

“Based on my years of experience in the mining industry, I can easily report that this is far and away one of the most attractive projects I have ever encountered. Mother Nature has been extremely kind to us at San Cristobal, and we intend to capitalize on her gift by grasping the opportunity to develop a world scale mining operation.”



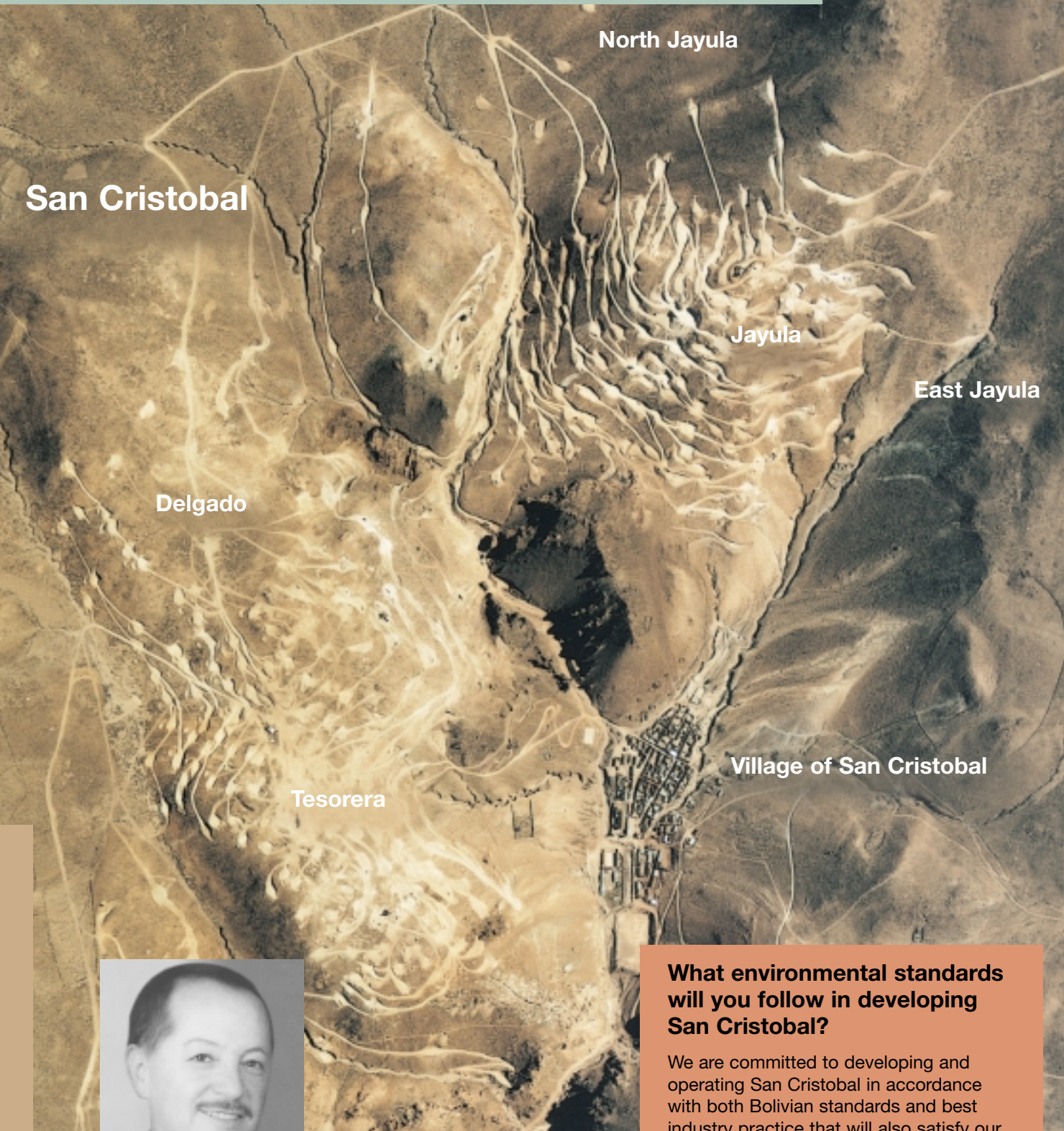
Keith Hulley, President and Chief Operating Officer Apex Silver Mines Corporation

