

Report of Management

Management is responsible for the preparation of the accompanying financial statements and for other financial and operating information appearing in the annual report. It believes that its accounting systems and internal accounting controls, together with other controls, provide assurance that all accounts and records are maintained by qualified personnel in requisite detail, and accurately and fairly reflect transactions of Apex Silver Mines Limited and its subsidiaries in accordance with established policies and procedures.

The Board of Directors has an Audit Committee, all of whose members are neither officers nor employees of the Company or its affiliates. The Audit Committee recommends independent public accountants to act as auditors for the Company for consideration by the Board of Directors; reviews the

Company's financial statements; confers with the independent accountants with respect to the scope and results of their audit of the Company's financial statements and their reports thereon; reviews the Company's accounting policies, tax matters and internal controls; and oversees compliance by the Company with the requirements of federal regulatory agencies. Access to the Audit Committee is given to the Company's financial and accounting officers and independent accountants.



Thomas S. Kaplan
Chairman
Apex Silver Mines Limited



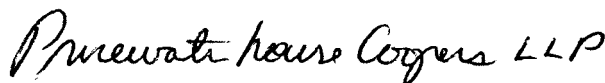
Mark A. Lettes
Vice President and
Chief Financial Officer
Apex Silver Mines
Corporation

Report of Independent Accountants

To the Board of Directors and Shareholders of Apex Silver Mines Limited

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Apex Silver Mines Limited (successor to Apex Silver Mines LDC) and its subsidiaries at December 31, 1999 and 1998 and the results of their operations and their cash flows for the years ended December 31, 1999, 1998 and 1997 and the period from December 22, 1994 (inception) through December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the

United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



PricewaterhouseCoopers LLP

Denver, Colorado
March 3, 2000

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

You should read the following discussion and analysis together with the consolidated financial statements of Apex Silver Mines Limited and related notes.

Apex Limited is a mining exploration and development company that holds a portfolio of silver exploration and development properties primarily in South America and Central America. None of these properties are in production and, consequently, we have no current operating income or cash flow.

We currently focus our resources on the development of our San Cristobal Project in Bolivia as well as continued evaluation of our Cobrizos property in Bolivia and Platosa property in Mexico.

Our Company completed an initial public offering of Ordinary Shares on December 1, 1997. We completed a subsequent offering of Ordinary Shares and warrants during November 1999.

As used herein, *Apex Limited, our Company, we* and *our* refer collectively to Apex Silver Mines Limited, its predecessors, subsidiaries and affiliates or to one or more of them as the context may require.

Results of Operations

Interest Income

Our Company does not yet produce silver or any other mineral products and has no revenues from product sales. Our primary source of revenue is interest income. Our policy is to invest all excess cash in liquid, high credit quality, short-term financial instruments. Our interest income for the year ended December 31, 1999 was \$1.1 million compared to \$2.4 million and \$1.0 million for the years ended December 31, 1998 and 1997, respectively. The 1999 decrease in interest income compared to 1998 is the result of declining average cash balances during 1999 prior to receipt of the net proceeds of our November 1999 offering of Ordinary Shares and warrants. The increase in our interest income for 1998 compared to 1997 was due to the additional cash raised in our initial public offering of Ordinary Shares in 1997.

Exploration

Our Company expenses mineral exploration expenditures as incurred on each property until we determine that mining operations on that property are feasible. Once we have determined that a mineral property has proven and probable ore reserves, we capitalize all development costs. Through December 31, 1999, we have expensed all acquisition and exploration costs as incurred, except those pertaining to the San Cristobal Project. Since September 1, 1997, we have capitalized development costs associated with the San Cristobal Project and will continue to do so in the future.

Our exploration expenses were \$6.0 million for the year ended December 31, 1999 compared to \$10.0 million and \$13.4 million for the years ended December 31, 1998 and 1997, respectively. The decreases in our exploration expenses for these periods is due primarily to the reduced emphasis on exploration as we concentrate our resources on the development of the San Cristobal Project.

Administrative

Our administrative expenses were \$2.8 million for the year ended December 31, 1999, compared to \$3.3 million and \$2.4 million for the years ended December 31, 1998 and 1997, respectively. The decrease in our administrative expenses in 1999 as compared to 1998 is primarily due to the refocusing of our efforts on development activities at the San Cristobal Project. The increase in our administrative expenses for 1998 compared to 1997 is primarily the result of our increased activity and our hiring of additional personnel associated with the anticipated development and financing of the San Cristobal Project.

Income Taxes

Apex Silver Mines Corporation, our U.S. management services company, is subject to U.S. income taxes. Otherwise our Company pays no income tax in the U.S. since we are incorporated in the Cayman Islands and conduct no business that currently generates U.S. taxable income. The Cayman Islands currently impose no corporate taxation. Our Company

Management's Discussion and Analysis of Financial Condition and Results of Operations

has been granted exemption until January 16, 2015 from any form of corporate taxation which may subsequently be adopted in the Cayman Islands.

Liquidity and Capital Resources

As of December 31, 1999, our Company had cash and cash equivalents of approximately \$96.3 million compared to \$26.2 million at December 31, 1998. The increase in our cash and cash equivalents during 1999 is due to the \$94.1 million in net proceeds we received from our November 1999 offering of Ordinary Shares and warrants, partially offset by our investments of approximately \$15.0 million in the development of the San Cristobal Mine and \$0.7 million in plant, buildings and equipment, together with \$8.3 million in other expenditures related primarily to exploration and administration.

