



MAG SILVER CORP.

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

For the year ended December 31, 2016

Dated: March 29, 2017

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

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

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

TSX: MAG
NYSE MKT: MAG
www.magsilver.com
info@magsilver.com

Management's Responsibility for the Financial Statements

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

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

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

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

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

Management's Report on Internal Control over Financial Reporting

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

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

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

Management assessed the effectiveness of MAG's internal control over financial reporting as of December 31, 2016, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2016, MAG's internal control over financial reporting was effective.

The effectiveness of MAG's internal control over financial reporting, as of December 31, 2016, has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, who also audited the Company's consolidated financial statements as of and for the year ended December 31, 2016, as stated in their report.

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

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

March 29, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MAG Silver Corp.

We have audited the accompanying consolidated financial statements of MAG Silver Corp. and subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MAG Silver Corp. and subsidiaries as at December 31, 2016 and December 31, 2015, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

“/s/ Deloitte LLP”

Chartered Professional Accountants
March 29, 2017
Vancouver, Canada

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
MAG Silver Corp.

We have audited the internal control over financial reporting of MAG Silver Corp. and subsidiaries (the “Company”) as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2016 of the Company and our report dated March 29, 2017 expressed an unmodified/unqualified opinion on those financial statements.

“/s/ Deloitte LLP”

Chartered Professional Accountants

March 29, 2017

Vancouver, Canada

MAG SILVER CORP.

Consolidated Statements of Financial Position

(In thousands of US dollars, except shares)

	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
ASSETS			
CURRENT			
Cash and cash equivalents	3	\$ 83,347	\$ 75,424
Term deposits	3	55,000	-
Accounts receivable	4	628	327
Investments	5	718	279
Prepaid expenses		181	150
TOTAL CURRENT ASSETS		139,874	76,180
EQUIPMENT	6	54	38
INVESTMENT IN ASSOCIATE	7	37,312	31,240
EXPLORATION AND EVALUATION ASSETS	8	-	52,806
TOTAL ASSETS		\$ 177,240	\$ 160,264
LIABILITIES			
CURRENT			
Trade and other payables		\$ 733	\$ 957
COMMITMENTS	7,15		
DEFERRED INCOME TAXES	16	589	5,165
TOTAL LIABILITIES		1,322	6,122
EQUITY			
Share capital	9	343,654	262,218
Equity reserve		16,133	19,993
Accumulated other comprehensive income		882	836
Deficit		(184,751)	(128,905)
TOTAL EQUITY		175,918	154,142
TOTAL LIABILITIES AND EQUITY		\$ 177,240	\$ 160,264

SUBSEQUENT EVENTS 17

ON BEHALF OF THE BOARD (approved on March 27, 2017)

/s/ "Peter Barnes"

Peter Barnes, Director

/s/ "Jill Leversage"

Jill Leversage, Director

See accompanying notes to the consolidated financial statements

MAG SILVER CORP.

Consolidated Statements of Loss and Comprehensive Loss

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

		For the years ended December 31	
	Note	2016	2015
EXPENSES			
Accounting and audit		\$ 615	\$ 469
Amortization	6	23	16
Filing and transfer agent fees		182	184
Foreign exchange loss		36	2,135
General office expenses		719	651
Legal		256	344
Management compensation and consulting fees		2,397	1,965
Property investigation costs		257	217
Impairment of exploration and evaluation assets	8	53,893	-
Option to acquire mineral interest written off	8	-	4,292
Share based payment expense	9b,c,d	2,263	3,090
Shareholder relations		515	526
Travel		250	289
		61,406	14,178
INTEREST INCOME		1,115	289
GAIN ON SALE OF AVAILABLE-FOR-SALE SECURITIES	5	1,152	-
GAIN ON WARRANTS (MARK-TO-MARKET)	5	44	-
IMPAIRMENT OF AVAILABLE-FOR-SALE SECURITIES	5	-	(92)
EQUITY PICK UP FROM ASSOCIATE	7	(1,327)	(1,366)
LOSS FOR THE YEAR BEFORE INCOME TAX		\$ (60,422)	\$ (15,347)
DEFERRED INCOME TAX RECOVERY (EXPENSE)	16	4,576	(1,482)
LOSS FOR THE YEAR		\$ (55,846)	\$ (16,829)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit or loss:			
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	5	1,198	(22)
RECLASSIFICATION TO GAIN ON SALE OF AVAILABLE-FOR-SALE SECURITIES	5	(1,152)	-
		46	(22)
TOTAL COMPREHENSIVE INCOME (LOSS)		\$ (55,800)	\$ (16,851)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.71)	\$ (0.24)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		78,482,056	69,214,848

See accompanying notes to the consolidated financial statements

MAG SILVER CORP.

Consolidated Statements of Changes in Equity

(In thousands of US dollars, except shares)