Prior to joining Apex in October 1996, Keith Hulley was Director of Operations at Western Mining Holdings Limited Corporation where he was responsible for all global mining activity including mine production, concentrating, smelting, refining and sales. While at Western Mining, Mr. Hulley also supervised the development, construction and operation of the Mount Keith open-pit nickel mine, an A\$450 million facility. A mining engineer with more than 30 years experience, Mr. Hulley has held senior executive positions with BP Minerals, Atlas Corporation and USMX. Over the course of his career, Mr. Hulley has worked as a miner and shift supervisor in South African gold mines, served as mine superintendent for Bingham Canyon in Utah and managed an early phase of exploration and development at the Ok Tedi project in Papua New Guinea.

How does the Company manage diverse skills and disciplines over a wide geographic area?

Our corporate philosophy has always been one of “cutting no corners”. We seek to do things right and to hire the best people for the job. Our success in advancing the San Cristobal Project during 1998, while continuing to evaluate the geologic potential of our large

property portfolio, emphasizes what can be accomplished when experienced professionals focus on clear goals. Each section of this annual report highlights the accomplishments of our management team as they describe their individual responsibilities.



How will the Company effectively manage the development of the largest mining project ever constructed in Bolivia?

This will be a team effort. Apex’s management will be working hand-in-glove with one of the world’s leading engineering and constructing companies. This process will be facilitated by the experience of the professionals staffing the operations of Andean Silver (Apex’s South American subsidiary) in Bolivia. Many of these personnel joined Apex upon our acquisition of Mintec, the leading mining consulting firm in Bolivia, early in 1998.

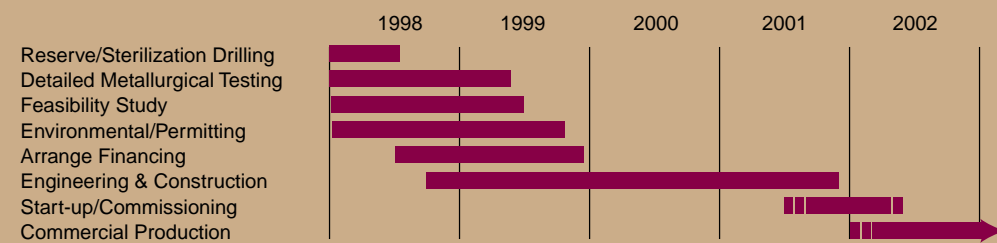
Having local management with a thorough knowledge of Bolivian regulatory and legal requirements has proved invaluable. Under the leadership of Johnny Delgado, a Bolivian national and Andean Silver’s President, Andean personnel have skillfully supported the

development of San Cristobal. During 1998, amongst other accomplishments, they negotiated an agreement with the local community– with the assent and enthusiastic support of all sectors of Bolivian authorities, both political and religious – to relocate with our assistance to a new site of their choice where the quality of their lives will be much improved. Under Andean’s supervision, the process of the town’s construction and relocation is now well advanced.

Andean personnel have also headed the evaluation of Apex’s South American property holdings in Bolivia and Peru. Both their knowledge of the mining industry and understanding of local requirements have greatly facilitated our South American exploration efforts.

What is your current timeline for the development of San Cristobal?

Our current timeline for San Cristobal calls for completing the bankable feasibility study in mid-1999 and securing financing later in the year with construction beginning shortly thereafter. As part of the ongoing engineering work, the Company is also working toward the delivery of a lump-sum turnkey contract proposal that would facilitate our project financing effort. Current plans call for a two-year construction period with commissioning in late 2001 and commercial production in 2002.



