



## **MAG SILVER CORP.**

Management's Discussion & Analysis  
For the three and six months ended  
June 30, 2016

**Dated: August 15, 2016**

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

VANCOUVER OFFICE  
Suite 770  
800 W. Pender Street  
Vancouver, BC V6C 2V6

604 630 1399 phone  
866 630 1399 toll free  
604 681-0894 fax

TSX: MAG  
NYSE MKT: MAG  
[www.magsilver.com](http://www.magsilver.com)  
[info@magsilver.com](mailto:info@magsilver.com)

# MAG SILVER CORP.

## Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

---

The following Management's Discussion and Analysis ("MD&A") focuses on the financial condition and results of operations of MAG Silver Corp. ("MAG" or the "Company") for the three and six months ended June 30, 2016 and 2015. It is prepared as of August 15, 2016 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2016 and the audited annual consolidated financial statements of the Company for the year ended December 31, 2015, together with the notes thereto which are available on SEDAR and EDGAR or on the Company website at [www.magsilver.com](http://www.magsilver.com).

**All dollar amounts referred to in this MD&A are expressed in thousands of United States dollars ("US\$") unless otherwise stated.** The functional currency of the parent and the functional currency of its Mexican subsidiaries and investment in associate is the US\$.

The common shares of the company trade on the Toronto Stock Exchange and on the NYSE MKT both under the symbol MAG. The Company is a reporting issuer in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador and is a reporting "foreign issuer" in the United States of America. The Company believes it is a Passive Foreign Investment Company ("PFIC"), as that term is defined in Section 1297 of the U.S. Internal Revenue Code of 1986, as amended, and believes it will be a PFIC for the foreseeable future. Consequently, this classification may result in adverse tax consequences for U.S. holders of the Company's common shares. For an explanation of these effects on taxation, U.S. shareholders and prospective U.S. holders of the Company's common shares are encouraged to consult their own tax advisers.

### Qualified Person

Unless otherwise specifically noted herein, all scientific or technical information in this MD&A, including assay results and reserve estimates, if applicable, were based upon information prepared by or under the supervision of Dr. Peter Megaw, Ph.D., C.P.G., a certified professional geologist who is a "Qualified Person" for purposes of National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101" or "NI 43-101"). Dr. Megaw is not independent as he is an officer and a paid consultant of the Company (see *Related Party Transactions* below).

### Cautionary Note Regarding Forward-Looking Statements

Certain information contained in this MD&A, including any information relating to the Company's future oriented financial information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of Canadian securities laws (collectively "forward-looking statements"). All statements in this MD&A, other than statements of historical facts are forward-looking statements, including statements that address estimates of future production levels, expectations regarding mine production and development programs and capital costs, expected trends in mineral prices and statements that describe future plans, objectives or goals. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from results projected in such forward-looking statements, including, but not limited to, changes in commodities prices, changes in mineral production performance, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions, political risk, currency risk, capital cost inflation and those other risks and uncertainties identified under the heading "Risks and Uncertainties" in this MD&A and other risk factors and forward-

# **MAG SILVER CORP.**

## **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

looking statements listed in the Company's most recently filed Annual Information Form dated March 28, 2016 ("AIF"). The AIF is deemed to be incorporated by reference into this MD&A, and we direct the reader to read the AIF in conjunction with this MD&A, in order to have a better understanding of the Company's business and the associated risks facing the business.

Although the Company believes the expectations expressed in such forward-looking statements are based on what the Company's management considers to be reasonable assumptions, based on the information currently available to it, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Assumptions have been made including, but not limited to, the Company's ability to carry on its various exploration and development activities including project development timelines, the timely receipt of required approvals and permits, the price of the minerals the Company produces, the costs of operating, exploration and development expenditures, the impact on operations of the Mexican Tax Regime, and the Company's ability to obtain adequate financing. The Company cannot assure you that actual events, performance or results will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect. The forward-looking statements in this MD&A speak only as of the date hereof and we do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change other than as required by applicable law. There is no certainty that any forward-looking statement will come to pass and investors should not place undue reliance upon forward-looking statements. More information about the Company including its AIF and recent financial reports is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities and Exchange Commission's EDGAR website at [www.sec.gov](http://www.sec.gov).

### **Cautionary Note to Investors Concerning Estimates of Indicated and Inferred Mineral Resources**

This MD&A uses the terms "Indicated Mineral Resources" and "Inferred Mineral Resources". MAG advises investors that although these terms are recognized and required by Canadian regulations (under National Instrument 43-101 Standards of Disclosure for Mineral Projects), the U.S. Securities and Exchange Commission does not recognize these terms. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. In addition, "Inferred Mineral Resources" have a great amount of uncertainty as to their existence. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources are considered too speculative geologically to have the economic considerations applied to them to enable them to be categorized as mineral reserves and, accordingly, Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for a "Preliminary Economic Assessment" as defined under NI 43-101. Investors are cautioned not to assume that part or all of an Inferred Resource exists, or is economically or legally mineable.

## **1. DESCRIPTION OF BUSINESS**

The Company is a Vancouver-based mineral exploration and development company that is focused on the acquisition, exploration and development of district scale projects located within the Mexican silver belt. The Company's principal assets include the Company's 44% interest in the Juanicipio joint venture (the "Juanicipio Property"), and its 100% owned Cinco de Mayo property (the "Cinco de Mayo Property"), both located in Mexico. The Company also owns a 100% interest in the Guigui property, also in Mexico.

# **MAG SILVER CORP.**

## **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

### ***Juanicipio Property***

The Company owns 44% of Minera Juanicipio S.A. de C.V. ("Minera Juanicipio"), a Mexican incorporated joint venture company, which owns the high grade Juanicipio Property, located in the Fresnillo District, Zacatecas State, Mexico. Both exploration and development of the Juanicipio Property are being carried out by the project operator, Fresnillo plc ("Fresnillo"), which holds the remaining 56% interest in the joint venture.

The major asset associated with the Juanicipio Property is a high grade silver-gold-lead-zinc epithermal vein deposit. Exploration and development programs for the Juanicipio Property are designed by the Minera Juanicipio Technical Committee, and approved by the Minera Juanicipio Board of Directors. The Company's share of costs is funded primarily through its 44% interest in Minera Juanicipio, and to a lesser extent, incurred directly by the Company to cover expenses related to parallel technical studies and analyses commissioned by the Company, as well as direct project oversight. Minera Juanicipio is governed by a shareholders agreement and corporate by-laws, pursuant to which each shareholder is to provide funding pro rata to its interest in Minera Juanicipio, and if either party does not fund pro rata, their ownership interest will be diluted in accordance with the shareholders agreement.

Underground development commenced at the Juanicipio Property on October 28, 2013. The development program is based on recommendations made to Minera Juanicipio in a 2012 Preliminary Economic Assessment carried out by AMC Mining Consultants (Canada) Ltd. ("AMC") (see Press Release dated June 14, 2012) ("2012 PEA"). The 2012 PEA was subsequently reproduced in the same form in 2014 by Roscoe Postle Associates Inc. ("RPA") in their amended and restated NI 43-101 Technical Report documenting a 2014 updated Mineral Resource estimate, filed on SEDAR on July 3, 2014 (the "Juanicipio Technical Report") (see Press Release dated May 27, 2014).

The 2012 PEA defined Juanicipio as an economically robust, high-grade underground silver project exhibiting minimal financial or development risks that will produce an annual average of 15.1 million payable ounces of silver over the first full six years of commercial production and 10.3 million payable ounces per year over a 14.8 year total mine life. The 2012 PEA was based on a resource estimate and model developed by Strathcona Mineral Services ("Strathcona") dated November 2011. The 2014 Juanicipio Technical Report included an updated Juanicipio resource based on in-fill drill results from a 2012-2013 drill program, and manually divided the resource into the Bonanza Grade Silver Zone ("BGS Zone") and the Deep Zone. The BGS Zone resource veins have a similar footprint as prior resource estimates (see Press Releases dated November 10, 2011 and December 19, 2011), with the higher drill density converting a significant proportion of the previous Inferred Resource into the Indicated category. With minimal change to the BGS Zone footprint, the Juanicipio Technical Report from RPA stated that the results of the 2012 PEA remain a reasonable representation of the property's economic potential.

The economic analysis in the Juanicipio Technical Report is preliminary in nature and is based, in part, on Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that a Preliminary Economic Assessment will be realized.

Exploration results from drilling in the first quarter of 2015 on the Valdecañas Vein included four new exploration step-out holes (P1-P4) targeted approximately 100 metres below the existing Indicated and Inferred Resources reported in the Juanicipio Technical Report. As a point of definition, the Valdecañas Vein is an en echelon system comprised of overlapping East and West Veins – the term "Valdecañas Vein" is used to refer to this en echelon system at times. The four holes were drilled on nominal 150 metre centres

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

over a strike length of approximately 500 metres below the en echelon overlap zone between the East and West Valdecañas Veins and include the three widest and deepest intercepts to date on the property (see Press Release dated April 23, 2015). This new "Deep Zone" appears to be the extension of the southwest dipping West Valdecañas Vein and a similar deep continuation of the East Valdecañas Vein was announced subsequent to the quarter end (see "Exploration Juanicipio Property" below). The Deep Zone effectively remains open to depth and laterally along its entire strike length to the joint venture boundary in both directions.

The intercepts from these four holes widen progressively from 11.69 up to 32.09 metres (true widths) towards the east towards the overlap zone. The intercepts also show calc-silicate (skarn) alteration in and around the veins and the first significant copper values (0.2-0.8% copper) for the entire area, both of which are indicators of higher temperature mineralization conditions. The high silver and gold in Holes P2 and P3 coincide with zones of overprinted quartz veins that cut across earlier base-metal rich calc-silicate vein stages, indicating superimposition of an additional precious-metals rich vein stage. The appearance of copper and strong skarn alteration in this area, combined with the later cross-cutting silver-gold rich veining, suggests that Minera Juanicipio may have hit an ore-fluid upwelling zone, which could open up new exploration targets throughout the entire Valdecañas Vein area.

#### ***Cinco de Mayo Property***

The Company owns 100% of the mineral concessions comprising the Cinco de Mayo Property. The property is located approximately 190 kilometres northwest of the city of Chihuahua, in northern Chihuahua State, Mexico, and covers approximately 25,113 hectares. The primary concessions of the Cinco de Mayo Property were acquired by way of an option agreement dated February 26, 2004, and the property remains subject to a 2.5% net smelter returns royalty. The project consists of four major mineralized zones: the Upper Manto silver-lead-zinc inferred resource; the Pegaso deep discovery; the non-core Pozo Seco high grade molybdenum-gold resource area; and the surrounding Cinco de Mayo exploration area.

No active exploration has been undertaken on the Cinco de Mayo Property since late 2012, as the Company continues its efforts to obtain a renewed surface access agreement with the local Ejido. Although the Company believes that the matter will ultimately be resolved, the overall timeline to a resolution is not determinable at this time.

#### ***Guigui Property***

The Guigui Property is a 100% interest in a 4,500-hectare property in the Santa Eulalia Mining District of Chihuahua, Mexico, home to the world's largest Carbonate Replacement Deposit ("CRD") camp. Strong aero-magnetic anomalies were identified in late 2007 but could not be drilled because they straddled the eastern border of the original "Guigui" claim and continued into ground covered by the Juarez Mega-Claim filed by the Mexican Geological Service in mid-2007. This adjoining part of the Juarez concession was liberated in July 2013 and the Company filed for and obtained the additional 3,800 hectare "Guiguito" concession. The combined property now consists of roughly 8,300 hectares. The eastern area magnetic anomalies were drilled in 2015 and encountered pre-mineralization intrusions. Further exploration on the property is currently being considered in the central and western areas of the concession package.

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

## 2. HIGHLIGHTS

- ✓ Deep exploration drilling at Juanicipio was ongoing throughout the quarter, and 6 drill rigs are currently on the property drilling, 5 from surface and 1 from within the underground ramp.
- ✓ 2015-2016 drilling to further delineate the extent of the new Valdecañas Deep Zone was completed, and assays released subsequent to the quarter end (see Press Release August 15, 2016). Overall results show vein widths ranging from 5 to 22 metres with the highest zinc and copper grades seen to date. The new results show that mineralization in the Deep Zone occurs in both the East and West Valdecañas Veins and extends mineralization roughly 250 metres beneath the existing resource over a combined strike length of over 800 metres. The Deep Zone mineralization remains open to the property boundary in both directions: 450 metres to the west and over 700 metres to the east. Highlights within the results included:
  - VM2, a new discovery along the East Valdecañas Vein cut 29.85 metres (true thickness) grading 235 grams per tonne ("g/t") silver, 0.50 g/t gold, and 4.76% lead, 5.79% zinc and 0.99% copper.
  - P6 cut 22.9 metres (true thickness) in the West Valdecañas Vein reporting 119 g/t Ag, 1.13 g/t gold, 4.18% lead, 11.89% zinc and 0.27%.
  - The drilling also resulted in the discovery of the "Anticipada Vein" a newly recognized vein of unclear geometry lying about 100 metres into the hanging wall of the East Vein. It has been cut in five holes and swells from 0.8 metres (true width) in Hole VM2 to 6.68 metres (true width) in Hole P13 where it grades 105 g/t silver, 2.69 g/t gold, 3.59% lead, 10.79% zinc and 0.23% copper. It remains open in several directions.
- ✓ A supplemental \$1,200 (MAG's 44% share is \$528) budget for follow up drilling of the latest exploration results at Valdecañas was approved by the Juanicipio Technical Committee in late April 2016, and drilling is currently in process with six rigs turning on site.
- ✓ Advancement of the underground ramp decline at the Juanicipio Property continues to progress at rates exceeding those envisioned in the Juanicipio Technical Report, with the cumulative advance of the ramp now approaching 3,200 metres of the 3,500 metres needed to reach the plane of the Valdecañas Vein. At this rate the Valdecañas Vein plane should be reached in late 2016 or early 2017. The ramp will then descend into the footwall of the vein and the initial mining access will be commenced.
- ✓ The Company remains well funded, with cash and term deposits totaling \$140,858. The Company believes that it is fully funded for its 44% share of Juanicipio development costs, as envisioned in the 2014 Juanicipio Technical Report.

## 3. FINANCING ACTIVITIES

### *Financing*

On March 1, 2016, the Company closed a bought deal public offering and issued 8,905,000 common shares at \$7.30 per share, for gross proceeds of \$65,006. On March 4, 2016, the underwriters exercised in full an associated 15% over-allotment option, and the Company issued an additional 1,335,750 common shares for additional gross proceeds of \$9,751. Total gross proceeds were \$74,757, and the Company paid commission to the underwriters of \$3,497 and legal and filing costs totaled an additional \$606, resulting in

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

net proceeds of \$70,654. As outlined in the public offering document, the Company intends to use the net proceeds of the offering primarily to fund development and exploration expenditures at the Juanicipio Property and for working capital and general corporate purposes.

Given the Juanicipio development progress to date, and the Company's cash and term deposits of \$140,858 as at June 30, 2016, the Company believes that it has enough cash to fully fund its 44% share of development expenditures for the Juanicipio mine development, as envisioned in the Juanicipio Technical Report (see "*Liquidity and Capital Resources*" below).

#### **4. DEVELOPMENT AND EXPLORATION ACTIVITIES**

##### ***Underground Development – Juanicipio Property***

According to the Juanicipio Technical Report timeline, the first 33 months of development focuses primarily on the ramp decline advancing towards the main Valdecañas Vein of the property. To date, the entry portal, surface explosives magazines, surface offices and associated infrastructure have been completed, and the ramp decline is currently advancing with drilling and blasting. The ramp development advance rate is now at or exceeding the levels envisioned in the Juanicipio Technical Report (115 metres per month), with the cumulative advance of the ramp now approaching 3,200 metres of the 3,500 metres needed to reach the plane of the Valdecañas en echelon Veins, at which time stope access and development will begin. At current advance rates, the Company anticipates reaching the plane of the Valdecañas en echelon Veins by late 2016 or early 2017. As well, construction of additional ventilation raises and surface installations continues.