During November 1999, pursuant to a shelf registration statement filed with the Securities and Exchange Commission, we sold 8,090,132 Ordinary Share units, resulting in proceeds before commissions and fees of approximately \$97.1 million and net proceeds of approximately \$94.1 million. The Ordinary Share units, each priced at \$12.00 per unit, were comprised of one Ordinary Share and one-half warrant with each warrant exercisable into one Ordinary Share at any time on or before November 4, 2002 at a price of \$18.00 per Ordinary Share. The warrants, if exercised, would raise an additional \$73.6 million for the Company and would result in the issuance of 4,088,158 Ordinary Shares.

Based on the September 1999 feasibility study for the San Cristobal Project, we expect capital costs for construction to total approximately \$413 million. In addition, we expect that the Project will require \$15 million of working capital and \$20 million to pay Bolivian value added tax during construction. We should recover the value added tax against our future

Bolivian income taxes. Based on our current development schedule for San Cristobal, we anticipate capital expenditures of approximately \$127 million over the next twelve months, with the remaining \$321 million to be spent in the following two years. We expect to fund these expenditures from a combination of our existing cash balances and financing raised from outside sources. Under the current schedule, we expect our existing cash balances to be sufficient to fund ongoing development of San Cristobal through the third quarter of 2000. We will need significant additional financing from outside sources to complete San Cristobal development.

We expect that outside sources of financing for San Cristobal will include bank borrowings and future additional debt or equity financing. Our Company does not currently have a line of credit with any financial institution. We have appointed Barclays and Deutsche Bank as co-lead arrangers for the project financing of the San Cristobal Project and have begun negotiations regarding the terms of a potential financing. There can be no assurance that we will be able to obtain the required financing on terms that we find attractive, or at all.

In order to maintain our mineral properties, we must make certain payments including government mineral patent fees and commissions, work commitments, lease and option payments and advance royalties. In order to maintain our current portfolio of mineral properties, we will be required to make payments during the next twelve months of approximately \$0.5 million for San Cristobal, \$0.2 million for Cobrizos, \$0.7 million for Platosa and \$0.6 million for our other exploration properties. In addition, we expect to make expenditures for other continuing exploration, property acquisition, property evaluation and general corporate expenses. Such expenditures are not anticipated to increase significantly during the next twelve months. We expect to fund these obligations from existing cash balances.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Environmental Compliance

Our current and future exploration and development activities, as well as our future mining and processing operations, are subject to various federal, state and local laws and regulations in the countries in which we conduct our activities. These laws and regulations govern the protection of the environment, prospecting, development, production, taxes, labor standards, occupational health, mine safety, toxic substances and other matters. Our management expects to be able to comply with those laws and does not believe that compliance will have a material adverse effect on our competitive position. We intend to obtain all licenses and permits required by all applicable regulatory agencies in connection with our mining operations and exploration activities. We intend to maintain standards of environmental compliance consistent with best contemporary industry practice.

Forward-Looking Statements

Some information contained in or incorporated by reference into this report may contain forward-looking statements. These statements include comments regarding mine development and construction plans, costs, grade, production and recovery rates, permitting, financing needs, the availability of financing on acceptable terms, the timing of engineering studies and environmental permitting, and the markets for silver, zinc and lead. The use of any of the words "anticipate," "continue," "estimate," "expect," "may," "will," "project," "should," "believe" and similar expressions are intended to identify uncertainties. We believe the expectations reflected in those forward-looking statements are reasonable.

However, we cannot assure you that these expectations will prove to be correct. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below:

- worldwide economic and political events affecting the supply of and demand for silver, zinc and lead;
- volatility in market prices for silver, zinc and lead;
- financial market conditions, and the availability of financing on terms acceptable to our Company;
- uncertainties associated with developing a new mine, including potential cost overruns and the unreliability of estimates in early stages of mine development;
- variations in ore grade and other characteristics affecting mining, crushing, milling and smelting operations and mineral recoveries;
- geological, technical, permitting, mining and processing problems;
- the availability and timing of acceptable arrangements for power, transportation, water and smelting;
- uncertainties regarding future changes in tax legislation or implementation of existing tax legislation;
- variations in smelting operations and capacity;
- the availability of experienced employees.

Many of those factors are beyond our ability to control or predict. You should not unduly rely on these forward-looking statements. These statements speak only as of the date of this report. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect future events or developments. All subsequent written and oral forward-looking statements attributable to our Company and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this section.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Quantitative and Qualitative Disclosures About Market Risk

Currently, our major principal cash balances are held in U.S. dollars. We maintain minimum cash balances in foreign currencies and therefore have a relative low exposure to currency fluctuations. Because we conduct our activities largely in several foreign countries, we may in the future engage in hedging activities to minimize the risk of exposure to currency and interest rate fluctuations.

We expect that we will be required to hedge some portion of our planned production in advance in order to complete the financing necessary to develop San Cristobal. In addition, as we bring San Cristobal into production and begin to derive revenue from the production, sale and exchange of metals, we may utilize various price-hedging techniques to lock in forward delivery prices on a portion of our production. We would expect to balance the use of price-hedging techniques to mitigate some of the risks associated with fluctuations in the prices of the metals we produce while allowing us to take advantage of rising metal prices should they occur.

We are currently developing policies, procedures and guidelines for the hedging of metal prices, interest rates and foreign currency exposure. We have engaged in limited metals trading activities utilizing puts and calls in a manner similar to anticipated lender requirements, for the purpose of testing procedures and controls surrounding the trading function. At December 31, 1999, a mark to market of our open positions did not have a material effect on our results of operations or financial position. There can be no assurance that we will always benefit from the use of hedging techniques.