Current timeline for the development of the San Cristobal open pit mine.



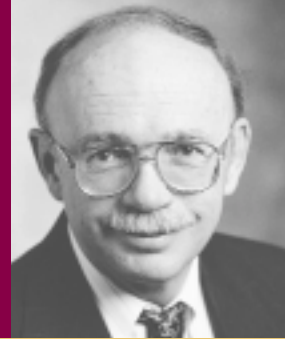
Johnny Delgado Chief Executive Officer Andean Silver Corporation

What environmental standards will you follow in developing San Cristobal?

We are committed to developing and operating San Cristobal in accordance with both Bolivian standards and best industry practice that will also satisfy our project financing lenders. Consistent with our corporate philosophy of “cutting no corners”, our policy is to comply with all applicable foreign laws and regulations wherever we operate.

Larry Buchanan, Chief Geologist
Apex Silver Mines Corporation

Dr. Larry J. Buchanan, known within Apex Silver as the father of San Cristobal, is a noted exploration geologist whose analysis of epithermal deposits has given rise to the industry paradigm known as "The Buchanan Model". With over 30 years experience, Dr. Buchanan played a key role in identifying several million plus ounce gold deposits before joining Apex Silver.



Why Bolivia?

Using history as a key to the future, significant silver mines are more likely to be found where silver has been mined before. Bolivia is home to the largest silver deposit ever mined, the Cerro Rico de Potosi found in 1545, which is still producing today. Located about 200 kilometers northeast of San Cristobal, the Cerro Rico funded the Spanish treasury for several centuries. As an indication of its wealth and influence, Potosi was one of the largest cities in the Western Hemisphere in the late 16th century.

San Cristobal is located approximately 500 kilometers south of the capital city of La Paz on the Bolivian Altiplano within the Andes. Larry Buchanan describes San Cristobal as being in "elephant country", since it is located southwest of Potosi and east of world-class copper mining operations like Collahuasi, El Abra, Chuquicamata and Escondida.



San Cristobal is located near other large producing mines in the Cordilleran mineral belt.

San Cristobal Geology — Breaking the Mold

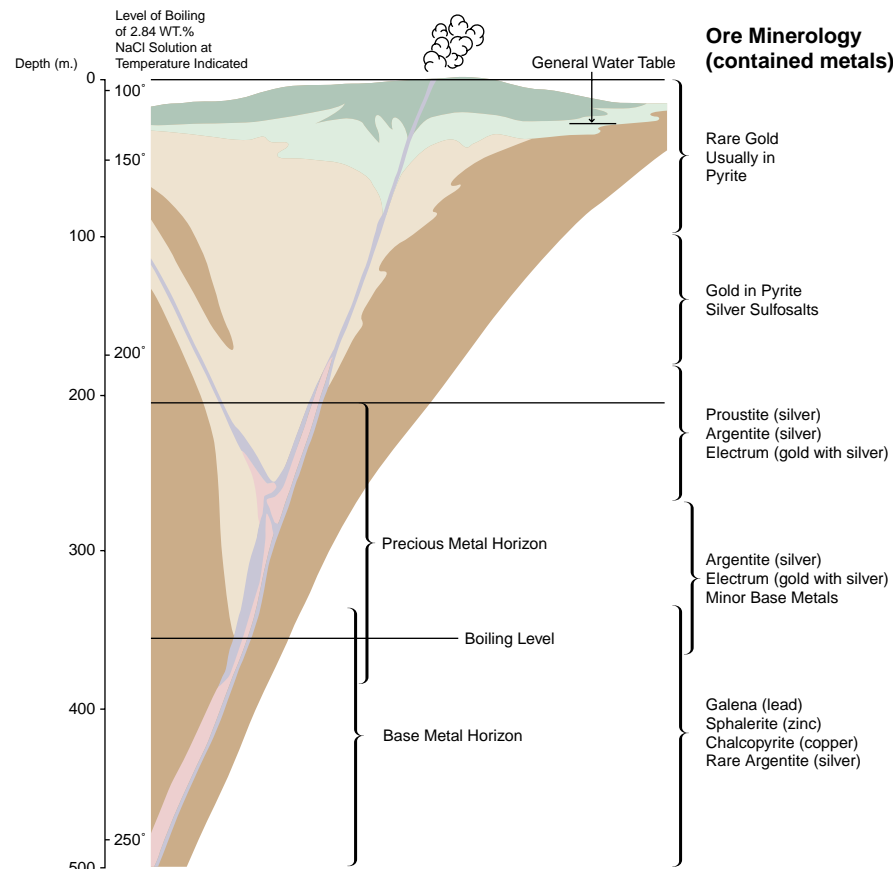
Most primary silver is produced from small, high-cost underground mines that exploit high-grade vein and limestone replacement deposits. With large proven and probable reserves (259 million tonnes) outcropping on the surface, San Cristobal will "break the mold" with a large-scale, low cost open pit silver-zinc-lead mine.