##### ***Exploration – Juanicipio Property***

###### ***Current Deep Drilling Program***

In 2015, Fresnillo and MAG agreed to an additional 10,000 metre, 9 hole, \$1,500 (MAG's 44% share is \$660) 2015 and 2016 drill program to further trace the extent of the new Valdecañas Deep Zone and expand the mineralization hit in holes P1-P4 (see Press Release of April 23, 2015). As well, a portion of the 2015 exploration budget for surface drill holes that was pending permitting was reallocated to underground drilling beneath the East Valdecañas Vein to test it at depths comparable to Holes P1-P4 drilled under the Valdecañas West Vein. A drill station was carved out along the decline at approximately 2,000 metres down ramp. The surface and underground drilling commenced in November 2015 and was completed in June, 2016. Twelve holes, ranging in depth from 850 to over 1,200 metres were completed, and as expected with such depth, several holes required multiple attempts to reach target depths. Subsequent to the quarter end, assays for these holes were received and released (see Press Release dated August 15, 2016).

The drill results from twelve (12) step-out exploration holes confirm and extend the wide high-grade mineralization from the Deep Zone discovery announced April 23, 2015. The holes demonstrate continuity of high-grade, multi-stage precious and base metals mineralization now beneath both the East and the West Vein Bonanza Zones. Mineralization is traceable over a strike length exceeding 800 metres and to a depth of 200 to 300 metres beneath the current resource estimate (see Press Release dated May 27, 2014). Mineralization widths range from approximately 5 metres to over 29 metres with the thickest intercepts occurring where the dip of the veins steepen creating thickened "dilatant zones" that remain open to depth and laterally to the joint venture boundaries: approximately 450 metres to the west and over 700 metres to the east.

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

#### *East Vein*

The best intercept in the discovery and extension of the Deep Zone in the East Valdecañas Vein is in hole VM2, with 36.45 metres (29.85 metres true width) grading 235 g/t (6.87 ounces per ton "opt") silver, 0.50 g/t gold, 4.76% lead, 5.79% zinc, 0.99% copper; including 8.80 m (true width of 7.21 metres) carrying 475 g/t (13.86 opt) silver; 0.66 g/t gold, 1.91% lead, 5.27% zinc and 2.38% copper. Higher grade zones within the overall intercept include very high-grade lead (>40%) and high-grade silver (1,290 g/t) associated with the highest copper values (6.79%) reported to date on the property.

#### *West Vein*

P6 is the best new hole in the Deep Zone West cutting 29.90 metres (22.90 metres true width) grading 119 g/t (3.47 opt) silver, 1.13 g/t gold, 4.18% lead, 11.89% zinc and 0.27% copper; including 3.75 metres (2.87 metres true width) grading 292 g/t (8.52 opt) silver, 4.48 g/t gold, 13.24% lead, 24.92% zinc and 0.55% copper. This hole is a 100 metre offset to Hole P3, the best hole of the previous program.

The Drilling also resulted in the discovery of the "Anticipada Vein," a newly recognized vein of unclear geometry lying about 100 metres into the hanging wall of the East Vein. It has been cut in five holes and swells from 1.15 metres (0.8 metres true width) in Hole VM2 to 10.40 metres (6.68 metres true width) in Hole P13 where it grades 105 g/t (3.06 opt) silver, 2.69 g/t gold, 3.59% lead, 10.79% zinc and 0.23% copper. It remains open in several directions.

Drilling results to date from the Deep Zone show the typical thickening and complementary thinning of a classic "dilatant zone" stemming from steepening and flattening of the veins (<http://media3.marketwire.com/docs/Figures1-4MAG.pdf>). This geometry creates a roughly horizontally-elongated zone of greatly increased thickness that looks to have strong lateral continuity (<http://media3.marketwire.com/docs/Figures1-4MAG.pdf>). On the West Vein the fattened Deep Zone appears to be at least 250 metres high, 3 to 23 metres wide and 300 metres long; remaining open 400 metres to the western property boundary. On the East Vein the fattened Deep Zone appears to be at least 300 metres high, 2.7 to 22 metres wide and 450 metres long; remaining completely open to depth and over 700 metres to the eastern property boundary.

The Deep Zone displays strong base metal mineralization stages cut by later quartz veining stages. In some holes, swarms of barren quartz veinlets extend for tens of metres around the mineralized zones. There are significant orientation differences between the various vein stages suggesting structural complexity not seen higher in the system. The interpretation of increased structural complexity is reinforced by the geometry of the Anticipada Vein. The narrowness of the intercepts in Holes P7 and P9 appears to indicate downward flattening of the vein. Although less well constrained, changes in vein strike may explain the widening of the vein to the east and west of the overlap zone. Notably, the overlap zone also appears to coincide with the zone of broadest skarn alteration, which exceeds 200 metres wide in Hole P12. The highest copper values appear to fall around the edges of the skarn zone. These geologic data continue to support the concept that the overlap zone coincides with a major ore-fluid upwelling zone.

Qualified Person: Dr. Peter Megaw, Ph.D., C.P.G., has acted as the qualified person as defined in National Instrument 43-101 for this disclosure and supervised the preparation of the technical information in this release. Dr. Megaw has a Ph.D. in geology and more than 35 years of relevant experience focussed on silver and gold exploration in Mexico. He is a Certified Professional Geologist (CPG 10227) by the American Institute of Professional Geologists and an Arizona Registered Geologist (ARG 21613). Dr. Megaw is not independent as he is Chief Exploration Officer (CXO) and a Shareholder of MAG and is a vendor of

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

projects, other than Juanicipio, whereby he may receive royalties. Dr. Megaw is satisfied that the results are verified based on an inspection of the core, a review of the sampling procedures, the credentials of the professionals completing the work and the visual nature of the silver and base metal sulphides within a district where he is familiar with the style and continuity of mineralization.

Quality Assurance and Control: The samples are shipped directly in security-sealed bags to ALS-Chemex Laboratories preparation facility in Guadalajara, Jalisco, Mexico (Certification ISO 9001). Samples shipped also include intermittent standards and blanks. Pulp samples are subsequently shipped to ALS-Chemex Laboratories in North Vancouver, Canada for analysis. Two extra pulp samples are also prepared and are analyzed (in progress) by SGS Laboratories (Certification ISO 9001) and Inspectorate Laboratories (Certification ISO 9001) (or other recognized lab). The bulk reject is subsequently sent to CIDT (Center for Investigation and Technical Development) of Peñoles in Torreon, Mexico for metallurgical testing where a fourth assay for each sample is analyzed and a calculated head grade is received on the basis of a concentrate balance. The CIDT also does a full microscopic, XRF and XRD mineralogical analysis.

In April, the Joint Venture Technical Committee approved a supplemental \$1,200 budget (MAG's 44% share is \$528) for additional 2016 deep and shallow in-fill drilling as well as protection and exploration holes along and ahead of the path of the decline as it approaches the Valdecañas Vein. This supplemental drill program is for a combined 8,900 metres of surface and underground drilling, and drilling is currently in process with six rigs turning on site.

#### ***Exploration – Cinco de Mayo***

No active exploration is currently being undertaken on the Company's Cinco de Mayo Property, as the Company continues its efforts to obtain a renewed surface agreement with the local Ejido.

#### ***"Soil Use Change Permit" and surface access***

As of 2012, exploration drilling permits in Mexico require a "Soil Use Change Permit," reflecting conversion of land from agricultural to industrial use. In mid-2012, the Company was in the process of negotiating ordinary course surface access permissions on a portion of the Cinco de Mayo property with the Ejido Benito Juarez (the "EBJ") as the final component in the application for the required Soil Use Change Permit. Both the Upper Manto and Pegaso Zone are located on the portion of the Cinco de Mayo property where the EBJ controls the surface rights (but not the mineral rights, which belong to the Company). The Company had a long-standing and productive working relationship with the EBJ and had previously purchased 41 specific rights relating to relevant areas of the Cinco de Mayo project area for \$660 from certain EJB members. This purchase was ratified by an official Assembly of the EBJ and registered and ratified by the Federal Agrarian Authority. The Company was awaiting formal title transfer of the surface rights, when certain members of the EBJ challenged the purchase, claiming the 41 rights purchased represented a 41/421 undivided interest in the EBJ owned surface rights, rather than rights to exclusive areas of the property. Then on November 17, 2012, at what the Company maintains was an illegally constituted Assembly, the EBJ voted to order MAG to vacate the surface of its Cinco de Mayo property (the mineral concession rights were and are not affected).

As permission of the EBJ assembly is required to obtain surface access (and ultimately a Soil Use Change Permit), MAG continues its efforts to obtain a renewed surface access agreement with the EBJ, with the intent of arriving at a settlement agreement that would be fully supported at a properly constituted Assembly. Although there is no certainty that a new vote would produce a favourable outcome for the

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

Company, MAG believes that the opposition group and its supporters do not represent the will of the majority of the 421 voting members of the EBJ (or of the 12,000 other citizens in the project area).

The Company remains willing to work with the EBJ and the greater community to define a comprehensive Corporate Social Responsibility Program ("CSR") to coincide with the next phases of exploration on the Upper Manto and Pegaso Zone. MAG's objective is to ensure the EBJ and the greater community benefit from the expected successes and growth at Cinco de Mayo.

Although the Company believes that the process will be successful, the overall timeline to a resolution is not determinable at this time. There are no contractual or statutory time limits on obtaining surface access rights under the relevant permits required for continued exploration.

The Cinco de Mayo concession package extends beyond the Upper Manto and Pegaso Zones into areas where the surface rights are not held by the EBJ; including areas of some prior drilling success. Although these areas remain of interest, the Company has no current plans to conduct surface-based exploration in these areas.

## **5. OUTLOOK**

The Company continues to explore its properties in Mexico and intends to enhance its project portfolio through successful exploration and project development. Although the Company's working capital position remains strong, the Company continues to execute its business plan prudently, with an on-going focus on high-grade, district scale potential properties.

### ***Minera Juanicipio Outlook***

The Juanicipio Technical Report provides a framework on which the Technical Committee guides the continued advancement of the project. Although Minera Juanicipio has not formally made a "production decision," Fresnillo, the project operator, has publicly reported that it expects that Juanicipio will be in production by 2018, and has recently indicated that plant construction will commence in the fourth quarter of 2016. Although the Company believes this timeline laid out by the project operator is reasonable in the context of the Juanicipio Technical Report, the actual schedule to production is still under review by Minera Juanicipio, and there are no assurances when a formal development and construction decision will be made and that mine development and production will be achieved in accordance with the Juanicipio Technical Report.

The initial 2016 Minera Juanicipio development budget is \$12,800 (MAG's 44% share is \$5,632), and continues to be designated primarily for continued ramp advancement and associated underground infrastructure as outlined in the Juanicipio Technical Report, as well as ongoing baseline environmental analysis, and some metallurgical and geotechnical studies. It is expected that Minera Juanicipio will make a decision to construct the surface facilities during the year, and the 2016 development budget will likely be amended accordingly to reflect additional capital expenditures.

As noted below in Liquidity and Capital Resources, the Company believes that it has enough cash to fully fund its 44% share of cash calls for the Juanicipio mine development as envisioned in the Juanicipio Technical Report.

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

In addition to the \$1,200 (MAG's 44% share is \$528) 2016 supplemental 8,900 metre deep and shallow infill drilling currently ongoing, there is also a 2016 Minera Juanicipio exploration budget of approximately \$3,200 (MAG's 44% share is \$1,408), approved by the Minera Juanicipio Technical Committee for testing deep targets on the Juanicipio Vein (as opposed to the Valdecañas Vein discussed above), and for a continued search for new veins within the joint venture property. Currently, there are 6 drill rigs on the property, 5 drilling from surface, and 1 drilling from underground.

#### *Cinco de Mayo Outlook*

Although the Company believes that its surface access will be restored to the Cinco de Mayo Property and that the requisite authorizations to complete its submission for the Soil Use Change Permit will be obtained in due course, the overall timeline to successful resolution is not determinable at this time, and will depend upon various factors including but not limited to: the ability of the Company to arrive at an agreement that would be fully supported by the majority of the EBJ; and, the ability of the EBJ to conduct a properly constituted Assembly meeting, with quorum, and favourable outcome. Although all work obligations to keep the claims in good standing have been fulfilled by the Company, the Company sought and was granted a formal federal exemption for 2015 exploration work commitments on the property. The Company has applied for a similar exemption for 2016 work commitments.

## 6. INVESTMENT IN ASSOCIATE

### Minera Juanicipio

Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio") is the corporate entity through which the Company holds its Investment in Associate.

| <i>(In thousands of US dollars)</i>                       | Three months ended June 30, |                  | Six months ended June 30, |                  |
|---|-----------------------------|------------------|---------------------------|------------------|
|   | 2016                        | 2015             | 2016                      | 2015             |
| Joint venture oversight expenditures incurred 100% by MAC | \$ 113                      | \$ 80            | \$ 188                    | \$ 114           |
| Cost recoveries   | -                           | -                | (104)                     | -                |
| Cash contributions to Minera Juanicipio                   | 2,024                       | 924              | 5,091                     | 3,080            |
| Total for the current period                              | 2,137                       | 1,004            | 5,175                     | 3,194            |
| Equity pick up of current loss for the period             | (600)                       | (147)            | (643)                     | (147)            |
| Balance, beginning of the period                          | 34,235                      | 29,788           | 31,240                    | 27,598           |
| <b>Balance, end of the period</b>                         | <b>\$ 35,772</b>            | <b>\$ 30,645</b> | <b>\$ 35,772</b>          | <b>\$ 30,645</b> |

During the three and six months ended June 30, 2016, the Company incurred oversight expenditures on the Juanicipio Property of \$113 and \$188 respectively (June 30, 2015: \$80 and \$114 respectively) and made joint venture advances to Minera Juanicipio of \$2,024 and \$5,091 respectively (June 30, 2015: \$924 and \$3,080). In the first quarter, the Company also recovered land taxes previously paid of \$104 (June 30, 2015: Nil).

Total Juanicipio Property expenditures incurred directly by Minera Juanicipio for the three and six months ended June 30, 2016 amounted to approximately \$3,450 and \$6,661, respectively (June 30, 2015: \$2,429 and \$4,815 respectively).

In the three and six months ended June 30, 2016 the Company recorded a 44% equity loss from its Investment in Associate of \$600 and \$643, respectively (June 30, 2015: \$147 and \$147, respectively). The equity loss is due to the weakening of the Mexican Peso relative to the US\$, and the Company's related

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

44% share of a foreign exchange loss and deferred tax expense. The Company's 44% exchange loss for the three and six months ended June 30, 2016 amounted to \$177 and \$220 respectively (June 30, 2015: \$147 and \$147, respectively), and the deferred tax expense amounts to \$423 and \$423 respectively (June 30, 2015 nil and nil, respectively).

