

MAG SILVER CORP  
Form 20FR12G/A  
February 12, 2004

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

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

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

For the fiscal year ended \_\_\_\_\_

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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)

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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: ~~20,772,440~~23,093,995 Common Shares at ~~September 30,~~December 31, 2003

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.

Yes  No

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

Item 17  Item 18

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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 Registration Statement 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 information set forth in this Form 20-F is as of September 30, [2003 and where possible, information has been updated to December 31, 2003](#) unless otherwise indicated.

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 ~~the section entitled-~~ [Item 3. Key Information - Risk Factors](#) ~~- at and Item 3 and~~ [5. Operating and Financial Review and Prospects](#) ~~- at Item 5.~~

When used in this Registration Statement, 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 Registration Statement. These statements are subject to risks and uncertainties that could cause results to differ materially from those contemplated in such forward-looking statements.

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## GLOSSARY

The following is a glossary of terms that appear in this Registration Statement.

<del>AA</del>	<del>Atomic Absorption Spectrophotometry, an industry standard analytical technique used for quantitatively determining the amounts of specific elements present in a rock sample.</del>
<del>actinolite</del>	<del>A calcium-iron silicate mineral, and member of the amphibole group. Common component of skarn alteration.</del>
<del>adit</del>	<del>A horizontal or nearly horizontal passage driven from the surface for the working of a mine.</del>
Ag	The elemental symbol for silver.
alteration	Usually referring to chemical reactions in a rock mass resulting from the passage of hydrothermal fluids.
alunite	A potassium-aluminum sulfate mineral, a common component of hydrothermal alteration assemblages.
andesite	Volcanic rock, low in quartz content, generally fine grained and moderately dark coloured.
<del>adularia</del>	<del>Field name for orthoclase feldspar, a potassium-aluminum silicate mineral, formed as hydrothermal alteration product.</del>
anomalous	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.
<del>aphanitic</del>	<del>A textural term describing very fine-grained igneous rocks.</del>
<del>arkoses</del>	<del>Immature sandstones with high feldspar content.</del>
<del>assay</del>	<del>An analysis to determine the presence, absence or quantity of one or more components.</del>
As	The elemental symbol for arsenic.

<del><i>Au</i></del>	<del>The elemental symbol for gold.</del>
<i>basalt</i>	Volcanic rock, low in quartz content, generally fine grained and dark coloured.
<del><i>Bi</i></del>	<del>The elemental symbol for bismuth.</del>
<del><i>botryoidal</i></del>	<del>A textural term describing rocks with bubbly or kidney like shapes.</del>
<del><i>breccia</i></del>	<del>A rock comprised of angular fragments cemented by a finer grained matrix. Breccia may be formed either by primary deposition of coarse angular rock fragments or by intense fracturing of a pre-existing rock mass.</del>
<i>calcite</i>	Calcium carbonate mineral. It is a common constituent of many rock types as well as occurring in veins and alteration assemblages.
<del><i>ealderas</i></del>	<del>A term used to describe the vent zone of a volcano. It is also used to describe a large scale rhyolite volcanic dome and crater complex.</del>
<i>carbonate</i>	Minerals which have the formula "X"CO <sub>3</sub> . 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.
<del><i>ehaledony</i></del>	<del>Very fine crystalline quartz which may be massive or banded (agate).</del>
<hr/>	
<del><i>ehaleopyrite</i></del>	<del>Copper sulfide mineral.</del>
<del><i>ehlorite</i></del>	<del>A ferro-magnesian mineral, commonly a product of chemical alteration.</del>
<i>Common Shares</i>	Common Shares without par value in the capital stock of the Company.
<i>Company</i>	MAG Silver Corp.
<del><i>complexes</i></del>	<del>A group of genetically related geologic features formed over time in a specific area.</del>
<i>Cretaceous</i>	The geological period extending from 135 million to 63 million years ago.
<i>Cu</i>	The elemental symbol for copper.
<del><i>dacite</i></del>	<del>Volcanic rock with moderate quartz content, generally fine grained and moderately dark coloured.</del>
<del><i>dextral</i></del>	<del>A sense of movement on a strike-slip fault where one side has moved to the right with respect to the other; the opposite of sinistral.</del>
<i>dike</i>	Tabular intrusion, meaning sheet or slab-like, which cuts across the host rocks. Dikes vary from a few centimetres to many tens of metres in thickness and may extend for several kilometres.
<del><i>diopside</i></del>	<del>A calcium-magnesium-silicate mineral and member of the pyroxene group. A common component of skarn alteration.</del>
<i>diorites</i>	Medium-coloured intrusive igneous rocks of intermediate composition.
<i>dip</i>	Geological measurement of the angle of maximum slope of planar elements in rocks. Can be applied to beddings, jointing, fault plans, veins, etc.
<del><i>distal</i></del>	<del>Formed at a distance from a source region; features found in the periphery of a geologic system.</del>
<del><i>drift</i></del>	<del>An underground passage, approximately horizontal, often along a mineralized zone.</del>
<del><i>epidote</i></del>	<del>Calcium, aluminum, iron-silicate mineral commonly occurring in hydrothermally altered carbonate-bearing rocks.</del>
<del><i>epithermal</i></del>	<del>A mineralizing system of hot metal-rich solution which has deposited precious</del>



~~metals within the upper 1,000 metres of the earth's crust, typically as veins, stockworks, breccias or disseminated ores.~~

~~eu~~~~hedral~~ [Don Fippi Property](#)

~~True shaped~~; a textural term used to describe rocks containing fully formed crystals [The Don Fippi Property as defined in Item 4. Information on the Company Description of the Business - Don Fippi.](#)

~~eutaxitic foliation~~ [Don Fippi Shares](#)

~~A volcanic textural term used to describe pumice lumps flattened into planar features during compaction and cooling; a typical texture in rhyolite ash flow tuffs~~ [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.](#)

Exchange

TSX Venture Exchange.

exploration concession

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.

fault

A fracture in rock where there has been displacement of the two sides.

felsie

~~light coloured, typically quartz rich rock.~~

First Special Warrants

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.

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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.

First SW Warrant Shares

The Common Shares of the Company to be acquired upon exercise of the First SW Warrants.

flow

Volcanic rock comprised of flow lava.

footwall

~~The lower plate of an inclined fault such that if you were in the faultplane your feet would be on the "footwall".~~

fracture

Breaks in a rock, usually due to intensive folding or faulting.

g/T

Grams per tonne (31.1 g/T = 1.0 troy ounce/tonne).

galena

~~Lead sulfide mineral.~~

gangue

Minerals incorporated in an orebody other than those of economic interest.

gossanous

~~A textural term used to describe cellular iron oxides left behind from the oxidation of iron sulfides (pyrite or pyrrhotite).~~

grab sample

~~A sample of selected rock chips collected at random from within a restricted area of interest.~~

grade

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.

