to the Consolidated Financial Statements

10. FINANCIAL RISK MANAGEMENT (continued)

(ii) *Cash and cash equivalents*

In order to manage credit and liquidity risk the Company's policy is to invest only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating. At year end there were no cash equivalents.

(iii) *Derivative financial instruments*

As at December 31, 2008, the Company has no derivative financial instruments. MAG may in the future enter into derivative financial instruments in order to manage credit risk. Only derivative financial instruments with highly rated investment grade counterparties will be considered.

(iv) *Mexican value added tax*

At year end the Company had a receivable of \$2,190,188 from the Mexican government for value added tax. Although full recovery is expected by management, recoveries to date have been intermittent.

The Company's maximum exposure to credit risk on its Mexican operations at December 31, 2008 is as follows:

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2007</u>
Cash	\$ 414,359	\$ 2,409,429
Accounts Receivable	2,294,571	596,713
	<u>\$ 2,708,930</u>	<u>\$ 3,006,142</u>

(b) *Liquidity risk*

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Board of Directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements.

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

(c) *Currency risk*

The Company's functional currency is the Canadian dollar and therefore the Company's net earnings and other comprehensive earnings are impacted by fluctuations in the value of foreign currencies in relation to the Canadian dollar. The Company's foreign currency exposures comprise limited amounts of cash and cash equivalents and accounts payable and accrued liabilities denominated in Mexican pesos and United States dollars. Several of the Company's options to acquire properties in Mexico may result in option payments by the Company denominated in Mexican pesos or in United States dollars. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange

MAG SILVER CORP.

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Notes to the Consolidated Financial Statements

10. FINANCIAL RISK MANAGEMENT (continued)

rates. Appreciation in the Mexican peso or the United States dollar against the Canadian dollar will increase our cost of operations. A decrease in the United States dollar or the Mexican peso against the Canadian dollar will result in a loss on our books to the extent we hold funds in either currency. The Company is also exposed to inflation risk in Mexico.

The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars in each reporting period. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the Mexican peso relative to the Canadian dollar will impact the consolidated results of the Mexican operations in Canadian dollar terms.

The sensitivity of the Company's net loss and other comprehensive loss for the year ended December 31, 2008 due to changes in the exchange rate for the Mexican peso in relation to the Canadian dollar is summarized in the following table expressed as the increase in the net loss and comprehensive loss for each 10% appreciation in the Canadian dollar:

Net Loss	\$	1,853,288
Other comprehensive loss		507,662
Comprehensive loss	\$	2,360,950

A 10% depreciation in the Canadian dollar against the Mexican peso would have a similar decrease in net loss.

(d) *Interest rate risk*

The Company's interest revenue earned on cash and cash equivalents and on short term investments is exposed to interest rate risk. A continued decrease in interest rates as was seen at the end of 2008 would result in lower interest income in 2009.

11. FAIR VALUE DISCLOSURES

The carrying values of cash and cash equivalents, marketable securities and accounts payable reported in the consolidated balance sheet approximate their respective fair values.

12. SEGMENTED INFORMATION

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

MAG SILVER CORP.

(An exploration stage company)

Notes to the Consolidated Financial Statements

13. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2008, a private company controlled by an officer of the Company received \$170,424 in compensation for consulting services (2007 - \$163,840). During the year ended December 31, 2008, the officer became an employee of the Company and received \$72,085 in compensation as salary and bonus for management services (2007 - \$Nil).

The Company paid or accrued non-executive directors fees of \$305,750 during the year ended December 31, 2008 (2007 - \$138,895).

The Company is party to a Field Services Agreement, whereby it has contracted exploration services in Mexico with MINERA CASCABEL S.A. de C.V. ("Cascabel") and IMDEX Inc. ("Imdex"). As of January 2006, these companies have a common director with the Company. During the period ended December 31, 2008, the Company accrued or paid Cascabel and Imdex consulting, administration and travel fees totaling \$194,590 (2007 - \$134,720) and exploration costs totaling \$2,504,237 (2007 - \$1,312,826) under the Field Services Agreement.

During the year ended December 31, 2003, the Company entered into an office services agreement with Platinum Group Metals Ltd., a company with two common directors and common officer. During the year ended December 31, 2008, the Company accrued or paid Platinum Group Metals Ltd. \$135,777 under the office service agreement (2007 - \$136,374).