	Note	Common shares without par value		Equity Reserve	Currency translation adjustment	Unrealized gain (loss) on available-for-sale securities	Accumulated other comprehensive income (loss)	Deficit	Total equity
		Shares	Amount						
Balance, January 1, 2015		68,860,536	\$ 257,023	\$ 19,486	\$ 784	\$ 74	\$ 858	\$ (112,076)	\$ 165,291
Stock options exercised	9a,b	424,900	3,769	(1,172)	-	-	-	-	2,597
Stock options exercised cashless	9a,b	121,150	1,418	(1,418)	-	-	-	-	-
Restricted share units converted	9a,c	800	8	(8)	-	-	-	-	-
Share based payment	9b,c,d	-	-	3,105	-	-	-	-	3,105
Unrealized loss on available-for-sale securities	5	-	-	-	-	(22)	(22)	-	(22)
Net loss		-	-	-	-	-	-	(16,829)	(16,829)
Total Comprehensive Loss		-	-	-	-	(22)	(22)	(16,829)	(16,851)
Balance, December 31, 2015		69,407,386	\$ 262,218	\$ 19,993	\$ 784	\$ 52	\$ 836	\$ (128,905)	\$ 154,142
Stock options exercised	9a,b	691,705	6,632	(1,973)	-	-	-	-	4,659
Stock options exercised cashless	9a,b	325,671	3,823	(3,823)	-	-	-	-	-
Restricted and performance share units converted	9a,c	38,692	327	(327)	-	-	-	-	-
Share based payment	9b,c,d	-	-	2,263	-	-	-	-	2,263
Issued for cash	9a	10,240,750	70,654	-	-	-	-	-	70,654
Unrealized gain on available-for-sale securities	5	-	-	-	-	1,198	1,198	-	1,198
Gain on sale of available-for-sale securities	5	-	-	-	-	(1,152)	(1,152)	-	(1,152)
Net loss		-	-	-	-	-	-	(55,846)	(55,846)
Total Comprehensive Loss		-	-	-	-	46	46	(55,846)	(55,800)
Balance, December 31, 2016		80,704,204	\$ 343,654	\$ 16,133	\$ 784	\$ 98	\$ 882	\$ (184,751)	\$ 175,918

See accompanying notes to the consolidated financial statements

MAG SILVER CORP.

Consolidated Statements of Cash Flows

(In thousands of US dollars, unless otherwise stated)

		For the years ended December 31	
	Note	2016	2015
OPERATING ACTIVITIES			
Loss for the year		\$ (55,846)	\$ (16,829)
Items not involving cash:			
Amortization	6	23	16
Deferred income tax expense (recovery)	16	(4,576)	1,482
Equity pick up from associate	7	1,327	1,366
Impairment of exploration and evaluation assets	8	53,893	-
Gain on sale of available-for-sale securities	5	(1,152)	-
Gain on warrants (mark-to-market)	5	(44)	-
Impairment of investment in available-for-sale securities	5	-	92
Option to acquire mineral interest written off	8	-	4,292
Share based payment expense	9b,c,d	2,263	3,090
Unrealized foreign exchange loss		28	2,132
Changes in operating assets and liabilities			
Accounts receivable		(301)	257
Prepaid expenses		(31)	206
Trade and other payables		(24)	225
Net cash used in operating activities		(4,440)	(3,671)
INVESTING ACTIVITIES			
Expenditures under Option to acquire Mineral interest	8	-	(1,121)
Exploration and evaluation expenditures	8	(1,323)	(2,106)
Investment in associate	7	(7,363)	(5,009)
Net proceeds from sale of available-for-sale securities	5	1,369	-
Purchase of equipment	6	(39)	(2)
Investment in securities	5	(566)	(28)
Purchase of term deposits	3	(55,000)	-
Net cash used in investing activities		(62,922)	(8,266)
FINANCING ACTIVITIES			
Issuance of common shares upon exercise of stock options	9	4,659	2,597
Issuance of common shares, net of share issue costs	9	70,654	-
Net cash from financing activities		75,313	2,597
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		(28)	(1,516)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		7,923	(10,856)
CASH, BEGINNING OF YEAR		75,424	86,280
CASH AND CASH EQUIVALENTS, END OF YEAR		\$ 83,347	\$ 75,424
TERM DEPOSITS (Maturities in excess of 90 days)	3	\$ 55,000	\$ -

See accompanying notes to the consolidated financial statements

MAG SILVER CORP.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Expressed in thousands of US dollars unless otherwise stated)

1. NATURE OF OPERATIONS

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

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

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

Address of registered offices of the Company:

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

Head office and principal place of business:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) effective as of December 31, 2016. IFRS comprises IFRSs, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”) and the former Standing Interpretations Committee (SICs). The accounting policies set out below have been applied consistently by the Company and its subsidiaries to all periods presented herein.

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 27, 2017.

MAG SILVER CORP.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Expressed in thousands of US dollars unless otherwise stated)

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are included in the consolidated financial results of the Company from the effective date that control is obtained up to the effective date of disposal or loss of control. The principal wholly-owned subsidiaries as at December 31, 2016 are Minera Los Lagartos, S.A. de C.V., Minera Pozo Seco S.A. de C.V., and Minera Sierra Vieja S.A. de C.V. All intercompany balances, transactions, revenues and expenses have been eliminated upon consolidation.

These consolidated financial statements also include the Company's 44% interest in the Juanicipio Joint Venture (*Note 7*), an associate (*Note 2(b)*) accounted for using the equity method.

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

(b) Investments in Associates

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

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

Impairment

At the end of each reporting period, the Company assesses whether there is any evidence that an investment in associate is impaired. The Company has performed an assessment for impairment indicators of its investment in associate as of December 31, 2016, and noted no impairment indicators. This assessment is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved, and an assessment of the likely results to be achieved from performance of further exploration by the associate. When there is evidence that an investment in associate is impaired, the carrying amount of such investment is compared to its recoverable amount. If the recoverable amount of an investment in associate is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period of impairment.

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(Expressed in thousands of US dollars unless otherwise stated)

When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings in the period the reversal occurs.

(c) Significant Estimates

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

(d) Critical judgments

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

(e) Financial instruments

Measurement – initial recognition

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

Classification and measurement – subsequent to initial recognition

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

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

The Company has designated its cash and cash equivalent with original maturities less than 90 days, as FVTPL, which is measured at fair value. Term deposits with original maturities in excess of 90 days and accounts receivable are classified as loans and receivables, which are measured at amortized cost. Trade and other payables are classified as other liabilities, which are measured at amortized cost.

Investment in securities such as warrants, that meet the definition of a derivative are classified as FVTPL and are measured at fair value with unrealized gains and losses recognized in profit or loss. Warrants listed on a recognized exchange are valued at the latest available close. Warrants not listed on a recognized exchange, but where a secondary market exists, are valued at independent broker prices (if available) traded within that secondary market. If no secondary market exists, the warrants are valued using the Black Scholes option pricing model. All of the Company's investment in securities have been designated as available-for-sale, and are reported at fair value. Other comprehensive income includes the gains and losses from available-for-sale securities which are not included in profit or loss until realized, and currency translation adjustments on its net investment in foreign operations.

