

MAG SILVER CORP
Form 20-F
June 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended DECEMBER 31, 2003

Commission file number 0-50437

MAG Silver Corp. (formerly Mega Capital Investments Inc.)

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

British Columbia

(Jurisdiction of incorporation or organization)

Suite 800, 409 Granville Street, Vancouver, British Columbia, Canada, V6C 1T2

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

None

N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Common Shares Without Par Value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

23,093,995 Common Shares at December 31, 2003

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

2

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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INTRODUCTION AND USE OF CERTAIN TERMS

MAG Silver Corp. is a company incorporated under the *Company Act* (British Columbia) on April 21, 1999. As used herein, except as the context otherwise requires, the terms "Company" or "MAG" refer to MAG Silver Corp. Our financial statements are prepared in accordance with Canadian generally accepted accounting principles with a reconciliation to United States Generally Accepted Accounting Principles and are presented in Canadian dollars. All monetary amounts contained in this Annual Report are in Canadian dollars unless otherwise indicated.

Our North American office and principal place of business is located at Suite 800, 409 Granville Street, Vancouver, British Columbia, Canada, V6C 1T2. Our registered office is located at Suite 1400, 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

FORWARD-LOOKING STATEMENTS

The following discussion contains forward-looking statements regarding events and financial trends, which may affect our future operating results and financial position. Such statements are subject to risks and uncertainties that could cause our actual results and financial position to differ materially from those anticipated in forward-looking

statements. These factors include, but are not limited to, the fact that we will need additional financing to fully execute our business plan and will be subject to certain risks, all of which factors are set forth in more detail in Item 3. Key Information - Risk Factors and Item 5. Operating and Financial Review and Prospects.

When used in this Annual Report, the words "estimate," "intend," "expect," "anticipate" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these statements, which speak only as of the date of this Annual Report. These statements are subject to risks and uncertainties that could cause results to differ materially from those contemplated in such forward-looking statements.

GLOSSARY

The following is a glossary of terms that appear in this Annual Report.

<i>Ag</i>	The elemental symbol for silver.
<i>alteration</i>	Usually referring to chemical reactions in a rock mass resulting from the passage of hydrothermal fluids.
<i>alunite</i>	A potassium-aluminum sulfate mineral, a common component of hydrothermal alteration assemblages.
<i>andesite</i>	Volcanic rock, low in quartz content, generally fine grained and moderately dark coloured.
<i>anomalous</i>	A value, or values, in which the amplitude is statistically between that of a low contrast anomaly and a high contrast anomaly in a given data set.
<i>basalt</i>	Volcanic rock, low in quartz content, generally fine grained and dark coloured.
<i>calcite</i>	Calcium carbonate mineral. It is a common constituent of many rock types as well as occurring in veins and alteration assemblages.
<i>carbonate</i>	Minerals which have the formula "X"CO ₃ . Calcite is the most common carbonate mineral.
<i>Cascabel</i>	Minera Cascabel, S.A. de C.V., a company incorporated pursuant to the laws of the Mexican Republic.
<i>Common Shares</i>	Common Shares without par value in the capital stock of the Company.
<i>Company</i>	MAG Silver Corp.
<i>Cretaceous</i>	The geological period extending from 135 million to 63 million years ago.
<i>diorites</i>	Medium-coloured intrusive igneous rocks of intermediate composition.
<i>Don Fippi Property</i>	The Don Fippi Property as defined in Item 4. Information on the Company Description of the Business - Don Fippi.
<i>Don Fippi Shares</i>	Up to 2,000,000 Common Shares which may be issued by the Company in connection with its acquisition of the Don Fippi Property as described in Item 4. Information on the Company - Business Overview The Don Fippi Property.

<i>Exchange</i>	TSX Venture Exchange.
<i>exploration concession</i>	A defined area for which mineral tenure has been granted by the Mexican government for a period of six years to allow exploration. The concession may subsequently be upgraded to exploitation status.
<i>fault</i>	A fracture in rock where there has been displacement of the two sides.
<i>First Special Warrants</i>	The special warrants issued by the Company on September 9, 2002 granting the holders thereof the right to acquire, without additional cost, up to an aggregate of 1,500,000 units of the Company, each unit consisting of one Common Share of the Company and one First SW Warrant, all of which were exercised on April 3, 2003.
<i>First SW Warrants</i>	Share purchase warrants of the Company that entitle the holder to purchase one First SW Warrant Share at a price of \$0.20 until September 9, 2004.
<i>First SW Warrant Shares</i>	The Common Shares of the Company to be acquired upon exercise of the First SW Warrants.
<i>flow</i>	Volcanic rock comprised of flow lava.