~~graywackes~~ [Guigui Property](#)

~~Immature fine grained sandstones with a significant shale component~~ [The Guigui Property as defined in Item 4. Information on the Company Description of the Business Guigui.](#)

<del>hanging wall</del> <a href="#">Guigui Shares</a>	<del>Term used in reference to planar features, such as faults where, when mining along a fault, your feet would be on the footwall side of the fault and the hanging wall side would be hanging over your head.</del> <a href="#">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.</a>
<del>hectare</del> <del>or ha.</del>	An area totalling 10,000 square metres.
<del>hedenbergite</del>	<del>A calcium iron manganese silicate mineral, and member of the pyroxene group. It is a common component of skarn alteration.</del>
<del>hg</del>	<del>The elemental symbol for mercury.</del>
<del>horst block</del>	<del>The upthrown block between two oppositely facing normal faults.</del>
<del>host rock</del>	<del>The rock within which the ore deposit occurs.</del>
<del>hydrothermal</del>	<del>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.</del>
<del>ICP</del>	<del>Induction Coupled Plasma; an industry standard analytical technique used for quantitatively determining the amounts of specific elements present in a rock sample.</del>
<del>igneous</del>	<del>A rock formed by the cooling of molten silicate material.</del>
<del>illite</del>	<del>A potassium aluminum silicate mineral, and member of the mica group. It is a common component of hydrothermal alteration of siliceous rocks.</del>
<del>intrusive</del>	<del>A rock mass formed below the earth's surface from magma which has intruded into a pre-existing rock mass.</del>
<hr/>	
	<del>Breaks in rocks which show no noticeable movement along them and which can provide porosity and spaces for disposition of mineralization.</del>
<del>K/Ar</del> <a href="#">Juanicipio Property</a>	<del>A radiometric dating technique based on the ratios of radioactive isotopes of K (potassium) and Ar (argon) used to determine the absolute age of a rock.</del> <a href="#">The Juanicipio Property as defined in Item 4. Information on the Company Description of the Business Juanicipio.</a>
<del>kaolinite</del>	<del>An aluminum-silicate clay mineral. It is a common component of hydrothermal alteration of siliceous rocks.</del>
<del>Lagartos</del>	<del>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.</del>
<del>laramide</del>	<del>Referring to the Laramide Orogeny, a major regional deformation event at the end of the Cretaceous period (approximately 85 to 55 million years before present).</del>
<del>lithic</del>	<del>Comprised of rock.</del>
<del>magma</del>	<del>Molten rock formed within the crust or upper mantle of the earth.</del>
<del>magmatism</del>	<del>A magmatic event, typically of regional extent.</del>
<del>manto</del>	<del>A mineral deposit which is tubular and relatively flat lying.</del>
<del>marmorization</del>	<del>Metamorphic alteration of a limestone or dolomite to marble.</del>
<del>matrix</del>	<del>Generally fine grained material between coarser particles.</del>
<del>miogeoclinal</del>	<del>Rocks formed in the continental side of an ocean basin, typically dominated by sediments derived from the continent.</del>
<del>mill</del>	<del>A facility for processing ore to concentrate and recover valuable minerals.</del>
<del>mineral reserve</del>	

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.

<i>mineral resource</i>	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.
<i>mineralization</i>	Usually implies minerals of value occurring in rocks.
<i>monzonite</i>	An intermediate intrusive rock related to granite.
<del>Mn</del>	<del>The elemental symbol for manganese.</del>
<i>net smelter returns royalty or NSR</i>	Payment of a percentage of mining revenues after deducting applicable smelter charges.
<i>ore</i>	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.
<del>ore shoot</del>	<del>Part of a mineral deposit that contains ore grade material.</del>
<i>orebodies</i>	Bodies of ore.
<i>outcrop</i>	An exposure of rock at the earth's surface.
<hr/>	
	<del>Near surface alteration or weathering of minerals whereby sulfur ions are replaced by oxygen ions.</del>
<i>oz/T</i>	Troy ounces per tonne.
<i>Pb</i>	The elemental symbol for lead.
<i>pelitic</i>	<del>Fine grained sediments dominated by clay and mica minerals.</del>
<i>phanerozoic</i>	<del>Visible Life; a term referring to all ages since the Paleozoic period (i.e. &lt;575 Million years).</del>
<i>phenocrysts</i>	<del>Crystals within an igneous rock.</del>
<i>plagioclase</i> <a href="#">Policy 2.4</a>	<del>A potassium calcium sodium aluminum silicate mineral, and a member of the feldspar group. A principal primary component of many igneous rocks.</del> <a href="#">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.</a>
<i>porphyry</i>	Rock type with mixed crystal sizes, i.e., containing larger crystals of one or more minerals.
<i>portal</i>	Entrance from surface into an underground development.
<i>ppb</i>	<del>Parts per billion. A unit of measurement applied to very low concentrations of any substance being measured.</del>
<del>ppm</del> <a href="#">Property Shares</a>	<del>Parts per million. A unit of measurement which is 1,000 times larger than ppb (1 ppm = 1,000 ppb = 1 g/T).</del> <a href="#">The Don Fippi Shares and the Guigui Shares.</a>
<i>pyritization</i> <a href="#">Public Offering Warrant Shares</a>	<del>A process</del> <a href="#">5,750,000 Common Shares</a> which results in the introduction of <del>pyrite</del> <a href="#">the holders of 5,750,000 warrants issued by the Company pursuant</a> to a

~~pre-existing rock mass.~~ [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.
<del><i>pyrrhotite</i></del>	<del>Iron sulfide mineral.</del>
<i>Qualifying Transaction</i>	The transaction conducted pursuant to Policy 2.4 <del>entitled "Capital Pool Companies" of the TSX Venture Exchange</del> 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 <del>TSX Venture</del> Exchange.
<i>quartz</i>	SiO <sub>2</sub> , a common constituent of veins, especially those containing gold and silver mineralization.
<del><i>rhyodacite</i></del> <a href="#">Recently Acquired Properties</a>	<del>A volcanic rock type, slightly less siliceous than rhyolite.</del> <a href="#">The properties described in Item 2. Information on the Company Business Overview Recently Acquired Properties.</a>
<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.

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	The Common Shares of the Company to be acquired upon exercise of the Second SW Warrants.
<i>serpentinite</i>	A rock composed of serpentine, typically formed from the alteration of mafic igneous rocks.
<i>shear zone</i>	<del>Where a fault affects a width of rock rather than being a single clean break, the width or affected rock is referred to as the shear zone. The term implies movement, i.e., shearing.</del>
<i>silicification</i>	Replacement of the constituents of a rock by quartz.
<i>sinter</i>	<del>A crust or infusion of very fine grained silica (quartz) formed on at or near the surface of a hot spring.</del>
<i>sphalerite</i>	<del>Zinc sulfide mineral.</del>
<i>stockwork</i>	<del>Very abundant veinlets, occurring along fractures or joints often at various different attitudes, forming a net pattern.</del>
<i>strike</i>	The direction of a horizontal line on the surface of a vein, or other planar feature.
<i>sulphides</i>	<del>Metallic minerals comprised of a combination of a sulfur ion with a metal ion, such as iron, copper, zinc or lead.</del>
<i>syngenetic</i>	<del>Formed at the same time ; a term used to describe mineralization formed at the same time as the sedimentary rocks that enclose it.</del>
<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.

