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San Cristobal: Premier Mining Project

2000 Accomplishments Accomplishments in the year 2000 significantly enhanced the value of our flagship project, San Cristobal. Positive metallurgical improvements substantially increased projected metal output and drove cash production costs even lower, making one of the world's premier mining projects even better. With over 90 percent of total concentrate production under letters of intent with smelters throughout the world, marketing efforts now exceed financing requirements regarding product placement. Significant camp construction activities, including a potable water treatment facility and local road improvements, prepared the site for building the mine. Negotiations on key infrastructure issues, including anticipated selection of the most attractive power provider and port facilities for the Project, progressed during the year.

To Our Shareholders

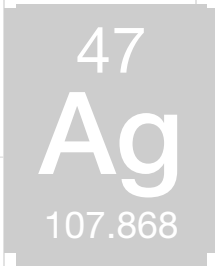
Thomas S. Kaplan
Chairman,
Apex Silver Mines Limited
Chief Executive Officer,
Apex Silver Mines
Corporation



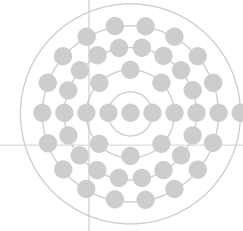
Amidst the peak of the delusional mania that characterized the early part of the year 2000, I had the good fortune to lunch with a rather extraordinary market watcher and fund manager. Having just made a brilliant call on the oil and palladium markets, he forecast that within a year the price of Apex's stock would intersect with that

of a well known on-line bookseller whose shares were then vigorously being purchased at a price easily six or seven times higher than ours. Would their shares fall or ours rise, I asked? The answer to that, he ventured, was "both" but that this was less important for the moment: the fact was that companies with real assets and real barriers to entry would soon start outperforming the "bubble companies" and that, in any event, Apex's unique asset base would lead the shares to multiply in value over time. Bullish as I was on Apex's future prospects, I was nonetheless well aware that mining companies were not presently welcome anywhere near the investment firmament. I thus smiled benignly and asked the bartender to pour me whatever my friend was drinking. On February 28, 2001, my friend's prediction came true.

The mania that inspired business plans the size and intellectual weight of paper napkins was of a unique kind. As Warren Buffett put it at the time, "there's no question that in the past year, the ability to monetize shareholder ignorance has never been exceeded". Indeed, in last year's letter to shareholders, with tongue planted firmly in cheek, we pointedly suggested that "overstretched bubble

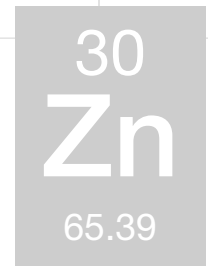
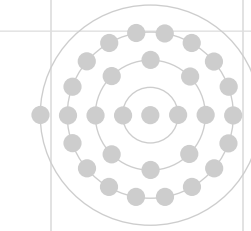


Silver derives its chemical symbol, Ag, from the Latin word *argentum*, which means silver.