## 7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets as at June 30, 2016 consist of the Company's Cinco de Mayo and Guigui properties:

| For the three months ended<br>(In thousands of US dollars) | June 30, 2016 |          |           | June 30, 2015 |
|--|---------------|----------|-----------|---------------|
|  | Cinco de Mayo | Guigui   | Total     | Total         |
| Acquisition costs of mineral & surface rights              | \$ -          | \$ -     | \$ -      | \$ 14         |
| Camp and site costs  | 25            | -        | 25        | 27            |
| Legal, community and other consultation costs              | 190           | -        | 190       | 204           |
| Geological & geophysical                                   | 14            | 2        | 16        | 23            |
| Land taxes and gov't fees                                  | -             | 9        | 9         | 10            |
| Travel, transport & shipping                               | 8             | (1)      | 7         | 29            |
| Total for the period                                       | 237           | 10       | 247       | 307           |
| Balance, March 31, 2016                                    | 49,272        | 3,998    | 53,270    | 50,968        |
| Balance, June 30, 2016                                     | \$ 49,509     | \$ 4,008 | \$ 53,517 | \$ 51,275     |

| For the six months ended<br>(In thousands of US dollars) | June 30, 2016 |          |           | June 30, 2015 |
|--|---------------|----------|-----------|---------------|
|  | Cinco de Mayo | Guigui   | Total     | Total         |
| Acquisition costs of mineral & surface rights            | \$ -          | \$ -     | \$ -      | \$ 48         |
| Camp and site costs                                      | 46            | 3        | 49        | 47            |
| Legal, community and other consultation costs            | 426           | -        | 426       | 385           |
| Geological & geophysical                                 | 16            | 11       | 27        | 66            |
| Land taxes and gov't fees                                | 142           | 46       | 188       | 195           |
| Travel, transport & shipping                             | 20            | 1        | 21        | 54            |
| Total for the period                                     | 650           | 61       | 711       | 795           |
| Balance, January 1, 2016                                 | 48,859        | 3,947    | 52,806    | 50,480        |
| Balance, June 30, 2016                                   | \$ 49,509     | \$ 4,008 | \$ 53,517 | \$ 51,275     |

### *Cinco de Mayo Property*

In the three and six months ended June 30, 2016, the Company incurred exploration and evaluation costs of \$237 and \$650 (June 30, 2015: \$281 and \$650) on the Cinco de Mayo property. In addition to land taxes and other government fees of \$142 (June 30, 2015: \$139), the principal expenditures and main focus of work has been preparations for negotiations with the local EBJ (see 'Soil Use Change Permit' and surface access' above) which has included meetings with State and Federal authorities, and with several legal and Community Relations advisors in Mexico.

### *Guigui Property*

In the three and six months ended June 30, 2016, the Company incurred exploration and evaluation costs of \$10 and \$61 (June 30, 2015: \$26 and \$145 respectively) on the Guigui property. In addition to land

# MAG SILVER CORP.

## Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

taxes and other government fees of \$46 (June 30, 2015: \$56), the Company is re-examining possible targets within district, in part prompted by active exploration by another company immediately to the north of the central part of MAG's holdings.

### 8. REVIEW OF FINANCIAL RESULTS

| <i>(In thousands of US dollars)</i>                          | Three months ended June 30, |                   | Six months ended June 30, |                   |
|--|-----------------------------|-------------------|---------------------------|-------------------|
|  | 2016                        | 2015              | 2016                      | 2015              |
| <b>EXPENSES</b>  |                             |                   |                           |                   |
| Accounting and audit   | \$ 80                       | \$ 68             | \$ 163                    | \$ 154            |
| Amortization   | 4                           | 4                 | 8                         | 8                 |
| Filing and transfer agent fees                               | 7                           | 8                 | 170                       | 161               |
| Foreign exchange (gain) loss                                 | (23)                        | (156)             | (292)                     | 938               |
| General office expenses                                      | 266                         | 243               | 404                       | 374               |
| Legal  | 38                          | 71                | 95                        | 109               |
| Property investigation costs                                 | 43                          | 37                | 84                        | 138               |
| Management compensation and consulting fees                  | 437                         | 400               | 864                       | 805               |
| Share based payment expense                                  | 1,193                       | 1,114             | 1,772                     | 1,435             |
| Shareholder relations  | 120                         | 149               | 243                       | 294               |
| Travel   | 59                          | 119               | 143                       | 194               |
|  | 2,224                       | 2,057             | 3,654                     | 4,610             |
| Interest income  | 303                         | 68                | 416                       | 160               |
| Gain on sale of available-for-sale securities                | 1,152                       | -                 | 1,152                     | -                 |
| Impairment of investment<br>in available-for-sale securities | -                           | -                 | -                         | (75)              |
| Equity pick up from Associate                                | (600)                       | (147)             | (643)                     | (147)             |
| Loss for the period before income tax                        | \$ (1,369)                  | \$ (2,136)        | \$ (2,729)                | \$ (4,672)        |
| Deferred income tax expense                                  | (858)                       | -                 | (795)                     | -                 |
| <b>Loss for the period</b>                                   | <b>\$ (2,227)</b>           | <b>\$ (2,136)</b> | <b>\$ (3,524)</b>         | <b>\$ (4,672)</b> |

#### Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015

The Company's net loss for the three months ended June 30, 2016 increased slightly to \$2,227 (June 30, 2015: \$2,136).

In the three months ended June 30, 2016, the foreign exchange gain decreased to \$23 compared to \$156 in the same period last year. The foreign exchange gain resulted primarily from holding cash denominated in Canadian dollars ("C\$"), while the US\$ weakened marginally against the C\$ (from March 31, 2016 to June 30, 2016, the US\$/C\$ exchange rate changed from 0.7700 to 0.7742 compared to 0.7895 to 0.8006 from March 31, 2015 to June 30, 2015) resulting in an exchange gain.

Share based payment expense incurred in the quarter ended June 30, 2016 amounted to \$1,193 (June 30, 2015: \$1,114) and was comparable with the prior period's expense. The fair value of all stock option share-based payment expense is estimated using the Black-Scholes-Merton option valuation model, while the fair

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

value of restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs") is based on the fair market value of a common share equivalent on the date of grant.

The Company granted no stock options in the quarter ended June 30, 2016 (June 30, 2015: 203,750) and recorded \$249 (June 30, 2015: \$495) of share based payment expense (a non-cash item) relating to stock options vesting to employees and consultants in the period. The Company also granted no RSUs and PSUs in the quarter ended June 30, 2016 (June 30, 2015: 19,960 and nil respectively), and recorded a share based payment expense of \$91 (June 30, 2015: \$93) relating to RSUs and PSUs vesting to employees and consultants in the period.

The Company granted 63,287 DSUs in the quarter ended June 30, 2016 (June 30, 2015: 67,365) and granted an additional 2,151 DSUs to two directors who elected to receive their retainer and meeting fees for the period in DSUs rather than cash (June 30, 2015: 7,332). Included in the current quarter's expense was \$853 share based payment expense from these grants which all vest immediately (June 30, 2015: \$525). Under the plan, the DSUs cannot be settled prior to the eligible participant's termination date.

Other expenses incurred during the quarter ended June 30, 2016 included accounting and audit of \$80 (June 30, 2015: \$68), amortization of \$4 (June 30, 2015: \$4), filing & transfer agent fees of \$7 (June 30, 2015: \$8), general office expenses of \$266 (June 30, 2015: \$243), legal of \$38 (June 30, 2015: \$71), new property investigation costs of \$43 (June 30, 2015: \$37), management compensation and consulting fees of \$437 (June 30, 2015: \$400), shareholder relations expenses of \$120 (June 30, 2015: \$149) and travel of \$59 (June 30, 2015: \$119), and were all either comparable with the prior period's expense or the change was not significant to the overall operations during the period.

In other income and expenses, the Company earned interest income on its cash and term deposits of \$303 during the quarter ended June 30, 2016 (June 30, 2015: \$68), and realized a gain of \$1,152 (June 30, 2015: nil) on the sale of marketable securities previously held for strategic reasons. The Company also recorded its 44% equity loss from Minera Juanicipio as described above in Investment in Associate.

The Company recorded a deferred tax expense of \$858 for the quarter ended June 30, 2016 (June 30, 2015: nil) related to temporary differences between the book and tax base of its Mexican non-monetary assets. The tax base of these non-monetary assets is determined in Mexican Pesos as opposed to the functional currency (US\$), and changes in the exchange rate can give rise to temporary differences that result in a deferred tax liability and associated expense. With the weakening of the Mexican Peso against the US\$ from 17.25 Pesos/US\$ on March 31, 2016 to 18.55 Pesos/US\$ on June 30, 2016, a deferred tax expense was recognized in the quarter.

#### **Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015**

The Company's net loss for the six months ended June 30, 2016 decreased to \$3,524 (June 30, 2015: \$4,672).

A foreign exchange gain of \$292 was recorded in the six months ended June 30, 2016 compared to a \$938 foreign exchange loss in the same period last year. The foreign exchange gain resulted primarily from holding cash denominated in Canadian dollars ("C\$"), while the US\$ weakened against the C\$ (from December 31, 2015 to June 30, 2016, the US\$/C\$ exchange rate changed from 0.7225 to 0.7742). A portion of the Company's cash is used to fund Canadian dollar expenditures and is held in C\$ (US\$ equivalent of \$7,580 as at June 30, 2016). The C\$ cash is exposed to exchange risk relative to the US\$, and results in a gain or loss as the exchange rate fluctuates.

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

Share based payment expense incurred in the six months ended June 30, 2016 amounted to \$1,772 (June 30, 2015: \$1,435). The Company granted no stock options in the period ended June 30, 2016 (June 30, 2015: 203,750) and recorded \$477 (June 30, 2015: \$706) of share based payment expense relating to stock options vesting to employees and consultants in the period. The Company also granted no RSUs and no PSUs in the period ended June 30, 2016 (June 30, 2015: 19,960 and nil respectively) and recorded a share based payment expense of \$396 (June 30, 2015: \$156) relating to RSUs and PSUs vesting to employees and consultants in the period. In the six months ended June 30, 2016, \$899 of share based payment expense (June 30, 2015: \$573) was also recorded on 63,287 DSUs (June 30, 2015: 67,365) granted under the Company's DSU plan and an additional 5,405 DSUs (June 30, 2015: 15,280) granted to two directors who elected to receive their retainer and meeting fees for the period in DSUs rather than in cash.

Other expenses incurred during the six months ended June 30, 2016 included accounting and audit of \$163 (June 30, 2015: \$154), amortization of \$8 (June 30, 2015: \$8), filing & transfer agent fees of \$170 (June 30, 2015: \$161), general office expenses of \$404 (June 30, 2015: \$374), legal of \$95 (June 30, 2015: \$109), new property investigation costs of \$84 (June 30, 2015: \$138), management compensation and consulting fees \$864 (June 30, 2015: \$805), shareholder relations expenses of \$243 (June 30, 2015: \$294) and travel of \$143 (June 30, 2015: \$194), and were all either comparable with the prior period's expense or the change was not significant to the overall operations during the period.

In other income and expenses, the Company earned interest income on its cash and term deposits of \$416 (June 30, 2015: \$160) during the six months ended June 30, 2016, and recorded its 44% equity loss from Minera Juanicipio as described above in Investment in Associate.

The Company also recorded a deferred tax expense of \$795 for the six months ended June 30, 2016 (June 30, 2015: nil), primarily related to the weakening of the Mexican Peso against the US\$ in the second quarter as described above in the "Three months ended June 30, 2016." This non-cash charge will only be realized once the Company's exploration properties are developed and in production or on disposal of the mineral properties.

#### Other Comprehensive Income (Loss):

| <i>(In thousands of US dollars)</i>                            | Three months ended June 30, |                   | Six months ended June 30, |                   |
|--|-----------------------------|-------------------|---------------------------|-------------------|
|  | 2016                        | 2015              | 2016                      | 2015              |
| Loss for the period  | \$ (2,227)                  | \$ (2,136)        | \$ (3,524)                | \$ (4,672)        |
| OTHER COMPREHENSIVE INCOME (LOSS)                              |                             |                   |                           |                   |
| Items that may be reclassified subsequently to profit or loss: |                             |                   |                           |                   |
| Unrealized gain (loss) on marketable securities, net of taxes  | (214)                       | 33                | 1,112                     | (41)              |
| Reclassification to gain on sale of marketable securities      | (1,152)                     | -                 | (1,152)                   | -                 |
| <b>Total comprehensive income (loss)</b>                       | <b>\$ (3,593)</b>           | <b>\$ (2,103)</b> | <b>\$ (3,564)</b>         | <b>\$ (4,713)</b> |

In Other Comprehensive Income and Loss ("OCI") during the three and six months ended June 30, 2016, the Company recorded an unrealized loss of \$214 and unrealized gain of \$1,112, respectively, (June 30, 2015: \$33 unrealized gain and \$41 unrealized loss, respectively) on marketable securities it had strategically acquired. Upon the sale and disposition of certain marketable securities in the three months ended June 30, 2016, \$1,152 was reclassified from OCI to gain on sale of marketable securities.

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

#### 9. SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected quarterly financial information for each of the last eight quarters (as determined under International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS")) (expressed in US\$000's except Net Loss per Share):

| Quarter Ending     | Revenue <sup>(1)</sup> | Net Loss <sup>(2)</sup> | Net Loss per Share |
|--------------------|------------------------|-------------------------|--------------------|
| June 30, 2016      | \$303                  | \$(2,227)               | \$(0.03)           |
| March 31, 2016     | \$113                  | \$(1,297)               | \$(0.02)           |
| December 31, 2015  | \$64                   | \$(10,169)              | \$(0.15)           |
| September 30, 2015 | \$66                   | \$(1,988)               | \$(0.03)           |
| June 30, 2015      | \$68                   | \$(2,136)               | \$(0.03)           |
| March 31, 2015     | \$92                   | \$(2,536)               | \$(0.04)           |
| December 31, 2014  | \$105                  | \$(9,303)               | \$(0.14)           |
| September 30, 2014 | \$72                   | \$(3,680)               | \$(0.05)           |

Notes:

- (1) The Company's only source of revenue during the quarters listed above was interest earned on bank cash and term deposit balances. The amount of interest revenue earned correlates directly to the amount of cash on hand during the period referenced and prevailing interest rates. At this time, the Company has no operating revenues.
- (2) Net losses by quarter are often materially affected by the timing and recognition of large non-cash expenses (specifically share based payments, exploration and evaluation property write-offs, and deferred tax expense) as described in "Review of Financial Results" above.

#### 10. CASH FLOWS

The following table summarizes cash flow activities for the three and six months ended June 30, 2016:

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

| <i>(In thousands of US dollars)</i>      | Three months ended June 30, |                  | Six months ended June 30, |                  |
|--|-----------------------------|------------------|---------------------------|------------------|
|  | 2016                        | 2015             | 2016                      | 2015             |
| Operations                               | \$ (741)                    | \$ (1,021)       | \$ (1,756)                | \$ (2,067)       |
| Changes in non-cash working capital      | (537)                       | (88)             | (684)                     | 12               |
| Operating activities                     | (1,278)                     | (1,109)          | (2,440)                   | (2,055)          |
| Investing activities                     | (111,034)                   | (1,589)          | (114,742)                 | (4,326)          |
| Financing activities                     | 1,124                       | 359              | 72,318                    | 1,800            |
| <b>Change in cash during the period</b>  | <b>(111,188)</b>            | <b>(2,339)</b>   | <b>(44,864)</b>           | <b>(4,581)</b>   |
| Effects of exchange rate changes on cash | 18                          | 102              | 298                       | (668)            |
| <b>Cash, beginning of period</b>         | <b>142,028</b>              | <b>83,268</b>    | <b>75,424</b>             | <b>86,280</b>    |
| <b>Cash, end of period</b>               | <b>\$ 30,858</b>            | <b>\$ 81,031</b> | <b>\$ 30,858</b>          | <b>\$ 81,031</b> |
| <b>Term deposits, end of period</b>      | <b>\$ 110,000</b>           | <b>\$ -</b>      | <b>\$ 110,000</b>         | <b>\$ -</b>      |

#### *Operating Activities*

During the three and six months ended June 30, 2016, the Company used \$741 and \$1,756 in cash for operations respectively, compared to \$1,021 and \$2,067 respectively, in the three and six months ended June 30, 2015. The Company's non-cash working capital in the corresponding three and six month periods, increased by \$537 and \$684 respectively (June 30, 2015: increased by \$88 and decreased by \$12, respectively).