Consolidated Balance Sheet

(Expressed in United States dollars)

Years ended December 31,	1999	1998
Assets		
Current assets		
Cash and cash equivalents	\$ 96,296,577	\$ 26,217,241
Accrued interest receivable	61,119	126,332
Prepaid expenses and other assets	301,485	1,197,622
Current assets	96,659,181	27,541,195
Mining properties and development costs	48,056,283	29,777,360
Plant, buildings and equipment (net)	2,505,483	2,229,584
Value added tax recoverable	3,810,460	2,725,803
Other	45,997	73,092
Total assets	\$ 151,077,404	\$ 62,347,034
Liabilities and Shareholders' Equity		
Current liabilities		
Accrued salaries, wages and benefits	\$ 118,108	\$ 154,800
Accounts payable and other accrued liabilities	2,092,477	1,580,123
Current portion of notes payable	901,459	248,773
Current liabilities	3,112,044	1,983,696
Notes payable	3,137,368	1,966,588
Commitments and contingencies (Note 10)	—	—
Shareholders' equity		
Ordinary Shares, \$.01 par value, 75,000,000 shares authorized; 34,466,168 and 26,250,761, shares issued and outstanding, respectively (Note 1e)	344,662	262,507
Contributed surplus	192,274,553	97,946,434
Accumulated deficit	(47,791,223)	(39,812,191)
Total shareholders' equity	144,827,992	58,396,750
Total liabilities and shareholders' equity	\$ 151,077,404	\$ 62,347,034

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Operations

(Expressed in United States dollars)

	Years ended December 31,			For the period
	1999	1998	1997	December 22, 1994 (inception) through December 31, 1999
Income				
Interest and other income	\$ 1,113,547	\$ 2,444,357	\$ 961,810	\$ 5,571,687
Total income	1,113,547	2,444,357	961,810	5,571,687
Expenses				
Exploration	6,013,535	9,965,999	13,357,617	48,166,709
Administrative	2,846,057	3,338,812	2,439,722	9,089,572
Amortization and depreciation	232,987	169,116	149,429	665,515
Total expense	9,092,579	13,473,927	15,946,768	57,921,796
Loss before minority interest	(7,979,032)	(11,029,570)	(14,984,958)	(52,350,109)
Minority interest in loss of consolidated subsidiary	—	—	—	4,558,886
Net loss for the period	\$ (7,979,032)	\$ (11,029,570)	\$ (14,984,958)	\$ (47,791,223)
Net loss per Ordinary Share—				
basic and diluted ⁽¹⁾	\$ (0.29)	\$ (0.42)	\$ (0.72)	\$ (2.19)
Weighted average Ordinary Shares				
outstanding (Notes 1e and 2h)	27,601,362	26,212,009	20,929,882	21,790,991

⁽¹⁾Diluted earnings per share were antidilutive for all periods presented.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

(Expressed in United States dollars)

	Shares Outstanding	Amount	Contributed Surplus	Accumulated Deficit and Comprehensive Deficit	Total Shareholders' Equity
Issuance of shares upon incorporation, December 22, 1994	8,822,546	\$ 88,225	\$ 5,571,398	\$ —	\$ 5,659,623
Net loss and comprehensive loss	—	—	—	(213,165)	(213,165)
Balance, December 31, 1994	8,822,546	88,225	5,571,398	(213,165)	5,446,458
Net loss and comprehensive loss	—	—	—	(1,861,185)	(1,861,185)
Balance, December 31, 1995	8,822,546	88,225	5,571,398	(2,074,350)	3,585,273
Issuance of shares in private placement	4,256,700	42,567	32,406,783	—	32,449,350
Net loss and comprehensive loss	—	—	—	(11,723,313)	(11,723,313)
Balance, December 31, 1996	13,079,246	130,792	37,978,181	(13,797,663)	24,311,310
Purchase of minority interest in ASC Bolivia	268,496	2,685	2,950,771	—	2,953,456
Issuance of shares to associates	138,595	1,386	1,523,159	—	1,524,545
Issuance of shares for services	115,207	1,152	231,566	—	232,718
Stock option compensation expense	—	—	416,562	—	416,562
Issuance of shares upon Initial Public Offering	5,523,372	55,234	54,719,730	—	54,774,964
Net loss and comprehensive loss	—	—	—	(14,984,958)	(14,984,958)
Balance, December 31, 1997	19,124,916	191,249	97,819,969	(28,782,621)	69,228,597
Exchange of Apex LDC shares	7,079,006	70,790	(70,790)	—	—
Stock options exercised	25,001	250	197,473	—	197,723
Restricted stock awards	21,838	218	185,407	—	185,625
Unearned compensation	—	—	(185,625)	—	(185,625)
Net loss and comprehensive loss	—	—	—	(11,029,570)	(11,029,570)
Balance, December 31, 1998	26,250,761	262,507	97,946,434	(39,812,191)	58,396,750
Stock options exercised	25,549	256	223,900	—	224,156
Sale of Ordinary Share units (net)	8,090,132	80,901	94,004,628	—	94,085,529
Commissions paid in stock	84,184	842	(842)	—	—
Restricted stock awards	15,542	156	187,475	—	187,631
Unearned compensation (net)	—	—	(87,042)	—	(87,042)
Net loss and comprehensive loss	—	—	—	(7,979,032)	(7,979,032)
Balance, December 31, 1999	34,466,168	\$ 344,662	\$ 192,274,553	\$(47,791,223)	\$ 144,827,992

