

Consolidated Balance Sheet

(Expressed in United States dollars)

Years ended December 31,	2000	1999
Assets		
Current assets		
Cash and cash equivalents	\$ 61,103,263	\$ 96,296,577
Accrued interest receivable	214,259	61,119
Prepaid expenses and other assets	227,764	301,485
Current assets	61,545,286	96,659,181
Property, plant, and equipment (net)	77,351,505	50,561,766
Value added tax recoverable	5,024,021	3,810,460
Other	132,739	45,997
Total assets	\$144,053,551	\$151,077,404
Liabilities and Shareholders' Equity		
Current liabilities		
Accrued salaries, wages and benefits	\$ 159,465	\$ 118,108
Accounts payable	2,398,064	2,092,477
Current portion of notes payable	1,703,712	901,459
Current liabilities	4,261,241	3,112,044
Notes payable	1,896,396	3,137,368
Commitments and contingencies (Note 10)	—	—
Shareholders' equity		
Ordinary Shares, \$.01 par value, 75,000,000 shares authorized; 34,486,629 and 34,466,168 shares issued and outstanding, respectively (Note 1e)	344,866	344,662
Contributed surplus	192,742,800	192,274,553
Accumulated deficit	(55,191,752)	(47,791,223)
Total shareholders' equity	137,895,914	144,827,992
Total liabilities and shareholders' equity	\$144,053,551	\$151,077,404

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
	2000	1999	1998	December 22, 1994 (inception) through December 31, 2000
Income				
Interest and other income	\$ 5,652,010	\$ 1,113,547	\$ 2,444,357	\$ 11,223,697
Total income	5,652,010	1,113,547	2,444,357	11,223,697
Expenses				
Exploration	4,440,931	6,013,535	9,965,999	52,607,640
Administrative	8,375,859	2,846,057	3,338,812	17,465,431
Amortization and depreciation	235,749	232,987	169,116	901,264
Total expense	13,052,539	9,092,579	13,473,927	70,974,335
Loss before minority interest	(7,400,529)	(7,979,032)	(11,029,570)	(59,750,638)
Minority interest in loss of consolidated subsidiary	—	—	—	4,558,886
Net loss for the period	\$ (7,400,529)	\$ (7,979,032)	\$(11,029,570)	\$(55,191,752)
Net loss per Ordinary Share— basic and diluted⁽¹⁾				
	\$ (0.21)	\$ (0.29)	\$ (0.42)	\$ (2.31)
Weighted average Ordinary Shares outstanding (Notes 1e and 2h)				
	34,472,548	27,601,362	26,212,009	23,894,940

⁽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

	Shares Outstanding	Amount	Contributed Surplus	Accumulated Deficit and Comprehensive Deficit	Total Shareholders' Equity
Issuance of shares upon incorporation, December 22, 1994 (\$0.85 per share)	8,822,546	\$ 88,225	\$ 5,571,398	\$ —	\$ 5,659,623
Net 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 (\$8.00 per share)	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 (\$11.00 per share)	268,496	2,685	2,950,771	—	2,953,456
Issuance of shares to associates (\$11.00 per share)	138,595	1,386	1,523,159	—	1,524,545
Issuance of shares for services (\$1.49 per share)	115,207	1,152	231,566	—	232,718
Stock option compensation expense	—	—	416,562	—	416,562
Issuance of shares upon Initial Public Offering (\$11.00 per share)	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 (\$7.91 per share)	25,001	250	197,473	—	197,723
Stock awards (\$8.50 per share)	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 (\$8.77 per share)	25,549	256	223,900	—	224,156
Sale of Ordinary Share units (\$12.00 per share)	8,090,132	80,901	94,004,628	—	94,085,529
Commissions paid in stock (\$12.00 per share)	84,184	842	(842)	—	—
Stock awards (\$12.06 per share)	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
Stock compensation (\$10.88 per share)	5,100	51	55,412	—	55,463
Stock awards (\$9.13 per share)	15,361	153	140,168	—	140,321
Unearned compensation	—	—	272,667	—	272,667
Net loss and comprehensive loss	—	—	—	(7,400,529)	(7,400,529)
Balance, December 31, 2000	34,486,629	\$ 344,866	\$ 192,742,800	\$ (55,191,752)	\$ 137,895,914