Impairment

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

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

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

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Expressed in thousands of US dollars unless otherwise stated)

(f) Cash, cash equivalents and term deposits

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

Term deposits are comprised of bank term deposits with an original term to maturity in excess of three months from date of acquisition.

(g) Exploration and evaluation assets

The Company is in the exploration stage with respect to its activities and accordingly follows the practice of capitalizing all costs relating to the acquisition, exploration and evaluation of its mining rights and crediting all revenues received against the cost of the related interests. Option payments made by the Company are capitalized until the decision to exercise the option is made. If the option agreement is to exercise a purchase option in an underlying mineral property, the costs are capitalized and accounted for as an exploration and evaluation asset. At such time as commercial production commences, the capitalized costs will be depleted on a units-of-production method based on proven and probable reserves. If a mineable ore body is discovered, exploration and evaluation costs are reclassified to mining properties. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value.

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

Impairment

Management reviews the carrying amount of exploration and evaluation assets for impairment when facts or circumstances suggest that the carrying amount is not recoverable. The Company has performed an assessment for impairment indicators of each property as of December 31, 2016 (see *Note 8*). This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration. When the results of this review indicate that indicators of impairment exist, the Company estimates the recoverable amount of the deferred exploration costs and related mining rights by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of the rights. When the carrying amounts of exploration and evaluation assets are estimated to exceed their recoverable amounts, an impairment loss is recorded in the statement of loss. The cash-generating unit for assessing impairment is a geographic region and shall be no larger than the operating segment. If conditions that gave rise to the impairment no longer exist, a reversal of impairment may be recognized in a subsequent period, with the carrying amount of the exploration and evaluation asset increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying

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amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in profit or loss in the period the reversal occurs.

(h) Equipment

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

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

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

(i) Income taxes

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

(j) Provisions

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

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

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

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

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

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by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in profit or loss for the period.

Closure and reclamation

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

The provision for closure and reclamation is reviewed at the end of each reporting period for changes in estimates and circumstances. There was no provision recorded by the Company for closure and reclamation as at December 31, 2016 or December 31, 2015.

The operating company of the Company's investment in associate, Minera Juanicipio, S.A. de C.V., recorded a provision for reclamation and remediation costs of \$313 and capitalized a corresponding asset as at December 31, 2016 (December 31, 2015: \$360) (see *Note 7*).

(k) Functional currency and presentation currency

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

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

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

(l) Foreign currency transactions

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

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(m) Loss per common share

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

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

As at December 31, 2016, the Company had 2,814,200 (December 31, 2015: 4,299,976) common share equivalents consisting of common shares issuable upon the exercise of outstanding exercisable stock options, restricted and performance share units, and deferred share units. These common share equivalents were not included for the purpose of calculating diluted loss per share as their effect would be anti-dilutive.

(n) Share based payments

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

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

(o) Changes in Accounting Standards

The Company has reviewed new accounting pronouncements that have been issued but are not yet effective at December 31, 2016. These include:

IFRS 2 Share-based payments. In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment to address certain issues related to the accounting for cash settled awards and the accounting for equity settled awards that include 'net settlement feature' in respect of employee withholding taxes. The amendments apply for annual periods on or after January 1, 2018 with early adoption permitted. The Company will adopt this standard on the effective date, and is currently evaluating the impact this standard may have on its consolidated financial statements.

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IAS 7 *Statements of cash flows*. In January 2016, the IASB issued amendments to IAS 7 to be applied prospectively for annual periods on or after January 1, 2017 with early adoption permitted. The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The Company will adopt these amendments on the effective date, and they are not expected to have a significant impact on the Company's consolidated financial statements.

IFRS 9 *Financial Instruments*. In July 2014, the IASB issued the final version of IFRS 9 which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. The standard is effective for annual periods beginning on or after of January 1, 2018, with early adoption permitted. The Company will adopt this standard on the effective date and is currently evaluating the impact this standard may have on its consolidated financial statements.

IAS 12 *Income taxes*. In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12). The amendments are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The amendments clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. The Company currently does not have debt instruments and the amendments are not expected to have a significant impact on the Company's consolidated financial statements.

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

IFRS 16 *Leases*. In January 2016, the IASB published a new accounting standard, IFRS 16 – *Leases* (IFRS 16) which replaces IAS 17 – *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company will adopt this standard on the effective date, and is currently evaluating the impact this standard may have on its consolidated financial statements.

IFRIC 22 *Foreign currency transactions and advance consideration*. In December 2016, the IASB issued IFRS interpretation, IFRIC 22 which clarifies the date of the transaction for the purpose

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of determining the exchange rate to use on initial recognition of the related asset, expense or income, when a related non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency is derecognized. The standard is effective for annual periods beginning on or after January 1, 2018 with early application permitted. The Company will adopt this standard on the effective date and is currently evaluating the impact this standard may have on its consolidated financial statements.

3. CASH, CASH EQUIVALENTS AND TERM DEPOSITS

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

	Interest Rate	December 31, 2016	December 31, 2015
Cash at bank and on hand	0 - 0.95%	\$ 33,347	\$ 75,424
Term deposit maturing January 18, 2017	0.99%	50,000	-
Cash and cash equivalents		\$ 83,347	\$ 75,424

Term deposits are comprised of bank term deposits with an original term to maturity in excess of three months from date of acquisition.

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

	Interest Rate	December 31, 2016	December 31, 2015
Term deposit with maturity of April 18, 2017	1.20%	\$ 55,000	\$ -

4. ACCOUNTS RECEIVABLE

	December 31, 2016	December 31, 2015
Goods and services tax ("GST") recoverable	\$ 19	\$ 21
Mexican value added tax ("IVA") recoverable	37	301
Interest receivable	572	5
	\$ 628	\$ 327

All amounts are expected to be recovered within a year.