By year-end 1998, the Company had drilled and assayed a total of 169,500 meters at San Cristobal, or 742 drill holes. 1998 drilling (97,000 meters) doubled ore reserves and connected the two original ore bodies, Tesorera and Jayula, so that the deposit will be mined from one large pit. The cross section illustrates San Cristobal's relatively subdued topography which provides for a favorable strip ratio

Alteration Zones

- Siliceous Residue
- Alunite, Kaolin, Pyrite
- Propylitization
- Illite, Sericite in Lower Levels
- Silification
- Adularization

Ore Minerology (contained metals)



Idealized cross section of Buchanan Model.

What is the Buchanan Model?

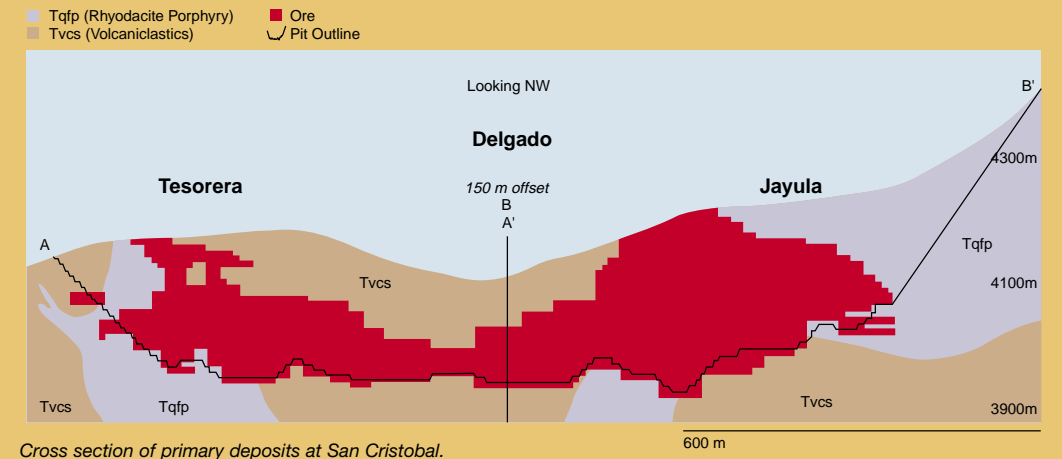
The Buchanan Model describes a metals deposition process for epithermal mineral deposits hosted in volcanic rock. Epithermal deposits are formed when minerals precipitate from hot aqueous solutions near the earth's surface. By studying numerous precious and base metal vein deposits hosted in volcanic environments, Dr. Buchanan was able to describe the metals deposition sequence for a "typical epithermal deposit", thereby identifying the spatial relationships between mineral assemblages, alteration patterns and ore controls.

Careful mapping of alteration zones and mineral assemblages assist the user of the Buchanan Model in locating "blind" or unexposed mineral deposits. By studying the spatial relationships, the occurrence of different types of mineral assemblages becomes predictable.