During the year ended December 31, 2007, the Company entered into a new two year office lease agreement with Anthem Works Ltd. ("Anthem"), a company with a common director. During the year ended December 31, 2008, the Company accrued or paid Anthem \$83,556 under the office lease agreement (2007 - \$79,312).

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

14. CONTINGENCIES AND COMMITMENTS

The Company's minimum payments under its office lease agreement which was entered into during the year ended December 31, 2007, are as follows:

2009	64,917
2010	-
	<hr/>
	\$ 64,917

MAG SILVER CORP.

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Notes to the Consolidated Financial Statements

15. INCOME TAXES

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:

	2008	2007	2006
Statutory tax rates	31.00%	34.12%	34.12%
Recovery of income taxes computed at statutory rates	\$ 1,820,596	\$ 2,771,112	\$ 1,319,273
Non-deductible expenses	(790,232)	(1,780,305)	(804,815)
Lower effective tax rate on loss in foreign jurisdictions	(42,223)	(48,648)	(7,443)
Change in valuation allowance	(832,445)	(1,601,926)	(397,481)
Other	(155,696)	659,767	(109,534)
Future income tax recovery	\$ -	\$ -	\$ -

The approximate tax effect of each item that gives rise to the Company's future income tax assets at December 31, 2008 and 2007 are as follows:

	2008	2007
Canadian operating loss carryforwards	\$ 2,616,778	\$ 2,025,892
Mexican operating loss carryforwards	8,646,430	3,278,237
Canadian capital losses carried forward	65,629	39,125
Share issuance costs and other	749,501	928,651
Total future income tax assets	12,078,338	6,271,905
Less valuation allowance	(3,962,500)	(3,130,055)
Net future income tax assets	8,115,838	3,141,850
Future income tax liability		
Excess of book value of mineral rights and deferred exploration costs over tax values	(8,115,838)	(3,141,850)
Net future income tax assets	\$ -	\$ -

At December 31, 2008, the Company has non-capital loss carryforwards aggregating \$10,064,000, which expire over the period between 2009 and 2028, available to offset future taxable income and capital loss carryforwards of \$252,000, which are available only to offset future capital gains for Canadian tax purposes and may be carried forward indefinitely.

At December 31, 2008, the Company has tax loss carryforwards in Mexico aggregating \$30,880,000, which expire between 2012 and 2018, available to offset future taxable income.

MAG SILVER CORP.

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Notes to the Consolidated Financial Statements

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian GAAP, which differs in certain respects from US GAAP and from practices prescribed by the United States Securities and Exchange Commission ("SEC").

Consolidated Balance Sheets

The significant measurement differences between Canadian GAAP and U.S. GAAP with respect to the Company's consolidated balance sheets as at December 31, 2008 and 2007 are as follows:

As at December 31	<u>2008</u>	<u>2007</u>
Total assets under Canadian GAAP	95,147,510	85,061,932
Adjustment to exploration expenditures (a)	(25,237,198)	(13,002,738)
Cumulative adjustment to mineral and surface rights (b)	(601,000)	(601,000)
Adjustment to investment in JVV (c)	(1,296,023)	(1,263,075)
Total assets under US GAAP	68,013,289	70,195,119
Total liabilities under Canadian and US GAAP	1,503,417	637,180
Shareholders' equity under Canadian GAAP	93,644,093	84,424,752
Cumulative mineral properties adjustment (a)	(25,237,198)	(13,002,738)
Cumulative adjustment to mineral and surface rights (b)	(601,000)	(601,000)
Cumulative share of loss in significantly influenced investment (c)	(1,822,207)	(1,746,642)
Cumulative adjustment to accumulated other comprehensive income (c)	526,184	483,567
Shareholders' equity under US GAAP	66,509,872	69,557,939
Total liabilities and shareholders' equity under US GAAP	68,013,289	70,195,119

MAG SILVER CORP.