<i>fracture</i>	Breaks in a rock, usually due to intensive folding or faulting.
<i>g/T</i>	Grams per tonne (31.1 g/T = 1.0 troy ounce/tonne).
<i>gangue</i>	Minerals incorporated in an orebody other than those of economic interest.
<i>grade</i>	The concentration of each ore metal in a rock sample, usually given as weight percent. Where extremely low concentrations are involved, the concentration may be given in grams per tonne (g/T) or ounces per ton (oz/T). The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.
<i>Guigui Property</i>	The Guigui Property as defined in Item 4. Information on the Company Description of the Business Guigui.
<i>Guigui Shares</i>	Up to 2,000,000 Common Shares which may be issued by the Company in connection with its acquisition of the Guigui Property as described in Item 4. Information on the Company - Business Overview - The Guigui Property.
<i>hydrothermal</i>	Hot fluids, usually mainly water, in the earth's crust which may carry metals and other compounds in solution to the site of ore deposition or wall rock alteration.
<i>igneous</i>	A rock formed by the cooling of molten silicate material.
<i>intrusive</i>	A rock mass formed below the earth's surface from magma which has intruded into a pre-existing rock mass.
<i>Juanicipio Property</i>	The Juanicipio Property as defined in Item 4. Information on the Company Description of the Business Juanicipio.
<i>kaolinite</i>	An aluminum-silicate clay mineral. It is a common component of hydrothermal

alteration of siliceous rocks.

Lagartos Minera Los Lagartos, S.A. de C.V., a company incorporated pursuant to the laws of the Mexican Republic, the principal of which is the Company.

magma Molten rock formed within the crust or upper mantle of the earth.

Mexico or Mexican Republic United Mexican States

mill A facility for processing ore to concentrate and recover valuable minerals.

mineral reserve That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. The study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

mineral resource A concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Industry Guide 7 does not provide for the disclosure of "mineral resource estimates".

mineralization Usually implies minerals of value occurring in rocks.

monzonite An intermediate intrusive rock related to granite.

net smelter returns royalty or NSR Payment of a percentage of mining revenues after deducting applicable smelter charges.

ore A natural aggregate of one or more minerals which may be mined and sold at a profit, or from which some part may be profitably separated.

outcrop An exposure of rock at the earth's surface.

oz/T Troy ounces per tonne.

Policy 2.4 The Policy of the Exchange entitled "Capital Pool Companies" which sets forth the steps for listing a company on the Exchange as a "capital pool company" (which is essentially a blind pool) and the steps that company must take, including its Qualifying Transaction, to qualify for a regular listing on the Exchange.

porphyry Rock type with mixed crystal sizes, i.e., containing larger crystals of one or more minerals.

portal Entrance from surface into an underground development.

<i>Property Shares</i>	The Don Fippi Shares and the Guigui Shares.
<i>Public Offering Warrant Shares</i>	5,750,000 Common Shares which the holders of 5,750,000 warrants issued by the Company pursuant to its prospectus dated March 31, 2003 are entitled to purchase at the price of \$0.75 per share until April 15, 2005.
<i>pyrite</i>	Iron sulfide mineral.
<i>Qualifying Transaction</i>	The transaction conducted pursuant to Policy 2.4 whereby the Company acquired significant assets, other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means and then qualified for a regular listing on the Exchange.
<i>quartz</i>	SiO ₂ , a common constituent of veins, especially those containing gold and silver mineralization.
<i>Recently Acquired Properties</i>	The properties described in Item 2. Information on the Company Business Overview Recently Acquired Properties.
<i>rhyolite</i>	Volcanic rock high in quartz content, generally fine grained and light coloured.
<i>Second Special Warrants</i>	The special warrants issued by the Company on December 20, 2002 granting the holders thereof the right to acquire, without additional cost, up to an aggregate of 900,000 units of the Company, each unit consisting of one Common Share of the Company and one-half of one Second SW Warrant, all of which were exercised on April 3, 2003.
<i>Second SW Warrants</i>	Share Purchase Warrants of the Company that entitle the holder to purchase one Second SW Warrant Share at a price of \$0.40 until December 20, 2004.
<i>Second SW Warrant Shares</i>	The Common Shares of the Company to be acquired upon exercise of the Second SW Warrants.
<i>serpentine</i>	A rock composed of serpentine, typically formed from the alteration of mafic igneous rocks.
<i>silicification</i>	Replacement of the constituents of a rock by quartz.
<i>tailings</i>	material rejected from a mill after recoverable valuable minerals have been extracted.
<i>Tertiary</i>	The geological period extending from 63 million to 2 million years ago.
<i>tonne or "T"</i>	Metric ton = 1,000 kilograms or 1,000,000 grams.

<i>VAT</i>	An acronym for "Value Added Tax" which, in Mexico, is charged on all goods and services at a rate of 15%. Proprietors selling goods or services must collect VAT on behalf of the government. Goods or services purchased incur a credit for VAT paid. The resulting net VAT is then remitted to, or collected from the Government of Mexico through a formalized filing process.
<i>veinlets</i>	Small veins, generally measuring only a few millimetres in thickness, filling fractures in rocks.

veins The mineral deposits that are found filling openings in rocks created by faults or replacing rocks on either side of faults.

volcaniclastic Coarse-grained sedimentary rocks (sandstone or conglomerate) composed of fragments of volcanic rocks.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following table sets forth our selected consolidated financial information, which has been derived from our consolidated financial statements included in this Annual Report prepared in accordance with Canadian Generally Accepted Accounting Principles. Information for the 12 months ended December 31, 2003, 2002 and 2001 are derived from audited financial statements which are included elsewhere in this Report. Information for the year ended December 31, 2000 and the period from April 21, 1999 to December 31, 1999 are derived from audited financial statements that are not included in this Report. The financial data should be read in conjunction with our consolidated financial statements and notes thereto and Item 5. Operating and Financial Review and Prospects.