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in United States dollars)

	Years ended December 31,			For the period
	1999	1998	1997	December 22, 1994 (inception) through December 31, 1999
Cash flows from operating activities:				
Net cash used in operating activities (See Note 9)	\$ (8,288,609)	\$ (11,463,133)	\$ (17,990,299)	\$ (53,652,838)
Cash flows from investing activities:				
Mining properties and development costs	(15,017,926)	(17,664,436)	(5,214,815)	(37,897,177)
Purchase of plant, buildings and equipment	(687,280)	(1,421,467)	(719,146)	(3,352,228)
Net cash used in investing activities	(15,705,206)	(19,085,903)	(5,933,961)	(41,249,405)
Cash flows from financing activities:				
Net proceeds from issuance of				
Ordinary Shares	94,085,529	—	55,007,682	191,761,070
Payment of notes	(236,534)	(464,639)	—	(701,173)
Proceeds from exercise of stock options	224,156	197,723	—	421,879
Deferred organizational and financing costs	—	—	—	(282,956)
Net cash provided by (used in) financing activities	94,073,151	(266,916)	55,007,682	191,198,820
Net increase (decrease) in cash and cash equivalents	70,079,336	(30,815,952)	31,083,422	96,296,577
Cash and cash equivalents beginning of period	26,217,241	57,033,193	25,949,771	—
Cash and cash equivalents end of period	\$ 96,296,577	\$ 26,217,241	\$ 57,033,193	\$ 96,296,577
Supplemental non-cash transactions:				
Acquisition of minority interest in ASC Bolivia for Ordinary Shares at \$11 per share	\$ —	\$ —	\$ 2,953,456	
Acquisition of mining properties for assumption of debt	\$ 260,000	\$ —	\$ 3,506,196	
Commitment to fund the San Cristobal Foundation capitalized as mining properties	\$ 2,000,000	\$ —	\$ —	
Non-cash debt extinguished by one-time early cash payment	\$ —	\$ 826,196	\$ —	

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

1. Incorporation, Recapitalization, Initial Public Offering, Subsequent Offerings, Ownership and Operations

- a. Apex Silver Mines Limited (“Apex Limited” or the “Company”) was formed under the laws of the Cayman Islands in March of 1996 for the sole purpose of serving as a holding company for certain ownership interests in Apex Silver Mines LDC (“Apex LDC”). On April 15, 1996, holders of approximately 55% of the then-outstanding shares of Apex LDC elected to participate, effective as of the completion of a proposed private placement of shares of Apex Limited which was completed as of August 6, 1996, in a recapitalization effected by an exchange, on a one-for-one basis, of their shares in Apex LDC for identical equity instruments of Apex Limited (the “Recapitalization”). The balance of shareholders retained a direct ownership interest in Apex LDC. As a result of this Recapitalization, Apex LDC became a majority-owned subsidiary of Apex Limited. The accompanying financial statements reflect the historical accounts of the Company’s predecessor, Apex LDC. For purposes of the accompanying consolidated financial statements of Apex Limited, the Recapitalization has been given retroactive effect to the date of incorporation of Apex LDC, with the results of operations and equity attributable to the other ownership interests in Apex LDC being reflected in “minority interest in consolidated subsidiary”. Consequently, for purposes of these financial statements, Apex Limited is considered the successor to Apex LDC.
- b. In August of 1996, Apex Limited issued 4,256,700 Ordinary Shares in a private placement transaction (the “Private Placement”) for net proceeds of \$32.4 million. These proceeds were contributed to Apex LDC in exchange for the issuance by Apex LDC of 4,256,700 shares of its share capital. As a result of this Private Placement, the Company’s ownership interest in Apex LDC was increased from approximately 55% to 65%.
- c. On December 1, 1997, the Company closed its initial public offering (the “Offering”) of Ordinary Shares. The Company sold 5,000,000 Ordinary Shares at a price of \$11 per share on the American Stock Exchange under the symbol “SIL.” In addition, on December 23, 1997, the underwriters exercised an option to purchase an additional 523,372 Ordinary Shares at the initial price of \$11 per share. Net proceeds raised in the Offering were approximately \$54.8 million. These proceeds were contributed to Apex LDC in exchange for the issuance by Apex LDC of 5,523,372 shares of its capital.
- d. Apex LDC was incorporated under the laws of the Cayman Islands on November 23, 1994 as a 30-year limited duration company on the contribution of all the assets of its predecessor entity, Apex Silver Mines Ltd., a Bermuda corporation. (Actual contribution occurred on December 22, 1994.) The Company’s principal activities are the exploration and development of mineral properties. The Company participates in the acquisition and exploration of mineral properties for possible future development directly and indirectly through Apex LDC’s principal subsidiaries, Andean Silver Corporation LDC (“Andean”), ASC Bolivia LDC (“ASC Bolivia”), Apex Asia LDC (“Apex Asia”), Minera de Cordilleras (Honduras), S. de R.L. (“Cordilleras Honduras”), Cordilleras Silver Mines Ltd. (“Cordilleras Bahamas”), Cordilleras Silver Mines (Cayman) LDC (“Cordilleras Cayman”), Compania Minerales de Zacatecas, S. de R.L. de C.V. (“CMZ”), Apex Silver Mines Corporation, (“Apex Corporation”) and ASC Peru LDC (“ASC Peru”).
- e. In conjunction with the Recapitalization and the Private Placement, Apex Limited and the shareholders of Apex LDC entered into a Buy-Sell Agreement (the “Buy-Sell Agreement”) which was intended to maintain the same beneficial interest