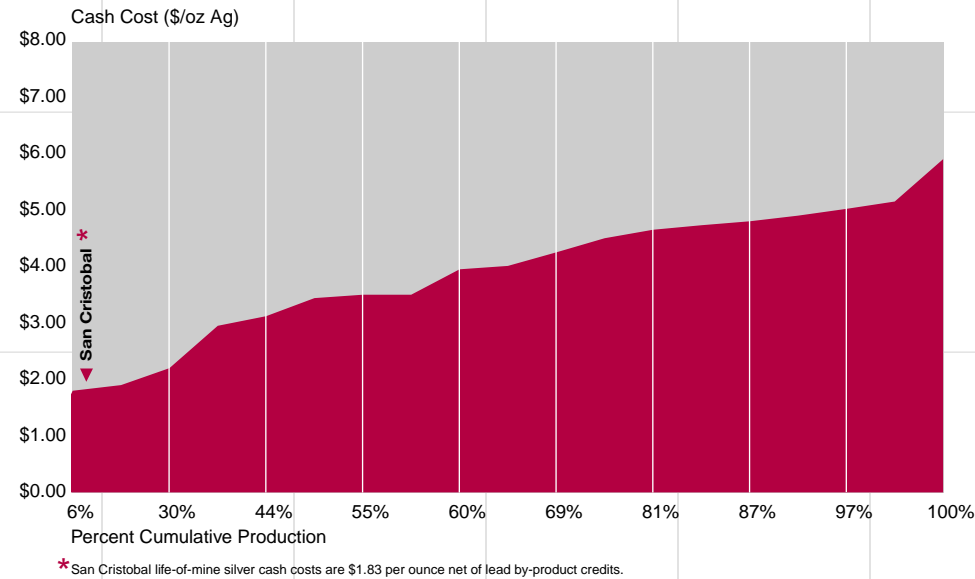
Native Elements: The Periodic Table

The periodic table is a useful device for organizing the chemistry of the elements. It is based on the periodic law, which states that properties of elements recur periodically when arranged in order of increasing atomic number. Elements located in the same group, or vertical column, display similar reactive tendencies due to the number of free electrons in their outer shell.



Long before zinc was recognized as a separate metal in the late 14th century, the Romans used its ores to produce brass.

2000 Primary Silver Mine Production



In his annual report to shareholders, the triumphantly vindicated Mr. Buffett wrote that "we have embraced the 21st century by entering cutting edge industries such as brick, carpet, insulation and paint. Try to contain your excitement". Can the rehabilitation of silver and zinc, both of which enjoy strong long-term fundamentals, be far behind gypsum's? Which begs the additional question: what is the fundamental value of a unique asset like San Cristobal that

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Metallurgical Recoveries Improved

Under Mac DeGuire's talented guidance, and with the full supervision of our engineers and auditors, improvements to the metallurgical flowsheet resulted in significant improvements in the recovery of all metals, especially silver. For the first five years of production, recoveries are now projected to average 77 percent for silver, 92 percent for zinc and 89 percent for lead,

which represents a substantial increase from the constant Feasibility Study recoveries of 69 percent for silver, 91 percent for zinc and 75 percent for lead. Updated life-of-mine recoveries now average 75 percent for silver, 92 percent for zinc and 87 percent for lead. In addition, initial bench scale tests on "flash flotation" have also proved encouraging and a decision was made to

invest in a flash flotation circuit that we believe will further enhance silver recoveries. With metallurgical modifications costing less than \$9 million, these improvements should provide a superior return on investment, with capital payback of less than 6 months, not including additional anticipated returns from flash flotation recoveries.

2000

Accomplishments

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Project Economics Show Across the Board Gains

As part of the Company's ongoing efforts to optimize our San Cristobal assets, Apex was pleased to report in late 2000 that positive metallurgical and operational design improvements occurring subsequent to completion of the Feasibility Study have exceeded Feasibility Study assumptions and have further enhanced San Cristobal's forecast status as being one of the lowest cost producers of silver and zinc in the world. For the first five years of production, the average cash operating cost per ounce of silver, net of lead by-product credits, is projected to be \$1.23 and the average cash operating cost per pound of zinc is projected to be \$0.23, significantly lower than the Feasibility Study estimates of \$1.59 per ounce of silver and \$0.26 per pound of zinc. Life-of-mine cash costs are now forecast to average approximately \$1.83 per ounce of silver and \$0.27 per pound of zinc.

contains one of the world's greatest storehouses of vital raw materials required by people the world over? With half a billion ounces of open pit silver and nine billion pounds of low cost zinc in reserves...and likely considerably more resources than that...it is a treasure in every sense of the word. Certainly it must be worth more than failed dot.coms whose values have fallen 95 percent or more from their highs. As of this writing, remarkably, it still is not. Valuations, therefore, still have a way to go before being in alignment. As a result, while we have done no less well in the market than others in our sector - and considerably better than most - we cannot be satisfied with relative outperformance.

Even so, it is clear that, after a "lost year", the mining sector is now back on investors' radar screens in a way that it hasn't been since mid-1999. That time marked the beginning of a bull move that resulted in a doubling of Apex's share price within months. In conversations I have had with fund managers across the world, there is a renewed appreciation for companies with real assets in industries with genuine barriers to entry. They like the idea of world-class assets with major reserves and lowest-decile production costs. And they like the idea that an asset like San Cristobal can't be duplicated in a Silicon Valley garage...that it has real *Scarcity Value*. Indeed the barriers to entry in mining, already high, are only getting higher. With exploration expenditures continuing to plunge, both from the majors as well as the practically extinct junior mining sector, the uniqueness of an already proven reserve which has progressed well beyond feasibility in a first tier mining region will surely render Apex's vast asset base that much more valuable in the coming period.