- Drilled Areas With Reserves
- Higher Grade Mineralized Zones
- Drilled Areas Still In Review
- Original Apex Mineral Concessions
- Expanded Apex Mineral Concessions

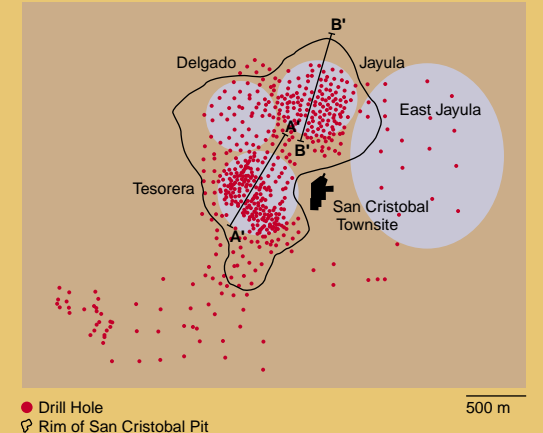
San Cristobal District exploration targets.



Cross section of primary deposits at San Cristobal.

of 1.90:1 (tonnes waste per tonne of ore). A limited drill program, focusing on the area east of the current pit, is planned for 1999 at San Cristobal to demonstrate the potential of significant additional reserves.

During 1998, Apex's land position expanded significantly from approximately 6,500 acres held in 1997 to approximately 345,000 acres so that it now encompasses the entire San Cristobal Mining District. Of the ten additional targets currently being investigated within the San Cristobal Mining District, six of them are higher grade than the average grade of our existing reserves.



San Cristobal drill hole location map showing the outline of the proposed San Cristobal open pit and cross section lines A-A' and B-B'.

How was San Cristobal discovered?

In January 1995, Larry Buchanan was sent to Bolivia to evaluate prospects identified by Johnny Delgado, who was at the time head of the country's leading mining consulting firm (Mintec). One of the prospects he visited was the Toldos mine, an operation he judged to be too small on its own to be of continuing interest. Watching the sunset that evening with his colleagues Jon Gelvin and Carlos Murillo, he noted that the rocks in the crater on the adjoining San Cristobal property turned orange indicating alteration. Other major mining companies had evaluated San Cristobal for gold, but not for silver. Before leaving the following day, they hiked into the crater to investigate and were sufficiently encouraged to collect several hundred surface samples, all of which proved to contain anomalous to ore grade silver val-

The basic theory behind the Buchanan model is that the interface between the precious metals and the base metals represents the level where episodic boiling of the metal-bearing fluids takes place. Boiling causes first the base metals, then silver sulfides and later gold to deposit in a well-defined temporal and vertical sequence. Episodic sealing of the fracture system, followed by a build-up of pressure and re-boiling of the solutions, gives rise to the brecciation and banded vein fillings that are often observed in epithermal deposits.

Looking east at San Cristobal with Jayula drill pads on the left of the photograph and Tesorera drill pads on the right.



ues. Larry recognized immediately the potential for a bulk tonnage polymetallic deposit along the lines of Real de Angeles in Mexico. Real de Angeles was a highly profitable, smaller scale open pit silver mine that ceased production in 1998 due to depletion of reserves.

Drilling commenced in 1996 once the entire target area had been acquired. The first hole hit long intervals of ore grade silver, zinc and lead. With 169,500 meters completed, San Cristobal now has 259 million tonnes of proven and probable reserves, making it the world's largest open pit silver deposit, more than three times the size of Real de Angeles before it was mined. San Cristobal remains open laterally as well as to depth, with many new satellite targets.

As a postscript, Larry Buchanan became Apex's Chief Geologist in 1995, a position he holds today. Johnny Delgado became CEO of Andean Silver, Apex's South American subsidiary, after Mintec was acquired by Apex in 1997. Jon Gelvin joined Apex in 1996 and heads up Apex's activities in Mexico and Central America, where his team has been responsible for identifying some of the Company's most promising new exploration targets.