#### *Investing Activities*

During the three and six months ended June 30, 2016, the Company invested cash of \$111,034 and \$114,742 respectively, compared to \$1,589 and \$4,326 respectively in the comparable prior periods ended June 30, 2015. The primary investment of cash in the current periods was the purchase of 6-month and 1-year term deposits totaling \$110,000 (June 30, 2015: nil). The Company also used cash to fund advances to Minera Juanicipio, which combined with MAG's Juanicipio expenditures on its own account, totaled \$2,119 and \$5,153 respectively, in the three and six months ended June 30, 2016 (June 30, 2015: \$990 and \$3,181 respectively). The Company makes cash advances to Minera Juanicipio as 'cash called' by operator Fresnillo, based on approved joint venture budgets. In the three and six months ended June 30, 2016, the Company also expended \$277 and \$940 respectively, (June 30, 2015: \$355 and \$792 respectively) on its other exploration and evaluation properties.

#### *Financing Activities*

During the three and six months ended June 30, 2016, the Company's net cash from financing activities amounted to \$1,124 and \$72,318 respectively, compared to \$359 and \$1,800 respectively, in the comparable prior periods ended June 30, 2015.

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

As discussed in "Financing Activities" above, on March 1, 2016, the Company closed a bought deal public offering and issued 8,905,000 common shares at \$7.30 per share, for gross proceeds of \$65,006. On March 4, 2016, the underwriters exercised in full an associated 15% over-allotment option, and the Company issued an additional 1,335,750 common shares for additional gross proceeds of \$9,751. Total gross proceeds were \$74,757, and combined net proceeds amounted to \$70,654.

In the three months ended June 30, 2016, 176,750 stock options, were exercised for cash proceeds of \$1,169 (June 30, 2015: 75,800 stock options were exercised for cash proceeds of \$359). During the three months ended June 30, 2016, an additional 668,334 stock options were exercised under a less dilutive cashless exercise provision of the plan (June 30, 2015: nil), whereby 235,395 shares were issued in settlement of the stock options (June 30, 2015: nil), and the remaining 432,939 options were cancelled (June 30, 2015: nil).

In the six months ended June 30, 2016, 247,750 stock options, were exercised for cash proceeds of \$1,664 (June 30, 2015: 314,900 stock options were exercised for cash proceeds of \$1,800). During the six months ended June 30, 2016, an additional 1,103,334 stock options were exercised under a less dilutive cashless exercise provision of the plan (June 30, 2015: 220,500), whereby 312,924 shares were issued in settlement of the stock options (June 30, 2015: 73,440), and the remaining 790,410 options were cancelled (June 30, 2015: 147,060).

## 11. FINANCIAL POSITION

The following table summarizes the Company's financial position as at:

| <i>( In thousands of US dollars)</i> | June 30, 2016     | June 30, 2015     |
|--------------------------------------|-------------------|-------------------|
| Cash                                 | \$ 30,858         | \$ 81,031         |
| Term deposits                        | 110,000           | -                 |
| Other current assets                 | 772               | 1,036             |
| <b>Total current assets</b>          | <b>141,630</b>    | <b>82,067</b>     |
| Equipment                            | 48                | 45                |
| Investment in Associate              | 35,772            | 30,645            |
| Exploration and evaluation assets    | 53,517            | 51,275            |
| Option to acquire Mineral Interest   | -                 | 3,864             |
| <b>Total assets</b>                  | <b>\$ 230,967</b> | <b>\$ 167,896</b> |
| <b>Total current liabilities</b>     | <b>\$ 339</b>     | <b>\$ 387</b>     |
| Deferred income taxes                | 5,960             | 3,682             |
| <b>Total liabilities</b>             | <b>6,299</b>      | <b>4,069</b>      |
| <b>Total equity</b>                  | <b>224,668</b>    | <b>163,827</b>    |
| <b>Total liabilities and equity</b>  | <b>\$ 230,967</b> | <b>167,896</b>    |

Total current assets increased from \$82,067 at June 30, 2015 to \$141,630 June 30, 2016. The increase is primarily due to the funds raised from the bought deal financing which closed in the first quarter (as referred to above in "Financing Activities"). Other current assets as at June 30, 2016 included marketable securities of \$22 (June 30, 2015: \$256), prepaid expenses of \$363 (June 30, 2015: \$420) and accounts receivable of \$387 (June 30, 2015: \$360). The accounts receivable is comprised primarily of Mexican value added taxes

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

("IVA") repayable to the Company by the Government of Mexico, for which the Company expects a full recovery.

The increase from June 30, 2015 to June 30, 2016 in Investment in Associate from \$30,645 to \$35,772, and in Exploration and Evaluation assets from \$51,275 to \$53,517, reflects the Company's ongoing investment in the properties as discussed in "Investing Activities" above. The decrease from \$3,864 to Nil of the Option to acquire Mineral Interest reflects the write off of the Salamandra option as at December 31, 2015.

Current liabilities at June 30, 2016 amounted to \$339 (June 30, 2015: \$387) and are attributable to accrued exploration and administrative expenses. The deferred income tax liability increased from \$3,682 to \$5,960 at June 30, 2016. The increase is due to the weakening of the Mexican Peso in the period and the deferred income tax liability recognized by the Company corresponding to the deferred tax expense recognized and explained above in the three and six months "Review of Financial Results."

The variation in total equity is due primarily to the aforementioned public offering completed during the period ended June 30, 2016.

## **12. LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2016, the Company had working capital of \$141,291 (June 30, 2015: \$81,681) including cash and term deposits of \$140,858 (June 30, 2015: \$81,031). The Company currently has no debt and has sufficient working capital to maintain all of its properties and currently planned programs for a period in excess of the next year. Although the Company believes it is fully funded for its share of the Juanicipio development as envisioned under the Juanicipio Technical Report (see *Funding of the Juanicipio Development* below), the Company may require additional capital in the future to meet its project related expenditures.

### ***Funding of the Juanicipio Development***

The Juanicipio Technical Report estimated total project capital costs of \$302,000 inclusive of capitalized operating costs (MAG's 44% share is \$132,880) over 3.5 years from the start of development. As the first 33 months of development, as envisioned under the Juanicipio Technical Report, are primarily focused on the ramp decline, the majority of the capital costs are not expected to be incurred until the latter part of the development schedule. The larger capital expenditures items associated with the mine development have not yet been approved by Minera Juanicipio, and Minera Juanicipio has not yet proposed a budget for beyond 2016.

To June 30, 2016, approximately \$29,055 of the Juanicipio development has been funded by the joint venture partners (MAG's share funded to June 30, 2016 is approximately \$12,784), leaving approximately \$272,945 (MAG's 44% share is approximately \$120,096) of remaining mine development expenditures to complete the Juanicipio mine according to the Juanicipio Technical Report. Given this progress to date, and the Company's cash and term deposits on hand (\$140,858 as at June 30, 2016), the Company believes that it has enough cash to fully fund its 44% share of cash calls for the Juanicipio mine development as envisioned in the Juanicipio Technical Report. However, should the scale and scope of the development change, or should the capital required to complete the development exceed the amount envisioned in the Juanicipio Technical Report, the Company's cash resources may not be sufficient to fund its 44% share of the project development. Accordingly, the Company may need to raise significant additional capital in the future under such circumstances, and future liquidity may therefore depend upon the Company's ability to

# MAG SILVER CORP.

## Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

arrange debt or additional equity financings. The inability of the Company to fund its 44% share of cash calls would result in dilution of the Company's ownership interest in Minera Juanicipio, in accordance with the shareholders agreement.

The Preliminary Economic Assessment set out in the Juanicipio Technical Report is preliminary in nature and includes Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves and there is no certainty that the Preliminary Economic Assessment set out in the Juanicipio Technical Report will be realized. As a result, there are additional risks in commencing and completing construction based upon the Juanicipio Technical Report including additional risks as to capital and operating costs, mineral recovery and financial viability. There is also no guarantee that the construction will be completed or, if completed, that production will begin or that financial results will be consistent with the Juanicipio Technical Report.

### *Actual vs Expected Use of Proceeds – Prior Financings*

In the Company's Short Form Prospectus dated July 9, 2014 and in its February 23, 2016 Prospectus Supplement to a Short Form Base Shelf Prospectus (collectively, the "Offering Documents"), the Company provided the expected use of proceeds with respect to each offering. The table below provides a comparison of the Company's actual use of proceeds to date, as compared to the use of proceeds presented in the Offering Documents:

| <b>Intended Use of Proceeds</b>                     | <b>Expected Use of Proceeds<br/>July 9, 2014<br/>(000s of \$C)</b> | <b>Estimated Actual Use of<br/>Net Proceeds to date <sup>(1)</sup><br/>(000s of \$C)</b> | <b>Expected Use of Proceeds<br/>February 23, 2016<br/>(000s of \$US)</b> | <b>Estimated Actual Use<br/>of Net Proceeds to date<br/>(000s of \$US)</b> |
|---|--|--|--|--|
| Exploration expenditures at the Juanicipio Property | \$3,000  | \$3,350 <sup>(2)</sup>   | \$5,000  | \$973  |
| Development expenditures at the Juanicipio Property | \$71,470   | \$11,721 <sup>(3)</sup>  | \$50,000   | \$ - <sup>(3)</sup>  |
| Development contingency at the Juanicipio Property  | \$ -   | \$ -   | \$7,500  | \$ -   |

<sup>(1)</sup> Cash calls advanced to the Juanicipio Property are made in U.S. dollars and for the purposes of the July 9, 2014 analysis, have been converted to C\$ based on the closing U.S.\$/C\$ exchange rate on the day the funds were advanced to Minera Juanicipio.

<sup>(2)</sup> After reviewing exploration results of four new deep exploration holes in 2015, Fresnillo and MAG agreed to an additional 10,000 metre U.S.\$1,500 (MAG's 44% share is U.S.\$660) drill program to further delineate the extent of the new deep zone. This drill program was funded by the Joint Venture partners in September 2015, but was not anticipated in the 2014 offering.

<sup>(3)</sup> As the first 33 months of development focuses primarily on ramp decline, the majority of the capital expenditures are yet to be incurred, and are expected to be incurred in the latter part of the development schedule (2016-2018).

## **13. CONTRACTUAL OBLIGATIONS**

The following table discloses the contractual obligations of the Company (as at the date of this MD&A) for optional mineral property acquisition payments, optional exploration work and committed lease obligations

## MAG SILVER CORP.

### Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

for office rent and equipment. Based on exploration results, the Company will select at its discretion, only certain properties to complete option and purchase arrangements on.

|   | Total         | Less than 1   |               |              |                   |
|---|---------------|---------------|---------------|--------------|-------------------|
|   |               | year          | 1-3 Years     | 3-5 Years    | More than 5 years |
| Property Option Payments, Exploration and Development Expenditures – Total <sup>(1)</sup> | \$ -          | \$ -          | \$ -          | \$ -         | \$ -              |
| Office Lease  | 444           | 122           | 275           | 47           | -                 |
| <b>Total Obligations</b>  | <b>\$ 444</b> | <b>\$ 122</b> | <b>\$ 275</b> | <b>\$ 47</b> | <b>\$ -</b>       |

<sup>(1)</sup> Although the Company makes cash advances to Minera Juanicipio as cash called by operator Fresnillo (based on annual 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.

Other contractual obligations include: a 2.5% NSR royalty on the Cinco de Mayo property under the terms of an agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the property; and a 2.5% NSR royalty on the Guigui mining concessions.

The Company may provide guarantees and indemnifications in conjunction with transactions in the normal course of operations. These are recorded as liabilities when reasonable estimates of the obligations can be made. Indemnifications that the Company has provided include an obligation to indemnify directors and officers of the Company for potential liability while acting as a director or officer of the Company, together with various expenses associated with defending and settling such suits or actions due to association with the Company. The Company has a comprehensive directors and officers liability insurance policy that could mitigate such costs if incurred.

#### 14. SHARE CAPITAL INFORMATION

The Company's authorized capital consists of an unlimited number of common shares without par value. As at August 15, 2016, the following common shares, stock options, RSUs and DSUs were outstanding:

|                                 | Number of Shares  | Exercise Price or Conversion Ratio | Remaining Life       |
|---------------------------------|-------------------|------------------------------------|----------------------|
| Capital Stock                   | 80,401,165        |                                    |                      |
| Stock Options                   | 2,301,666         | \$5.35 - \$10.04                   | 1 year to 4.32 years |
| Performance Share Units("PSUs") | 81,892            | 1:1                                | 4.3 years            |
| Restricted Share Units("RSUs")  | 72,438            | 1:1                                | 2.9 to 3.87 years    |
| Deferred Share Units ("DSUs")   | 369,233           | 1:1                                | n/a <sup>(1)</sup>   |
| <b>Fully Diluted</b>            | <b>83,226,394</b> |                                    |                      |

<sup>(1)</sup> To be share settled, but no common shares are to be issued in respect of a participant in the DSU Plan prior to such eligible participant's termination date.

#### 15. OTHER ITEMS

The Company is unaware of any undisclosed liabilities or legal actions against the Company and the Company has no legal actions or cause against any third party at this time other than the claims of the Company with respect to its purchase of 41 land rights within the Cinco de Mayo property boundaries, and the associated efforts to regain surface access with the EBJ (see "Soil Use Change Permit" and surface

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

*access' above*). It is anticipated that the ultimate resolution to this situation will include a comprehensive CSR program to coincide with the next phases of the Company's exploration activity.

The Company is unaware of any condition of default under any debt, regulatory, exchange related or other contractual obligation.

## **16. TREND INFORMATION**

As both the price and market for silver are volatile and difficult to predict, a significant decrease in the silver price could have an adverse material impact on the Company's operations and market value.

The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity, and conversely, the failure to acquire or find one may have a negative effect. In addition, access to capital to fund exploration and development companies remains difficult in current public markets, which could limit the Company's ability to meet its objectives.

Surface rights in Mexico are often owned by local communities or "Ejidos" and there has been a recent trend in Mexico of increasing Ejido challenges to existing surface right usage agreements. The Company has already been impacted by this recent trend (see "Exploration - *Cinco de Mayo*" above). Any further challenge to the access to any of the properties in which the Company has an interest may have a negative impact on the Company, as the Company may incur delays and expenses in defending such challenge and, if the challenge is successful, the Company's interest in a property could be materially adversely affected. Also see "Risks and Uncertainties" below.

Apart from these and the risks referenced below in "*Risks and Uncertainties*," management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

## **17. RISKS AND UNCERTAINTIES**

The Company's securities should be considered a highly speculative investment and investors are directed to carefully consider all of the information disclosed in the Company's Canadian and U.S. regulatory filings prior to making an investment in the Company, including the risk factors discussed under the heading "Risk Factors" in the Company's most recent Annual Information Form ("AIF") dated March 28, 2016 available on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.sec.gov](http://www.sec.gov).

The volatile global economic environment has created market uncertainty and volatility in recent years. The Company remains financially strong and will monitor the risks and opportunities of the current environment carefully. These macro-economic events have in the past, and may again, negatively affect the mining and minerals sectors in general. The Company will consider its business plans and options carefully going forward.