The year 2000 certainly marked a period of strong progress in the advancement of Apex's San Cristobal Project and, as such, your Company's ambition to position itself as the world's premier investment opportunity in silver and zinc. As a company-making project, San Cristobal only gets better. With almost continuous validation of the Project's merits, last year's accomplishments, as highlighted in the silver boxes below, confirmed San Cristobal's emergence as one of the new century's most promising mining projects...and that it stands poised to reap the benefits of a new and more bullish cycle in mining shares.

Apex is being rewarded for its accomplishments with a more valuable asset. Indeed, as one well known hedge fund manager

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Projected Metal Output Raised

With the new metallurgical numbers, and at the designed production rate of 40,000 tonnes of ore per day, San Cristobal's first five full years of projected production has now increased to an average 27 million ounces of contained silver annually, while zinc production during this period has increased to an average 570 million pounds contained in concentrates. These enhanced results reinforce the already strong economic returns of the Project and reconfirm that the San Cristobal Project should be one of the three largest, as well as lowest cost, producers of both silver and zinc in the world. Modifications to the Feasibility Study also encompassed moves to allow for an efficient future transition to Phase Two of San Cristobal development, which is anticipated to be at 60,000 tonnes of ore per day, or 50 percent more than is planned for Phase One. With the exploration potential of the San Cristobal open pit, and the San Cristobal District itself, open in many directions, future reserve increases to support a transition to Phase Two are believed to be highly likely.

Project Engineering Passes 50 Percent Mark

In 2000, a comprehensive bidding process was undertaken to advance our project engineering. The selection of Kvaerner Metals to provide detailed engineering, procurement and construction (EPC) services was accomplished on terms which further validate the robustness of the Project's technical strength. As a consequence of the substantial input from several of the world's leading independent engineering firms, the overall project engineering now stands at 65 percent complete, an unusually high level of detail for a mining project at this stage of development.

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phrased it, we own perhaps the richest unexpiring silver warrant (and perhaps zinc warrant as well) yet created. In fact, seen through that prism, Apex's shares are really a "super warrant"; they represent not just a call on our "underlying", the existing reserves, but on an immediately accessible resource base that could conceivably be a multiple of that. Add in that we have substantial cash, and add as well the value of our non-San Cristobal exploration assets that as recently as 1996 had a valuation (with an arguably smaller and poorer portfolio) of several dollars per share, and the attractiveness of our equity is that much more apparent.

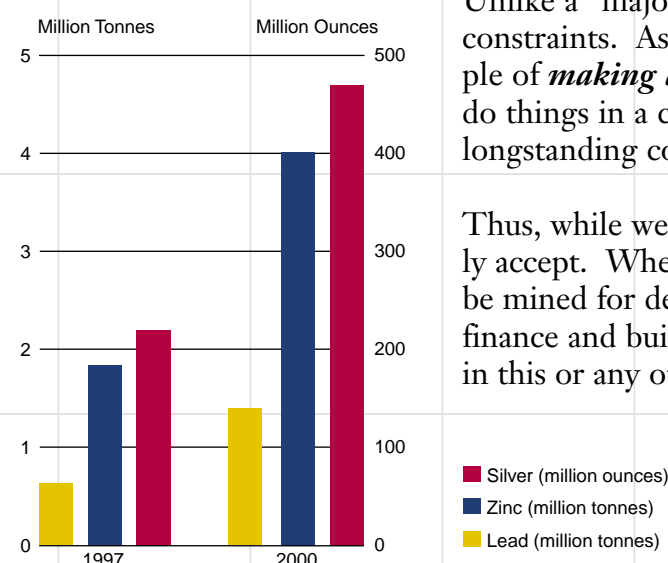
The combination of large reserves with the inherent cost advantages of San Cristobal's open pit characteristics has thus contributed to our favorable outlook as both a premier "value play" and, at the same time, as the leading "growth stock" in our sector. There are not too many of those left in the mining industry - especially independent ones. As can already be seen on the project financing front, we remain one of the very few large-scale mining projects in development today. As the pipeline has slowed to a trickle, San Cristobal's low-cost structure renders it, as they say, "one of the only games in town".