	12 months ended Dec. 31, 2003	12 months ended Dec. 31, 2002	12 months ended Dec. 31, 2001	12 months ended Dec. 31, 2000	Apr. 21/99 to Dec. 31, 1999
Revenue	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil

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Total Expenses	\$915,007	\$123,536	\$288,449	\$19,066	\$8,521
Net Loss	\$(837,539)	\$(122,631)	\$(279,639)	\$(5,641)	\$(8,066)
Basic and Diluted Loss per Share	\$(0.06)	\$(0.08)	\$(0.19)	\$(0.00)	\$(0.00)
Weighted Average Common Shares Outstanding	14,455,369	1,500,000	1,500,000	1,304,066	Nil
Consolidated Balance Sheet					
Total Assets	\$8,534,794	\$408,125	\$110,904	\$386,192	\$150,000
Total Liabilities	\$208,018	\$58,880	\$14,028	\$9,677	\$8,066
Working Capital	\$4,920,182	\$108,472	\$76,876	\$376,515	\$141,934
Shareholders' Equity	\$8,326,776	\$349,245	\$96,876	\$376,515	\$141,934

Under U.S. GAAP, all amounts in the foregoing table remain the same except the following:

Net Loss	\$(4,058,279)	\$(160,433)	\$(279,639)	\$(5,641)	\$(8,066)
Basic and Diluted Loss per Share	\$(0.28)	\$(0.11)	\$(0.19)	\$(0.00)	\$(0.00)
Total Assets	\$5,876,252	\$370,323	\$110,904	\$386,192	\$150,000
Shareholders' Equity	\$5,668,234	\$311,443	\$96,876	\$376,515	\$141,934

On May 31, 2004, the Interbank rate of exchange for converting Canadian dollars into United States dollars equalled 1.36 Canadian dollars for one United States dollar. The following table presents a history of the high and low exchange rates of Canadian dollars into United States dollars for the previous six months.

Month	High	Low
May 2004	1.3968	1.3577
April 2004	1.3707	1.3093
March 2004	1.348	1.308
February 2004	1.3442	1.3102
January 2004	1.334	1.269
December 2003	1.3405	1.2923

The following table presents a five-year history of the average annual exchange rates of Canadian dollars into United States dollars, calculated by using the average of the exchange rates on the last day of each month during the given

year.

Year	Average Exchange Rate
2003	1.4012
2002	1.5705
2001	1.5490
2000	1.4855
1999	1.4858

Capitalization

Not applicable.

Risk Factors

The following is an overview of the risk factors to be considered in relation to our business. Specific risk factors to be considered are as follows:

1.

Values attributed to the Company's assets may not be realizable, the Company has no proven history and its ability to continue as a going concern depends upon a number of significant variables. The amounts attributed to the Company's exploration concessions in its financial statements represent acquisition and exploration costs and should not be taken to represent realizable value. Further, the Company has no proven history of performance, revenues, earnings or success. As such, the Company's ability to continue as a going concern is dependent upon the existence of economically recoverable resources, the ability of the Company to obtain the necessary financing to complete the development of its interests and future profitable production or alternatively, upon the Company's ability to dispose of its interests on a profitable basis.

2.

The Company is dependent on its key personnel, who have not entered into written agreements with the Company and whom are not insured by the Company. The Company is dependent upon the continued availability and commitment of its key management and consultants, whose contributions to immediate and future operations of the Company are of central importance. The Company relies on its President, George Young, and its other officers, none of whom has entered into a written employment agreement with the Company, for the day-to-day operation of the Company, its projects and the execution of the Company's business plan. The Company also relies heavily on Dr. Peter Megaw for the planning, execution and assessment of the Company's exploration programs. Dr. Megaw is an arm's length consultant to the Company and he is paid a fee for his services based on fair market rates and his submission of invoices for services rendered. The Company has not obtained "key man" insurance for any of its management or consultants. The loss of either George Young or Dr. Megaw may have a temporary negative impact on the Company until they were replaced.

3.

The Company does not pay dividends. Payment of dividends on the Company's shares is within the discretion of the Company's Board and will depend upon the Company's future earnings, its capital requirements and financial condition, and other relevant factors. The Company does not currently intend to declare any dividends for the foreseeable future.

4.

The Company's directors and officers may have conflicts of interest which may not be resolved in favour of the Company, which in turn may adversely affect the Company. None of the Company's directors or officers devote their full time to the affairs of the Company. All of the directors and officers of the Company are also directors, officers and shareholders of other natural resource or public companies, as a result of which they may find themselves in a position where their duty to another company conflicts with their duty to the Company. None of the Company's constating documents or any of its other agreements contain any provisions mandating a procedure for addressing such conflicts of interest. There is no assurance that any such conflicts will be resolved in favour of the Company. If any of such conflicts are not resolved in favour of the Company, the Company may be adversely affected. See Item 6. Directors, Senior Management and Employees for details of other companies that the Company's officers and directors are involved with.