5. INVESTMENTS

The Company holds investments as follows:

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	December 31, 2016	December 31, 2015
Available-for-sale securities	\$ 550	\$ 279
Fair value through profit or loss - warrants	168	-
	\$ 718	\$ 279

During the year ended December 31, 2016, the Company recorded an unrealized gain of \$44 (December 31, 2015: nil) in the statement of loss on the above warrants designated as fair value through profit and loss.

The Company recorded an unrealized gain of \$1,198, net of nil tax, in other comprehensive income (loss) (December 31, 2015: unrealized loss of \$22) on investments designated as available-for-sale instruments. The Company received proceeds of \$1,369 (December 31, 2015: nil) on the sale of certain available-for-sale securities, and realized a gain net of commission of \$1,152 (December 31, 2015: nil). The following table summarizes the movements in available-for-sale securities:

	December 31, 2016	December 31, 2015
Available-for-sale securities, beginning of year	\$ 279	\$ 365
Purchase of available-for-sale securities	442	28
Unrealized gain for the year	1,198	(22)
Impairment for the year	-	(92)
Sale of available-for-sale securities	(1,369)	-
Available-for-sale securities, end of year	\$ 550	\$ 279

Available-for-sale financial assets are assessed at each reporting date for objective evidence of a significant or prolonged decline in fair value, requiring impairment recognition. For the year ended December 31, 2016, after management's review and based on objective evidence, no impairment was recognized in the consolidated statement of loss (December 31, 2015: \$92).

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6. EQUIPMENT

Cost	Computer equipment	Field & Office equipment	Leasehold improvements	Total
Balance January 1, 2015	\$ 252	\$ 161	\$ 7	\$ 420
Additions	-	2	-	2
Balance December 31, 2015	252	163	7	422
Additions	39	-	-	39
Balance, December 31, 2016	\$ 291	\$ 163	\$ 7	\$ 461

Accumulated depreciation	Computer equipment	Field & Office equipment	Leasehold improvements	Total
Balance as at January 1, 2015	\$ 215	\$ 146	\$ 7	\$ 368
Amortization	11	5	-	16
Balance as at December 31, 2015	226	151	7	384
Amortization	19	4	-	23
Balance, December 31, 2016	\$ 245	\$ 155	\$ 7	\$ 407

Carrying amounts	Computer equipment	Field & Office equipment	Leasehold improvements	Total
At December 31, 2015	\$ 26	\$ 12	\$ -	\$ 38
At December 31, 2016	\$ 46	\$ 8	\$ -	\$ 54

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

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

In mid 2007, Peñoles met all of the earn-in requirements of the Agreement. In December 2007, the Company and Peñoles created an operating company named Minera Juanicipio, S.A. de C.V. (“Minera Juanicipio”) for the purpose of holding and operating the Juanicipio Property. In 2008, MAG was notified that Peñoles had transferred its 56% interest of Minera Juanicipio to Fresnillo plc (“Fresnillo”) pursuant to a statutory merger. Minera Juanicipio is held 56% by Fresnillo and 44% by the Company. Fresnillo is the operator of Minera Juanicipio, and with its affiliates, beneficially owns 12% of the common shares of the Company as at December 31, 2016, as publicly reported. In December 2007, all mineral rights and surface rights relating to the Juanicipio project held by the Company and Peñoles, respectively, were ceded into Minera Juanicipio. Minera Juanicipio is currently governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared

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by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio, and if either party does not fund pro-rata, their ownership interest will be diluted in accordance with the Minera Juanicipio shareholders agreement.

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

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

	December 31, 2016	December 31, 2015
Joint venture oversight expenditures incurred 100% by MAG	\$ 262	\$ 212
Cash contributions to Minera Juanicipio ⁽¹⁾	7,137	4,796
Total for the current year	7,399	5,008
Equity pick up of current loss for the year ⁽²⁾	(1,327)	(1,366)
Balance, beginning of year	31,240	27,598
Balance, end of year	\$ 37,312	\$ 31,240

⁽¹⁾ Represents the Company's 44% share of Minera Juanicipio cash contributions for the year.

⁽²⁾ Represents the Company's 44% share of Minera Juanicipio's loss for the year, as determined by the Company.

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

	December 31, 2016	December 31, 2015
Cash	\$ 3,573	\$ 377
IVA and other receivables	842	4,442
Prepays	-	18
Total current assets	4,415	4,837
Minerals, surface rights, exploration & development expenditures	82,017	67,513
Total assets	\$ 86,432	\$ 72,350
Payables to Peñoles and other vendors	\$ 348	\$ 1,262
Total current liabilities	348	1,262
Provision for reclamation and remediation costs	313	360
Deferred income tax liability	7,926	5,793
Total liabilities & equity	8,587	7,415
Shareholders' equity	77,845	64,935
Total liabilities & equity	\$ 86,432	\$ 72,350

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	December 31, 2016	December 31, 2015
Deferred income tax expense	\$ 2,134	\$ 2,403
Exchange Loss	881	702
Net loss	\$ 3,015	\$ 3,105
MAG's 44% equity pick up	\$ 1,327	\$ 1,366

Evaluation and exploration expenditures and initial development expenditures, capitalized directly by Minera Juanicipio for the year ended December 31, 2016 amounted to \$14,821 (December 31, 2015: \$9,791).