In the normal course of business, the Company enters into transactions for the purchase of supplies and services denominated in Canadian dollars or Mexican Pesos. The Company also has cash and other monetary assets and liabilities denominated in Canadian dollars and Mexican Pesos. As a result, the

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

Company is subject to foreign exchange risk from fluctuations in foreign exchange rates (see Note 11(c) in the unaudited condensed interim consolidated financial statements of the Company as at June 30, 2016).

#### **18. OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

#### **19. 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 all the Company's projects, including the Juanicipio Project and the Cinco de Mayo Property.

During the three and six months ended June 30, 2016, the Company incurred expenses with Cascabel and IMDEX of \$280 and \$565 respectively (June 30, 2015: \$333 and \$692 respectively), including fees to IMDEX related to services provided by Dr. Megaw of \$64 and \$134 respectively (June 30, 2015: \$82 and 157 respectively). All transactions are incurred in the normal course of business, and are negotiated on terms between the parties which represent fair market value for all services rendered. A significant portion of the expenditures are incurred on the Company's behalf, and are charged to the Company on a "cost + 10%" basis typical of industry standards. The services provided do not include drilling and assay work which are contracted out independently from Cascabel & IMDEX.

Included in trade and other payables at June 30, 2016 is \$165 related to these services (June 30, 2015: \$201).

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 Company is also obligated to a 2.5% NSR royalty to Cascabel on the Guigui mining concessions.

Upon the retirement of Dan MacInnis, former President & Chief Executive Officer, on October 15, 2013, the Company had entered into a consulting contract with a private company controlled by Mr. MacInnis who remains a director of the Company. As the contract was not renewed in 2016, no consulting fees were paid in the period ended June 30, 2016 (June 30, 2015: C\$10) and there are no payables related to such services as at June 30, 2016 (June 30, 2015: nil).

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

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

# MAG SILVER CORP.

## Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

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

### Significant subsidiaries of the Company are as follows:

| Name                              | Country of Incorporation | Principal Activity | MAG' effective interest |          |
|-----------------------------------|--------------------------|--------------------|-------------------------|----------|
|                                   |                          |                    | 2016 (%)                | 2015 (%) |
| Minera Los Lagartos, S.A. de C.V. | Mexico                   | Exploration        | 100%                    | 100%     |
| Minera Pozo Seco S.A. de C.V.     | Mexico                   | Exploration        | 100%                    | 100%     |
| Minera Sierra Vieja S.A. de C.V.  | Mexico                   | Exploration        | 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 here.

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 and 44% by the Company. Fresnillo is the operator of Minera Juanicipio, and with its affiliates, beneficially owns 12% of the common shares of the Company as at June 30, 2016, as publicly reported. 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.

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

|   | Three months ended June 30, |          | Six months ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2016                        | 2015     | 2016                      | 2015     |
| Salaries and other short term employee benefits | \$ 251                      | \$ 270   | \$ 499                    | \$ 531   |
| Share based payments                            | 978                         | 766      | 1,462                     | 932      |
|   | \$ 1,229                    | \$ 1,036 | \$ 1,961                  | \$ 1,463 |

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.

## 20. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Management has identified (i) mineral property acquisition and exploration deferred costs, (ii) provision for reclamation and closure, (iii) deferred income tax provision and (iv) share based payments, as the main estimates for the following discussion. Please refer to Note 2 of the Company's unaudited condensed interim consolidated financial statements as at June 30, 2016 for a description of all of the significant accounting policies.

Under IFRS, the Company defers all costs relating to the acquisition and exploration of its mineral properties ("exploration and evaluation" assets). Any revenues received from such properties are credited against the costs of the property. When commercial production commences on any of the Company's properties, any previously capitalized costs would be charged to operations using a unit-of-production method. The Company reviews when events or changes in circumstances indicate the carrying values of its

# MAG SILVER CORP.

## Management's Discussion & Analysis

For the three and six months ended June 30, 2016

(expressed in thousands of US dollars except as otherwise noted)

---

properties to assess their recoverability and when the carrying value of a property exceeds the estimated net recoverable amount, provision is made for impairment in value. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist.

The existence of uncertainties during the exploration stage and the lack of definitive empirical evidence with respect to the feasibility of successful commercial development of any exploration property do create measurement uncertainty concerning the estimate of the amount of impairment to the value of any mineral property. The Company relies on its own or independent estimates of further geological prospects of a particular property and also considers the likely proceeds from a sale or assignment of the rights before determining whether or not impairment in value has occurred.

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements, however changes in regulatory requirements and new information may result in revisions to estimates. The Company recognizes the fair value of liabilities for reclamation and closure costs in the period in which they are incurred. A corresponding increase to the carrying amount of the related assets is generally recorded and depreciated over the life of the asset.

The deferred income tax provision is based on the liability method. Deferred taxes arise from the recognition of the tax consequences of temporary differences by applying enacted or substantively enacted tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of certain assets and liabilities. The Company records only those deferred tax assets that it believes will be probable, that sufficient future taxable profit will be available to recover those assets.

Under IFRS 2 - *Share-based Payments*, stock options are accounted for by the fair value method of accounting. Under this method, the Company is required to recognize a charge to the statement of loss based on an option-pricing model based on certain assumptions including dividends to be paid, historical volatility of the Company's share price, an annual risk free interest rate, forfeiture rates, and expected lives of the options.

## 21. CHANGES IN ACCOUNTING STANDARDS

The Company has reviewed new accounting pronouncements that have been issued but are not yet effective at June 30, 2016. These include:

**IFRS 9 *Financial Instruments*.** In July 2014, the IASB issued the final version of IFRS 9 which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not early adopted this standard and is currently evaluating the impact this standard may have on its consolidated financial statements.

**IFRS 15 *Revenue from Contracts with Customers*.** The final standard on revenue from contracts with customers was issued on May 8, 2014. In July 2015, the IASB determined that the revised effective date for IFRS 15 would be for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. Entities have the full option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Company's only source of revenue in the current and prior periods is interest income from high interest savings accounts and term deposits, but the Company is

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

currently evaluating the impact this standard may have on its consolidated financial statements once revenue from contracts with customers is generated.

**IFRS 16 Leases.** In January 2016, the IASB published a new accounting standard, IFRS 16 – *Leases* (IFRS 16) which replaces IAS 17 – *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company has not early adopted this standard, and is currently evaluating the impact it is expected to have on its consolidated financial statements.

## **22. CONTROLS AND PROCEDURES**

### ***Disclosure Controls and Procedures***

The Company maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the reports that it is required to file or submit under applicable securities laws is recorded, processed, summarized and reported in the manner specified by such laws. The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's disclosure controls and procedures as of June 30, 2016 through inquiry and review, as well as by drawing upon their own relevant experience. The Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as at June 30, 2016.

### ***Internal Control Over Financial Reporting***

The Company also maintains a system of internal controls over financial reporting, as defined by National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* in order to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable and in accordance with International Financial Reporting Standards. The Company retains a third party specialist annually to assist in the assessment of its internal control procedures. The Board of Directors approves the financial statements and MD&A before they are publicly filed, and ensures that management discharges its financial responsibilities. The unaudited condensed interim consolidated financial statements and MD&A for the three and six months ended June 30, 2016 were approved by the Board on August 15, 2016. The Board's review is accomplished principally through the Audit Committee, which is composed of independent non-executive directors. The Audit Committee meets periodically with management and auditors to review financial reporting and control matters. The Board of Directors has also appointed a compensation committee composed of non-executive directors whose recommendations are followed with regard to executive compensation. From time to time the board may also form special sub-committees, which must investigate and report to the Board on specific topics.

The Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's internal control over financial reporting as of June 30, 2016 and have concluded that the Company's internal control over financial reporting is effective. There have been no changes in internal controls over financial reporting during the period ended

## **MAG SILVER CORP.**

### **Management's Discussion & Analysis**

**For the three and six months ended June 30, 2016**

*(expressed in thousands of US dollars except as otherwise noted)*

---

June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **23. SUBSEQUENT EVENTS**

Subsequent to June 30, 2016, the Company:

- a) Issued 190,355 common shares pursuant to the exercise of stock options between C\$5.86 and C\$9.61 for proceeds of C\$1,706; and,
- b) Issued 2,000 common shares pursuant to the conversion of 2,000 RSUs.

#### **24. ADDITIONAL INFORMATION**

Additional information on the Company is available for viewing under MAG's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on SEC's EDGAR website at [www.sec.gov](http://www.sec.gov).



## **MAG SILVER CORP.**

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

For the three and six months ended June 30, 2016

Dated: August 15, 2016

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

VANCOUVER OFFICE  
Suite 770  
800 W. Pender Street  
Vancouver, BC V6C 2V6

604 630 1399 phone  
866 630 1399 toll free  
604 681-0894 fax

TSX: MAG  
NYSE MKT: MAG  
[www.magsilver.com](http://www.magsilver.com)  
[info@magsilver.com](mailto:info@magsilver.com)

**MAG SILVER CORP.****Condensed Interim Consolidated Statements of Financial Position (Unaudited)**

(In thousands of US dollars, except shares)

|  | Note | June 30, 2016     | December 31, 2015 |
|--|------|-------------------|-------------------|
| <b>ASSETS</b>  |      |                   |                   |
| <b>CURRENT</b>   |      |                   |                   |
| Cash   |      | \$ 30,858         | \$ 75,424         |
| Term deposits  | █ 3  | 110,000           | -                 |
| Accounts receivable  | █ 4  | 387               | 327               |
| Marketable securities  | █ 5  | 22                | 279               |
| Prepaid expenses   |      | 363               | 150               |
| <b>TOTAL CURRENT ASSETS</b>  |      | <b>141,630</b>    | <b>76,180</b>     |
| EQUIPMENT  | █ 6  | 48                | 38                |
| INVESTMENT IN ASSOCIATE  | █ 7  | 35,772            | 31,240            |
| EXPLORATION AND EVALUATION ASSETS  | █ 8  | 53,517            | 52,806            |
| <b>TOTAL ASSETS</b>  |      | <b>\$ 230,967</b> | <b>\$ 160,264</b> |
| <b>LIABILITIES</b>   |      |                   |                   |
| <b>CURRENT</b>   |      |                   |                   |
| Trade and other payables   |      | \$ 339            | \$ 957            |
| COMMITMENTS  | 7,15 |                   |                   |
| DEFERRED INCOME TAXES  | █ 16 | 5,960             | 5,165             |
| <b>TOTAL LIABILITIES</b>   |      | <b>6,299</b>      | <b>6,122</b>      |
| <b>EQUITY</b>  |      |                   |                   |
| Share capital  | █ 9  |                   |                   |
| Authorized - unlimited common shares,<br>without par value   |      |                   |                   |
| Issued and outstanding common shares<br>at June 30, 2016 - 80,208,810 (Dec. 31, 2015 - 69,407,386) |      | 339,021           | 262,218           |
| Equity reserve   |      | 17,280            | 19,993            |
| Accumulated other comprehensive income   |      | 796               | 836               |
| Deficit  |      | (132,429)         | (128,905)         |
| <b>TOTAL EQUITY</b>  |      | <b>224,668</b>    | <b>154,142</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |      | <b>\$ 230,967</b> | <b>\$ 160,264</b> |
| SUBSEQUENT EVENTS  | █ 17 |                   |                   |

See accompanying notes to the condensed interim consolidated financial statements.

## MAG SILVER CORP.

### Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

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

|  | Note   | For the three months ended |                   | For the six months ended |                   |
|--|--------|----------------------------|-------------------|--------------------------|-------------------|
|  |        | June 30<br>2016            | June 30<br>2015   | June 30<br>2016          | June 30<br>2015   |
| <b>EXPENSES</b>  |        |                            |                   |                          |                   |
| Accounting and audit   |        | \$ 80                      | \$ 68             | \$ 163                   | \$ 154            |
| Amortization   | 6      | 4                          | 4                 | 8                        | 8                 |
| Filing and transfer agent fees                                 |        | 7                          | 8                 | 170                      | 161               |
| Foreign exchange (gain) loss                                   |        | (23)                       | (156)             | (292)                    | 938               |
| General office expenses  |        | 266                        | 243               | 404                      | 374               |
| Legal  |        | 38                         | 71                | 95                       | 109               |
| Property investigation costs                                   |        | 43                         | 37                | 84                       | 138               |
| Management compensation and consulting fees                    |        | 437                        | 400               | 864                      | 805               |
| Share based payment expense                                    | 9b,c,d | 1,193                      | 1,114             | 1,772                    | 1,435             |
| Shareholder relations  |        | 120                        | 149               | 243                      | 294               |
| Travel   |        | 59                         | 119               | 143                      | 194               |
|  |        | <u>2,224</u>               | <u>2,057</u>      | <u>3,654</u>             | <u>4,610</u>      |
| INTEREST INCOME  |        | 303                        | 68                | 416                      | 160               |
| GAIN ON SALE OF MARKETABLE SECURITIES                          | 5      | 1,152                      | -                 | 1,152                    | -                 |
| IMPAIRMENT OF INVESTMENT                                       |        |                            |                   |                          |                   |
| IN MARKETABLE SECURITIES                                       | 5      | -                          | -                 | -                        | (75)              |
| EQUITY PICK UP FROM ASSOCIATE                                  | 7      | (600)                      | (147)             | (643)                    | (147)             |
| LOSS FOR THE PERIOD BEFORE INCOME TAX                          |        | <u>\$ (1,369)</u>          | <u>\$ (2,136)</u> | <u>\$ (2,729)</u>        | <u>\$ (4,672)</u> |
| DEFERRED INCOME TAX EXPENSE                                    | 16     | (858)                      | -                 | (795)                    | -                 |
| LOSS FOR THE PERIOD  |        | <u>\$ (2,227)</u>          | <u>\$ (2,136)</u> | <u>\$ (3,524)</u>        | <u>\$ (4,672)</u> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                       |        |                            |                   |                          |                   |
| Items that may be reclassified subsequently to profit or loss: |        |                            |                   |                          |                   |
| UNREALIZED GAIN (LOSS) ON                                      |        |                            |                   |                          |                   |
| MARKETABLE SECURITIES, NET OF TAXES                            | 5      | (214)                      | 33                | 1,112                    | (41)              |
| RECLASSIFICATION TO GAIN ON SALE                               |        |                            |                   |                          |                   |
| OF MARKETABLE SECURITIES                                       | 5      | (1,152)                    | -                 | (1,152)                  | -                 |
|  |        | <u>(1,366)</u>             | <u>33</u>         | <u>(40)</u>              | <u>(41)</u>       |
| TOTAL COMPREHENSIVE INCOME (LOSS)                              |        | <u>\$ (3,593)</u>          | <u>\$ (2,103)</u> | <u>\$ (3,564)</u>        | <u>\$ (4,713)</u> |
| <b>BASIC AND DILUTED</b>                                       |        |                            |                   |                          |                   |
| LOSS PER SHARE   |        | <u>\$ (0.03)</u>           | <u>\$ (0.03)</u>  | <u>\$ (0.05)</u>         | <u>\$ (0.07)</u>  |
| <b>WEIGHTED AVERAGE NUMBER</b>                                 |        |                            |                   |                          |                   |
| OF SHARES OUTSTANDING - BASIC AND DILUTED                      |        | <u>79,911,683</u>          | <u>69,191,709</u> | <u>76,399,679</u>        | <u>69,116,273</u> |

See accompanying notes to the condensed interim consolidated financial statements.