(An exploration stage company)

Notes to the Consolidated Financial Statements

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Consolidated Statement of Loss and Comprehensive Loss

Years ended December 31	2008	2007	2006	Cumulative amount from April 21, 1999 to December 31, 2008
Net loss under Canadian GAAP	(5,872,889)	(8,149,258)	(3,866,567)	(21,935,093)
Deferred exploration costs (a)	(12,234,460)	(5,668,857)	(3,896,404)	(25,237,198)
Amortization of mineral rights (a)	-	-	-	(601,000)
Equity in significantly influenced investment (c)	(75,565)	378,409	(99,057)	(1,822,207)
Compensation expense (d)	-	-	-	(600,000)
Stock-based compensation for employees and directors (d)	-	-	-	482,659
Net loss under US GAAP	(18,182,914)	(13,439,706)	(7,862,028)	(49,712,839)
Other comprehensive income under Canadian GAAP	(310,912)	(716,778)	-	(1,027,690)
Adjustment to other comprehensive Loss under US GAAP (c)	42,617	483,567	-	526,184
Comprehensive loss under US GAAP	(18,451,209)	(13,672,917)	(7,862,028)	(50,214,345)
Basic and diluted loss per share under US GAAP	\$ (0.38)	\$ (0.32)	\$ (0.21)	

MAG SILVER CORP.

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Notes to the Consolidated Financial Statements

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Consolidated Statement of Cash Flows

Years ended December 31	2008	2007	2006	Cumulative amount from April 21, 1999 to December 31, 2008
Operating activities				
Operating activities under Canadian GAAP	\$ (3,128,963)	\$ (2,608,313)	\$ (1,827,348)	\$(10,149,439)
Reclassification of deferred exploration costs (a)	(12,976,644)	(5,760,230)	(3,896,504)	(26,103,912)
Operating activities under US GAAP	\$(16,105,607)	\$ (8,368,543)	\$ (5,723,852)	\$(36,253,351)
Investing activities				
Investing activities under Canadian GAAP	\$(17,619,914)	\$(10,205,342)	\$ (4,445,297)	\$(39,472,879)
Reclassification of deferred exploration costs (a)	12,976,644	5,760,230	3,896,504	26,103,912
Investing activities under US GAAP	\$ (4,643,270)	\$ (4,445,112)	\$ (548,793)	\$(13,368,967)
Financing activity				
Financing activity under Canadian and US GAAP	\$ 12,864,131	\$ 69,454,032	\$ 2,219,382	\$101,884,879

(a) *Exploration expenditures*

Canadian GAAP allows exploration costs to be capitalized during the search for a commercially mineable body of ore. Under US GAAP, exploration expenditures can only be deferred subsequent to the establishment of economically exploitable reserves. For US GAAP purposes the Company therefore expensed its exploration expenditures.

(b) *Mineral and surface rights acquisition costs*

Previously, under US GAAP, the costs of acquisition of mineral property rights were generally classified as intangible assets and were amortized over their useful life, which in the case of a mineral right on a property without proven and probable reserves, was the lesser of the period to expiry of the right and the estimated period required to develop or further explore the mineral assets. Under Canadian GAAP, costs of acquiring mineral rights are generally considered as tangible property. As a result, for US GAAP purposes, the Company had previously amortized the cost of the mining rights acquired in prior years on a straight line basis over the period that further exploration was expected to occur on the properties which varied from 15 months to 31 months. In 2004 the Financial Accounting

MAG SILVER CORP.

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Notes to the Consolidated Financial Statements

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

standards Board in the U.S. concluded that mineral rights have the characteristics of tangible assets and issued EITF 04-02, *Whether Mineral Rights are Tangible or Intangible Assets*. The effect of this new standard is that mineral rights are no longer required to be amortized to the extent they are considered tangible assets until such date as they are commercially exploited. The Company adopted this standard effective January 1, 2004 on a prospective basis and is therefore no longer amortizing the cost of acquiring mineral property rights.

(c) *Equity in significantly influenced investment*

Under Canadian GAAP, the investment in the Juanicipio Joint Venture is accounted for under the equity method for which there is no material difference from US GAAP, except that the underlying results of operations are adjusted to conform with US GAAP prior to the calculation of the Company's share of equity income (loss). The significant conforming adjustment to the operating results relates to the accounting for mineral exploration expenditures. The adjustment to earnings for US GAAP purposes also impacts the cumulative translation adjustment recorded in accumulated other comprehensive income.

(d) *Accounting for stock-based compensation*

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123 (R)), which requires the recognition of compensation expense for all share-based payment awards. SFAS 123 (R) requires the Company to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of such award will be recognized over the period during which services are provided in exchange for the award, generally the vesting period. The Company adopted SFAS 123 (R) using the modified prospective transition method. Under this method, compensation expense recognition provisions are applicable to new awards and to any awards modified, repurchased or cancelled after the adoption date. Additionally, for any unvested awards outstanding at the adoption date, compensation cost is recognized over the remaining service period. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior periods are not restated for comparative purposes.