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

8. EXPLORATION AND EVALUATION ASSETS

The Company has the following exploration and evaluation assets:

	Year ended December 31, 2016		
	Cinco de Mayo (a)	Guigui (b)	Total
Exploration and evaluation assets			
Camp costs, travel & transport	\$ 88	\$ 3	\$ 91
Geological & geophysical	39	28	67
Land taxes and gov't fees	253	83	336
Legal, community and other consultation costs	590	3	593
Total for the year	970	117	1,087
Balance, January 1, 2016	48,859	3,947	52,806
Less: Impairment	(49,829)	(4,064)	(53,893)
Balance, December 31, 2016	\$ -	\$ -	\$ -

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	Year ended December 31, 2015		
	Cinco de Mayo (a)	Guigui (b)	Total
Exploration and evaluation assets			
Acquisition costs of mineral & surface rights	\$ 123	\$ 34	\$ 157
Camp costs, travel & transport	167	81	248
Drilling & drilling preparation	-	365	365
Geochemical & metallurgical	-	35	35
Geological & geophysical	54	159	213
Land taxes and gov't fees	266	97	363
Legal, community & other consultation costs	921	23	944
Total for the year	1,531	794	2,325
Balance January 1, 2015	47,328	3,153	50,481
Balance, December 31, 2015	\$ 48,859	\$ 3,947	\$ 52,806

At December 31, 2016, trade and other payables includes exploration and evaluation asset expenditures of \$68 (December 31, 2015: \$336), a non-cash investing activity.

(a) Cinco de Mayo Property

Under the terms of an agreement dated February 26, 2004, the Company acquired a 100% interest in the Cinco de Mayo property (the "Cinco de Mayo Property"), subject to a 2.5% net smelter returns ("NSR") royalty. Subsequent to the initial acquisition, several additional auxiliary mining concessions either internal or adjacent to the Cinco de Mayo property were acquired on a 100% basis from various vendors. During the year ended December 31, 2009, the Company also purchased 41 surface rights in the Cinco de Mayo area for \$660 from local Ejido members, who along with the Federal Agrarian Authority ratified the purchase. Certain members of the Ejido challenged the purchase of these surface rights in late 2012 and have prevented the Company from obtaining the surface access permission required as part of a Federal Government exploration permit process. Since that time, the Company has undertaken various activities and incurred legal, community, strategic and consulting fees in an attempt to regain access to the property. During the year, the Company failed to make the progress that had been previously anticipated at December 31, 2015. The Ejido leadership has not agreed to meet with the Company to discuss a basis of a possible resolution, and they have not organized a formal Ejido Assembly to provide their members an opportunity to re-establish the Company's surface access to the property. As well, while the Company has succeeded in gaining support from both the Federal and State Governments to advance its efforts, progress towards an access resolution has been very slow.

Management and the Board of Directors considered alternative options for the property during strategy sessions held in early 2017. With the continuing Ejido impasse, the Company has concluded that as at December 31, 2016, the likelihood of regaining surface access is indeterminable. The Company has therefore recognized an impairment charge of \$49,829 (\$44,891 after tax) in the year ended December 31, 2016 relating to the Cinco de Mayo Property.

The Company continues to believe that the Property has significant geological potential and will continue to maintain its mineral concessions in good standing. Efforts to restore the surface access

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will continue, although the Company has no current plans to conduct any geological exploration programs on the property.

(b) Guigui Property

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

A review of the exploration results on the property failed to meet the Company’s criteria for continued exploration, and therefore an impairment charge of \$4,064 (\$3,838 after tax) was recognized against the Guigui Property during the year ended December 31, 2016.

During the year ended December 31, 2015, the Company wrote down advances and direct exploration expenditures totaling \$4,292 under the Company’s ‘option to acquire mineral interest,’ as a review of exploration results on the Salamandra property failed to meet the Company’s criteria for continued exploration.

9. SHARE CAPITAL

(a) Issue and outstanding

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

At December 31, 2016, there were 80,704,204 shares outstanding (December 31, 2015: 69,407,386).

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

During the year ended, December 31, 2016, 27,918 restricted share units were converted into shares (December 31, 2015: 800).

During the year ended, December 31, 2016, 10,774 performance share units were converted into shares (December 31, 2015: nil).

During the year ended December 31, 2016, 691,705 stock options were exercised for cash proceeds of \$4,659. An additional 1,125,001 stock options were exercised under a less dilutive cashless exercise provision of the plan, whereby 325,671 shares were issued in settlement of the stock options, and the remaining 799,330 options were cancelled.

During the year ended December 31, 2015, 424,900 stock options were exercised for cash proceeds of \$2,597. An additional 504,785 stock options were exercised under a less dilutive cashless

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exercise provision of the plan, whereby 121,150 shares were issued in settlement of the stock options, and the remaining 383,635 options were cancelled.

(b) Stock options

The Company has entered into Incentive Stock Option Agreements (“Agreements”) with officers, employees and consultants, and prior to June 24, 2014, also with directors. On June 24, 2014, the Shareholders re-approved the Company’s 8% rolling Stock Option Plan (the “Plan”). The maximum number of common shares that may be issuable under the Plan is set at 8% of the number of issued and outstanding common shares on a non-diluted basis at any time, provided that (i) the number of common shares issued or issuable under all share compensation arrangements (including under the Share Unit Plan and Deferred Share Unit Plan – see Notes 9(c) and 9(d), respectively) shall not exceed 8% of the issued and outstanding common shares of the Company on a non-diluted basis. Options granted under the Plan have a maximum term of 5 years. As at December 31, 2016, there were 1,679,172 stock options outstanding under the Plan and 575,000 inducement options outstanding outside of the Plan.

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

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

	Year ended December 31, 2016	Weighted average exercise price (C\$/option)	Year ended December 31, 2015	Weighted average exercise price (C\$/option)
Outstanding, beginning of year	3,843,105	\$ 8.71	4,361,540	\$ 8.47
Granted	227,773	17.55	701,250	9.48
Expired	-	-	(290,000)	10.02
Exercised for cash	(691,705)	8.79	(424,900)	7.64
Exercised cashless	(1,125,001)	10.46	(504,785)	7.86
Outstanding, end of year	2,254,172	\$ 8.71	3,843,105	\$ 8.71

During the year ended December 31, 2016, 227,773 stock options were granted with a weighted average grant date fair value of \$1,103 or \$4.84 per option (December 31, 2015: 701,250 stock options granted with fair value of \$1,887 or \$2.69 per option).