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
	2000	1999	1998	December 22, 1994 (inception) through December 31, 2000
Cash flows from operating activities:				
Net cash used in operating activities (See Note 9)	\$ (7,243,649)	\$ (8,288,609)	\$ (11,463,133)	\$ (60,896,487)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(27,510,946)	(15,705,206)	(19,085,903)	(68,760,351)
Net cash used in investing activities	(27,510,946)	(15,705,206)	(19,085,903)	(68,760,351)
Cash flows from financing activities:				
Net proceeds from issuance of				
Ordinary Shares	—	94,085,529	—	191,761,070
Payment of notes	(438,719)	(236,534)	(464,639)	(1,139,892)
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	(438,719)	94,073,151	(266,916)	190,760,101
Net increase (decrease) in cash and cash equivalents	(35,193,314)	70,079,336	(30,815,952)	61,103,263
Cash and cash equivalents beginning of period	96,296,577	26,217,241	57,033,193	—
Cash and cash equivalents end of period	\$ 61,103,263	\$ 96,296,577	\$ 26,217,241	\$ 61,103,263
Supplemental non-cash transactions:				
Acquisition of mining properties for assumption of debt	\$ —	\$ 260,000	\$ —	
Capitalized development costs at San Cristobal for which a note payable was issued	\$ —	\$ 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 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. 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 its subsidiaries.
- 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 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 34,486,629 Apex Limited Ordinary Shares outstanding at December 31, 2000. At December 31, 2000, 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.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

- 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 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 a warrant which is exercisable into one-half of an 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 4,045,066 Ordinary Shares.
- g. The Company, through indirect subsidiaries, is active in Mexico, Central America and South America and currently holds interests in, or is the beneficial owner of, non-producing silver resource properties in 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.

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 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

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

have been capitalized. As of December 31, 2000, capitalized property and development costs related to the San Cristobal Project amounted to \$72,819,859. No other amounts related to mineral properties have been capitalized.

e. Property, plant and equipment

Mineral properties include costs to acquire development properties and property development costs. Mineral properties brought into production are charged to operations using the units-of-production method based on estimated recoverable reserves. Buildings are stated at cost and are depreciated using the straight-line method over useful lives of thirty to forty years. Mining equipment and machinery are stated at cost and are depreciated using the straight-line method over useful lives of three to eight years. Other furniture and equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to five 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 estimated 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 1,498,128, 915,817 and 626,571 Ordinary Shares were not included in the computation of diluted earnings per share at December 31, 2000, 1999, and 1998 respectively, because to do so would have been antidilutive.

i. Derivative financial instruments

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

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(Expressed in United States dollars)

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 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 engages in limited metals trading activities utilizing puts and calls and we mark the open positions to market recording the difference in the carrying value to current earnings, in accordance with FAS 133, which will be effective January 1, 2001. During 2000, the Company recorded mark to market gains of approximately \$446,000, which is included in interest and other income in the Consolidated Statement of Operations.

j. Reclassification of prior year balances

Certain prior year balances have been reclassified to conform to the classifications being presented at December 31, 2000.

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, 2000 and 1999, operating loss carryforwards generated by ASC Bolivia amounted to approximately \$16.6 and \$16.1 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, 2000 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 of approximately \$15.9 million.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

4. Value Added Tax Recoverable

The Company has recorded value added tax ("VAT") paid in Bolivia and Mexico as recoverable assets. Bolivian law states that VAT paid prior to production is recoverable as a credit against Bolivian taxes arising from production, including income tax. The VAT paid in 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. The VAT paid in Mexico is related to exploration activities and is recoverable upon application to the tax authorities.

The Company has received VAT refunds relating to VAT paid in Mexico through 1998. Applications for refund of the remaining VAT paid in Mexico through 2000 have been filed and payment is expected in due course. At December 31, 2000, the recoverable VAT recorded for Bolivia and Mexico is \$4,731,003 and \$293,018, respectively.

