



## To Our Shareholders,

The theme of this year's annual report, only Apex's second, is that of "breaking the mold". Its inspiration is derived from a comment from one of our shareholders. Having noted that Apex had come out of nowhere to become one of the world's premier silver companies, she stated that along the way we had broken the mold in the manner silver companies – indeed, most mining companies – are fashioned. In terms of our reserves, exploration portfolio, management credibility, institutional backing and sheer momentum, she likened us to "a silver Barrick".

As compliments go in this industry, that is about as nice as it gets.

Certainly recognition of Apex's emergence as a first-rate silver vehicle has been amply forthcoming. The combination of high volume reserves with the inherent cost advantages of San Cristobal's open pit characteristics has contributed to our favorable outlook as both a "value play" and, at the same time, as a "growth stock". With half a dozen of the world's leading investment banks now recommending Apex, we have more analytic coverage than any other company in the silver sector. That's

no small accomplishment for a company that didn't exist five years ago.

Having said that, it is clear that 1998 was not the most opportune time for our shareholders to reap many rewards, even for a great story, if that story happened to be in mining. To say that these are "difficult times" for our business would be an understatement. Who, after all, doesn't know that the prices of oil and copper and most hard assets associated with basic industry are plumbing new depths? That "precious metals are the last refuge of the dinosaur" is very much conventional wisdom. The story of the fund manager - another friendly shareholder - who barely managed to avoid being hit by his colleague's shoe when he recommended that his firm look into mining shares was a humorous, albeit frustrating, reminder that sentiment has been bleak. How many times have I been advised to rename the Company

ApexNet.com? The first time I heard the idea, I laughed heartily. By the third time, I was still chuckling. By the doventh time, I got to thinking. Speculative sentiment is fleeting, with fashions overshooting in one direction and reverting to the mean...before overshooting anew in the next direction. If history is any guide, such anecdotes as I have recounted suggest the cycle in our chosen sector is showing signs of nearing a bottom.

In anticipation of the great reversal, in which exceptional companies may yet be rewarded for their good deeds, let's look at six accomplishments that added value to your Company in the past year, as highlighted in the silver box below.

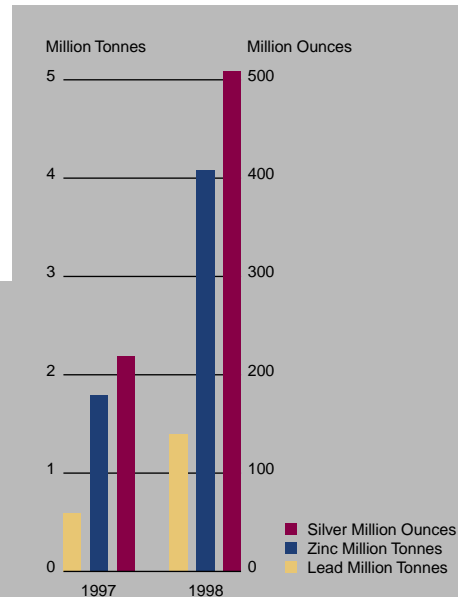
### 1998 Accomplishments

1

#### San Cristobal Reserves More Than Double

When we went public in November 1997, Apex had 219 million ounces of contained silver in proven and probable reserves... bigger by half than the nearest U.S. listed comparable company. A year later, we had increased these open pit reserves by 132 percent to 509 million ounces of contained silver, bigger by a wide margin than our three nearest comparables combined... and then some. Our zinc reserves showed similar percentage growth, swelling to over 4.1 million tonnes of contained zinc. In addition to becoming the largest open pit silver reserve in the world, therefore, San Cristobal now stands as one of the world's top five zinc reserves as well.

There was optimization of quality, as well as quantity, as Larry Buchanan's discovery continued to deliver. Grades of all metals went up, especially silver. What was once thought to be two large ore bodies was shown by step-out drilling to be one very large open pit ore body which even now remains open horizontally, as well as to depth. New targets, most of which are higher in silver grade, were discovered. Last year's annual report stated that, "we have strong geologic evidence to suggest that reserves will only expand over the coming months and years". In what we hope will continue our pattern of understatement, we can report that confidence remains high that additional drilling will increase reserves further.



2

#### Bankable Feasibility Advances

Consistent with our corporate philosophy of "cutting no corners" and "doing it right", the firms selected to be part of the San Cristobal project development team are among the best in the industry. Working under Mac DeGuire's direction, Kvaerner Metals (Davy), our lead engineers, are slated to complete the bankable feasibility study by mid-year 1999. Hiring Mike Shaw as Project Manager for San Cristobal also marks a milestone in our project's development. Having successfully built similar sized projects in South America on schedule and under budget, Mike will add value to the construction process that will follow soon after financing has been completed.

3

#### Appointment of Lead Arrangers for Project Financing

The addition of Mark Lettes as Chief Financial Officer and Vice President Finance continued our tradition of recruiting top quality, industry-recognized talent to our managerial team. Utilizing Mark's prior project financing experience as Chief Financial Officer for Amax Gold Inc., our financing activities are running parallel with the completion of the bankable feasibility study. Appointment of two of the world's largest financial institutions, Barclays Capital and Deutsche Bank Securities Inc., as lead arrangers for the San Cristobal Project marks a key milestone of this strategy.