Advancing a project in this environment meant that there were numerous milestones that needed to be achieved over the course of the year: tenders, metallurgical optimizations and government negotiations, to name a few. One by one, these milestones are being met. This is not to say that the process is easy.

When a company of our size develops the largest project of its kind - even in a great mining country like Bolivia - there are bound to be challenges. Unlike a "major", we don't have the luxury of being able to ignore financial constraints. As a young company deeply committed to its founding principle of *making a lot of money* for its shareholders, we have no choice but to do things in a certain way to "not cut corners" and "do it right", as our longstanding corporate mottos have espoused.

Thus, while we could be chided for taking our time, it's a ribbing I will gladly accept. When one considers that a deposit like San Cristobal is likely to be mined for decades, it stands to reason that it is best to plan it - as well as finance and build it - right. In the end, of course, as those with experience in this or any other industry know, that's the only way to do anything. This

San Cristobal Reserves



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Continued Exploration Success at San Cristobal

As our understanding of the San Cristobal deposit's genesis and potential extent has evolved, it is now clear that the San Cristobal deposit, which remains open laterally as well as to depth, is potentially larger than our existing reserves. Perhaps much larger. Regional exploration activities in 2000 in the San Cristobal District significantly expanded the size of the geologic model used in assessing the deposit and added further foundation to our view that "the next San Cristobal is at

San Cristobal". Whereas previous San Cristobal geologic models assumed the size of the volcanic depression hosting the primary silver and zinc deposits to be approximately 4 kilometers in diameter, it has now been expanded to encompass an area approximately 7.5 kilometers by 4.0 kilometers. In addition to the primary deposits themselves, geological work was advanced on a number of attractive satellites and large drill targets within our wholly-owned San Cristobal District.

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Contract Mining Costs and Future Capital Needs Lowered

Project economics have also been impacted positively by improved contract mining terms. After a bidding process, led by Mike Shaw, that saw strong competition and close pricing from all contenders, the bids came in approximately 15 percent lower than the contract mining costs assumed in the Feasibility Study. The Company now anticipates that it is economically viable for it to use contract mining services for the life of the mine. This differs substantially from the Feasibility Study, which assumed San Cristobal converted to owner mining after five years of operation. By eliminating the approximately \$53 million in mining capital which had been assumed for conversion to owner mining, while at the same time retaining the Feasibility Study's low-cost operating economics, the year's results represent a significant enhancement to the Company's original plans.

is especially true when one is assembling a project that has the potential to redefine the cost structure of silver and zinc production. Having come into this business as an outsider, my objective view has been that most of the wealth destruction that takes place in this industry comes from inadequate work on the front end. All of us can cite examples of really great assets that have been mangled by too hasty planning and thus inadequate execution. In sum, our attitude is “Do it Right” the first time and one will be repaid on the back-end many times over with a more lucrative asset.

That attitude permeates the whole of our management philosophy. As sole owners of a unique asset with extraordinary scarcity value, we have no intention of squandering our future earnings power by developing the project on terms we believe might be unattractive for our shareholders. You can be assured that we regard our equity to be as precious as our metal...and that we will not give either one away as so many other mining companies have done by financing at the bottom of a cycle. Quite simply, we don't need to. With what is arguably the most attractive institutional-quality silver and zinc investment vehicle in the marketplace today, we believe that the cycle is clearly on our side. With the fundamentals building powerfully for higher prices for both of our metals, and the present low price environment ravaging higher cost and less well-capitalized producers, we have the supreme luxury of biding our time and seeking out the most advantageous entry point into production as we advance our project. That may sound more than a bit mercenary to some but, as I said, all we care about is *making a lot of money* for our shareholders and other stakeholders. The fact that our chosen business happens to be mining is incidental to our goal of multiplying our share price over time. As one very astute industry observer counseled me, “You've got a truly unique asset in a world where great silver and zinc assets are few and where the pipeline of projects is practically non-existent; don't waste it. After all, it isn't going anywhere: it isn't steam.” Wise words. We are fortunate to be able not only to espouse this strategy, but also to live by it. We have practically no outstanding debt. And, now that the major elements of the pre-construction phase have been put into place, our burn rate is slowing to a normalized level of several million dollars a year (net of interest income) on what will be in excess of \$40 million in cash. In a mining industry environment that some have compared to a “death watch”, we enjoy an exceptional vantage point from which to manage our plentiful cash reserves and low expenses while anticipating what we believe will be a powerful bull market in exceptional mining assets. As we like to say, “he who survives will revive”. Meanwhile, every step we are taking along the value chain enhances shareholder value even in a tough metals environment. Are we saying