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

5. Property, Plant and Equipment

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

December 31,	2000	1999
Mineral properties	\$72,819,859	\$48,056,283
Buildings	1,166,868	1,137,173
Mining equipment and machinery	3,317,827	1,267,679
Other furniture and equipment	805,289	765,241
	78,109,843	51,226,376
Less: Accumulated depreciation	(758,338)	(664,610)
	\$77,351,505	\$50,561,766

Depreciation expense for the periods ended December 31, 2000, 1999 and 1998 totaled \$210,278, \$176,395 and \$112,471, respectively. For the periods ended December 31, 2000, 1999 and 1998 respectively, \$195,505, \$168,461 and \$135,561 of depreciation associated with the San Cristobal Project was capitalized.

6. Notes Payable

The Company's Notes Payable consists of the following:

December 31,	2000	1999
San Cristobal area properties	\$1,847,369	\$2,238,827
San Cristobal Foundation	1,752,739	1,800,000
Sub-total	3,600,108	4,038,827
Less current portion	(1,703,712)	(901,459)
	\$1,896,396	\$3,137,368

In 1996, 1997 and 1998 the Company exercised options to purchase the Toldos and other properties

in the San Cristobal area. The following outstanding notes payable were recorded on the Company's books:

Banco de Santa Cruz – The Company will make annual payments of \$68,914 for each of the next five years, plus interest at Banco de Santa Cruz' preferential rate of interest which was approximately 14% as of December 31, 2000. The note plus accrued interest was being carried on the Company's books for \$344,571 at December 31, 2000.

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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 \$512,000 at December 31, 2000.

Oscar Bonifaz – The note was being carried on the Company's books for \$60,000 at December 31, 2000. No interest is due on this debt. The note will be repaid in 2001.

San Cristobal Foundation – In 1999 the Company executed a note agreement with the San Cristobal Foundation for \$2 million payable by the end of 2005. Payments in the amount of \$47,261 and \$200,000 were made on the note during 2000 and 1999 respectively.

7. Stock Option Plans

The Company has established a plan to issue share options and other awards to be valued 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.

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(Expressed in United States dollars)

A summary of our Company's stock options at December 31, 2000, 1999, and 1998 and changes during those years is presented in the following table:

Options	2000		1999		1998	
	Number of Shares	Average Price Per Share	Number of Shares	Average Price Per Share	Number of Shares	Average Price Per Share
Outstanding beginning of period	915,817	\$ 9.98	626,571	\$ 8.84	455,625	\$ 8.00
Granted during period	582,311	\$ 9.79	358,847	\$11.76	195,947	\$10.69
Forfeited or expired during period	—	—	(44,052)	\$ 8.97	—	—
Exercised during period	—	—	(25,549)	\$ 8.77	(25,001)	\$ 7.91
Outstanding end of period	1,498,128	\$ 9.91	915,817	\$ 9.98	626,571	\$ 8.84
Exercisable at end of period	713,602		563,898		391,222	
Weighted average fair value of options granted during period		\$ 1.76		\$ 1.36		\$ 1.98
Weighted average remaining contractual life	8.0 years		8.3 years		8.3 years	

Options granted during 2000, 1999 and 1998 ranged in exercise price from \$9.13 to \$11.63, \$7.94 to \$14.88 and \$8.25 to \$12.75, respectively.

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 for the three years presented is based on the historical volatility of the Company's stock over its public trading life. The 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,	2000	1999	1998
Weighted average risk-free interest rate	6.21%	5.64%	5.55%
Volatility	40.50%	42.10%	48.10%
Expected dividend yield	—	—	—
Weighted average expected life (in years)	2.83	2.73	2.53

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,	2000	1999	1998
As reported			
Net loss	\$(7,400,529)	\$(7,979,032)	\$(11,029,570)
Net loss per Ordinary Share	\$ (0.21)	\$ (0.29)	\$ (0.42)
Pro forma			
Net loss	\$(8,837,116)	\$(8,509,350)	\$(11,548,400)
Net loss per Ordinary Share	\$ (0.26)	\$ (0.31)	\$ (0.44)

In addition, on December 13, 2000, December 14, 1999 and December 15, 1998, the Company issued 15,361, 15,542 (net of forfeitures) and 21,838 respectively of its Ordinary Shares to employees as a portion of performance bonuses paid during these years.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

8. Related Party Transactions

Apex LDC engaged Tigris Financial Group Ltd. (“Tigris”) 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. The consulting arrangement with Tigris was terminated at the end of 1999. During the years ended December 31, 1999 and 1998 fees and reimbursed expenses paid to Tigris for such services amounted to \$20,495 and \$39,637 respectively.