<del>tpd</del>	<del>Tonnes per day.</del>
<i>tuff</i>	A rock comprised of fine fragments and ash particles ejected from a volcanic vent.
<del>U/Pb</del>	<del>A radiometric dating technique based on the ratios of radioactive isotopes of U (uranium) and Pb (lead) used to determine the absolute age of a rock.</del>
<del>vein deposit</del> <u>VAT</u>	<del>A deposit that is narrow compared to its length and depth and usually occurs in fault openings or in shear zones.</del> <u>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.</u>
<i>veinlets</i>	Small veins, generally measuring only a few millimetres in thickness, filling fractures in rocks.
<i>veins</i>	The mineral deposits that are found filling openings in rocks created by faults or replacing rocks on either side of faults.
<i>vesicular</i>	<del>Having vesicles, or holes; spongy textured.</del>
<i>vitrophyres</i>	<del>Volcanic rocks having phenocrysts suspended in a glassy (obsidian) matrix.</del>
<i>volarenites</i>	<del>Sandstones composed dominantly of sand-sized fragments of volcanic materials.</del>
<i>volcaniclastic</i>	Coarse-grained sedimentary rocks (sandstone or conglomerate) composed of fragments of volcanic rocks.
<i>wallrock alteration</i>	<del>The rocks surrounding a mineral deposit that are chemically altered during the mineralizing event.</del>
<i>Zn</i>	The elemental symbol for zinc.

## PART I

### ~~ITEM 1.~~ ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

#### Directors and Senior Management

The following table sets forth the names, business addresses and functions of our directors and senior management.

<u>Name</u>	<u>Business Address</u>	<u>Position</u>
George S. Young	Suite 800, 409 Granville Street Vancouver, British Columbia; Canada V6C 1T2	President, Chief Executive Officer and Director
David G. S. Pearce	3310 Mathers Avenue West Vancouver, British Columbia; Canada V7V 2K5	Secretary, Director and Audit Committee Member
Eric H. Carlson	Suite 300, Bentall 5 550 Burrard Street	Director and Audit Committee Member

	Vancouver, British Columbia; Canada V6C 2B5 Suite 800, 409 Granville Street Vancouver, British Columbia; Canada V6C 1T2	
R. Michael Jones		Director and Audit Committee Member
Frank Hallam	Suite 800, 409 Granville Street Vancouver, British Columbia; Canada V6C 1T2	Chief Financial Officer

Advisers

Our legal advisers are Catalyst Corporate Finance Lawyers. Their address is Suite 1400, 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

**Independent** Auditors

Our auditors are Deloitte & Touche LLP, ~~Chartered Accountants~~. Their address is 1055 Dunsmuir Street, 28th Floor, Vancouver, British Columbia, Canada, V7X 1P4.

Our registrar and transfer agent is Pacific Corporate Trust Company. Their address is 10th Floor, 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2B8.

~~ITEM 2.~~ **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

~~ITEM 3.~~ **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 Registration Statement prepared in accordance with Canadian Generally Accepted Accounting Principles. Information for the 12 months ended December 31, 2002, 2001 and 2000 are derived from audited financial statements which are included elsewhere in this Registration Statement. Information for the ~~six~~nine months ended ~~June~~September 30, 2003 and 2002 are derived from unaudited interim financial statements which are included elsewhere in this Registration Statement. Information for the period from April 21, 1999 to December 31, 1999 are derived from audited financial statements that are not included in this Registration Statement. The financial data should be read in conjunction with our consolidated financial statements and notes thereto and ~~"Results of Operations" under~~ "Item ~~5-~~5. Operating and Financial Review and Prospects".

	<del>6</del> <u>9</u> months ended <del>Jun</del> <u>Sept.</u> 30, 2003	<del>6</del> <u>9</u> months ended <del>Jun</del> <u>Sept.</u> 30, 2002	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	\$Nil

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Total Expenses	\$ <del>299,615</del> <u>582,383</u>	\$ <del>15,662</del> <u>51,491</u>	\$123,536	\$288,449	\$19,066	\$8,521
Net Loss	\$( <del>274,525</del> <u>535,066</u> )	\$( <del>15,284</del> <u>50,886</u> )	\$(122,631)	\$(279,639)	\$(5,641)	\$(8,066)
Basic and Diluted Loss per Share	\$( <del>0.03</del> <u>0.05</u> )	\$(0.01)	\$(0.08)	\$(0.19)	\$(0.00)	\$(0.00)
Weighted Average Common Shares Outstanding	<del>8,819,326</del> <u>11,849,342</u>	1,500,000	1,500,000	1,500,000	1,304,066	Nil
Consolidated Balance Sheet						
Total Assets	\$ <del>5,745,851</del> <u>7,261,615</u>		\$408,125	\$110,904	\$386,192	\$150,000
Total Liabilities	\$ <del>118,365</del> <u>126,832</u>		\$58,880	\$14,028	\$9,677	\$8,066
Working Capital	\$ <del>4,394,051</del> <u>4,515,741</u>		\$108,472	\$76,876	\$376,515	\$141,934
Shareholders' Equity	\$ <del>5,627,486</del> <u>7,134,783</u>		\$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	\$( <del>1,645,506</del> <u>2,961,417</u> )	\$( <del>15,662</del> <u>50,866</u> )	\$(160,433)	\$(279,639)	\$(5,641)	\$(8,066)
Loss per Share	\$( <del>0.19</del> <u>0.25</u> )	\$( <del>0.01</del> <u>0.03</u> )	\$(0.11)	\$(0.19)	\$(0.00)	\$(0.00)
Total Assets	\$ <del>4,937,068</del> <u>5,397,462</u>		\$370,323	\$110,904	\$386,192	\$150,000
Shareholders' Equity	\$ <del>4,818,703</del> <u>5,270,630</u>		\$311,443	\$96,876	\$376,515	\$141,934

On ~~October 6, 2003~~January 30, 2004, the Interbank rate of exchange for converting Canadian dollars into United States dollars equalled ~~1.3332~~1.3265 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
<u>January 2004</u>	<u>1.334</u>	<u>1.269</u>
<u>December 2003</u>	<u>1.3405</u>	<u>1.2923</u>
<u>November 2003</u>	<u>1.3362</u>	<u>1.2973</u>
<u>October 2003</u>	<u>1.3043</u>	<u>1.3481</u>
September 2003	1.3876	1.3469
August 2003	1.4100	1.3836
<del>July 2003</del>	<del>1.4114</del>	<del>1.3368</del>
<del>June 2003</del>	<del>1.3768</del>	<del>1.3348</del>
<del>May 2003</del>	<del>1.4221</del>	<del>1.3446</del>
<del>April 2003</del>	<del>1.4843</del>	<del>1.4336</del>