During the year ended December 31, 2016, 1,816,706 stock options were exercised (December 31, 2015: 929,685), with a weighted average market share price at the date of exercise of C\$16.33 (December 31, 2015: C\$9.98).

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

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	December 31, 2016	December 31, 2015
Risk-free interest rate	0.94%	0.80%
Expected volatility	54%	54%
Expected dividend yield	nil	nil
Expected life (years)	3	3

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

The following table summarizes the Company's stock options outstanding and exercisable as at December 31, 2016:

	Exercise price (\$C/option)	Number outstanding	Number exercisable	Weighted average remaining contractual life (years)
(1)	5.35	500,000	500,000	1.79
	5.86	455,000	455,000	1.46
	9.15	135,000	135,000	0.59
	9.16	21,666	-	3.70
	9.28	384,733	264,733	3.93
(1)	9.61	75,000	75,000	1.17
	10.02	187,500	133,333	3.48
	10.04	267,500	267,500	2.50
	17.55	227,773	-	4.93
	C\$5.35- C\$17.55	2,254,172	1,830,566	2.56

(1) Inducement options issued outside the Company's Plan as an incentive to attract senior officers for employment.

During the year ended December 31, 2016, the Company recorded share based payment expense of \$796 (December 31, 2015: \$1,569) relating to stock options vested to employees and consultants in the year.

(c) Restricted and performance share units

On June 24, 2014, the Shareholders approved a share unit plan (the "Share Unit Plan") for the benefit of the Company's employees and consultants. The Share Unit Plan provides for the issuance of common shares from treasury, in the form of Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"). The maximum number of common shares that may be issuable under the Share Unit Plan is set at 0.75% of the number of issued and outstanding common shares on a non-diluted basis, provided that (i) the number of common shares issued or issuable under all share compensation arrangements (including under the Plan and Deferred Share Unit Plan – see Notes 9(b) and 9(d), respectively) shall not exceed 8% of the issued and outstanding common shares on a non-diluted basis. RSUs and PSUs granted under the Share Unit Plan have a term of 5 years, unless otherwise specified by the Board.

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Restricted Share Units (“RSUs”)

Under the Share Unit Plan, each RSU entitles participants to receive one common share of the Company subject to vesting criteria. During the year ended December 31, 2016 no RSUs were granted (December 31, 2015: 19,960) and 27,918 RSUs (December 31, 2015: 800) were converted and settled in common shares. As at December 31, 2016, there were 46,520 RSUs issued and outstanding under the Share Unit Plan, of which 39,850 are vested and convertible into common shares of the Company. In the year ended December 31, 2016, the Company recognized a share-based payment expense of \$111 (December 31, 2015: \$258) relating to RSUs vesting in the year.

Performance Share Units (“PSUs”)

Under the Share Unit Plan, each PSU entitles participants to receive one common share of the Company if certain performance and vesting criteria have been met. During the year ended December 31, 2016, 69,085 PSUs were granted (December 31, 2015: 81,892) and vest after three years of service from date of grant. The number PSUs to vest is subject to a market price performance factor measured over a three-year performance period, resulting in a PSU payout range from 0% (nil PSUs) to 200% (138,170 PSUs). The Company estimated the fair value of the PSUs on grant date using a Monte Carlo simulation model.

In the year ended December 31, 2016, 10,774 PSUs (December 31, 2015: nil) were converted and settled in common shares. As at December 31, 2016, there were 140,203 PSUs issued and outstanding under the Share Unit Plan, of which 30,169 PSUs have vested and are convertible into common shares of the Company. In the year ended December 31, 2016, the Company recognized a share-based payment expense of \$394 (December 31, 2015: \$16) relating to PSUs vesting in the year.

(d) Deferred share units

On June 24, 2014, the Shareholders approved a Deferred Share Unit Plan (the “DSU Plan”) for the benefit of the Company’s non-executive directors. On June 22, 2015, the Shareholders approved an amendment to the DSU Plan to allow participation by employees. The DSU Plan provides for the issuance of common shares from treasury, in the form of Deferred Share Units (“DSUs”). Directors may also elect to receive all or a portion of their annual retainer and meeting fees in the form of DSUs, and employees may elect to receive all or a portion of their annual incentive in the form of DSUs. DSUs may be settled in cash or in common shares issued from treasury, as determined by the Board at the time of the grant. The maximum number of common shares that may be issuable under the DSU Plan is set at 0.75% of the number of issued and outstanding common shares on a non-diluted basis, provided that (i) the number of common shares issued or issuable under all share compensation arrangements (including under the Plan and the Share Unit Plan – see Notes 9(b) and 9(c), respectively) shall not exceed 8% of the issued and outstanding common shares on a non-diluted basis.

During the year ended December 31, 2016, 63,287 DSUs (December 31, 2015: 123,932) were granted under the Company’s DSU plan. In addition, 9,477 DSUs (December 31, 2015: 53,137) were granted to directors who elected to receive their retainer and meeting fees for the year in the form of DSUs. The resulting cumulative DSU share-based payment expense of \$962 (December 31, 2015: \$1,247) was recognized in the year ended December 31, 2016. Under the DSU plan, no

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common shares are to be issued, or cash payments made to, or in respect of a participant in the DSU Plan prior to such eligible participant's termination date.

As at December 31, 2016, there are 373,305 DSUs issued and outstanding under the DSU Plan, all of which have vested except for 4,990 DSUs.

As at December 31, 2016, there are 2,239,200 common shares issuable under the combined share compensation arrangements referred to above (the Plan, the Share Unit Plan and the DSU Plan) representing 2.77% of the issued and outstanding common shares on a non-diluted basis, and there are 4,217,136 share based awards available for grant under these combined share compensation arrangements.