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.

9. Cash Flow Information

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

	Years ended December 31,			For the period
	2000	1999	1998	December 22, 1994 (inception) through December 31, 2000
Cash flows from operating activities:				
Net loss	\$(7,400,529)	\$(7,979,032)	\$(11,029,570)	\$(55,191,752)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization and depreciation	235,749	232,987	169,116	901,264
Minority interest in loss of consolidated subsidiary	—	—	—	(4,558,886)
Stock option compensation expense	468,451	100,589	—	985,602
Shares issued in consideration for services	—	—	—	1,524,545
Changes in operating assets and liabilities:				
(Increase) decrease in accrued interest receivable	(153,140)	65,213	(23,920)	(214,259)
(Increase) decrease in prepaid expenses and other assets	(13,021)	896,137	(229,572)	(314,506)
Increase in value added tax recoverable	(1,213,561)	(1,084,657)	(1,374,799)	(5,024,021)
(Increase) decrease in amounts due from affiliates	—	—	722,717	—
Increase (decrease) in accrued salaries, wages and benefits	41,357	(36,692)	114,064	159,465
Increase (decrease) in accounts payable	305,587	(520,182)	205,331	330,075
Other increase (decrease)	485,458	37,028	(16,500)	505,986
Net cash used in operating activities	\$(7,243,649)	\$(8,288,609)	\$(11,463,133)	\$(60,896,487)

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

10. Commitments and Contingencies

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

	2001	2002	2003	2004	2005
Corporate headquarters office lease	\$187,987	\$ —	\$ —	\$ —	\$ —

Payments associated with this lease were recorded to rent expense by the Company in the amounts of \$203,759, \$146,714 and \$140,650 for the years ended December 31, 2000, 1999 and 1998 respectively.

11. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, value added tax recoverable, accounts payable, other current liabilities and long-term debt. Except for the value added tax recoverable 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, 2000 and 1999, are as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Value added tax recoverable	\$ 5,024,021	\$4,283,122	\$ 3,810,460	\$ 2,999,445
Notes payable	1,896,396	1,532,900	3,137,368	2,402,260

The fair values of the value added tax 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.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

13. Quarterly Results of Operations (Unaudited)

The following table summarizes our Company's quarterly results of operations for the years ended December 31, 2000 and 1999:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Interest and other income	\$ 1,734,862	\$ 1,421,052	\$ 1,382,814	\$ 1,113,282
Net loss for the period	723,296	1,888,071	2,148,069	2,641,093
Net loss per Ordinary Share— basic and diluted	\$ 0.02	\$ 0.05	\$ 0.06	\$ 0.08
1999				
Interest and other income	\$ 255,239	\$ 233,348	\$ 87,698	\$ 537,262
Net loss for the period	2,439,552	2,087,444	2,230,055	1,221,981
Net loss per Ordinary Share— basic and diluted	\$ 0.09	\$ 0.08	\$ 0.08	\$ 0.04

Stock Market Information

Our Company's Ordinary Shares are listed on the American Stock Exchange under the symbol "SIL." Our warrants also are listed on the American Stock Exchange under the symbol "SIL.WS." As of March 7, 2001, we had approximately 130 shareholders of record and an estimated 3,500 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 7, 2001 was \$8.90.

Period	Ordinary Shares			
	2000		1999	
	High	Low	High	Low
1st Quarter	\$12	\$9	\$10 ³ / ₄	\$ 7 ³ / ₈
2nd Quarter	\$12 ⁷ / ₈	\$8 ³ / ₄	\$13 ¹ / ₄	\$10 ¹ / ₁₆
3rd Quarter	\$10 ⁵ / ₈	\$8 ³ / ₄	\$15 ¹ / ₄	\$10 ³ / ₄
4th Quarter	\$10 ⁷ / ₁₆	\$8 ³ / ₈	\$15	\$11