Risk Factors Relating to Title

5.

Title to the properties in which the Company has an interest may be in doubt and any challenge to the title to any of such properties may have a negative impact on the Company. A full investigation of legal title to the Company's property interests has not been carried out at this time. Accordingly, title to these property interests may be in doubt. Other parties may dispute title to the properties in which the Company has an interest. The Company's property interests may also be subject to prior unregistered agreements or transfers or land claims and title may be affected by undetected defects. Any challenge to the title to any of the properties in which the Company has an interest may have a negative impact on the Company as the Company will incur expenses in defending such challenge and, if the challenge is successful, the Company will lose any interest it may have in the subject property. In addition, the Company's ability to explore and exploit the property interests is subject to ongoing approval of local governments.

6.

Title opinions provide no guarantee of title and any challenge to the title to any of such properties may have a negative impact on the Company. Although the Company has or will receive title opinions for any concessions in which it has or will acquire a material interest, there is no guarantee that title to such concessions will not be challenged or impugned. In Mexico, a title opinion does not provide absolute comfort that the holder has unconditional or absolute title. Any challenge to the title to any of the properties in which the Company has an interest may have a negative impact on the Company as the Company will incur expenses in defending such challenge and, if the challenge is successful, the Company will lose any interest it may have in the subject property.

7.

Titles to the properties in which the Company has an interest are not registered in the name of the Company, which may result in potential title disputes having a negative impact on the Company. Except for the Sierra de Ramirez Agreement and the Cinco de Mayo Agreement (as such agreements are defined below), all of the agreements under which the Company may earn interests in properties have either been registered or been submitted for registration with the Mexican Public Registry of Mining, but title relating to the properties in which the Company may earn its interests are held in the names of parties other than the Company. Furthermore, in the case of the Adargas Agreement (as defined below), the parties thereto will need to execute an addendum and subsequently file such Agreement and addendum with the Mexican Public Registry of Mining for its recordation. Any of such properties may become the subject of an agreement which conflicts with the agreement pursuant to which the Company may earn its interest, in which case the Company may incur expenses in resolving any dispute relating to its interest in such property and such a dispute could result in the delay or indefinite postponement of further exploration and development of properties with the possible loss of such properties.

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Risk Factors Relating to the Company's Property Interests

8.

The properties in which the Company has an interest are in the exploration stage and most exploration projects do not result in the discovery of commercially mineable deposits. All of the Company's property interests are at the exploration stage only (even when some of the mining concession titles covering such property interests were issued as exploitation concessions) and there are no known commercial quantities of minerals or precious gems on such properties. Most exploration projects do not result in the discovery of commercially mineable deposits of ores or gems. Because the probability of an individual prospect ever having reserves is extremely remote, in all probability the Company's properties do not contain any reserves, and any funds spent on exploration will be lost. The failure of the Company to find an economic mineral deposit on any of its exploration concessions will have a negative effect on the Company.

9.

The properties in which the Company has an interest are in Mexico. The Company's property interests are located in Mexico. Any changes in governmental laws, regulations, economic conditions or shifts in political attitudes or stability in Mexico are beyond the control of the Company and may adversely affect its business. See Item 4. Information on the Company Business Overview Carrying on Business in Mexico.

10.

There is no guarantee licenses and permits required by the Company will be obtained which may result in the Company losing its interest in the subject property. The operations of the Company may require licenses and permits from various governmental authorities. The Company may not be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects. Failure to

obtain such licenses and permits may adversely affect the Company's business as the Company would be unable to legally conduct its intended exploration work, which may result in it losing its interest in the subject property.

11.

Environmental regulations are becoming more onerous to comply with and the cost of compliance with environmental regulations and changes in such regulations may reduce the profitability of the Company's operations. The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. Failure to comply with such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with environmental regulations and changes in such regulations may reduce the profitability of the Company's operations. See Item 4. Information on the Company Business Overview Carrying on Business in Mexico Environmental Regulation.

12.

Mexican Foreign Investment and Income Tax Laws apply to the Company. Under the Foreign Investment Law of Mexico, there is presently no limitation on foreign capital participation in mining operations; however, the applicable laws may change in a way which may adversely impact the Company and its ability to repatriate profits. Under Mexican Income Tax Law, dividends paid out of "previously taxed net earnings" are not subject to Mexican taxes if paid to a foreign investor. Otherwise, such dividends paid to a foreign resident corporation are subject to the Mexican corporate tax rate, which presently is 33 percent over a gross up basis (amount of the dividend times 1.4925), payable by the Mexican company. Currently, there is no withholding tax on dividends paid by a Mexican company to a foreign shareholder.

13.

Foreign currency fluctuations and inflationary pressures may have a negative impact on the Company's financial position and results. The Company's property interests in Mexico make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the

Company's financial position and results. As the Company maintains its accounts in Canadian and US dollars, any appreciation in Mexican currency against the Canadian or US dollar will increase our costs of carrying out operations in Mexico. Further, any decrease in the US dollar against the Canadian dollar will result in a loss on our books to the extent we hold funds in US dollars. The steps taken by management to address foreign currency fluctuations may not eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations. The Company also bears the risk of incurring losses occasioned as a result of inflation in Mexico.