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
<u>2003</u>	<u>1.4012</u>

2002	1.5705
2001	1.5490
2000	1.4855
1999	1.4858
<del>1998</del>	<del>1.4836</del>

~~The average exchange rate for the six months ended June 30, 2003 of Canadian dollars into United States dollars was 1.4541.~~ Capitalization

The following table sets forth the capitalization of the Company as of the dates indicated:

	Amount Outstanding as of December 31, 2002	Amount Outstanding as of <del>June</del> <u>September</u> 30, 2003	Amount Outstanding as at <del>August</del> <u>December</u> 31, 2003
Common Shares (authorized <del>_</del> - 1,000,000,000 shares)	\$390,222 (3,000,000 shares)	<del>\$6,276,588</del> <del>(17,751,200)</del> <u>8,010,518</u> <u>(20,762,440</u> shares)	<del>\$7,280,218</del> <del>(19,732,040)</del> <u>9,504,984</u> <u>(23,093,995</u> shares)
Special Warrants	\$375,000 (2,400,000 warrants)	\$Nil	\$Nil
Contributed Surplus	\$Nil	<del>\$41,400</del> <u>75,308</u>	<del>\$41,400</del> <u>75,308</u>
Deficit	\$(415,977)	<del>\$(690,502)</del> <u>951,043</u>	<del>\$(735,352)</del> <u>approximately</u> <u>\$(1,216,000)</u>
Total	\$349,245	<del>\$5,627,486</del> <u>7,134,783</u>	<del>approximately</del> <u>\$6,586,266</u> <u>8,364,292</u>

#### Diluted Share Capital

Assuming that all options and other rights to purchase Common Shares of the Company are exercised and all ~~property share issuances~~Property Shares are ~~made~~issued, up to a maximum of ~~31,930,000~~32,100,000 Common Shares of the Company will be issued and outstanding on a diluted basis, comprised of the following:

Description	Number of Common Shares
Outstanding as of <del>Sept 30,</del> <u>Dec 31,</u> 2003	<del>20,772,440</del> <u>23,093,995</u>
Agents' Warrant Shares	<del>428,800</del> <u>24,000</u>
First SW Warrant Shares	<del>870,000</del> <u>650,000</u>
Second SW Warrant Shares	<del>320,000</del> <u>250,000</u>
<del>Prospectus</del> <u>Public</u> Offering Warrant Shares	<del>4,368,760</del> <u>2,742,005</u>
Options	1,170,000
Don Fippi Shares	2,000,000
Guigui Shares	2,000,000
<u>Common Shares to be issued in relation to the Recently Acquired Properties</u>	<u>170,000</u>
<b>Total</b>	<del><b>31,930,000</b></del> <u><b>32,100,000</b></u>

#### 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.

~~1.~~ **The Company has no proven history.** 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. The amounts attributed to the Company's mineral properties in its financial statements represent acquisition and exploration costs and should not be taken to represent realisable value.

2.

~~2.~~ **The Company is dependent on its key personnel.** 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 has not obtained key man~~ 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. While the services provided by the Company's management and consultants could be provided by others, the loss of either George Young or Dr. Megaw may have a temporary negative impact on the Company until they were replaced.

3.

~~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.

~~4.~~ **The Company's directors and officers may have conflicts of interest.** None of the Company's directors or officers devote their full time to the affairs of the Company. ~~Certain~~ All of the ~~proposed~~ directors and officers of the Company are also directors, officers and shareholders of other natural resource ~~companies~~ or public companies, as a result of which they may find themselves in a position where their duty to one company conflicts with their duty to another company. Such directors and officers have been advised of their fiduciary obligations to the Company and its shareholders. ~~Conflicts may arise, however, between the obligations of these directors and officers to the Company and such other natural resource~~ See Item 6. Directors, Senior Management and Employees for details of other companies that the Company's officers and directors are involved with.

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#### Risk Factors Relating to Title

5.

~~4.~~

**Title to properties may be in doubt.** 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.](#) In addition, the Company's ability to explore and exploit the property interests is subject to ongoing approval of local governments. The Company only has verbal permission to explore the Don Fippi Property. ~~The Company is satisfied, however, that evidence of title to each of its property interests is adequate and acceptable by prevailing industry standards for pre-drilling surface access.~~

6.

~~2.~~

**Title Opinions provide no guarantee of title.** 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, ~~while the system for recording title to the rights to explore, develop and mine natural resources is reliable,~~ a title opinion does not provide absolute comfort that the holder has unconditional or absolute title. Also, as in many other countries, claims have been made and new claims are being made by aboriginal peoples that call into question the rights granted by the Mexican government ~~although no such claims have yet been made against.~~ [Any challenge to the title to any of the Company's properties in which the Company has an interest may have a negative impact on the Company.](#)

#### Risk Factors Relating to the Company's Property Interests

7.

~~4.~~

**Properties are in the exploration stage.** 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 or ores or gems.

8.

~~2.~~

**Properties are in Mexico.** The Company's property interests are primarily located in Mexico. [See Item 4. Information on the Company Business Overview Carrying on Business 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.

9.

~~3.~~

**No guarantee licenses and permits will be obtained.** 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.](#)

10.

~~4.~~

**Environmental regulations are becoming more onerous to comply with.** 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

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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 governmental [such](#) regulations has a potential to [may](#) reduce the profitability of [the Company's](#) operations. ~~The Company intends to fully comply with all [environmental regulations](#).~~

11.

~~5.~~

**Mexican 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 34 percent over a gross up basis (amount of the dividend times 1.5152), payable by the Mexican company. "Previously taxed net earnings" are intended to represent cumulative post 1974 undistributed taxable revenues minus income tax paid, profit sharing and other deductions and certain dividends paid, plus certain dividends received and adjusted for inflation after each tax year (calendar) ends. Currently, there is no withholding tax on dividends paid by a Mexican company to a foreign shareholder.

12.

~~6.~~

**Foreign currency fluctuations and inflationary pressures may have a negative impact.** 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.](#) With respect to Mexican currency, the Company transfers funds to Lagartos on an "as needed" basis to avoid significant ~~pressure~~ [exposure](#) to currency fluctuations. 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. ~~Mexico has not experienced significant inflationary rates recently. Although the situation appears to be stable, the~~ [The](#) Company bears the risk of incurring losses occasioned as a result of rampant inflation in Mexico.

#### Risk Factors Relating to Mining Generally

13.

4.

**Mining exploration is a speculative business.** Exploration for minerals or precious gems is a speculative venture necessarily involving substantial risk. ~~There is no certainty that the~~ The expenditures made by the Company described herein ~~will~~ may not result in discoveries of commercial quantities of minerals or precious gems. The discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company, and conversely, the failure to find one may have a negative effect.

14.

2.

**Mining operations generally involve a high degree of risk.** 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 payment of such liabilities may have a material, adverse effect on the Company's financial position.