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

in Apex LDC attributable to all shareholders of Apex LDC prior to the Recapitalization and Private Placement. During 1998, pursuant to the terms of the Buy-Sell Agreement, Apex Limited exchanged 7,079,006 of its Ordinary Shares for an equal number of Apex LDC shares. Such shares are included in the 34,466,168 Apex Limited Ordinary Shares outstanding at December 31, 1999. At December 31, 1999, Apex Silver Mines Limited owned 100 percent of Apex LDC. Per the provisions of the Buy-Sell Agreement, all of the outstanding shares of Apex LDC are considered Ordinary Shares outstanding for the purposes of computing net loss per Ordinary Share for the periods presented.

f. In November 1999, pursuant to a shelf registration statement filed with the Securities and Exchange Commission, the Company sold 8,090,132 Ordinary Share units, resulting in proceeds before commis-

sions and fees of approximately \$97.1 million and net proceeds of approximately \$94.1 million. The Ordinary Share units, each priced at \$12.00 per unit, were comprised of one Ordinary Share and one-half warrant with each warrant exercisable into one Ordinary Share at any time on or before November 4, 2002 at a price of \$18.00 per Ordinary Share. The warrants, if exercised, would raise an additional \$73.6 million for the Company and would result in the issuance of 4,088,158 Ordinary Shares.

g. The Company, through indirect subsidiaries, is active in Central America and South America and currently holds interests in, or is the beneficial owner of, non-producing silver resource properties in Chile, Bolivia, Honduras, Mexico and Peru. The Company is in the process of evaluating certain of its properties to determine the economic feasibility of bringing one or more of the properties into production.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The policies adopted, considered by management to be significant, are summarized as follows:

a. Basis of consolidation

These consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Investments in unincorporated joint ventures are proportionately consolidated consistent with generally accepted accounting practices in the mining industry.

b. Translation of foreign currencies

Substantially all expenditures are made in United States dollars. Accordingly, the Company uses the United States dollar as its functional currency.

c. Cash, cash equivalents and short-term investments

The Company considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. Short-term investments include certificates of deposit with maturities greater than three months, but not exceeding twelve months. Short-term investments are recorded at cost which approximates fair value.

d. Mining properties, exploration and development costs

The Company expenses general prospecting costs and the costs of acquiring and exploring unevaluated mining properties. When a property is determined to have proven and probable reserves, development

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

costs are capitalized. When ore reserves are developed and operations commence, capitalized costs will be amortized using the units-of-production method. Upon abandonment or sale of projects, all capital costs relating to the specific project are written off in the period abandoned or sold and a gain or loss is recognized. Beginning September 1, 1997, all costs associated with the Company's San Cristobal Project have been capitalized. As of December 31, 1999, capitalized property and development costs related to the San Cristobal Project amounted to \$48,056,283. No other amounts related to mineral properties have been capitalized.

e. Fixed assets

Buildings and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives of three to thirty years.

f. Asset impairment

The Company evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future net cash flows on an undiscounted basis is less than the carrying amount of the related asset, an asset impairment is considered to exist. The related impairment loss is measured by comparing estimated future net cash flows on a discounted basis to the carrying amount of the asset. Changes in significant assumptions underlying future cash flow estimates may have a material effect on the Company's financial position and results of operations. To date no such impairments have been identified.

g. Stock compensation

As permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company has elected to measure compensation expense as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under that method, the difference between the exercise price and the esti-

imated fair value of the shares at the date of grant is charged to compensation expense ratably over the vesting period.

h. Net loss per Ordinary Share

Basic earnings per share excludes dilution and is computed by dividing net earnings available to ordinary shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflect the potential dilution that would occur if securities or other contracts to issue Ordinary Shares were exercised or converted into Ordinary Shares.

Outstanding options to purchase 915,817, 626,571 and 455,625 Ordinary Shares were not included in the computation of diluted earnings per share at December 31, 1999, 1998, and 1997 respectively, because to do so would have been antidilutive.

i. New accounting pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133, as amended by FAS 137, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001 for the Company). FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. For fair-value hedge transactions in which the Company is hedging changes in the fair value of an asset, liability, or firm commitment, changes in the fair value of the derivative instrument will generally be offset by changes in the hedged item's fair value. For cash flow hedge transactions, in which the Company is hedging the variability of cash flows related to a variable-rate asset, liability or forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings. The Company is in the process of determining the future impact that the adoption of FAS 133 will have on its earnings or statement of financial position.

Other pronouncements issued by authoritative bodies with future effective dates are either not applicable or not material to the consolidated financial statements of the Company.

j. Reclassification of prior year balances

Certain prior year balances have been reclassified to conform to the classifications being presented at December 31, 1999.

3. Income Taxes

The provision for income taxes includes United States federal, state and foreign income taxes currently payable and deferred based on currently enacted tax laws. Deferred income taxes are provided for the tax consequences of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

There is currently no taxation imposed by the Cayman Islands. If any form of taxation were to be enacted, the Company has been granted exemption therefrom to January 16, 2015. The Company's subsidiaries which do business in other countries

have not generated income and therefore are not liable for local income taxes.

As of December 31, 1999 and 1998, operating loss carryforwards generated by ASC Bolivia amounted to approximately \$16.1 and \$13.1 million, respectively. Operating losses (as adjusted for inflation) may be carried forward and deducted from taxable income indefinitely. The deferred tax asset resulting from the operating loss carryforwards has been entirely offset by a valuation allowance.