14.

None of the properties in which the Company has an interest has any reserves. Currently, there are no reserves on any of the properties in which the Company has an interest.

Risk Factors Relating to Mining Generally

15.

Mining exploration is a speculative business and most exploration projects do not result in the discovery of commercially mineable deposits. Exploration for minerals or precious gems is a speculative venture necessarily involving substantial risk. The expenditures made by the Company described herein may not result in discoveries of commercial quantities of minerals or precious gems. The failure to find an economic mineral deposit on any of the Company's exploration concessions will have a negative effect on the Company.

16.

Mining operations generally involve a high degree of risk and potential liability. Hazards such as unusual or unexpected formations and other conditions are involved in mining. The Company may become subject to liability for pollution, fire, explosions, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The incurrence of any such liabilities may have a material, adverse effect on the Company's financial position.

17.

Mineral prices and marketability fluctuate and any decline in mineral prices may have a negative effect on the Company. Mineral prices, particularly gold and silver prices, have fluctuated widely in recent years. The marketability and price of minerals and precious gems which may be acquired by the Company will be affected by numerous factors beyond the control of the Company. These other factors include delivery uncertainties related to the proximity of its reserves to processing facilities and extensive government regulation relating to price, taxes, royalties, allowable production land tenure, the import and export of minerals and precious gems and many other aspects of the mining business. Declines in mineral prices may have a negative effect on the Company.

18.

Mining is a highly competitive industry. The mining industry is intensely competitive and the Company must compete in all aspects of its operations with a substantial number of large established mining companies with substantial capabilities and greater financial and technical resources than the Company. The Company may be unable to acquire additional attractive mining properties on terms it considers to be acceptable. The inability of the Company to acquire attractive mining properties would result in difficulties in it obtaining future financing and profitable operations.

Risk Factors Relating to Financing

19.

Adequate funding may not be available, resulting in the possible loss of the Company's interests in its properties. Sufficient funding may not be available to the Company for further exploration and development of its property interests or to fulfil its obligations under applicable agreements. The Company may not be able to obtain adequate financing in the future or the terms of such financing may not be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of properties with the possible loss of such properties. The Company will require new capital to continue to operate its

business and to continue with exploration on its properties, and additional capital may not be available when needed, if at all.

20.

Funding and property commitments will result in dilution to the Company's shareholders. It is likely any additional capital required by the Company as described in Risk Factor #19 above

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will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders. Further, as described in Item 4. Information on the Company Business Overview, the Company is required to issue common shares in order for Lagartos to earn its interests in properties. Such property share issuances will also result in dilution to the Company's shareholders.

21.

Substantial expenditures are required for commercial operations and if financing for such expenditures is not available on acceptable terms, the Company may not be able to justify commercial operations. If mineable deposits are discovered, substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, resources may not be discovered in sufficient quantities to justify commercial operations or the funds required for development may not be obtained at all or on terms acceptable to the Company.

22.

Lack of funding to satisfy contractual obligations may result in the Company's loss of property interests. The Company may, in the future, be unable to meet its share of costs incurred under agreements to which it is a party and the Company may have its property interests subject to such agreements reduced as a result or even face termination of such agreements. The Company has acquired options to acquire interests in six properties in Mexico and in order to obtain ownership of each of such properties, it must make payments to the current owners and incur certain exploration expenditures on those properties. In order to secure ownership of these properties, additional financing will be required. Failure of the Company to make the requisite payments in the prescribed time periods will result in the Company losing its entire interest in the subject property and the Company will no longer be able to conduct its business as described in this Annual Report. The Company may not have sufficient funds to: (a) satisfy the minimum expenditures or the option payment required to be made in 2004 in relation to the Don Fippi Property; (b) satisfy the option payment required to be made in 2004 in relation to the Guigui Property; (c) make the minimum expenditures to maintain the Don Fippi Property in good standing under Mexican law; and (d) make the minimum expenditures to earn its interest in any of the Recently Acquired Properties. In such event, in respect of any of the properties, the Company may seek to enter into a joint venture or sell the subject property or elect to terminate its option. The Company will have to raise further financing to fund the required exploration on the Don Fippi Property. See Item 4. Information on the Company - Business Overview and Item 5. Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations for details of the property payments the Company is required to make

to earn its interests.

Miscellaneous Risk Factors

23.

The price of the Company's shares is volatile. Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating sales and revenues.

24.

There is an absence of a liquid trading market for the Company's shares. Shareholders of the Company may be unable to sell significant quantities of shares into the public trading markets without a significant reduction in the price of their shares, if at all. The Company may not continue to meet the listing requirements of the Exchange or achieve listing on any other public listing exchange.

25.