15.

3.

**Mineral prices and marketability fluctuate.** 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.

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16.

4.

**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 effect of these factors cannot be accurately predicted.~~ Inability of the Company to acquire attractive mining properties would result in difficulties in obtaining future financing and profitable operations.

#### Risk Factors Relating to Financing

17.

4.

~~There is no assurance of adequate funding and funding~~ Adequate Funding may not be available; Funding will result in dilution. 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 ~~new projects~~[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. It is likely such additional capital will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders.

18.

~~2.~~

**Substantial expenditures are required for 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.

19.

~~3.~~

**Lack of funding to satisfy contractual obligations may result in the 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 ~~three~~[five](#) 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 ~~all three~~[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 Registration Statement. 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; ~~and~~ (c) make the minimum expenditures to maintain the Don Fippi ~~claims~~[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 and if the Company fails to expend US\$250,000 (of which US\$15,000 has been spent) on the Don Fippi Property by April 21, 2004, its option to earn its interest in the Don Fippi Property will terminate. [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.](#)

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#### Miscellaneous Risk Factors

20.

~~4.~~

**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.

21.

~~2.~~

**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.

22.

~~3.~~

~~The Penny-Stock Rule may limit trading in the Company's shares. 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.~~ 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 15c-2 through 15c-9 (the "Penny Stock Rules") under the Exchange Act. ~~The Penny-Stock Rules impose additional reporting, disclosure and sales practice requirements on brokers and dealers before they can recommend the Common Shares for purchase by their customers, and require that such brokers and dealers must make a special suitability determination of each purchaser and must have received the purchaser's written consent to the transaction prior to the sale. Consequently, the Penny-Stock Rules may affect the ability of brokers and dealers to sell the Common Shares and may affect the ability of purchasers to sell any of the Shares acquired hereby in the secondary markets.~~ "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.

23.

4.

**Classification as a Passive Foreign Investment Company.** 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 may result in adverse tax consequences for U.S. holders of the Company's shares. For an explanation of these effects on taxation, see [Item 4010. 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.

24.

5.

**The Company and its principals and assets are located outside of the United States.** 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 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 or other jurisdictions against the Company or its directors and officers predicated upon the securities laws of the United States or any state thereof.

#### ~~ITEM 4.~~ 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, ~~in anticipation of becoming a capital pool company,~~ the Company changed its name to "Mega Capital Investments Inc.". On April 22, 2003, the Company changed its name to "MAG Silver Corp." to reflect its new business consequent upon the completion of its Qualifying Transaction. 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 ~~TSX-Venture~~ 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.

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### 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 ~~had terminated its intention to 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. ~~In connection with this transaction, the Company incurred expenses of approximately~~ 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 ~~July 31, September 30,~~ 2003, ~~\$955,948~~ 1,580,659 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 ~~for~~ of mining taxes totalling \$62,560 and ~~incurring amounts~~ the balance for exploration expenditures.

### **Business Overview**



The Company is in the mineral exploration and development business.

### 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.

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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 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 ~~to be~~ held by Lagartos are under such fee regime.

#### *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

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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](#)" ~~in Item 3.~~, 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.

<u>Year</u>	<u>Average Exchange Rate</u>
<u>2003</u>	<u>7.73190</u>
<u>2002</u>	<u>6.15751</u>
<u>2001</u>	<u>6.03241</u>
<u>2000</u>	<u>6.36996</u>
<u>1999</u>	<u>6.43512</u>

#### 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, ~~which is located in the Fresnillo District, Zacatecas, Mexico~~. 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;

(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;

(c)

make payments aggregating US\$1,225,000 plus ~~Value Added Tax~~ VAT ("~~VAT~~") on the following basis:

(i)

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

(ii)

US\$100,000 plus VAT on or before ~~the date that is 12 months following the Ratification Date~~July 18, 2003;

(iii)

US\$100,000 plus VAT on or before ~~the date that is 18 months following the Ratification Date~~January 18, 2004;

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(iv)

US\$150,000 plus VAT on or before ~~the date that is 24 months following the Ratification Date~~July 18, 2004;

(v)

US\$150,000 plus VAT on or before ~~the date that is 30 months following the Ratification Date~~January 18, 2005;

(vi)

US\$200,000 plus VAT on or before ~~the date that is 36 months following the Ratification Date~~July 18, 2005;

(vii)

US\$200,000 plus VAT on or before ~~the date that is 42 months following the Ratification Date~~January 18, 2006; and

(viii)

US\$250,000 plus VAT on or before ~~the date that is 48 months following the Ratification Date~~ 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) ~~within 24 months following the Ratification Date;~~ by July 18, 2004;

(ii)

the cumulative amount of US\$1,500,000 ~~within 36 months following the Ratification Date~~ by July 18, 2005; and

(iii)

the cumulative amount of US \$2,500,000 ~~within 48 months following the Ratification Date~~ 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)

4.25% for silver priced greater than US \$7.50/troy ounce and up to US \$10/troy ounce; and

(v)

5% for silver priced greater than US \$10/troy ounce.

Royalties on other precious metals were to be paid at the same percentage rate then in effect for silver. Royalties on base metals recovered ~~will~~ would be paid at half the then prevailing percentage rate for silver.

Minera Venus, S.A. de C.V., the ~~Optioner~~ optionor, is owned as to 99% by Lexington Capital Group Inc. and as to 1% by Jose Ruiz Lopez. Lexington Capital Group Inc. was owned as to 100% by Strategic Investments Resources Ltd. Pursuant to a stock purchase agreement dated May 29, 2003 between the Company and Strategic Investments Resources Ltd., on July 16, 2003, for consideration of US\$250,000 and 200,000 common shares of the Company, ~~at a~~ at a

price of \$0.90 per share for a deemed value of \$180,000, the Company acquired 100% of the issued shares of Lexington Capital Group Inc., thereby acquiring 99% ownership of the Juanicipio ~~property~~Property (with the remaining 1% held by Jose Ruiz Lopez). The Company intends to terminate the Juanicipio Agreement, thereby eliminating its obligations to make any further option payments, fulfill the above-described work commitments or pay any royalty.