No net deferred tax assets related to operating losses generated through December 31, 1999 by the Company's other foreign subsidiaries have been included in the accompanying financial statements, as all such assets have been entirely offset by a valuation allowance.

4. Value Added Tax Recoverable

The Company has recorded value added tax ("VAT") paid by ASC Bolivia and Cordilleras Mexico as recoverable assets. The VAT paid by ASC Bolivia is expected to be recovered through production from the proven and probable reserves at the San Cristobal Project that the Company intends to develop. Bolivian law states that VAT paid prior to production may be recovered as a credit against Bolivian taxes arising from production, including income tax. The VAT paid by Cordilleras Mexico is related to exploration activities and is recoverable upon

application to the tax authorities. Cordilleras Mexico has received VAT refunds relating to VAT paid through 1996. Applications for refund of the remaining VAT paid through 1999 have been filed and payment is expected in due course. At December 31, 1999, the recoverable VAT recorded by ASC Bolivia and Cordilleras Mexico is \$3,473,181 and \$337,279 respectively.

Because of the uncertainty of the recoverability of VAT paid by ASC Peru, VAT costs incurred by ASC Peru are charged to expense as incurred.

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(Expressed in United States dollars)

5. Plant, Buildings and Equipment

The components of plant, buildings and equipment were as follows:

December 31,	1999	1998
Buildings	\$1,137,173	\$ 828,077
Mining equipment and machinery	1,267,679	1,513,757
Other furniture and equipment	765,241	229,475
	3,170,093	2,571,309
Less: accumulated depreciation	(664,610)	(341,725)
	\$2,505,483	\$2,229,584

Depreciation expense for the periods ended December 31, 1999, 1998 and 1997 totaled \$176,395, \$112,471 and \$92,838, respectively. During 1999 and 1998 respectively, \$168,461 and \$135,561 of depreciation associated with the San Cristobal Project was capitalized. No amounts were capitalized during 1997.

6. Notes Payable

The Company's Notes Payable consists of the following:

December 31,	1999	1998
San Cristobal area properties	\$2,238,827	\$2,215,361
San Cristobal Foundation	1,800,000	—
	4,038,827	2,215,361
Less current portion	(901,459)	(248,773)
	\$3,137,368	\$1,966,588

In 1996, 1997 and 1998 the Company exercised options to purchase the Toldos and other properties in the San Cristobal area. At December 31, 1999, the following outstanding notes payable were recorded on the Company's books related to these options:

Banco de Santa Cruz – The Company will make annual payments of \$68,914 for each of the next six years, plus interest at Banco de Santa Cruz' preferential rate of interest which was approximately 14% as of December 31, 1999. The note plus accrued interest was being carried on the Company's books for \$422,827 at December 31, 1999.

Barex – The Company will make one payment of \$900,000 on December 1, 2001. No interest is due on this note.

Monica de Prudencio – The Company makes monthly payments of \$12,000 per month through June 2004 and a final payment of \$8,000 due July 15, 2004. No interest is due on this debt. The note was being carried on the Company's books for \$656,000 at December 31, 1999.

Oscar Bonifaz – The Company makes monthly payments of \$10,000 per month through November 2001. No interest is due on this debt. The note was being carried on the Company's books for \$260,000 at December 31, 1999.

In addition to the notes related to the San Cristobal area properties, the Company is carrying the following note payable:

San Cristobal Foundation – During the fourth quarter of 1999, the Company entered into an agreement with the San Cristobal Foundation whereby it has agreed to contribute \$2 million to the Foundation through the end of 2005. A payment in the amount of \$200,000 was made to the Foundation during 1999.

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(Expressed in United States dollars)

7. Stock Option Plans

The Company has established a plan to issue share options and other awards to be valued in whole or part by reference to the Company's shares for officers, employees, consultants and agents of the Company and its subsidiaries (the "Plan"). Under the Plan, the total number of options and other awards outstanding at any time cannot exceed ten percent of the Company's share capital. Options granted and other awards under the Plan are non-assignable. Options exist for a term, not to exceed ten years, as fixed by the Compensation Committee of the Board of Directors of the Company (the "Committee"). Options vest ratably over periods of up to four years with the first tranche vesting on the date of grant or the anniversary of the date of grant. Unexercised options expire ten years after the date of grant.

The Company has established a share option plan for its non-employee directors (the "Director Plan"). Under the Director Plan, the total number of options outstanding at any one time cannot exceed five percent of the Company's share capital. Pursuant to the Director Plan non-employee directors receive (i) at the effective date of their initial election to the Company's Board of Directors, an option to purchase the number of Ordinary Shares equal to \$50,000 divided by the closing price of the Ordinary Shares on the American Stock Exchange (the "AMEX") on such date, (ii) at the close of business of each annual meeting of the Company's shareholders, an option to purchase the number of Ordinary Shares equal to \$50,000 divided by the closing price of the Ordinary Shares on the AMEX on such date, and (iii) at the close of business of each meeting of the Company's Board of Directors, an option valued at \$3,000 calculated using the Black-Scholes option-pricing model to purchase Ordinary Shares with an exercise price equal to that of the closing price of the Ordinary Shares on the AMEX on such date. Options granted

to a non-employee director vest on the date of the grant and expire 10 years after the date of the grant or one year after the date that such non-employee director ceases to be a director of the Company. Options granted under the Director Plan are transferable only in limited circumstances.