The Penny-Stock Rule may limit trading in the Company's shares. In October 1990, Congress enacted the "Penny Stock Reform Act of 1990." "Penny Stock" is generally any equity security other than a security (a) that is registered or approved for registration and traded on a national securities exchange or an equity security for which quotation information is disseminated by The National Association of Securities Dealers Automated Quotation ("NASDAQ") System on a real-time basis pursuant to an effective transaction reporting plan, or which has been authorized or approved for authorization upon notice of issuance for quotation in the NASDAQ System, (b) that

is issued by an investment company registered under the Investment Company Act of 1940, (c) that is a put or call option issued by Options Clearing Corporation, (d) that has a price of five dollars (US) or more, or (e) whose issuer has net tangible assets in excess of \$2,000,000(US), if the issuer has been in continuous operation for at least three years, or \$5,000,000(US) if the issuer has been in continuous operation for less than three years, or average revenue of at least \$6,000,000(US) for the last three years.

The Company's Common Shares are presently considered "penny stock" under these criteria. Therefore, the Common Shares are subject to Rules 15g-2 through 15g-9 (the "Penny Stock Rules") under the Exchange Act. The "penny stock" trading rules impose duties and responsibilities upon broker-dealers and salespersons effecting purchase and sale transactions in the Company's shares, including determination of the purchaser's investment suitability, delivery of certain information and disclosures to the purchaser, and receipt of a specific purchase agreement from the purchaser prior to effecting the purchase transaction. Compliance with the "penny stock" trading rules affect or will affect the ability to resell the Company's shares by a holder principally because of the additional duties and responsibilities imposed upon the broker-dealers and salespersons recommending and effecting sale and purchase transactions in such securities. In addition, many broker-dealers will not effect transactions in penny stocks, except on an unsolicited basis, in order to avoid compliance with the "penny stock" trading rules. Consequently, the "penny

stock" trading rules may materially limit or restrict the number of potential purchasers of the Company's shares and the ability of a holder to resell our stock.

So long as the Common Shares are within the definition of "Penny Stock" as defined in Rule 3a51-1 of the Exchange Act, the Penny Stock Rules will continue to be applicable to the Common Shares. Unless and until the price per share of Common Shares is equal to or greater than \$5.00(US), or an exemption from the rule is otherwise available, the Common Shares may be subject to substantial additional risk disclosures and document and information delivery requirements on the part of brokers and dealers effecting transactions in the Common Shares. Such additional risk disclosures and document and information delivery requirements on the part of such brokers and dealers may have an adverse effect on the market for and/or valuation of the Common Shares.

26.

Classification as a Passive Foreign Investment Company has adverse income tax consequences for United States shareholders. The Company believes it is a Passive Foreign Investment Company ("PFIC"), as that term is defined in Section 1297 of the Internal Revenue Code of 1986, as amended, and believes it will be a PFIC in the foreseeable future. Consequently, this classification will result in adverse tax consequences for U.S. holders of the Company's shares. For an explanation of these effects on taxation, see Item 10. Additional Information United States Federal Income Tax Consequences. U.S. shareholders and prospective holders of the Company's shares are also encouraged to consult their own tax advisers.

27.

The Company and its principals and assets are located outside of the United States which makes it difficult to effect service of process or enforce within the United States any judgments obtained against the Company or its officers or directors. Substantially all of the Company's assets are located outside of the United States and the Company does not currently maintain a permanent place of business within the United States. In addition, most of the directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process or enforce within the United States any judgments obtained against the Company or its officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. In addition, there is uncertainty as to whether the courts of Canada, Mexico and other jurisdictions would recognize or enforce judgments of United States courts obtained against the Company or its directors and officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in Canada, Mexico or other jurisdictions against the Company or its directors and officers predicated upon the securities laws of the United States or any state thereof. Further, any payments as a result

of judgments obtained in Mexico should be in pesos and service of process in Mexico must be effectuated personally and not by mail.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

The Company was originally incorporated under the *Company Act* (British Columbia) on April 21, 1999 under the name "583882 B.C. Ltd.". On June 28, 1999, the Company changed its name to "Mega Capital Investments Inc.". On April 22, 2003, the Company changed its name to "MAG Silver Corp." to reflect its new business consequent upon the completion of its Qualifying Transaction. Effective March 29, 2004, the *Company Act* (British Columbia) was replaced by the *Business Corporations Act* (British Columbia). Our North American office and principal place of business is located at Suite 800, 409 Granville, Vancouver, British Columbia, Canada, V6C 1T2 (phone: 604-630-1399).

The Company is a "reporting" company in the Provinces of British Columbia, Alberta and Ontario.

The Company's Common Shares were listed and posted for trading on the Exchange (TSX VN: MGA) on April 19, 2000. Concurrent with the Company's name change to MAG Silver Corp. on April 22, 2003, the trading symbol was changed to "MAG".

The Company does not have an agent in the United States.

The Qualifying Transaction

On April 5, 2001, the Company entered into a letter of intent to acquire all of the issued and outstanding share capital of Advanced Disc Manufacturing Corporation ("ADMC"), a private British Columbia start-up company engaged in the manufacture of injection moulded compact discs. Effective May 2, 2001, a formal share exchange agreement was entered into among the Company, ADMC and the shareholders of ADMC in which the terms of the acquisition were set forth (the "ADMC Agreement"). This proposed acquisition was intended to serve as the Company's Qualifying Transaction. In contemplation of the closing of this transaction, the Company advanced ADMC a total of \$268,758 to finance its operations. On September 26, 2001, the Company issued a press release to announce that it would not be proceeding with its intended purchase of the share capital of ADMC as a result of certain breaches of the ADMC Agreement by the vendors of the ADMC shares. Of the amounts advanced by the Company to ADMC, only \$16,338 was returned. As a result, the Company wrote off to expense the outstanding advances to ADMC in the amount of \$252,420.