4

#### Continued Exploration Success

Under the direction of our Vice President of Exploration, Doug Smith, our exploration teams in Mexico, Peru and Bolivia have turned up a clutch of exciting new prospects which we hope will, with several existing advanced exploration projects, provide the pipeline of targets to complement our flagship project at San Cristobal. Encouraging results at Platosa in Mexico and Cobrizos in Bolivia have confirmed anew our exceptional track record in finding silver, and bolstered our conviction that there is a great deal of shareholder value to be extracted from our large property portfolio.

5

#### Building Momentum in Bolivia

Momentum in Bolivia was fast and unbroken under Johnny Delgado's leadership. A national consensus concerning the primacy of mining, as bolstered by one of the oldest and richest mining cultures in Latin America, aided our efforts in developing San Cristobal. Indeed, our positive experience with important elements of Bolivian society, from workers cooperatives to government leaders, reaffirmed that Bolivia is among the most attractive mining countries in the world today.

6

#### Marketing Efforts Initiated

Our initial round of marketing efforts, spearheaded by Ed LeBlanc, who joined us from Westmin, indicated that our project output will be well received by international smelters keen to secure the large volumes of clean concentrates produced by a long-life reserve such as San Cristobal. Ed's thorough knowledge of the players within the concentrate markets is already broadening the options for placing our products.

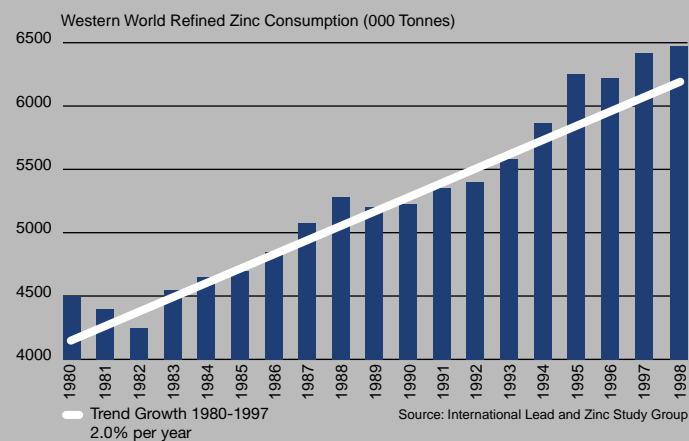
Have we therefore done a good job this past year? I would have to say “yes”. Indeed, I can’t report that we would have wanted anything of significance to have gone differently in 1998. A question remains, however. If we achieved our goals, are “poor market sentiment” or “tough times for resource equities” good enough explanations for our Company’s lackluster share price performance? Perhaps. But I’m not sure. True, by year-end we had declined less than most of our peers. But downside outperformance is not much of a consolation.

As an existing, or prospective, shareholder of the Company, you should know that I believe that the buck stops with me and that neither shareholding, nor pride of authorship, nor ego will ever stand in the way of good judgment or the respon-

#### How do you view the outlook for zinc?

We are very pleased, in addition to our silver, to have one of the largest zinc reserves in the world. The future of galvanized steel in particular is very promising and is likely to improve significantly with a recovery in Asia. Mine closures are likely to accentuate zinc’s positive supply and demand fundamentals in the coming years. It should be noted that while investor leverage is great in both metals, zinc is one of the most sought after targets for major mining companies. As with silver, good, large zinc deposits are hard to find.

Depending on how one wants to view it, if our zinc co-product credit is applied to our silver production, we will arguably be the lowest cost, large-scale producer of silver in the world. Conversely, if one applies the silver credit to zinc costs, we would be one of the lowest cost producers of zinc in the world. While as a Company, we have most clearly focused on our silver assets, we are grateful for any metal that can improve our margins in the production of silver. In this business, the lowest cost producer wins.



#### Are you happy Warren Buffet bought up so much silver? Has he sold his position?

Our answers are as follows: Yes and no. We don’t know. To expand on this a bit, it goes without saying that Warren Buffet is a brilliant investor and his entry into the silver market was a delightful validation of the principles underpinning Apex’s creation and existence. Whether he holds or sells, we believe, to paraphrase Mr. Buffet, that the underlying fundamentals argue for a higher equilibrium price level for supply and demand to meet. If he holds his silver, we would not be unhappy. There are few finer partners to have. If he sells, however, the perceived “overhang” will be gone. Either way, we believe that the risk/reward calculations that caused him to reinstate silver as an institutional asset class will prove positive for the metal.

sibilities that accompany public ownership. If in pursuing the holy grail of “maximizing shareholder value”, ideas are proposed by our stockholders that can improve our performance as a business or as an equity, they will have a receptive ear. My door is open to all ideas of good will, without precondition. If you have a better way to get our message across, give me or my right hand in investor relations, Linda Wilson, a call.