The following table summarizes stock option information:

Year ended December 31,	1999	1998	1997
Options outstanding at beginning of period	626,571	455,625	281,250
Options granted during period	358,847	195,947	174,375
Options forfeited or expired during period	(44,052)	—	—
Options exercised during period	(25,549)	(25,001)	—
Options outstanding at end of period	915,817	626,571	455,625
Options exercisable at end of period	563,898	391,222	241,727
Weighted average grant-date fair value of options granted during period	\$1.36	\$1.98	\$1.08
Weighted average remaining contractual life (in years)	8.3	8.3	8.9

Options granted during the period were at an average exercise price of \$11.76, \$10.69 and \$8.00 for the years 1999, 1998 and 1997 respectively. Options granted during 1999 ranged in exercise price from \$7.94 to \$14.88.

Pro forma information regarding net income is required by SFAS No. 123, and has been determined as if the Company has accounted for its stock options under the fair value method of SFAS No. 123. For purposes of calculating the fair value of options, volatility was not considered for the year ended December 31, 1997, as the Company was non-public at the date of those grants. The volatility for 1999 and 1998 is based on the historical volatility of the Company's stock over its public trading life. The

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

Company currently does not foresee the payment of dividends in the near term. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Years ended December 31,	1999	1998	1997
Weighted average risk-free interest rate	5.64%	5.55%	6.27%
Volatility	42.10%	48.10%	0.00%
Expected dividend yield	—	—	—
Weighted average expected life (in years)	2.73	2.53	2.33

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

Years ended December 31,	1999	1998	1997
As reported			
Net loss	\$(7,979,032)	\$(11,029,570)	\$(14,984,958)
Net loss per Ordinary Share	(.29)	(.42)	(.72)
Pro forma			
Net loss	\$(8,509,350)	\$(11,548,400)	\$(15,199,421)
Net loss per Ordinary Share	(.31)	(.44)	(.73)

In addition, on December 14, 1999 and December 15, 1998, the Company issued 15,983 and 21,838 respectively of its Ordinary Shares to employees as a portion of performance bonuses paid during these years. Such shares are restricted for two years from the date of issuance and may not be traded or pledged during that period. Should the employee terminate during the restricted period the shares are forfeited to the Company. The shares, net of 441 forfeited shares, are included in the outstanding shares at December 31, 1999.

8. Related Party Transactions

Apex LDC engaged Tigris Financial Group Ltd. ("Tigris") and LCM Holdings LDC ("LCM") to provide management advisory services to Apex LDC and its subsidiaries. Tigris is wholly-owned by Mr. Thomas S. Kaplan, a director and officer of Apex LDC and a director and shareholder of the Company. LCM is wholly-owned by a shareholder of the Company. The LCM consulting arrangement was terminated at the end of the first quarter of 1997, following the formation of Apex Corporation. During the years ended December 31, 1999, 1998 and 1997 fees and reimbursed expenses paid to Tigris and LCM for such services amounted to \$20,495, \$39,637, and \$93,964, respectively.

During the year ended December 31, 1997, Apex LDC hired both individuals and companies ("associates") to perform services on its behalf in countries in which Apex LDC has mineral interests. These services include property acquisitions on Apex LDC's behalf, consulting services and

administrative costs. In certain cases persons affiliated with such associates served as officers or directors of certain Apex LDC's subsidiaries. During the year ended December 31, 1997, the total amount charged to Apex LDC by such related associates was \$7,395,441 and is included in the statement of operations under the applicable captions. In 1998 all of these associates became employees or subsidiaries of Apex LDC and are no longer considered related parties.

Two individuals, one of whom is an officer of a subsidiary and a shareholder of the Company, the second of whom is an officer of certain of the Company's subsidiaries, are shareholders and directors of Begeyge Minera Ltda. ("Begeyge"), from whom the Company has the right to purchase the Suyatal Project in Honduras for an aggregate purchase price of \$3,000,000 (see Note 10). Begeyge also served as an associate during the year ended December 31, 1997.

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(Expressed in United States dollars)

9. Cash Flow Information

A reconciliation of net earnings to cash from operations is as follows:

	Years ended December 31,			For the period December 22, 1994 (inception) through December 31, 1999
	1999	1998	1997	
Cash flows from operating activities:				
Net loss	\$(7,979,032)	\$(11,029,570)	\$(14,984,958)	\$(47,791,223)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization and depreciation	232,987	169,116	149,429	665,515
Minority interest in loss of consolidated subsidiary	—	—	—	(4,558,886)
Stock option compensation expense	100,589	—	416,562	517,151
Shares issued in consideration for services	—	—	1,524,545	1,524,545
Loss on asset disposals	9,933	—	—	9,933
Changes in operating assets and liabilities:				
(Increase) decrease in accrued interest receivable	65,213	(23,920)	(102,412)	(61,119)
(Increase) decrease in prepaid expenses and other assets	896,137	(229,572)	(813,825)	(301,485)
Increase in value added tax recoverable	(1,084,657)	(1,374,799)	(1,351,004)	(3,810,460)
(Increase) decrease in amounts due from affiliates	—	722,717	(1,254,800)	—
Increase (decrease) in accrued salaries, wages & benefits	(36,692)	114,064	(269,933)	118,108
Increase (decrease) in accounts payable and other accrued liabilities	(520,182)	205,331	(1,302,711)	24,488
Increase (decrease) in other assets	27,095	(16,500)	(1,192)	10,595
Net cash used in operating activities	\$(8,288,609)	\$(11,463,133)	\$(17,990,299)	\$(53,652,838)

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(Expressed in United States dollars)

10. Commitments and Contingencies

Commitments

The Company will be required to make expenditures in the following amounts to maintain its interests in the San Cristobal property.