**MAG SILVER CORP.**
**Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)**

(In thousands of US dollars, except shares)

|  | Note   | Common shares<br>without par value |            | Equity<br>Reserve | Currency<br>translation<br>adjustment | Unrealized<br>gain (loss) on<br>marketable<br>securities | Accumulated<br>other<br>comprehensive<br>income (loss)<br>("AOCT") | Deficit      | Total<br>equity |
|--|--------|------------------------------------|------------|-------------------|---------------------------------------|--|--|--------------|-----------------|
|  |        | Shares                             | Amount     |                   |                                       |  |  |              |                 |
| <b>Balance, January 1, 2015</b>          |        | 68,860,536                         | \$ 257,023 | \$ 19,486         | \$ 784                                | \$ 74  | \$ 858   | \$ (112,076) | \$ 165,291      |
| Stock options exercised                  | 9a,b   | 424,900                            | 3,769      | (1,172)           | -                                     | -  | -  | -            | 2,597           |
| Stock options exercised cashless         | 9a,b   | 121,150                            | 1,418      | (1,418)           | -                                     | -  | -  | -            | -               |
| Restricted share units converted         | 9c     | 800                                | 8          | (8)               | -                                     | -  | -  | -            | -               |
| Share based payment                      | 9b,c,d | -                                  | -          | 3,105             | -                                     | -  | -  | -            | 3,105           |
| Unrealized loss on marketable securities | 5      | -                                  | -          | -                 | -                                     | (22)   | (22)   | -            | (22)            |
| Net loss                                 |        | -                                  | -          | -                 | -                                     | -  | -  | (16,829)     | (16,829)        |
| Total Comprehensive Loss                 |        | -                                  | -          | -                 | -                                     | (22)   | (22)   | (16,829)     | (16,851)        |
| <b>Balance, December 31, 2015</b>        |        | 69,407,386                         | \$ 262,218 | \$ 19,993         | \$ 784                                | \$ 52  | \$ 836   | \$ (128,905) | \$ 154,142      |
| Stock options exercised                  | 9a,b   | 247,750                            | 2,381      | (717)             | -                                     | -  | -  | -            | 1,664           |
| Stock options exercised cashless         | 9a,b   | 312,924                            | 3,768      | (3,768)           | -                                     | -  | -  | -            | -               |
| Share based payment                      | 9b,c,d | -                                  | -          | 1,772             | -                                     | -  | -  | -            | 1,772           |
| Issued for cash                          | 9a     | 10,240,750                         | 70,654     | -                 | -                                     | -  | -  | -            | 70,654          |
| Unrealized gain on marketable securities | 5      | -                                  | -          | -                 | -                                     | 1,112  | 1,112  | -            | 1,112           |
| Gain on sale of marketable securities    | 5      | -                                  | -          | -                 | -                                     | (1,152)  | (1,152)  | -            | (1,152)         |
| Net loss                                 |        | -                                  | -          | -                 | -                                     | -  | -  | (3,524)      | (3,524)         |
| Total Comprehensive Loss                 |        | -                                  | -          | -                 | -                                     | (40)   | (40)   | (3,524)      | (3,564)         |
| <b>Balance, June 30, 2016</b>            |        | 80,208,810                         | \$ 339,021 | \$ 17,280         | \$ 784                                | \$ 12  | \$ 796   | \$ (132,429) | \$ 224,668      |
| <i>Six Month Comparative:</i>            |        |                                    |            |                   |                                       |  |  |              |                 |
| <b>Balance, January 1, 2015</b>          |        | 68,860,536                         | \$ 257,023 | \$ 19,486         | \$ 784                                | \$ 74  | \$ 858   | \$ (112,076) | \$ 165,291      |
| Stock options exercised                  | 9a,b   | 314,900                            | 2,601      | (801)             | -                                     | -  | -  | -            | 1,800           |
| Stock options exercised cashless         | 9a,b   | 73,440                             | 545        | (545)             | -                                     | -  | -  | -            | -               |
| Share based payment expense              | 9b,c,d | -                                  | -          | 1,449             | -                                     | -  | -  | -            | 1,449           |
| Unrealized loss on marketable securities | 5      | -                                  | -          | -                 | -                                     | (41)   | (41)   | -            | (41)            |
| Net loss                                 |        | -                                  | -          | -                 | -                                     | -  | -  | (4,672)      | (4,672)         |
| Total Comprehensive Loss                 |        | -                                  | -          | -                 | -                                     | (41)   | (41)   | (4,672)      | (4,713)         |
| <b>Balance, June 30, 2015</b>            |        | 69,248,876                         | \$ 260,169 | \$ 19,589         | \$ 784                                | \$ 33  | \$ 817   | \$ (116,748) | \$ 163,827      |

See accompanying notes to the condensed interim consolidated financial statements.

# MAG SILVER CORP.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(In thousands of US dollars, unless otherwise stated)

|  | Note   | For the three months ended |                  | For the six months ended |                  |
|--|--------|----------------------------|------------------|--------------------------|------------------|
|  |        | June 30                    |                  | June 30                  |                  |
|  |        | 2016                       | 2015             | 2016                     | 2015             |
| <b>OPERATING ACTIVITIES</b>                              |        |                            |                  |                          |                  |
| Loss for the period                                      |        | \$ (2,227)                 | \$ (2,136)       | \$ (3,524)               | \$ (4,672)       |
| Items not involving cash:                                |        |                            |                  |                          |                  |
| Amortization   | 6      | 4                          | 4                | 8                        | 8                |
| Deferred income tax expense                              | 16     | 858                        | -                | 795                      | -                |
| Equity pick up from Associate                            | 7      | 600                        | 147              | 643                      | 147              |
| Impairment of investment in marketable securities        | 5      | -                          | -                | -                        | 75               |
| Gain on sale of marketable securities                    | 5      | (1,152)                    | -                | (1,152)                  | -                |
| Share based payment expense                              | 9b,c,d | 1,193                      | 1,114            | 1,772                    | 1,435            |
| Unrealized foreign exchange loss (gain)                  |        | (17)                       | (150)            | (298)                    | 940              |
| Changes in operating assets and liabilities              |        |                            |                  |                          |                  |
| Accounts receivable                                      |        | (186)                      | (63)             | (60)                     | 224              |
| Prepaid expenses   |        | 93                         | 126              | (213)                    | (64)             |
| Trade and other payables                                 |        | (444)                      | (151)            | (411)                    | (148)            |
| <b>Net cash used in operating activities</b>             |        | <b>(1,278)</b>             | <b>(1,109)</b>   | <b>(2,440)</b>           | <b>(2,055)</b>   |
| <b>INVESTING ACTIVITIES</b>                              |        |                            |                  |                          |                  |
| Investment in associate                                  | 7      | (2,119)                    | (990)            | (5,153)                  | (3,181)          |
| Exploration and evaluation expenditures                  | 8      | (277)                      | (355)            | (940)                    | (792)            |
| Expenditures under Option to acquire Mineral interest    | 8      | -                          | (236)            | -                        | (345)            |
| Purchase of equipment                                    | 6      | (7)                        | -                | (18)                     | -                |
| Purchase of marketable securities                        | 5      | -                          | (8)              | -                        | (8)              |
| Net proceeds from sale of marketable securities          | 5      | 1,369                      | -                | 1,369                    | -                |
| Purchase of term deposit                                 | 3      | (110,000)                  | -                | (110,000)                | -                |
| <b>Net cash used in investing activities</b>             |        | <b>(111,034)</b>           | <b>(1,589)</b>   | <b>(114,742)</b>         | <b>(4,326)</b>   |
| <b>FINANCING ACTIVITIES</b>                              |        |                            |                  |                          |                  |
| Issuance of common shares upon exercise of stock options | 9      | 1,169                      | 359              | 1,664                    | 1,800            |
| Issuance of common shares, net of share issue costs      | 9      | (45)                       | -                | 70,654                   | -                |
| <b>Net cash from financing activities</b>                |        | <b>1,124</b>               | <b>359</b>       | <b>72,318</b>            | <b>1,800</b>     |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH</b>          |        | <b>18</b>                  | <b>102</b>       | <b>298</b>               | <b>(668)</b>     |
| <b>DECREASE IN CASH</b>                                  |        | <b>(111,170)</b>           | <b>(2,237)</b>   | <b>(44,566)</b>          | <b>(5,249)</b>   |
| <b>CASH, BEGINNING OF PERIOD</b>                         |        | <b>142,028</b>             | <b>83,268</b>    | <b>75,424</b>            | <b>86,280</b>    |
| <b>CASH, END OF PERIOD</b>                               |        | <b>\$ 30,858</b>           | <b>\$ 81,031</b> | <b>\$ 30,858</b>         | <b>\$ 81,031</b> |

See accompanying notes to the condensed interim consolidated financial statements.

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

### 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 is an exploration and development company working on mineral properties in Mexico that it has either staked or acquired by way of option agreement. 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.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Statement of compliance*

These condensed interim consolidated financial statements (“Interim Financial Statements”) are prepared under International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”), in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual IFRS financial statements and therefore should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

The accounting policies set out below have been applied consistently by the Company and its subsidiaries to all periods presented herein.

These Interim 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.

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

These Interim Financial Statements were authorized for issuance by the Board of Directors of the Company on August 15, 2016.

**(a) Basis of consolidation**

These Interim 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 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 subsidiaries as at June 30, 2016 are Minera Los Lagartos, S.A. de C.V., Minera Pozo Seco S.A. de C.V., and Minera Sierra Vieja S.A. de C.V. All intercompany balances, transactions, revenues and expenses have been eliminated upon consolidation.

These Interim Financial Statements also include the Company's 44% interest in the Juanicipio Joint Venture (*Note 7*), 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 the significant accounting policies used in their preparation to those used by the Company.

**(b) Investments in Associates**

The Company conducts a portion 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. 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 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*

At the end of each reporting period, the Company assesses whether there is any evidence that an investment in associate is impaired. The Company has performed an assessment for impairment indicators of its investment in associate as of June 30, 2016 and noted no impairment indicators. This assessment is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved, and an assessment of the likely results to be achieved from performance of further exploration by the associate. When there is 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

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

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 net earnings 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 net realizable value and any impairment of exploration and evaluation assets and of investment in associates, recoveries of receivable balances, provisions including closure and reclamation, share based payment expense, and income tax provisions. Actual results may differ from those estimated.

(d) ***Critical judgments***

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 judgement, 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(g)*).

(e) ***Financial instruments***

*Measurement – initial recognition*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are measured at fair value on initial recognition plus attributable transaction costs, except for financial assets and financial liabilities classified as fair value through profit and loss (“FVTPL”). The directly attributable transactions costs of financial assets and liabilities classified as FVTPL are expensed in the period in which they are incurred.

*Classification and measurement – subsequent to initial recognition*

The Company classifies financial instruments as either held-to-maturity, available-for-sale, FVTPL, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and other financial liabilities, are subsequently measured at amortized cost. Instruments classified as FVTPL are measured at fair value with changes in fair values

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

*(Unaudited - expressed in thousands of US dollars unless otherwise stated)*

---

recognized in profit or loss. Available-for-sale instruments are measured at fair value with mark-to-market gains and losses recognized in other comprehensive income (“OCI”).

The Company has designated its cash and term deposits as FVTPL, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Trade and other payables are classified as other liabilities, which are measured at amortized cost.

Marketable securities such as warrants, that meet the definition of a derivative are classified as FVTPL and are measured at fair value with unrealized gains and losses recognized in the statement of comprehensive loss. All of the Company’s other marketable securities have been designated as available-for-sale, and are reported at fair value. Other comprehensive income includes the gains and losses from available-for-sale securities which are not included in profit or loss until realized, and currency translation adjustments on its net investment in foreign operations.

### *Impairment*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. Financial assets are considered impaired if objective evidence indicates that a change in the market, economic or legal environment in which the Company invested has had a negative effect on the estimated future cash flows of that asset.

For available-for-sale financial assets, a significant or prolonged decline in fair value is evidence that the asset may be impaired. If such evidence exists, the cumulative loss that has been recognized in accumulated other comprehensive income (loss) is removed and recognized as an impairment of investment in the consolidated statement of loss. The Company evaluates whether a decline in value is significant or prolonged through analysis of the facts and circumstances of the financial assets, the market price of the actively traded securities, the severity of the loss, the financial position and near-term prospects of the investment, length of time the fair value has been below costs, evidence that the carrying amount is recoverable within a reasonable period of time, management’s intent and ability to hold the financial assets for a period of time sufficient to allow for any anticipated recovery of fair value and management’s market view and outlook. If the value of the previously impaired available-for-sale asset subsequently recovers, additional unrealized gains are recorded in other comprehensive income (loss) and the previously recognized impairment is not reversed.

For financial assets measured at amortized cost, an impairment loss recognized in consolidated statement of income (loss) is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Any reversal of impairment is recognized in consolidated statement of income (loss).

### *(f) Cash and Term Deposits*

Cash includes cash on hand, deposits held with banks, and highly liquid bank interest savings accounts, with original maturities, if applicable, of three months or less.

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

Term deposits are comprised of guaranteed investment certificates with a term to maturity in excess of three months from date of acquisition.

(g) *Exploration and evaluation assets*

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 evaluation of its mining rights and crediting all revenues received against the cost of the related interests. 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 based on proven and probable reserves. 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; 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.

*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. The Company has performed an assessment for impairment indicators of each property as of June 30, 2016 and noted no impairment indicators. 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 the statement of 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 Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

**(h) Equipment**

Equipment is recorded at cost less accumulated amortization and impairment losses if any, and is amortized at the following annual rates:

|                        |                               |
|------------------------|-------------------------------|
| Computer equipment     | 30% declining balance         |
| Field equipment        | 30% declining balance         |
| Leasehold improvements | straight line over lease term |

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment, and depreciated over their respective useful lives.

**(i) 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.

**(j) 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 been used, the carrying amount of a provision

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

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 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 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. There was no provision recorded by the Company for closure and reclamation as at June 30, 2016 or December 31, 2015.

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

The functional currency of the parent and the functional currency of its Mexican subsidiaries and investment in associate 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\$.

### **(l)** *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.

### **(m)** *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

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

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.

As at June 30, 2016, the Company had 3,017,584 (June 30, 2015: 4,311,245) common share equivalents consisting of common shares issuable upon the exercise of outstanding 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.

(n) ***Share based payments***

The fair value of share-based payment expense and other share-based payments are estimated as of the date of the grant and are recorded in profit and loss over their vesting periods except for grants to project consultants which are capitalized to the specific project. The fair value of stock options is estimated using the Black-Scholes-Merton option valuation model. The fair value of restricted, performance, and deferred share units, is based on the fair market value of a common share equivalent on the date of grant. Share based payment awards with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

(o) ***Changes in Accounting Standards***

The Company has reviewed new accounting pronouncements that have been issued but are not yet effective at June 30, 2016. These include:

**IFRS 9 *Financial Instruments*.** In July 2014, the IASB issued the final version of IFRS 9 which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. The standard is effective for annual periods beginning on or after of January 1, 2018, with early adoption permitted. The Company has not early adopted this standard and is currently evaluating the impact this standard may have on its consolidated financial statements.

**IFRS 15 *Revenue from Contracts with Customers*.** The final standard on revenue from contracts with customers was issued on May 8, 2014. In July 2015, the IASB determined that the revised effective date for IFRS 15 would be for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. Entities have the full option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Company's only source of revenue in the current and prior periods is interest income from high interest savings accounts and term deposits, but the Company is currently evaluating the impact this standard may have on its consolidated financial statements once revenue from contracts with customers is generated.

**IFRS 16 *Leases*.** In January 2016, the IASB published a new accounting standard, IFRS 16 – *Leases* (IFRS 16) which replaces IAS 17 – *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased.

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company has not early adopted this standard, and is currently evaluating the impact it is expected to have on its consolidated financial statements.