I believe that my own views on management are representative of the commitment by all our staff to the principles of shareholder control... and a sincere appreciation of what our loyal shareholders have meant to us in executing our vision. Our management team comprises one of the most dedicated groups of people I have ever met. From La Paz to Zacatecas to Lima and Denver, your Company is managed by devoted professionals.

In building our corporate vision, Apex’s management is fortunate to benefit from a committed and talented Board of Directors. Their wisdom and experience in a variety of fields that add value to our enterprise were keenly felt this year. I would like to extend my gratitude to all who helped make our corporate

planning and governance a successful undertaking: the two committee chairmen, Michael Comminos and Harry Conger, who generously gave their time and effort to oversee and advise on very sensitive tasks in the areas of finance, project development and compensation; Ove Hoegh, whose contributions ran the gamut from industry contacts and audit oversight to the uncommon attribute of common sense; David Sean

Hanna, our faithful secretary and legal scribe; along with three directors associated with our founding shareholders at Quantum, without whose insights and support the Company would not likely be in the strong position we now enjoy: Paul Soros, whose consistently wise advice continued to keep me, in particular, out of harm’s way; Eduardo Elsztain, whose global vision and business acumen helped shape our strategic focus; and Richard Katz,

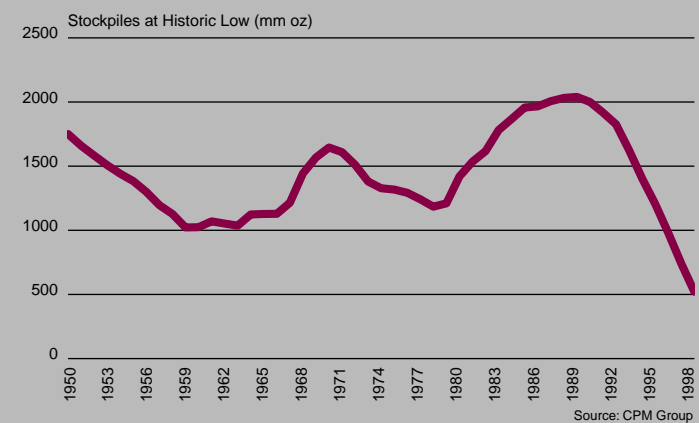
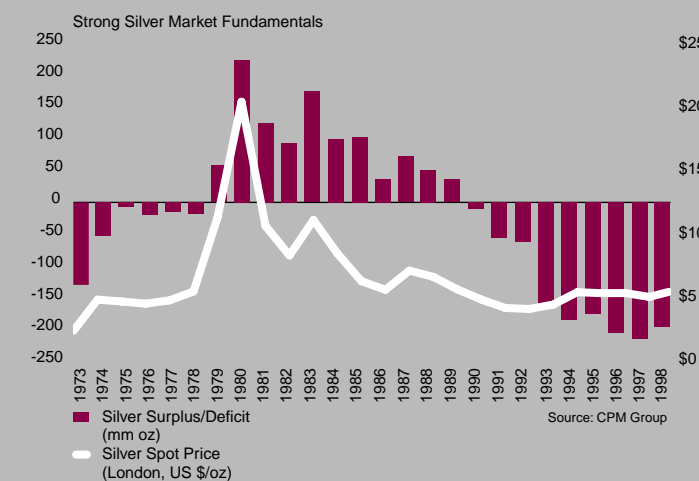
#### With the big silver deficit, why hasn’t the price of silver gone up more?

There is no easy answer to this question, only conjecture. While it remains frustrating to silver bulls that the price hasn’t rallied more strongly on a sustained basis (it did, after all, perk up with the Berkshire Hathaway revelations in early 1998), the reality is that silver has been one of the best performing commodities since 1993. While oil, copper, nickel and most other commodities (including gold) have been hitting new lows, silver remains almost 50

percent higher than its 1993 trough. With gold prices over 10 percent lower during the same period, it could be said that the strong underlying supply / demand fundamentals have indeed been showing themselves at work in silver’s favor.

Silver consumption remains strong across the wide range of its industrial uses. Over the last 10 years, demand has grown an average of 5.4 percent a year. Even 1998’s showing of 2.4 percent growth is most impressive when set against the backdrop of the Asian financial crisis and talk of deflation. We believe that the steady drawdown of above ground inven-

tories, combined with the effect of accelerating polymetallic mine closures, augurs well for higher silver prices in the years ahead. While we continue to use a long-term silver price forecast of \$5.00 per ounce, long-term fundamentals suggest that when San Cristobal enters the market, it should do so not only as one of the highest volume, lowest cost producers in the industry, but at an optimal time in the commodity cycle, when the drawdown in inventories will have reached critical levels.



whose continuing contribution has been to challenge complacency. Last, but by no means least, I would like to thank our President and Chief Operating Officer, Keith Hulley, whose experience, energy and well-rounded talent have played so valuable a role in taking us to where we are today.

Thomas S. Kaplan  
Chairman and Chief Executive Officer