### The Don Fippi Property

Pursuant to an arm's length agreement (the "Don Fippi Agreement") dated as of November 18, 2002 between the Company, Lagartos and Minera Bugambilias, S.A. de C.V. ("Bugambilias"), Bugambilias granted to Lagartos an option (the "Don Fippi Option") to acquire a 100% interest in the Don Fippi Property ~~located in the Batopilas, Chihuahua district of Mexico~~. In order to exercise the Don Fippi Option, Lagartos must:

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(a)

pay to Bugambilias an aggregate of US\$550,000 plus VAT (the "Don Fippi Payments") on the following basis:

(i)

US\$50,000 plus VAT within five business days after the date the Don Fippi Agreement is accepted by the Exchange, which occurred on April 21, 2003 (the "DF Effective Date") and which amount has been paid;

(ii)

US\$50,000 plus VAT on or before ~~the date that is 12 months following the DF Effective Date~~; April 21, 2004;

(iii)

US\$100,000 plus VAT (the "Third DF Payment") on or before ~~the date that is 24 months following the DF Effective Date~~; April 21, 2005, provided that if during the ten trading days prior to the date the Third DF Payment is due the average closing price of the Common Shares of the Company on the Exchange is more than US\$0.50, the Third DF Payment is waived by Bugambilias and need not be made;

(iv)

US\$150,000 plus VAT (the "Fourth DF Payment") on or before ~~the date that is 36 months following the DF Effective Date~~; April 21, 2006, provided that if during the ten trading days prior to the date the Fourth DF Payment is due the average closing price of the Common Shares of the Company on the Exchange is more than US\$0.50, the Fourth DF Payment is waived by Bugambilias and need not be made; and

(v)

US\$200,000 plus VAT (the "Fifth DF Payment") on or before ~~the date that is 48 months following the DF Effective Date~~; April 21, 2007, provided that if during the ten trading days prior to the date the Fifth DF Payment is due the average closing price of the Common Shares of the Company on the Exchange is more than US\$0.50, the Fifth DF Payment is waived by Bugambilias and need not be made;

(b)

incur expenditures on the Don Fippi Property in the amount of at least US\$4,000,000 (the "Don Fippi Expenditures") on the following basis:

(i)

US\$250,000 ~~within 12 months following the DF Effective Date, by April 21, 2004,~~ of which US\$15,000 must be spent by December 31, 2002 (which [US\\$15,000](#) has been spent);

(ii)

the cumulative amount of US\$1,000,000 ~~within 24 months following the DF Effective Date;~~[by April 21, 2005;](#)

(iii)

the cumulative amount of US\$2,000,000 ~~within 36 months following the DF Effective Date;~~[by April 21, 2006;](#)

(iv)

the cumulative amount of US\$3,000,000 ~~within 48 months following the DF Effective Date; and~~[by April 21, 2007;](#)  
[and](#)

(v)

the cumulative amount of US\$4,000,000 ~~within 60 months following the DF Effective Date;~~[by April 21, 2008;](#)

(c)

allot and issue to Bugambilias an aggregate of up to 2,100,000 ~~common shares~~[Common Shares](#) of the Company (the "Don Fippi Shares") on the following basis:

(i)

100,000 Common Shares within five business days of ~~the DF Effective Date~~[April 21, 2003](#) (which have been issued [at \\$0.50 per share](#)); and

(ii)

commencing ~~eight months after the DF Effective Date,~~[December 21, 2003,](#) one Common Share for each US dollar expended by Lagartos as described in paragraph (b) above, up to a maximum of 2,000,000 Common Shares.

Provided that Lagartos has expended a cumulative minimum of US\$1,000,000 of Don Fippi Expenditures ~~within 24 months following the DF Effective Date as required by section (b)(ii) above;~~[by April 21, 2005.](#) Lagartos may, ~~at its sole option,~~ elect to not incur any further Don Fippi Expenditures or make any further Don Fippi Payments or issue any further Don Fippi

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Shares under the Don Fippi Agreement and to enter into a joint venture with Bugambilias in respect of the Don Fippi Property in which Lagartos is immediately vested with a 50% interest and Bugambilias will hold a 50% interest and Bugambilias will be the initial operator of the Don Fippi Property under the joint venture. Lagartos and Bugambilias have agreed to enter into a joint venture agreement setting out the terms of such joint venture and including such other terms as are standard in the industry.

Provided that Lagartos has expended a cumulative minimum of US\$2,000,000 of Don Fippi Expenditures ~~within 36 months following the DF Effective Date as required by section (b)(iii) above;~~[by April 21, 2006.](#) Lagartos may, ~~at its sole option,~~ elect to not incur any further Don Fippi Expenditures or make any further Don Fippi Payments or issue

any further Don Fippi Shares under the Don Fippi Agreement and to enter into a joint venture with Bugambilias in respect of the Don Fippi Property in which Lagartos is immediately vested with a 60% interest and Bugambilias will hold a 40% interest and Lagartos will have the option to be the initial operator of the Don Fippi Property under the joint venture. Lagartos and Bugambilias have agreed to enter into a joint venture agreement setting out the terms of such joint venture and including such other terms as are standard in the industry. In the event that Lagartos elects to be the operator of the Don Fippi Property, but fails for a period of at least six months to advance any exploration or development of the Don Fippi Property, Bugambilias ~~shall have~~has the option to become the operator of the Don Fippi Property.

Lagartos also agreed to pay to Bugambilias a 4.5% NSR unless a joint venture is entered into.

Alternatively, the Don Fippi Option may be exercised at any time by Lagartos by paying such amount as is required to make the total payments to Bugambilias aggregate US\$550,000, and by issuing to Bugambilias an aggregate of 2,100,000 Don Fippi Shares.

All properties acquired by Lagartos, Bugambilias or any of their affiliates within the borders of the Don Fippi Property ~~shall~~will become part of the Don Fippi Property and be included under the Don Fippi Agreement.

Lagartos may terminate the Don Fippi Agreement at any time by providing Bugambilias with 60 days notice and failing to make any payment or incur any Don Fippi Expenditure when due, but must pay the applicable taxes for the following semester.

Lagartos has a right of first refusal in the event that Bugambilias wishes to dispose of its interest in the Don Fippi Agreement or NSR, except for transfers of interests in the NSR to Bugambilias' shareholders or heirs which are permitted without restriction.

Bugambilias has a right of first refusal in the event that Lagartos wishes to dispose of its interest in the Don Fippi Agreement.

#### The Guigui Property

Pursuant to an arm's length agreement (the "Guigui Agreement") dated as of November 18, 2002 between the Company, Lagartos and Minera Coralillo, S.A. de C.V. ("Coralillo"), Coralillo granted to Lagartos an option (the "Guigui Option") to acquire a 100% interest in the Guigui Property ~~located in the Santa Eulalia, Chihuahua district of Mexico~~. In order to exercise the Guigui Option, Lagartos must:

(a)  
pay to Coralillo an aggregate of US\$550,000 plus VAT (the "Guigui Payments") on the following basis:

(i)  
US\$50,000 plus VAT within five business days after the date the Guigui Agreement is accepted by the Exchange, which occurred on April 21, 2003 (the "GG Effective Date") and which amount has been paid;

(ii)  
US\$50,000 plus VAT on or before ~~the date that is 12 months following the GG Effective Date;~~ April 21, 2004;

(iii)

US\$100,000 plus VAT (the "Third Guigui Payment") on or before ~~the date that is 24 months following the GG Effective Date, April 21, 2005,~~ provided that if during the ten trading days prior to the date the Third Guigui Payment is due the average closing price of the Common Shares of the Company on the

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Exchange is more than US\$0.50, the Third Guigui Payment is waived by Coralillo and need not be made;

(iv)