### 3. TERM DEPOSITS

The Company has invested in non-redeemable bank term deposits, with a term to maturity in excess of three months from date of acquisition, as follows:

|  | Interest<br>Rate | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|------------------|----------------------|
| Term deposit with maturity of October 18, 2016 | 0.89%            | \$ 55,000        | \$ -                 |
| Term deposit with maturity of April 18, 2017   | 1.20%            | 55,000           | -                    |
|  |                  | \$ 110,000       | \$ -                 |

### 4. ACCOUNTS RECEIVABLE

|   | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| Goods and services tax ("GST") recoverable  | \$ 25            | \$ 21                |
| Mexican value added tax ("IVA") recoverable | 119              | 301                  |
| Interest receivable and other               | 243              | 5                    |
|   | \$ 387           | \$ 327               |

All amounts are expected to be recovered within a year.

### 5. MARKETABLE SECURITIES

The Company holds investments in marketable securities designated as available-for-sale securities as follows:

|                               | June 30,<br>2016 | December 31,<br>2015 |
|-------------------------------|------------------|----------------------|
| Fair value, end of the period |                  |                      |
| Available-for-sale securities | \$ 22            | \$ 279               |

During the three and six months ended June 30, 2016, the Company recorded an unrealized loss of \$214 and an unrealized gain of \$1,112 respectively, in other comprehensive income (loss) (June 30,

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

2015: \$33 unrealized gain and \$41 unrealized loss respectively) on marketable securities designated as available-for-sale instruments.

During the three and six months ended June 30, 2016, the Company received proceeds of \$1,369 (June 30, 2015: nil and nil respectively) on the sale of marketable securities, and realized a gain net of commission, of \$1,152 (June 30, 2015: nil and nil respectively) on the sale of certain marketable securities.

|                                       | June 30,<br>2016 | December 31,<br>2015 |
|---------------------------------------|------------------|----------------------|
| Fair value, beginning of year         | \$ 279           | \$ 365               |
| Purchase of marketable securities     | -                | 28                   |
| Unrealized gain (loss) for the period | 1,112            | (22)                 |
| Impairment for the year               | -                | (92)                 |
| Sale of marketable securities         | (1,369)          | -                    |
| <b>Fair value, end of period</b>      | <b>\$ 22</b>     | <b>\$ 279</b>        |

Available-for-sale financial assets are assessed at each reporting date for objective evidence of a significant or prolonged decline in fair value, requiring impairment recognition. For the six months ended June 30, 2016, after management's review and based on objective evidence, no impairment was recognized in the consolidated statement of loss (June 30, 2015: \$75).

## 6. EQUIPMENT

| Cost                          | Computer<br>equipment | Field & Office<br>equipment | Leasehold<br>improvements | Total         |
|-------------------------------|-----------------------|-----------------------------|---------------------------|---------------|
| Balance January 1, 2015       | \$ 252                | \$ 161                      | \$ 7                      | \$ 420        |
| Additions                     | -                     | 2                           | -                         | 2             |
| Balance December 31, 2015     | 252                   | 163                         | 7                         | 422           |
| Additions                     | 18                    | -                           | -                         | 18            |
| <b>Balance, June 30, 2016</b> | <b>\$ 270</b>         | <b>\$ 163</b>               | <b>\$ 7</b>               | <b>\$ 440</b> |

| Accumulated depreciation        | Computer<br>equipment | Field & Office<br>equipment | Leasehold<br>improvements | Total         |
|---------------------------------|-----------------------|-----------------------------|---------------------------|---------------|
| Balance as at January 1, 2015   | \$ 215                | \$ 146                      | \$ 7                      | \$ 368        |
| Amortization                    | 11                    | 5                           | -                         | 16            |
| Balance as at December 31, 2015 | 226                   | 151                         | 7                         | 384           |
| Amortization                    | 6                     | 2                           | -                         | 8             |
| <b>Balance, June 30, 2016</b>   | <b>\$ 232</b>         | <b>\$ 153</b>               | <b>\$ 7</b>               | <b>\$ 392</b> |

| Carrying amounts        | Computer<br>equipment | Field & Office<br>equipment | Leasehold<br>improvements | Total        |
|-------------------------|-----------------------|-----------------------------|---------------------------|--------------|
| At December 31, 2015    | \$ 26                 | \$ 12                       | \$ -                      | \$ 38        |
| <b>At June 30, 2016</b> | <b>\$ 38</b>          | <b>\$ 10</b>                | <b>\$ -</b>               | <b>\$ 48</b> |

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

### 7. INVESTMENT IN ASSOCIATE (“MINERA JUANICIPIO S.A. DE C.V.”)

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 plc (“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 12% of the common shares of the Company as at June 30, 2016, 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 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, 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 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 the Juanicipio property and Minera Juanicipio is detailed as follows:

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Joint venture oversight expenditures incurred 100% by MAG    | \$ 188           | \$ 212               |
| Cost recoveries  | (104)            | -                    |
| Cash contributions to Minera Juanicipio <sup>(1)</sup>       | 5,091            | 4,796                |
| Total for the current period                                 | 5,175            | 5,008                |
| Equity pick up of current loss for the period <sup>(2)</sup> | (643)            | (1,366)              |
| Balance, beginning of the period                             | 31,240           | 27,598               |
| <b>Balance, end of the period</b>                            | <b>\$ 35,772</b> | <b>\$ 31,240</b>     |

<sup>(1)</sup> Represents the Company's 44% share of Minera Juanicipio cash contributions for the period.

<sup>(2)</sup> Represents the Company's 44% share of Minera Juanicipio's loss for the period, 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):

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Cash and cash equivalents  | \$ 2,820         | \$ 377               |
| IVA and other receivables  | 5,078            | 4,442                |
| Prepays  | 282              | 18                   |
| Total current assets   | 8,180            | 4,837                |
| Minerals, surface rights, exploration & development expenditures | 74,174           | 67,513               |
| Total assets   | \$ 82,354        | \$ 72,350            |
| Payables to Peñoles and other vendors                            | \$ 210           | \$ 1,262             |
| Total current liabilities  | 210              | 1,262                |
| Provision for reclamation and remediation costs                  | 345              | 360                  |
| Deferred income tax liability                                    | 6,755            | 5,793                |
| Total liabilities & equity                                       | 7,310            | 7,415                |
| Shareholders' equity   | 75,044           | 64,935               |
| Total liabilities & equity                                       | \$ 82,354        | \$ 72,350            |

|                             | June 30,<br>2016 | December 31,<br>2015 |
|-----------------------------|------------------|----------------------|
| Deferred income tax expense | \$ 962           | \$ 2,403             |
| Exchange Loss               | 499              | 702                  |
| Net loss                    | \$ 1,461         | \$ 3,105             |
| MAG's 44% equity pick up    | \$ 643           | \$ 1,366             |

Evaluation and exploration expenditures and initial development expenditures, capitalized directly by Minera Juanicipio for the six months ended June 30, 2016 amounted to \$6,661 (June 30, 2015: \$4,185).

There are no direct operating expenses or income in Minera Juanicipio, as all mineral, surface rights, and exploration and development expenditures are capitalized.

## 8. EXPLORATION AND EVALUATION ASSETS

The Company has the following exploration and evaluation assets:

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

|   | Six months ended June 30, 2016 |            |           |
|---|--------------------------------|------------|-----------|
|   | Cinco de Mayo (a)              | Guigui (b) | Total     |
| <b>Exploration and evaluation assets</b>      |                                |            |           |
| Camp and site costs                           | \$ 46                          | \$ 3       | \$ 49     |
| Legal, community and other consultation costs | 426                            | -          | 426       |
| Geological & geophysical                      | 16                             | 11         | 27        |
| Land taxes and gov't fees                     | 142                            | 46         | 188       |
| Travel, transport & shipping                  | 20                             | 1          | 21        |
| Total for the period                          | 650                            | 61         | 711       |
| Balance, January 1, 2016                      | 48,859                         | 3,947      | 52,806    |
| Balance, June 30, 2016                        | \$ 49,509                      | \$ 4,008   | \$ 53,517 |

|   | Year ended December 31, 2015 |            |           |
|---|------------------------------|------------|-----------|
|   | Cinco de Mayo (a)            | Guigui (b) | Total     |
| <b>Exploration and evaluation assets</b>      |                              |            |           |
| Acquisition costs of mineral & surface rights | \$ 123                       | \$ 34      | \$ 157    |
| Camp and site costs                           | 86                           | 14         | 100       |
| Legal, community and other consultation costs | 921                          | 23         | 944       |
| Drilling & drilling preparation               | -                            | 365        | 365       |
| Geochemical & metallurgical                   | -                            | 35         | 35        |
| Geological & geophysical                      | 54                           | 159        | 213       |
| Land taxes and gov't fees                     | 266                          | 97         | 363       |
| Travel, transport & shipping                  | 81                           | 67         | 148       |
| Total for the year                            | 1,531                        | 794        | 2,325     |
| Balance January 1, 2015                       | 47,328                       | 3,153      | 50,481    |
| Balance, December 31, 2015                    | \$ 48,859                    | \$ 3,947   | \$ 52,806 |

At June 30, 2016, trade and other payables includes exploration and evaluation asset expenditures of \$122 (June 30, 2015: \$138), a non-cash investing activity.

(a) ***Cinco de Mayo Property***

Under the terms of an agreement dated February 26, 2004, the Company acquired a 100% interest in the Cinco de Mayo property (the "Cinco de Mayo Property"), subject to a 2.5% net smelter returns ("NSR") royalty. During the year ended December 31, 2008, the Company acquired a 100% interest in certain additional mining concessions internal to the Cinco de Mayo Property from two separate vendors, for which the Company made a one-time payment of \$350. During the year ended December 31, 2009, the Company acquired a 100% interest in certain additional mining concessions internal or adjacent to the Cinco de Mayo property from three separate vendors, for which the Company made a one-time payment of \$362. During the year ended December 31, 2010, the Company entered into two option agreements to earn a 100% interest in five additional mining concessions adjacent to

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

the Cinco de Mayo property. The Company paid \$40 upon executing the option agreements, and a subsequent \$180 to complete its 100% earn in on these additional auxiliary claims.

During the year ended December 31, 2009, the Company also purchased 41 surface rights in the Cinco de Mayo area for \$660 from local Ejido members, who along with the Federal Agrarian Authority ratified the purchase. The Company is awaiting formal title transfer of the surface rights, as certain members of the Ejido have since challenged the purchase and prevented the Company from obtaining the surface access permission required as part of a Federal Government exploration permit process. The Company believes this permit delay will be resolved and is working to permanently secure surface access with the Ejido.

### (b) *Guigui Property*

The Guigui project is a 100% interest in a 4,500-hectare property in the Santa Eulalia Mining District of Chihuahua, Mexico, and is subject to a royalty of 2.5% of the net smelter returns obtained from the property. The Company filed for and obtained an additional 3,800 hectare "Guiguito" concession in 2013, and the combined property now consists of roughly 8,300 hectares.

There were no write downs in the six months ended June 30, 2016. During the year ended December 31, 2015, the Company wrote down the Salamandra option to acquire mineral interest totaling \$4,292. A review of the past exploration results on the property failed to meet the Company's criteria for continued exploration, and the Company determined not to earn into the Salamandra property and allowed the option to expire.

## 9. SHARE CAPITAL

### (a) *Issued and outstanding*

At June 30, 2016, there were 80,208,810 shares outstanding (December 31, 2015: 69,407,386).

On March 1, 2016, the Company closed a bought deal public offering of 8,905,000 common shares at \$7.30 per share, for gross proceeds of \$65,006. On March 4, 2016, the over-allotment option granted to the underwriters to purchase up to an additional 1,335,750 common shares was exercised in full for additional gross proceeds of \$9,751 for total gross proceeds of \$74,757. The Company paid a commission to the underwriters of \$3,497 and legal and filing costs totaled an additional \$606 resulting in net proceeds of \$70,654.

During the six months ended June 30, 2016, 247,750 stock options were exercised for cash proceeds of \$1,664 (June 30, 2015: 314,900 stock options were exercised for cash proceeds of \$1,800). An additional 1,103,334 stock options were exercised under a less dilutive cashless exercise provision of the plan (June 30, 2015: 220,500), whereby 312,924 shares were issued in settlement of the stock options (June 30, 2015: 73,440), and the remaining 790,410 options were cancelled (June 30, 2015: 147,060).

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

During the year ended December 31, 2015, 424,900 stock options were exercised for cash proceeds of \$2,597. An additional 504,785 stock options were exercised under a less dilutive cashless exercise provision of the plan, whereby 121,150 shares were issued in settlement of the stock options, and the remaining 383,635 options were cancelled.

**(b) Stock options**

The Company has entered into Incentive Stock Option Agreements (“Agreements”) with officers, employees and consultants, and prior to June 24, 2014, also with directors. On June 24, 2014, the Shareholders re-approved the Company’s 8% rolling Stock Option Plan (the “Plan”). The maximum number of common shares that may be issuable under the Plan is set at 8% of the number of issued and outstanding common shares on a non-diluted basis at any time, provided that (i) the number of common shares issued or issuable under all share compensation arrangements (including under the Share Unit Plan and Deferred Share Unit Plan – see Notes 9(c) and 9(d), respectively) shall not exceed 8% 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 June 30, 2016, there were 1,892,021 stock options outstanding under the Plan and 600,000 inducement options outstanding outside of the Plan.

The following table summarizes the Company’s option activity for the period:

|   | Period ended<br>June 30,<br>2016 | Weighted<br>average<br>exercise price<br>(C\$/option) | Year ended<br>December 31,<br>2015 | Weighted<br>average<br>exercise price<br>(C\$/option) |
|---|----------------------------------|---|------------------------------------|---|
| Balance outstanding, January 1, 2016      | 3,843,105                        | \$ 8.71   | 4,361,540                          | \$ 8.47   |
| Granted <sup>(1)</sup>                    | -                                | -   | 701,250                            | 9.48  |
| Expired                                   | -                                | -   | (290,000)                          | 10.02   |
| Exercised for cash <sup>(2)</sup>         | (247,750)                        | 8.82  | (424,900)                          | 7.64  |
| Exercised cashless <sup>(2)</sup>         | (1,103,334)                      | \$ 10.48  | (504,785)                          | 7.86  |
| <b>Balance outstanding, June 30, 2016</b> | <b>2,492,021</b>                 | <b>\$ 7.92</b>  | <b>3,843,105</b>                   | <b>\$ 8.71</b>  |

<sup>(1)</sup> During the six months ended June 30, 2016, no stock options were granted (June 30, 2015: 203,750).

<sup>(2)</sup> During the six months ended June 30, 2016, 1,351,084 stock options were exercised (June 30, 2015: 535,400), with a weighted average market share price at the time of exercise of C\$14.83 per share (June 30, 2015: C\$9.70).

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.

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

During the six months ended June 30, 2016, the Company recorded share based payment expense of \$477 (June 30, 2015: \$706) relating to stock options vested to employees and consultants in the period.

The following table summarizes the Company's stock options outstanding and exercisable as at June 30, 2016:

| Exercise price (\$C/<br>option) | Number<br>outstanding at<br>June 30,<br>2016 | Number<br>exercisable at<br>June 30,<br>2016 | Weighted average<br>remaining<br>contractual life<br>(years) |
|---------------------------------|--|--|--|
| (1) 5.35                        | 500,000                                      | 500,000                                      | 2.29   |
| 5.86                            | 525,000                                      | 525,000                                      | 1.96   |
| 9.15                            | 398,855                                      | 398,855                                      | 1.09   |
| 9.16                            | 43,333                                       | -  | 4.20   |
| 9.28                            | 414,833                                      | 174,833                                      | 4.43   |
| (1) 9.61                        | 100,000                                      | 100,000                                      | 1.67   |
| 10.02                           | 192,500                                      | 138,333                                      | 3.98   |
| 10.04                           | 317,500                                      | 225,000                                      | 3.00   |
|                                 | <u>2,492,021</u>                             | <u>2,062,021</u>                             | <u>2.61</u>  |

(1) Inducement options issued outside the Company's Plan as an incentive to attract

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

On June 24, 2014, the Shareholders approved a share unit plan (the "Share Unit Plan") for the benefit of the Company's 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 0.75% of the number of issued and outstanding common shares on a non-diluted basis, provided that (i) the number of common shares issued or issuable under all share compensation arrangements (including under the Plan and Deferred Share Unit Plan – see Notes 9(b) and 9(d), respectively) shall not exceed 8% 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.