Subsequent to the termination of the ADMC Agreement, the Company was introduced to Dr. Peter Megaw who directed the Company to consider what appeared to be favourable opportunities involving the acquisition and exploration of silver properties in Mexico. After reviewing these new opportunities, the Company felt the proposal represented a favourable business concept for the Company. Management was of the opinion that the Company was well equipped to pursue the opportunities and therefore proceeded with the concept.

In August 2002, the Company entered into an arms' length agreement dated August 8, 2002 (the "Lagartos Agreement") with Ing. Porfirio Cesar Augusto Padilla Lara, Dr. Peter Megaw and Dr. Carl Kuehn (collectively, the "Vendors") pursuant to which the Company agreed to acquire (the "Acquisition") 98% (later amended to include 99% registered ownership and beneficial ownership of the remaining 1%) of the issued and outstanding common shares of Lagartos. Lagartos is a private company incorporated under the laws of the Mexican Republic in the mineral exploration business, as described below. As consideration for the Acquisition, the Company agreed to pay the Vendors the sum of US\$5,000, and to further pay the sum of US\$50,000 for the reimbursement of funds advanced to secure the Juanicipio Option (described below under "The Juanicipio Property"), plus applicable purchase and transfer costs. The Acquisition of beneficial ownership of 100% of Lagartos was completed on January 15, 2003. The

Company's Qualifying Transaction was completed on April 15, 2003, with a concurrent financing, which raised gross proceeds of \$5,750,000.

As at December 31, 2003, \$2,364,339 has been advanced by the Company as an intercorporate loan to Lagartos, with no fixed terms of repayment, for the purposes of repaying the US\$50,000 in respect of the Juanicipio Option, making payments of mining taxes totalling \$62,560 and the balance for exploration expenditures.

Business Overview

The Company is in the mineral exploration and development business. The Company is an exploration stage company and there is no assurance that a commercially viable mineral deposit exists on any of our properties. Further exploration will be required before a final evaluation as to the economic and legal feasibility of any of the Company's properties is determined. Even if the Company completes its exploration program and is successful in identifying a mineral deposit, it will have to spend substantial funds on further drilling and engineering studies before it will know if it has a commercially viable mineral deposit or reserve.

Carrying on Business in Mexico

The Company's property interests are located in Mexico. A summary of the regulatory regime material to the business and affairs of the Company is provided below.

Mining Regulation

The exploration and exploitation of minerals in Mexico may be carried out by Mexican citizens or Mexican companies incorporated under Mexican law by means of obtaining exploration and exploitation concessions. Exploration concessions are granted by the Mexican federal government for a period of six years from the date of their recording in the Public Registry of Mining and are not renewable. Holders of exploration concessions may, prior to the expiration of such exploration concessions, apply for one or more exploitation concessions covering all or part of the area covered by one exploration concession. Failure to apply prior to the expiration of the term of the exploration concession will result in termination of the concession. An exploitation concession has a term of 50 years, generally renewable for a further 50 years upon application within five years prior to the expiration of such concession. Both exploration and exploitation concessions are subject to annual work requirements and payment of surface taxes which are assessed and levied on a semiannual basis. Such concessions may be transferred or assigned by their holders, but such transfers or assignments must comply with the requirements established by the Mexican Mining Law and be registered before the Public Registry of Mining in order to be valid against third parties.

Mineral exploration and exploitation concessions may also be obtained by foreign citizens or foreign corporations, in this latter case, through the establishment of a branch or subsidiary in Mexico, and in the case of foreign citizens, provided that they comply with certain requirements set forth in the Foreign Investment Law. Foreign citizens are required to apply for the corresponding authorization before the Ministry of Foreign Affairs and register their investment in the National Registry of Foreign Investment. In the case of a branch of foreign corporations, in addition to registration in the National Registry of Foreign Investment, additional authorization from the Ministry of Economy

is required in order to obtain subsequent registration in the corresponding local Public Registry of Commerce.

Mexican mining law does not require payment of finder's fees or royalties to the Government, except for a discovery premium in connection with national mineral reserves, concessions in marine zones and claims or allotments contracted directly from the Council of Mineral Resources. None of the property interests held by Lagartos are under such fee regime. However, holders of exploration and exploitation concessions are required to pay surface taxes which are assessed and levied on a semi-annual basis.

Foreign Investment Regulation

Foreign investment regulation in Mexico is basically governed by the Law of Foreign Investment and its Regulations. Foreign investment of up to 100% in Mexican mining companies is freely permitted. Foreign companies or companies with foreign investment in their capital stock must be registered with the National Registry of Foreign Investment which is maintained by the Ministry of Economy.