US\$150,000 plus VAT (the "Fourth Guigui Payment") on or before ~~the date that is 36 months following the GG Effective Date, April 21, 2006,~~ provided that if during the ten trading days prior to the date the Fourth Guigui Payment is due the average closing price of the Common Shares of the Company on the Exchange is more than US\$0.50, the Fourth Guigui Payment is waived by Coralillo and need not be made; and

(v)

US\$200,000 plus VAT (the "Fifth Guigui Payment") on or before ~~the date that is 48 months following the GG Effective Date, April 21, 2007,~~ provided that if during the ten trading days prior to the date the Fifth Guigui Payment is due the average closing price of the Common Shares of the Company on the Exchange is more than US\$0.50, the Fifth Guigui Payment is waived by Coralillo and need not be made;

(b)

incur expenditures on the Guigui Property in the amount of at least US\$2,500,000 (the "Guigui Expenditures") on the following basis:

(i)

US\$100,000 ~~within 12 months following the GG Effective Date;~~ by April 21, 2004;

(ii)

the cumulative amount of US \$750,000 ~~within 24 months following the GG Effective Date;~~ by April 21, 2005;

(iii)

the cumulative amount of US \$1,500,000 ~~within 36 months following the GG Effective Date; and~~ by April 21, 2006;  
and

(iv)

the cumulative amount of US \$2,500,000 ~~within 48 months following the GG Effective Date; and~~ by April 21, 2007;  
and

(c)

allot and issue to Coralillo an aggregate of 2,100,000 Common Shares of the Company (the "Guigui Shares") on the following basis:

(i)



100,000 Guigui Shares within five business days of the GG Effective Date (which have been issued [at \\$0.50 per share](#)); and

(ii)

commencing ~~eight months after the GG Effective Date,~~ [December 21, 2003](#), one Guigui Share for each US dollar expended by Lagartos as described in paragraph (b) above, up to a maximum of 2,000,000 Guigui Shares.

Provided that Lagartos has expended a cumulative minimum of US\$750,000 of Guigui Expenditures ~~within 24 months following the GG Effective Date as required by section (b)(ii) above,~~ [by April 21, 2005](#). Lagartos may, ~~at its sole option,~~ elect to not incur any further Guigui Expenditures or make any further Guigui Payments or issue any further Guigui Shares under the Guigui Agreement and to enter into a joint venture with Coralillo in respect of the Guigui Property in which Lagartos is immediately vested with a 50% interest and Coralillo will hold a 50% interest and Coralillo will be the initial operator of the Guigui Property under the joint venture. Lagartos and Coralillo have agreed to enter into a joint venture agreement setting out the terms of such joint venture and including such other terms as are standard in the industry.

Provided that Lagartos has expended a cumulative minimum of US\$1,500,000 of Guigui Expenditures ~~within 36 months following the GG Effective Date as required by section (b)(iii) above,~~ [by April 21, 2006](#). Lagartos may, ~~at its sole option,~~ elect to not incur any further Guigui Expenditures or make any further Guigui Payments or issue any further Guigui Shares under the Guigui Agreement and to enter into a joint venture with Coralillo in respect of the Guigui Property in which Lagartos is immediately vested with a 60% interest and Coralillo will hold a 40% interest and Lagartos will have the option to be the initial operator of the Guigui Property under the joint venture. Lagartos and Coralillo have agreed to enter into a joint venture agreement setting out the terms of such joint venture and including such other terms as are standard in the industry. In the event that Lagartos elects to be the operator of the Guigui Property, but fails for a period of at least six months to advance any exploration or development of the Guigui Property, Coralillo ~~shall have~~ [has](#) the option to become the operator of the Guigui Property.

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Lagartos also agreed to pay to Coralillo a 2.5% NSR unless a joint venture is entered into.

Alternatively, the Guigui Option may be exercised at any time by Lagartos by paying such amount as is required to make the total Guigui Payments to Coralillo aggregate US\$550,000, and by issuing to Coralillo an aggregate of 2,100,000 Guigui Shares of the Company.

All properties acquired by Lagartos, Coralillo or any of their affiliates within the borders of the Guigui Property ~~shall will~~ become part of the Guigui Property and be included under the Guigui Agreement.

Lagartos may terminate the Guigui Agreement at any time by providing Coralillo with 60 days notice and failing to make any payment or incur any Guigui Expenditures when due, but must pay the applicable taxes for the following semester.

Lagartos has a right of first refusal in the event that the optionor wishes to dispose of its interest in the Guigui Agreement or NSR, except for transfers of interests in the NSR to Coralillo's shareholders or heirs which are permitted without restriction.

Coralillo has a right of first refusal in the event that Lagartos wishes to dispose of its interest in the Guigui Agreement.

#### Recently Acquired Properties

Pursuant to an arm's length agreement (the "Sierra de Ramirez Agreement") dated as of December 14, 2003 among the Company, Lagartos and Minera Rio Tinto, S.A. de C.V. ("Rio Tinto"), Rio Tinto granted to Lagartos an option (the

"Sierra de Ramirez Option") to acquire a 100% interest in a mineral property covering 4,443 hectares located in the Sierra de Ramirez district in Durango, Mexico (the "Sierra de Ramirez Property"), subject to a maximum 3% net smelter returns royalty. In order to exercise the Sierra de Ramirez Option, Lagartos must:

(a)

pay US\$30,000 to Rio Tinto and issue to Rio Tinto 20,000 Common Shares of the Company within five days after Exchange acceptance of the Sierra de Ramirez Agreement (the "RT Effective Date"), which acceptance has not yet been received;

(b)

make payments to Rio Tinto as follows:

(i)

US\$50,000 12 months after the RT Effective Date;

(ii)

US\$25,000 18 months after the RT Effective Date;

(iii)

US\$100,000 24 months after the RT Effective Date;

(iv)

US\$25,000 30 months after the RT Effective Date;

(v)

US\$150,000 36 months after the RT Effective Date;

(vi)

US\$25,000 42 months after the RT Effective Date;

(vii)

US\$225,000 48 months after the RT Effective Date;

(viii)

US\$25,000 54 months after the RT Effective Date; and

(ix)

US\$850,000 60 months after the RT Effective Date, of which up to US\$500,000 may be paid in Common Shares of the Company; and

(c)

incur exploration expenditures on the property as follows:

(i)

US\$50,000 within 12 months after the RT Effective Date;

(ii)

US\$100,000 within 24 months after the RT Effective Date;

(iii)

US\$150,000 within 36 months after the RT Effective Date;

(iv)

US\$200,000 within 48 months after the RT Effective Date; and

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(v)

US\$250,000 within 60 months after the RT Effective Date.