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Marketing Efforts Successful

With long-lived reserves and, very importantly, clean concentrates that enjoy high metal content, the marketing of San Cristobal's concentrates under the experienced stewardship of Ed LeBlanc has significantly exceeded the Company's assumptions. Whereas it had been expected in the Feasibility Study that the banking group would require that approximately 80 percent of San Cristobal's future silver-rich zinc and lead concentrate production be placed under long-term purchasing contracts, as of year-end 2000 more than 90 percent of San Cristobal's projected output of both products has been placed under letters of intent with smelters throughout the world. Depending on future market conditions, uncommitted production will either be sold in the spot market or absorbed into additional quantity clauses contained in smelting contracts.

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San Cristobal Site Development Begins; Infrastructure Advances

Under Johnny Delgado's leadership, our in-country subsidiary, ASC Bolivia, began site preparation for the commencement of mine construction, including significant progress on the camp construction, completion of the camp potable water supply, advanced process water field work with improved engineering costs and the first phase of local road improvement. After a period of delay, during which we endeavored to develop a fair and transparent procedure for choosing the Project's power supplier, the selection was placed back on-track with the Company's request on December 19, 2000 for definitive power proposals from domestic and foreign suppliers.

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The Creation of SilEx To Unlock Shareholder Value

As we advance our flagship, your management team has not forgotten that our prime responsibility is to add value to all our assets and that, over the years, the Company has acquired, staked, or joint-ventured approximately 100 holdings outside the San Cristobal District deemed to be geologically attractive. These holdings are now combined into 19 core property groups spread over approximately 700,000 acres in 6 countries. In that spirit, and to enhance shareholder value from a portfolio of undeveloped assets that would be

considered first-rate by the standards of most any mining company, in January 2001 the Company announced that its Board of Directors had approved a strategy to enhance shareholder value by consolidating Apex's non-San Cristobal exploration activities into a new subsidiary company. This will facilitate the Company's primary emphasis on the financing and construction of the San Cristobal Project, while allowing for the beginning of a more meaningful value to be realized for its other holdings. The

new entity, to be named SilEx, is intended to be a premier exploration vehicle focused on the discovery of precious metal deposits as well as polymetallic deposits containing precious metals. With the exception of the wholly owned San Cristobal District, SilEx should encompass substantially all of the Company's large and diversified property holdings. The variety of mineral targets already contained in the portfolio include silver, gold, platinum group metals and base metal deposits containing precious metals.



Apex Silver's Latin American Property Portfolio

that we won't face challenges in the months and years ahead? Of course not. Every company has plenty of them. But are we optimistic about our future? *More than ever.*

In building our corporate vision, Apex's management is fortunate to benefit from an eclectic, committed and talented Board of Directors. Their wisdom and experience in a variety of fields that add value to our enterprise were keenly felt this year. We extend our sincere appreciation to our retiring directors, Michael Comminos and Richard Katz, who contributed so much to the Company in its development. They are well missed. In particular, I wish to cite Michael Comminos' contribution as the first Chairman of the Audit Committee where he diligently saw us through our public offering and, with Ove Hoegh, has been instrumental in the implementation of our financial management regime. We are very fortunate that his successor, Kevin Morano, formerly the President and Chief Operating Officer of ASARCO, brings with him a wealth of hands-on experience in operations and finance. In addition to Mr. Morano, Charles Smith, formerly President and Chief Executive Officer of Southern Peru Copper Corporation, was also elected to our Board in 2000. With his recent hands-on experience in the building and operating of large-scale surface mines in South America, he has already made an important contribution to our Project Development Committee which, with its longstanding members Paul Soros, Harry Conger and Keith Hulley, actively works with management to oversee developments relating to the construction of the San Cristobal Project.

With deepest gratitude, I thank all our Shareholders, Directors, and Employees who, with their support, are helping to advance Apex's vision to be one of the best investments in mining today. We look forward to continuing to deliver the results that should ensure superior returns to our investors in the months and years ahead.

Thomas S. Kaplan
Chairman and Chief Executive Officer
March 23, 2001