10. CAPITAL RISK MANAGEMENT

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

Capital as defined above is summarized in the following table:

	December 31, 2016	December 31, 2015
Equity	\$ 175,918	\$ 154,142
Cash, cash equivalents and term deposits	(138,347)	(75,424)
	\$ 37,571	\$ 78,718

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

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

As at December 31, 2016, the Company does not have any long-term debt and is not subject to any externally imposed capital requirements.

The Company currently has sufficient working capital (\$139,142 as at December 31, 2016) to maintain all of its properties and currently planned programs for a period in excess of the next year. In management's opinion, the Company is able to meet its ongoing current obligations as they become due. However, the Company may require additional capital in the future to meet its project related expenditures (see Note 15), as the Company is currently not generating cash flow from operations, and it may not therefore generate sufficient operating cash flows to meet all of its future expenditure requirements. Future liquidity may depend upon the Company's ability to arrange additional debt or

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equity financing, as the Company relies on equity financings to fund its exploration and corporate activities.

11. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

(i) Trade credit risk

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

(ii) Cash

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

(iii) Mexican value added tax

As at December 31, 2016, the Company had a receivable of \$37 from the Mexican government for value added tax (Note 4). Management expects the balance to be fully recoverable within the year.

The Company's maximum exposure to credit risk is the carrying value of its cash and term deposits, and accounts receivable, as follows:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 83,347	\$ 75,424
Term deposits	55,000	-
Accounts receivable (see Note 4)	628	327
	<u>\$ 138,975</u>	<u>\$ 75,751</u>

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(b) Liquidity risk

The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements, its exploration and development plans, and its various optional property and other commitments (see Notes 7, 8 and 15). The annual budget is approved by the Board of Directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements.

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

(c) Currency risk

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

Exposure to currency risk

As at December 31, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the functional currency of the applicable entity:

December 31, 2016 (in 000's of US\$ equivalent)	Mexican peso	Canadian dollar
Cash	\$ 44	\$ 7,681
Accounts receivable	37	26
Prepaid	5	-
Investments	-	718
Accounts payable	(137)	(395)
Net assets exposure (US\$ equivalent)	\$ (51)	\$ 8,030

December 31, 2015 (in 000's of US\$ equivalent)	Mexican peso	Canadian dollar
Cash	\$ 54	\$ 6,338
Accounts receivable	301	25
Prepaid	9	-
Investments	-	279
Option to acquire mineral interest	-	-
Accounts payable	(185)	(321)
Net assets exposure (US\$ equivalent)	\$ 179	\$ 6,321

Mexican Peso relative to the US\$

Although the majority of operating expenses in Mexico are both determined and denominated in US\$, an appreciation in the Mexican Peso relative to the US\$ will slightly increase the Company's

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cost of operations in Mexico related to those operating costs denominated and determined in Mexican pesos. Alternatively, a depreciation in the Mexican peso relative to the US\$ will decrease the Company's cost of operations in Mexico related to those operating costs denominated and determined in Mexican pesos.

An appreciation/depreciation in the Mexican peso against the US\$ will also result in a gain/loss to the extent that the Company holds net monetary assets in Pesos. Specifically, the Company's foreign currency exposure is comprised of peso denominated cash, prepayments and value added taxes receivable, net of trade and other payables. The carrying amount of the Company's net peso denominated monetary assets at December 31, 2016 is 1,051 pesos (December 31, 2015: 3,115 pesos). A 10% appreciation in the peso against the US\$ would result in loss at December 31, 2016 of \$5 (December 31, 2015: \$18 gain), while a 10% depreciation in the peso relative to the US\$ would result in an equivalent gain.

C\$ relative to the US\$

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

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

An appreciation/depreciation in the C\$ against the US\$ will result in a gain/loss to the extent that MAG, the parent entity, holds net monetary assets in C\$. The carrying amount of the Company's net Canadian denominated monetary assets at December 31, 2016 is C\$11,842 (December 31, 2015: C\$8,749). A 10% appreciation in the C\$ against the US\$ would result in gain at December 31, 2016 of \$882 while a 10% depreciation in the C\$ relative to the US\$ would result in an equivalent loss.

(d) Interest rate risk

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

12. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

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

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

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

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's financial assets and liabilities are categorized as follows:

Year ended December 31, 2016					
	FVTPL	Available for sale	Loans and receivables	Other liabilities	Total
Financial assets					
Cash and cash equivalents	\$ 83,347	\$ -	\$ -	\$ -	\$ 83,347
Term deposits	-	-	55,000	-	55,000
Accounts receivables (Note 4)	-	-	628	-	628
Investments (Note 5)	168	550	-	-	718
Financial liabilities					
Trade and other payables	-	-	-	733	733

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

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

Year ended December 31, 2016				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 83,347	\$ -	\$ -	\$ 83,347
Term deposits	55,000	-	-	55,000
Investments (Note 5) ⁽¹⁾	15	703	-	718
	\$ 138,362	\$ 703	\$ -	\$ 139,065

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	Year ended December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash	\$ 75,424	\$ -	\$ -	\$ 75,424
Investments (Note 5) ⁽¹⁾	279	-	-	279
	\$ 75,703	\$ -	\$ -	\$ 75,703

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

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

13. SEGMENTED INFORMATION

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

14. RELATED PARTY TRANSACTIONS

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

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

	Year ended Dec 31,	
	2016	2015
Fees related to Dr. Megaw:		
Exploration and marketing services	\$ 346	\$ 398
Travel and expenses	59	112
Other fees to Cascabel and IMDEX:		
Administration for Mexican subsidiaries	121	121
Field exploration services	565	1,002
	\$ 1,091	\$ 1,633

All transactions are incurred in the normal course of business, and are negotiated on terms between the parties which are believed to represent fair market value for all services rendered. A portion of the expenditures are incurred on the Company's behalf, and are charged to the Company on a "cost + 10%" basis typical of industry standards. The services provided do not include drilling and assay work which are contracted out independently from Cascabel & IMDEX. Included in trade and other payables at December 31, 2016 is \$255 related to these services (December 31, 2015: \$356).