During the six months ended June 30, 2016, no RSUs or PSUs were granted (June 30, 2015: 19,960 and nil respectively).

As at June 30, 2016, there were 74,438 RSUs and 81,892 PSUs issued and outstanding under the Share Unit Plan, of which 49,358 RSUs and 32,865 PSUs have vested and are convertible into common shares of the Company. In the period ended June 30, 2016, the Company recognized a share-based payment expense of \$396 (June 30, 2015: \$156) relating to RSUs and PSUs vesting in the period.

### (d) *Deferred share units*

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

*(Unaudited - expressed in thousands of US dollars unless otherwise stated)*

---

On June 24, 2014, the Shareholders approved a Deferred Share Unit Plan (the “DSU Plan”) for the benefit of the Company’s non-executive directors. On June 22, 2015, the Shareholders approved an amendment to the DSU Plan to allow participation by employees. 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, and employees may elect to receive all or a portion of their annual incentive 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 0.75% of the number of issued and outstanding common shares on a non-diluted basis, provided that (i) the number of common shares issued or issuable under all share compensation arrangements (including under the Plan and the Share Unit Plan – see Notes 9(b) and 9(c), respectively) shall not exceed 8% of the issued and outstanding common shares on a non-diluted basis.

During the six months ended June 30, 2016, 63,287 DSUs (June 30, 2015: 67,365) were granted under the Company’s DSU plan. In addition, 5,405 DSUs (June 30, 2015: 15,280) were granted to directors who elected to receive their retainer and meeting fees for the period in the form of DSUs. The resulting cumulative DSU share-based payment expense of \$899 (June 30, 2015: \$573) was recognized in the period ended June 30, 2016. 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.

As at June 30, 2016, there are 369,233 DSUs issued and outstanding under the DSU Plan, all of which have vested except for 4,990 DSUs.

As at June 30, 2016, there are 2,417,584 common shares issuable under the combined share compensation arrangements referred to above (the Plan, the Share Unit Plan and the DSU Plan) representing 4.01% of the issued and outstanding common shares on a non-diluted basis, and there are 3,999,121 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 income and deficit), net of cash.

Capital as defined above is summarized in the following table:

|                        | June 30,<br>2016 | December 31,<br>2015 |
|------------------------|------------------|----------------------|
| Equity                 | \$ 224,668       | \$ 154,142           |
| Cash and term deposits | (140,858)        | (75,424)             |
|                        | \$ 83,810        | \$ 78,718            |

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

---

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 does not pay out dividends.

As at June 30, 2016, the Company does not have any long-term debt and is not subject to any externally imposed capital requirements.

The Company currently has sufficient working capital (\$141,291 as at June 30, 2016) to maintain all of its properties and currently planned programs for a period in excess of the next year. In management's opinion, the Company is able to meet its ongoing current obligations as they become due. However, the Company may require additional capital in the future to meet its project related expenditures (see Note 15), as the Company is currently not generating cash flow from operations, and it may not therefore generate sufficient operating cash flows to meet all of its future expenditure requirements. Future liquidity may depend upon the Company's ability to arrange additional debt or equity financing, as the Company relies on equity financings to fund its exploration and corporate activities.

## 11. FINANCIAL RISK MANAGEMENT

The Company's operations consist of the acquisition, exploration and development of 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 trade credit risk and overall the Company's credit risk has not changed significantly from the prior year.

#### (ii) *Cash*

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

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 June 30, 2016, the Company had a receivable of \$119 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 accounts receivable, as follows:

|                                  | June 30,<br>2015 | December 31,<br>2015 |
|----------------------------------|------------------|----------------------|
| Cash and term deposits           | \$ 140,858       | \$ 75,424            |
| Accounts receivable (see Note 4) | 387              | 327                  |
|                                  | \$ 141,245       | \$ 75,751            |

(b) *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 7, 8 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.

(c) *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 risk in Mexico.

*Exposure to currency risk*

As at June 30, 2016, 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:

| June 30, 2016 (in 000's of US\$ equivalent) | Mexican peso | Canadian dollar |
|---|--------------|-----------------|
| Cash  | \$ 149       | \$ 7,580        |
| Accounts receivable                         | 119          | 268             |
| Prepaid                                     | 7            | -               |
| Marketable securities                       | -            | 22              |
| Accounts payable                            | (93)         | (124)           |
| Net assets exposure (US\$ equivalent)       | \$ 182       | \$ 7,746        |

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

| June 30, 2015 (in 000's of US\$ equivalent) | Mexican peso | Canadian dollar |
|---|--------------|-----------------|
| Cash  | \$ 50        | \$ 7,750        |
| Accounts receivable                         | 330          | 29              |
| Prepaid                                     | 16           | -               |
| Marketable securities                       | -            | 256             |
| Option to acquire mineral interest          | -            | 3,864           |
| Accounts payable                            | (102)        | (124)           |
| Net assets exposure (US\$ equivalent)       | \$ 294       | \$ 11,775       |

### *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 to the extent that the Company holds net monetary assets in Pesos. Specifically, the Company's foreign currency exposure is comprised of peso denominated cash and value added taxes receivable, net of trade and other payables. The carrying amount of the Company's net peso denominated monetary assets at June 30, 2016 is 3,388 pesos (June 30, 2015: 4,603 pesos). A 10% appreciation in the peso against the US\$ would result in gain at June 30, 2016 of \$18 (June 30, 2015: \$29), while a 10% depreciation in the peso relative to the US\$ would result in an equivalent loss.

### *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\$. 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 in C\$. The carrying amount of the Company's net Canadian denominated monetary assets at June 30, 2016 is C\$10,005 (June 30, 2015: C\$14,709). A 10% appreciation in the C\$ against the US\$ would result in gain at June 30, 2016 of \$775 while a 10% depreciation in the C\$ relative to the US\$ would result in an equivalent loss.

# **MAG SILVER CORP.**

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

**For the three and six months ended June 30, 2016**

*(Unaudited - expressed in thousands of US dollars unless otherwise stated)*

---

**(d) Interest rate risk**

The Company's interest revenue earned on cash 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, accounts receivable, marketable securities, and trade and other payables. The carrying values of cash, accounts receivable, and trade and other payables 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 fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's financial assets and liabilities are categorized as follows:

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

|                                | Six months ended June 30, 2016 |                    |                       |                   |           |
|--------------------------------|--------------------------------|--------------------|-----------------------|-------------------|-----------|
|                                | FVTPL                          | Available for sale | Loans and receivables | Other liabilities | Total     |
| Financial assets               |                                |                    |                       |                   |           |
| Cash                           | \$ 30,858                      | -                  | -                     | -                 | \$ 30,858 |
| Term deposits                  | 110,000                        | -                  | -                     | -                 | 110,000   |
| Accounts receivables (Note 4)  | -                              | -                  | 387                   | -                 | 387       |
| Marketable securities (Note 5) | -                              | 22                 | -                     | -                 | 22        |
| Financial liabilities          |                                |                    |                       |                   |           |
| Trade and other payables       | -                              | -                  | -                     | 339               | 339       |

|                                | Year ended December 31, 2015 |                    |                       |                   |           |
|--------------------------------|------------------------------|--------------------|-----------------------|-------------------|-----------|
|                                | FVTPL                        | Available for sale | Loans and receivables | Other liabilities | Total     |
| Financial assets               |                              |                    |                       |                   |           |
| Cash                           | \$ 75,424                    | -                  | -                     | -                 | \$ 75,424 |
| Accounts receivables (Note 4)  | -                            | -                  | 327                   | -                 | 327       |
| Marketable securities (Note 5) | -                            | 279                | -                     | -                 | 279       |
| Financial liabilities          |                              |                    |                       |                   |           |
| Trade and other payables       | -                            | -                  | -                     | 957               | 957       |

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

|   | Six months ended June 30, 2016 |         |         |            |
|---|--------------------------------|---------|---------|------------|
|   | Level 1                        | Level 2 | Level 3 | Total      |
| Cash  | \$ 30,858                      | -       | -       | \$ 30,858  |
| Term deposits                                 | 110,000                        | -       | -       | 110,000    |
| Marketable securities (Note 5) <sup>(1)</sup> | 22                             | -       | -       | 22         |
|   | \$ 140,880                     | \$ -    | \$ -    | \$ 140,880 |

|   | Year ended December 31, 2015 |         |         |           |
|---|------------------------------|---------|---------|-----------|
|   | Level 1                      | Level 2 | Level 3 | Total     |
| Cash  | \$ 75,424                    | -       | -       | \$ 75,424 |
| Marketable securities (Note 5) <sup>(1)</sup> | 279                          | -       | -       | 279       |
|   | \$ 75,703                    | \$ -    | \$ -    | \$ 75,703 |

<sup>(1)</sup> The fair value of available-for-sale marketable securities (Note 5) 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 available-for-sale securities are classified within Level 1 of the fair value hierarchy.

There were no transfers between levels 1, 2 and 3 during the period ended June 30, 2016 or during year ended December 31, 2015.

# **MAG SILVER CORP.**

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

**For the three and six months ended June 30, 2016**

*(Unaudited - expressed in thousands of US dollars unless otherwise stated)*

---

### **13. SEGMENTED INFORMATION**

The Company operates in one operating 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.

### **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 all the Company's projects, including the Juanicipio Project and the Cinco de Mayo Property.

During the three and six months ended June 30, 2016, the Company incurred expenses with Cascabel and IMDEX of \$280 and \$565 respectively (June 30, 2015: \$333 and \$692 respectively), including fees to IMDEX related to services provided by Dr. Megaw of \$64 and \$134 respectively (June 30, 2015: \$82 and 157 respectively). All transactions are incurred in the normal course of business, and are negotiated on terms between the parties which represent fair market value for all services rendered. A significant portion of the expenditures are incurred on the Company's behalf, and are charged to the Company on a "cost + 10%" basis typical of industry standards. The services provided do not include drilling and assay work which are contracted out independently from Cascabel & IMDEX.

Included in trade and other payables at June 30, 2016 is \$165 related to these services (December 31, 2015: \$356).

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 Company is also obligated to a 2.5% NSR royalty to Cascabel on the Guigui mining concessions.

Upon the retirement of Dan MacInnis, former President & Chief Executive Officer, on October 15, 2013, the Company had entered into a consulting contract with a private company controlled by Mr. MacInnis who remains a director of the Company. As the contract was not renewed in 2016, no consulting fees were paid in the period ended June 30, 2016 (June 30, 2015: C\$10) and there are no payables related to such services as at June 30, 2016 (June 30, 2015: nil).

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

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

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 ownership interests are as follows:*

**Significant subsidiaries of the Company are as follows:**

| Name                              | Country of Incorporation | Principal Activity | MAG' effective interest |          |
|-----------------------------------|--------------------------|--------------------|-------------------------|----------|
|                                   |                          |                    | 2016 (%)                | 2015 (%) |
| Minera Los Lagartos, S.A. de C.V. | Mexico                   | Exploration        | 100%                    | 100%     |
| Minera Pozo Seco S.A. de C.V.     | Mexico                   | Exploration        | 100%                    | 100%     |
| Minera Sierra Vieja S.A. de C.V.  | Mexico                   | Exploration        | 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. Fresnillo is the operator of Minera Juanicipio, and with its affiliates, beneficially owns 12% of the common shares of the Company as at June 30, 2016, as publicly reported. 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 (see Note 7).

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

|   | Three months ended June 30, |                 | Six months ended June 30, |                 |
|---|-----------------------------|-----------------|---------------------------|-----------------|
|   | 2016                        | 2015            | 2016                      | 2015            |
| Salaries and other short term employee benefits | \$ 251                      | \$ 270          | \$ 499                    | \$ 531          |
| Share based payments (Note 9(b), (c), and (d))  | 978                         | 766             | 1,462                     | 932             |
|   | <u>\$ 1,229</u>             | <u>\$ 1,036</u> | <u>\$ 1,961</u>           | <u>\$ 1,463</u> |

*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

As at June 30, 2016, the Company's contractual obligations and commitments are summarized as follows:

# MAG SILVER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Unaudited - expressed in thousands of US dollars unless otherwise stated)

|      | Office Lease  |
|------|---------------|
| 2016 | 54            |
| 2017 | 134           |
| 2018 | 137           |
| 2019 | 140           |
|      | <u>\$ 465</u> |

As these consolidated financial statements have been prepared using the accrual basis of accounting (except for cash flow information), these commitments are not recorded as liabilities until incurred or until due under the terms of the option agreement.

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.

Other contractual obligations include a 2.5% NSR royalty under the terms of an agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the Cinco de Mayo property, and a 2.5% NSR royalty on the interest in the Guigui mining concessions (Note 8).

The Company makes cash deposits to Minera Juanicipio from time to time as cash called by operator Fresnillo (Note 7). The scale and scope of the Juanicipio project could require development capital in the years ahead exceeding the Company's on hand cash resources. It is unlikely that the Company will generate sufficient operating cash flow to meet these ongoing obligations in the foreseeable future. Accordingly, the Company may need to raise additional capital by issuance of equity in the future.

## 16. INCOME TAXES

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

|   | For the three months ended |             | For the six months ended |             |
|---|----------------------------|-------------|--------------------------|-------------|
|   | June 30,                   |             | June 30,                 |             |
|   | 2016                       | 2015        | 2016                     | 2015        |
| Current tax recovery (expense)                            | \$ -                       | \$ -        | \$ -                     | \$ -        |
| Deferred tax recovery (expense)                           | (858)                      | -           | (795)                    | -           |
| <b>Total income tax recovery (expense) for the period</b> | <b>\$ (858)</b>            | <b>\$ -</b> | <b>\$ (795)</b>          | <b>\$ -</b> |

The Company incurred a loss before tax for the period ended June 30, 2016 of \$3,524 (June 30, 2015: \$4,672). As insufficient evidence exists to support current or future realization of the tax benefits

# **MAG SILVER CORP.**

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

**For the three and six months ended June 30, 2016**

*(Unaudited - expressed in thousands of US dollars unless otherwise stated)*

---

associated with this loss, the benefit of certain tax assets have not been recognized in the six months ended June 30, 2016 and 2015.

The Company recorded a deferred tax expense of \$795 for the six month period ended June 30, 2016 (June 30, 2015: nil) related to temporary differences between the book and tax base of its Mexican non-monetary assets. The tax base of these non-monetary assets is determined in Mexican Pesos as opposed to the functional currency (US\$), and changes in the exchange rate can give rise to temporary differences that result in a deferred tax liability and associated expense in accordance with IAS 12 Income Taxes. With the weakening of the Mexican Peso against the US\$ from 17.34 Pesos/US\$ on December 31, 2015 to 18.56 Pesos/US\$ on June 30, 2016, a deferred tax expense and an associated increase of the previously recognized deferred tax liability was recognized in the six month period ended June 30, 2016. This non-cash charge will only be realized once the Company's exploration properties are developed and in production or on disposal of the mineral properties.

### **17. SUBSEQUENT EVENTS**

Subsequent to June 30, 2016 the Company:

- a) Issued 190,355 common shares pursuant to the exercise of stock options between C\$5.86 and C\$9.61 for proceeds of C\$1,706; and,
- b) Issued 2,000 common shares upon the conversion of 2,000 RSUs.