Prior to the adoption of SFAS 123 (R), the Company recognized stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 (APB 25) "Accounting for Stock Issued to Employees" and applied the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation" as if the Company had applied the fair value method to measuring stock-based compensation expense.

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Notes to the Consolidated Financial Statements

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

e) *Uncertain tax positions*

Effective January 1, 2007, the Company adopted SFASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 prescribes a recognition and measurement model for tax positions taken or expected to be taken in a tax return, and provides guidance on the de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 had no impact on the Company's consolidated financial statements prepared under U.S. GAAP.

f) *Fair value measurements*

In September 2006, the SFASB issued SFAS No. 157 "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and was applicable to the Company beginning in the first quarter of 2008. Prospective application is required for the Company. The Company is currently evaluating the impact of SFAS 157.

g) *Recent U.S. Accounting Pronouncements*

i) **SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162")**

In May 2008, the SFASB issued SFASB Statement No. 162, which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. FAS 162 is effective 60 days following the Security and Exchange Commission's ("SEC") approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly* in Conformity with GAAP." The Company does not expect the adoption of FAS 162 to have and impact on the Company's consolidated financial position, results of operations or cash flows.

ii) **SFAS No. 141 R, Business Combinations ("SFAS 141R")**

In November 2007, the FASB issued SFAS 141R which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for the Company's fiscal year beginning January 1, 2009. Management is currently evaluating the requirements of SFAS No. 141R and has not yet determined the impact on its financial statements.

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Notes to the Consolidated Financial Statements

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

iii) SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (“SFAS 160”)

In November 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for the Company’s fiscal year beginning January 1, 2009. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 will be applied prospectively. Management is currently evaluating the requirements of SFAS No. 160 and has not yet determined the impact on its financial statements.

Consolidated schedule of share capital since inception

	Number	Price	Amount
For cash	1,500,000	\$ 0.10	\$ 150,000
Balance, December 31, 1999	1,500,000		150,000
For cash	1,500,000	0.16	240,222
Balance, December 31, 2000, 2001, 2002	3,000,000		390,222
For cash	11,500,000	0.50	5,109,766
Conversion of special warrants	2,400,000	0.16	375,000
Agent's administration	10,000	0.50	5,000
For finders' fee	500,000	0.50	250,000
For mineral property	200,000	0.50	100,000
Issuance to acquire Lexington	200,000	0.90	180,000
For cash on exercise of warrants	5,183,995	0.20 - 0.75	3,068,996
For cash on exercise of stock options	100,000	0.20 - 0.50	26,000
Balance, December 31, 2003	23,093,995		9,504,984
For mineral property	1,358,793	0.62 - 2.00	1,578,752
For cash on exercise of warrants	1,236,750	0.20 - 0.75	480,562
For cash on exercise of stock options	140,000	0.20 - 0.77	68,070
Balance, December 31, 2004	25,829,538		11,632,368
For cash	7,201,176	0.94	6,771,672
For mineral property	1,654,679	0.70 - 0.95	1,337,289
For cash on exercise of warrants	1,400,755	0.50 - 0.75	1,046,566
For cash on exercise of stock options	105,500	0.20 - 0.50	24,290
Balance, December 31, 2005	36,191,648		20,812,185
For cash pursuant to private placement	245,716	2.35	577,433
For mineral property	85,043	2.25 - 2.75	204,431
For cash on exercise of warrants	944,503	1.35	1,275,079
For cash and contributed surplus on exercise of stock options	461,700	0.50 - 4.04	564,814
Balance, December 31, 2006	37,928,610		23,433,942
For cash pursuant to private placement	5,760,000	7.25 - 15.50	59,955,443
For cash and contributed surplus on exercise of warrants	2,883,486	1.35 - 10.00	6,468,783
For cash and contributed surplus on exercise of stock options	382,100	0.50 - 9.40	1,247,472
Balance, December 31, 2007	46,954,196		\$ 91,105,640
For cash and contributed surplus on exercise of warrants	1,137,000	10.00	13,588,444
For cash and contributed surplus on exercise of stock options	1,064,370	0.50 - 5.36	2,328,932
Balance, December 31, 2008	49,155,566		107,023,016