	2000	2001	2002	2003	2004
San Cristobal	\$ 790,932	\$ 444,142	\$ 435,224	\$ 426,182	\$ 353,139

The Company has lease commitments associated with the corporate headquarters office space as follows:

	2000	2001	2002	2003	2004
Corporate headquarters office lease	\$ 225,579	\$ 187,987	\$ —	\$ —	\$ —

Payments associated with this lease were recorded to rent expense by the Company in the amounts of \$146,714, \$140,650, and \$102,384 for the years ended December 31, 1999, 1998 and 1997 respectively.

Contingencies

The Company holds the rights to a portfolio of properties and explores and evaluates the mineral potential of these properties on an ongoing basis. The Company's rights to maintain interests in these properties are contingent upon the payment of certain fees, lease and option payments and/or performance of work commitments. The Company would be required to make payments or expenditures in the following amounts should it decide to continue the rights to the following properties:

Property	2000	2001	2002	2003	2004
Bolivia					
Ximena Group	\$ 129,163	\$ 119,163	\$ 9,163	\$ 9,163	\$ 9,163
Pulacayo	18,000	18,000	18,000	18,000	18,000
General	24,890	24,890	24,890	24,890	24,890
Honduras					
Sabanetas	65,000	50,000	50,000	50,000	50,000
Mexico					
Saltillera and Platosa ⁽¹⁾	700,000	1,100,000	1,200,000	975,000	—
San Luis Cordero	269,000	469,000	669,000	869,000	1,126,500
San Juan Cordero ⁽²⁾	137,000	218,000	390,000	1,560,000	148,000
General	44,900	49,900	34,900	34,900	34,900
Peru					
Otuzco ⁽³⁾	54,798	54,798	54,798	54,798	54,798
Aventura ⁽⁴⁾	15,689	15,689	15,689	15,689	15,689
General	19,600	19,600	19,600	19,600	19,600
Total	\$ 1,478,040	\$ 2,139,040	\$ 2,486,040	\$ 3,631,040	\$ 1,501,540

⁽¹⁾ With the final payment in 2003 the Company would own 65% of these properties. Included in the payment schedule is \$1,775,000 in lease payments and \$2,570,000 of work commitments.

⁽²⁾ The Company would pay an additional \$462,000 in February 2004 if it exercised a purchase option associated with certain portions of the property. In lieu of this payment, the Company may elect to pay a 2.5% net smelter return not to exceed \$1,250,000.

⁽³⁾ The Company would pay an additional \$550,000 if it exercised purchase options associated with certain portions of the property.

⁽⁴⁾ The Company would pay an additional \$90,000 if it exercised purchase options associated with certain portions of the property.

Notes to the Consolidated Financial Statements

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11. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, VAT recoverable, accounts payable, other current liabilities and long-term debt. Except for the VAT and long-term debt, the carrying amounts of these financial instruments

approximate fair value due to their short maturities. The estimated fair values of the Company's long-term financial instruments, as measured on December 31, 1999 and 1998, are as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
VAT recoverable	\$ 3,810,460	\$ 2,999,445	\$ 2,725,803	\$ 2,145,645
Notes payable	3,137,368	2,402,260	1,966,588	1,449,227

The fair values of the VAT recoverable and the long-term debt are estimated based on the expected timing of future cash flows.

12. Segment Information

In 1998, the Company adopted SFAS 131, "Disclosure about Segments of an Enterprise and Related Information." The Company's sole activity is exploration for and development of silver

properties and, consequently, the Company has only one operating segment—mining.

Substantially all of the Company's long-lived assets are in Bolivia.

Stock Market Information

Our Company's Ordinary Shares are listed on the American Stock Exchange under the symbol "SIL." Our warrants are listed on the American Stock Exchange under the symbol "SIL.WS," and began trading on February 25, 2000. As of March 31, 2000, we had approximately 140 shareholders of record and an estimated 3,000 additional beneficial holders whose Ordinary Shares were held in street name by brokerage houses.

Our Company has never paid any dividends on its Ordinary Shares and expects for the foreseeable future to retain all of its earnings from operations for use in expanding and developing its business. Any future decision as to the payment of dividends will be at the discretion of our Board of Directors and will

depend upon our earnings, receipt of dividends from our subsidiaries, financial position, capital requirements, plans for expansion and such other factors as our Board of Directors deems relevant.

The following table sets forth the high and the low sale prices per share of our Ordinary Shares for the periods indicated. The closing price of the Ordinary Shares on March 31, 2000 was \$10 $\frac{1}{8}$.

Period	Ordinary Shares			
	1999		1998	
	High	Low	High	Low
1st Quarter	\$10 $\frac{3}{4}$	\$ 7 $\frac{3}{8}$	\$14 $\frac{1}{8}$	\$10 $\frac{5}{8}$
2nd Quarter	\$13 $\frac{1}{4}$	\$10 $\frac{1}{16}$	\$12 $\frac{3}{4}$	\$ 9 $\frac{3}{8}$
3rd Quarter	\$15 $\frac{1}{4}$	\$10 $\frac{3}{4}$	\$10 $\frac{5}{16}$	\$ 6 $\frac{3}{4}$
4th Quarter	\$15	\$11	\$ 9 $\frac{3}{8}$	\$ 7 $\frac{1}{2}$