The Company has also reached an oral agreement in principle (the "Adargas Agreement") with Cascabel pursuant to which the Company will acquire an option to earn a 100% interest in the Adargas property (the "Adargas Property"), subject to a 2.5% net smelter returns royalty, on the following terms:

(a)

pay US\$25,000 to Cascabel and issue to Cascabel 75,000 Common Shares of the Company within five days after Exchange acceptance of the Adargas Agreement (the "AD Effective Date"), which acceptance has not yet been received;

(b)

make payments to Cascabel as follows:

(i)

US\$75,000 12 months after the AD Effective Date;

(ii)

US\$125,000 24 months after the AD Effective Date;

(iii)

US\$175,000 36 months after the AD Effective Date;

(iv)

US\$250,000 48 months after the AD Effective Date:

(v)

US\$350,000 60 months after the AD Effective Date; and

(c)

incur exploration expenditures on the Adargas Property as follows:

(i)

US\$100,000 within 12 months after the AD Effective Date;

(ii)

US\$200,000 within 24 months after the AD Effective Date;

(iii)

US\$200,000 within 36 months after the AD Effective Date;

(iv)

US\$250,000 within 48 months after the AD Effective Date; and

(v)

US\$250,000 within 60 months after the AD Effective Date.

The Company has also reached an oral agreement in principle (the "Cinco de Mayo Agreement") with Cascabel pursuant to which the Company will acquire an option to earn a 100% interest in the Cinco de Mayo property (the "Cinco de Mayo Property"), subject to a 2.5% net smelter returns royalty, on the following terms:

(a)

pay US\$25,000 to Cascabel and issue to Cascabel 75,000 Common Shares of the Company within five days after Exchange acceptance of the Cinco de Mayo Agreement (the "CM Effective Date"), which acceptance has not yet been received;

(b)

make payments to Cascabel as follows:

(i)

US\$75,000 12 months after the CM Effective Date;

(ii)

US\$125,000 24 months after the CM Effective Date;

(iii)

US\$175,000 36 months after the CM Effective Date;

(iv)

US\$250,000 48 months after the CM Effective Date;

(v)

US\$350,000 60 months after the CM Effective Date; and

(c)

incur exploration expenditures on the Cinco de Mayo Property as follows:

(i)

US\$100,000 within 12 months after the CM Effective Date;

(ii)

US\$200,000 within 24 months after the CM Effective Date;

(iii)

US\$200,000 within 36 months after the CM Effective Date;

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(iv)

US\$250,000 within 48 months after the CM Effective Date; and

(v)

US\$250,000 within 60 months after the CM Effective Date.

The Sierra de Ramirez Property, the Adargas Property and the Cinco de Mayo Property are collectively referred to as the "Recently Acquired Properties".

### **Organizational Structure**

The Company is the registered owner of 99% of the issued shares of Lagartos. The remaining 1% of Lagartos is held by Dave Pearce, a ~~Director~~director of the Company, in trust for the Company. This results in the Company having 100% beneficial ownership of Lagartos. The registered and records office of Lagartos is located at Paseo de Los Tamarindos 60, Bosques de Las Lomas, 05120 Mexico, D.F., Mexico.

The Company is also the owner of 100% of the issued shares of Lexington Capital Group Inc., a British Virgin Islands company, which holds a 99% interest in the claims underlying the Juanicipio Property.

### **Property, Plants and Equipment**

The Company's administrative offices are located in leased premises at Suite 800, 409 Granville Street, Vancouver, British Columbia, V6C 1T2. The Company has no significant plant or equipment for its operations. Equipment used for exploration or drilling is rented or contracted as needed.

**DESCRIPTION OF THE BUSINESS - JUANICIPIO**

The disclosure in this section has been extracted from a November 19, 2002 report entitled "The Geology and Exploration Potential of the Juanicipio Property, Fresnillo District, Zacatecas, Mexico" prepared for the Company by Clancy J. Wendt ("Wendt"), P.G., of Pincock, Allen and Holt, of Lakewood, Colorado (the "Juanicipio Report").

**Property Description and Location**

The Juanicipio Property (the "Juanicipio Property" or "Juanicipio") is ~~a single exploration claim, as defined by Mexican mining law, lying in central Zacatecas State~~ located in the Fresnillo District, Zacatecas, Mexico, approximately 6 kilometres (km.) west of the city of Fresnillo and the Fresnillo Mine of Industrias Peñoles S.A., currently the world's largest silver mine. ~~The Juanicipio is an evaluation of the magnitude of the Fresnillo system, seeking a continuation of the high grade silver veins beyond the current mining area. The geology, structure, geochemistry and geophysics at Juanicipio are similar to Fresnillo.~~

The Juanicipio Property ~~originally covered more than 28,000 ha. of ground and occupied most~~ covers approximately 7,679 hectares (18,967 acres) and is in the northeastern part of the Sierra Valdecañas, a 13 km. by 30 km. long mountain range that lies immediately west of Fresnillo.

~~The Juanicipio Property is located in the northeastern part of the range.~~

<b>Claim Name</b>	<b>Claim Type</b>	<b>Application Number</b>	<b>Title Number</b>	<b>Issue Date</b>	<b>Expiration Date</b>	<b>Size (ha.)</b>
Juanicipio I Supereeded by Reducecion Juanicipio I	Exploration	17071	209790	Aug. 9/99	Aug. 8/05	28,103.98
Reducecion Juanicipio I	Exploration	17071	218942	Mar 3/03	Aug. 8/05	7,679.12

~~On September 23, 2002, after consultation with and agreement from Sutti, Lagartos reduced the Juanicipio I claim to approximately 8,000 hectares covering the northeast portion of the original claim where Minera Sunshine's exploration efforts were focused. The Mexican General Department of Mines accepted the reduction and the title for the reduced claim, in the name of Lagartos, was granted on March 3, 2003. This claim, Reducecion Juanicipio I, supereedes Juanicipio I, but still has the same expiration date. Lagartos has the obligation to return~~

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~~title to Minera Venus, S.A. de C.V. on his request should the option be terminated.~~

~~The Juanicipio Property is current with respect to both tax and "comprobaciones de obra" (annual work expenditures required under Mexican mining law) to the end of 2002. To maintain the Juanicipio Property in good standing to the end of 2003, C\$14,000 of taxes must be paid and C\$954,500 of work must be incurred on the Juanicipio Property, respectively.~~

~~The Ejidos of Valdecañas and Saucito de Poleo hold surface ownership in the area of proposed drilling on the Juanicipio Property. Private individuals own land flanking the area of major interest to the south. The Ejidos have granted written permission to drill. The only known potential cultural liabilities in the area are rock shelters along Linares Canyon that are decorated with prehistoric cave paintings. There seems to be no formal status or protection~~

~~for them and most have already been heavily vandalized. Documenting their condition before building roads or drilling would be prudent, in the opinion of Wendt.~~

~~**Accessibility, Climate, Local Resources, Infrastructure and Physiography**~~The city of Fresno [property](#) lies on the western edge of the Mexican Altiplano or Mesa Central . The Altiplano is that portion of central northern Mexico lying north of the Trans-Mexico Volcanic Belt, between the Sierra Madre Oriental and Sierra Madre Occidental. ~~This includes pe~~