Environmental Regulation

Mexico has federal and state laws and regulations relating to the protection of the environment, including regulations concerning water pollution, air pollution, noise pollution and hazardous substances. The principal environmental legislation in Mexico is the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (the "General Law of Ecological Balance and Environmental Protection" or the "General Law"), which provides for general environmental rules and policies, with specific requirements set forth in regulations on air pollution, hazardous substances, environmental impact and others (the "Environmental Regulations"). Additionally, there are a series of "Mexican Official Norms" that establish ecological and technical standards and requirements on various environmental related matters (the "Ecological Standards").

The *Secretaría de Medio Ambiente y Recursos Naturales* (the "Ministry of the Environment and Natural Resources" or "SEMARNAT" for its initials in Spanish) is the federal agency in charge of monitoring compliance with and enforcing the General Law, the Environmental Regulations and the Ecological Standards (collectively the "Environmental Laws"). On enforcement matters the SEMARNAT acts mainly through the *Procuraduría Federal de Protección al Ambiente* (the "Federal Bureau of Environmental Protection" or "PROFEPA" for its initials in Spanish) and in certain cases through other governmental entities under its control.

Environmental Laws also regulate environmental protection in the mining industry in Mexico. In order to comply with these laws, a series of permits, licences and authorizations must be obtained by a concession holder during the exploration and exploitation stages of a mining project. Generally, these permits and authorizations are issued on a timely basis after the completion of an application by a concession holder. To the best of the Company's knowledge, all of the Company's property interests are currently in compliance with the Environmental Laws.

In the exploration stage, the cost of complying with such Environmental Laws is included in the exploration budget. Until such time as the Company conducts larger more invasive procedures, such as trenching or bulk sampling, there is only nominal cost associated with compliance with the Environmental Laws. The Company's programs are not yet

sufficiently advanced to allow an estimate of the future cost of such environmental compliance.

Currency

The official monetary unit of Mexico is the peso. The currency exchange rate freely floats and the country has no currency exchange restrictions. Nevertheless, following the devaluation of the Mexican peso in December, 1994, uncertainties continue with respect to the financial situation of Mexico. See Item 3. Key Information - Risk Factors, specifically those risk factors dealing with currency fluctuation and inflation.

The following table presents a five-year history of the average annual exchange rates of Canadian dollars into Mexican pesos, calculated by using the average of the exchange rates on the last day of each month during the given year.

Year	Average Exchange Rate
2003	7.73190
2002	6.15751
2001	6.03241
2000	6.36996
1999	6.43512

Value Added Tax

In Mexico, VAT is charged on all goods and services at a rate of 15% percent. Proprietors selling goods or services must collect VAT on behalf of the government. Goods or services purchased incur a credit for VAT paid. The resulting net VAT is then remitted to, or collected from the Government of Mexico through a formalized filing process.

The Juanicipio Property

Pursuant to an agreement dated July 18, 2002 as amended December 19, 2002 between Lagartos and Ing. Martin Bernardo Sutti Courtade I ("Sutti"), of Zacatecas, Mexico (the "Juanicipio Agreement"), Sutti granted to Lagartos an option (the "Juanicipio Option") to acquire a 100% interest in the Juanicipio Property. Sutti subsequently assigned his interest to Minera Venus, S.A. de C.V. In order to exercise the Juanicipio Option, Lagartos was required to:

(a)

drill a minimum of 3,500m of diamond core, reverse circulation or a combination of the two methods within 12 months following the date of ratification of the Juanicipio Agreement by all parties in the presence of a notary public (the "Ratification Date"), which was July 18, 2002 (which work was completed);

(b)

pay 1,000 pesos plus applicable taxes and pay the Mexican Treasury one payment of approximately 200,000 pesos (approximately \$32,629) representing mining taxes owed for the first half of 2002 (which amount was paid);

(c)

make payments aggregating US\$1,225,000 plus VAT on the following basis:

(i)

US\$75,000 plus VAT on or before January 18, 2003 (which amount was paid);

(ii)

US\$100,000 plus VAT on or before July 18, 2003;

(iii)

US\$100,000 plus VAT on or before January 18, 2004;

(iv)

US\$150,000 plus VAT on or before July 18, 2004;

(v)

US\$150,000 plus VAT on or before January 18, 2005;

(vi)

US\$200,000 plus VAT on or before July 18, 2005;

(vii)

US\$200,000 plus VAT on or before January 18, 2006; and

(viii)

US\$250,000 plus VAT on or before July 18, 2006 and during each semester subsequently until the Juanicipio Property commences production;

(d)

incur expenditures on the Juanicipio Property in the amount of at least US\$2,500,000 on the following basis:

(i)

US\$750,000 (including amounts incurred in subparagraph (a) above) by July 18, 2004;

(ii)

the cumulative amount of US\$1,500,000 by July 18, 2005; and

(iii)

the cumulative amount of US \$2,500,000 by July 18, 2006; and

(e)

pay a NSR on the following basis:

(i)

3.5% for silver priced up to US \$5.50/troy ounce;

(ii)

3.75% for silver priced greater than US \$5.50/troy ounce and up to US \$6.50/troy ounce;

(iii)

4.0% for silver priced greater than US \$6.50/troy ounce and up to US \$7.50/troy ounce;

(iv)