The Company is obligated to a 2.5% NSR royalty on the Cinco de Mayo property payable to the principals of Cascabel under the terms of an option agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the property from Cascabel, and under the terms of assignment agreements entered into by Cascabel with its principals. The Company is also obligated to a 2.5% NSR royalty to Cascabel on the Guigui mining concessions.

Upon the retirement of Dan MacInnis, former President & Chief Executive Officer, on October 15, 2013, the Company had entered into a consulting contract with a private company controlled by Mr. MacInnis who remains a director of the Company. As the contract was not renewed in 2016, no consulting fees were paid in the year ended December 31, 2016 (December 31, 2015: C\$11) and there are no payables related to such services as at December 31, 2016 (December 31, 2015: nil).

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

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

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

Significant subsidiaries of the Company are as follows:

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

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

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Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio"), created for the purpose of holding and operating the Juanicipio Property, is held 56% by Fresnillo plc ("Fresnillo") and 44% by the Company. Fresnillo is the operator of Minera Juanicipio, and with its affiliates, beneficially owns 12% of the common shares of the Company as at December 31, 2016, as publicly reported. Minera Juanicipio is currently governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio (see Note 7).

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

	Year ended December 31,	
	2016	2015
Salaries and other short term employee benefits	\$ 1,412	\$ 1,438
Share based payments (Note 9(b), (c), and (d))	1,507	1,751
	<u>\$ 2,919</u>	<u>\$ 3,189</u>

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

15. COMMITMENTS

As at December 31, 2016, the Company's contractual obligations and commitments are summarized as follows:

	<u>Office Lease</u>
2017	129
2018	132
2019	135
	<u>\$ 396</u>

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

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

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related provisions and does not expect such matters to result in a material impact on the results of operations, cash flows and financial position.

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

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

16. INCOME TAXES

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

	December 31, 2016	December 31, 2015
Current tax recovery (expense)	\$ -	\$ -
Deferred tax recovery (expense)	4,576	(1,482)
Total income tax recovery	\$ 4,576	\$ (1,482)

The deferred tax expenses for the years ended December 31, 2016 and December 31, 2015 relate to the impact of foreign exchange on tax attributes and the reversal of the accrued mining royalty in Mexico due to the write-offs of mineral properties. The deferred tax expenses and the corresponding deferred income tax liabilities are non-cash items and will only be realized once the Company's exploration properties are developed and in production.

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

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	December 31 2016	December 31 2015
Loss for the year before income taxes	\$ (60,422)	\$ (15,347)
Statutory tax rate	26.00%	26.00%
Recovery of income taxes computed at statutory rates	\$ 15,710	\$ 3,990
Share based payments	(588)	(803)
Mexican inflationary adjustments	1,156	(638)
Higher effective tax rate on loss in foreign jurisdiction	2,279	118
Unrecognized deferred tax assets	(12,054)	4,441
Mexican income tax impact of mining royalty in Mexico	(1,105)	-
Impact of foreign exchange and other	(4,504)	(8,590)
Impact of 7.5% mining royalty in Mexico	3,682	-
Total income tax (expense) recovery	\$ 4,576	\$ (1,482)

The approximate tax effect of each item that gives rise to the Company's unrecognized and recognized deferred tax assets and liabilities as at December 31, 2016 and 2015 are as follows:

	December 31 2016	December 31 2015
Tax Losses - deferred tax assets	\$ 2,753	\$ 8,491
Excess of tax value of exploration and evaluation assets and investment in associate over book values	1,558	2,202
Unrealized foreign exchange	(1,467)	(1,907)
Investments	(21)	-
Excess of book value of exploration and evaluation assets and investment in associate over tax values	(3,412)	(13,951)
Net deferred tax liability	\$ (589)	\$ (5,165)

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

	December 31 2016	December 31 2015
At January 1	\$ (5,165)	\$ (3,683)
Deferred income tax recovery (expense)	4,576	(1,482)
At December 31	\$ (589)	\$ (5,165)

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

	2016	expiry dates	2015
Tax losses and tax values in excess of book values	\$ 52,924	2018 - 2036	\$ 34,302
Excess of tax value of exploration and evaluation assets over book values	23,432	no expiry	4,846
Financing fees	4,857	2037 - 2040	2,612
Cumulative eligible capital	388	no expiry	405
Other	762	no expiry	504
Total	\$ 82,363		\$ 42,669

At December 31, 2016, the Company has non-capital loss carry forwards in Canada aggregating \$28,261 (2015: \$28,904) which expire over the period between 2026 to 2036, available to offset future taxable income in Canada, and the Company has capital loss carry forwards in Canada of \$259 (2015: \$2,520) which are available only to offset future capital gains for Canadian tax purposes and may be carried forward indefinitely.

At December 31, 2016, the Company has tax loss carry forwards in Mexico aggregating \$28,884 (2015: \$31,945) which expire over the period 2018 to 2026, available to offset future taxable income in Mexico.

At December 31, 2016, the Company has \$98 (December 31, 2015: \$101) included in cash that is held by foreign subsidiaries, and hence not available to fund domestic operations unless the funds were repatriated. There are no taxes payable on the funds should the Company choose to repatriate them, however, the Company does not intend to repatriate these funds in the next year.

17. SUBSEQUENT EVENT

Subsequent to December 31, 2016 the Company:

1. Issued 12,400 common shares pursuant to the exercise of stock options with an exercise price of C\$9.28 for proceeds of C\$115; and,
2. Issued 39,239 common shares pursuant to the exercise of 75,000 stock options with an exercise price of C\$9.15 exercised under a less dilutive cashless exercise provision of the plan, whereby 39,239 shares were issued in settlement of the stock options, and the remaining 35,761 options were cancelled.