To Our Shareholders,

Late last year, we presented Apex to a fund manager who had recently started to accumulate our shares and wished to meet with management. Midway into hearing our presentation, he asked me to stop for a moment. He was, he said, "a value stock guy".

But he thought his buddy down the hall, "a growth stock guy", should also be listening in. "Clearly Apex is a 'value play' *and* a 'growth story'; it will easily work for both portfolios."

Not being one to argue, I just smiled and wondered aloud whether there was an "emerging markets guy" in the shop as well. "Too busy right now… Argentina, you know."

Enough said.

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

As if Argentina did not represent sufficient trauma for global investors, in reality it followed a long train of dislocations in 2001: Chinese military assertiveness; rising tension between India and Pakistan; Middle Eastern hostilities; Enron's unraveling. And, of course, September 11th and financial turmoil. When these risks - most of which remain unresolved - were welded atop major market indices that were already overvalued and mining shares that were deeply undervalued, it is not so surprising that prudent men were finally coaxed into the safe harbor of real assets.

Certainly 2001 marked a turning point for precious metals equity investors. Continuing the trend of a miserable 2000, the first part of the year began in an unfriendly way; however, by the end of December mining shares were among the most rewarding market sectors globally. Although it was not clear if, as an investor paraphrasing Winston Churchill put it, we had seen the beginning of the end of the bear market in mining shares, or just the beginning of the first leg of a new bull market, the rally certainly *felt* different. While some might cynically ascribe the strength of the precious metals sector, which had only recently been derided by most pundits as "terminally ill", to the Bin Laden effect, the argument would be more persuasive if it were true; the charts clearly show that metals shares had already commenced a strong recovery well before Al Qaeda became household words.

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Fundamental Value
+ Focused Growth
= Competitive Advantage

Q How would you describe Apex's corporate philosophy?

A As sole owners of a unique asset with extraordinary scarcity value, the Apex team is very cognizant of the great opportunity we have been given to **make a lot of money** for our shareholders. With this vision at the forefront of our strategy, we are determined to develop our projects on terms, and at a time, that we believe are most attractive for our stakeholders. Which is to say that, as we regard our equity to be as precious as our metal, we are committed to give neither one away as so many mining companies have done by financing at the bottom of the cycle and thereby squandering valuable reserves and future earnings power. 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 the cycle is clearly on our side. With the fundamentals building powerfully for higher prices for both of our metals, we have the supreme luxury of biding our time and seeking out the most advantageous entry point into production as we advance our project. At the risk of being repetitious, 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 us last year, "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 low burn rate and liquidity is such that 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 for exceptional assets. As we like to say, "he who survives will revive". Meanwhile, every step we are taking along the value chain enhances shareholder value in a tough metals environment.

With the specter of risk counterbalancing since 2000 the stock market's theretofore assured certainty of reward, the role of metals and mining as a stabilizing, and even outperforming, component of investors' portfolios has subtly changed. In previous annual reports, I cited examples of fund managers being ridiculed by their peers for even *thinking* of having precious metals in their portfolios. This is no longer the case and derision and laughter have given way to mere skepticism. Trivial as that hint may appear, in today's asset management terms such a shift can be worth many *hundreds of millions* of dollars in capital flows. Skepticism, however, is often a classic anecdotal indicator of a secular trend reversal. If this is indeed the case now, **watch out**; a shift from skepticism to even mild bullishness could mean many *billions* of dollars flooding into our sector.

> Moreover, the paucity of institutional quality, "investable" names in an industry renowned for its barriers to entry has never been as pronounced as it is today.

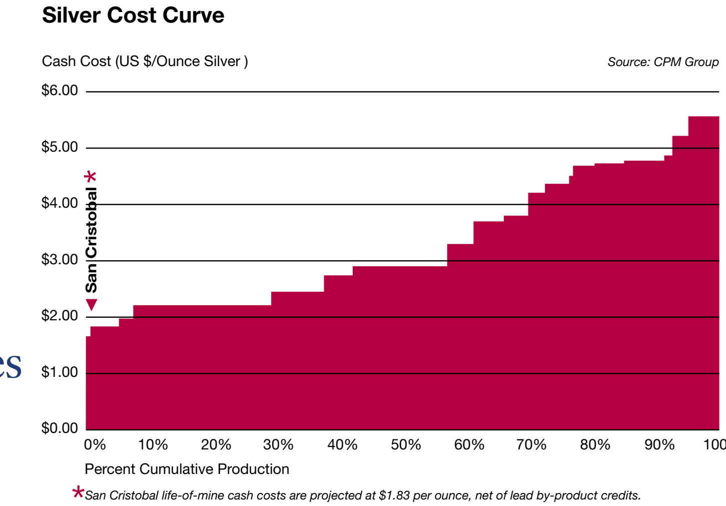
It is easy to forget that mining shares were, until relatively recently, a core holding in most diversified portfolios around the world. Thus, the notion of a reversion to the mean, that asset allocators could pivot from being ridiculously underweight to merely lightweight, is not farfetched. What is astonishing, however, is that during this recent period of disfavor, the mining sector has literally dried up. The entire market capitalization, for example, of North America's benchmark precious metals equities index, the XAU, has shrunk to the point of being roughly equivalent to that of either Qualcomm or Sun Microsystems.

Moreover, the paucity of institutional quality, "investable" names in an industry renowned for its barriers to entry has never been as pronounced as it is today. Consolidation is taking more names out of the business, particularly in precious metals, while there are practically no new entrants to take their place. This is logical, of course. In mining, unlike as is often the case in technology or biotech, one either has an asset or one does not. This is not only an unusually high barrier to entry in the context of today's markets (as investors look to place more money into fewer names); we believe that it may also represent a very powerful impetus for higher valuations for those players that remain well capitalized and asset-rich.

The forces of rationalization, which have been ravaging the silver industry for several years, are especially pronounced right now. This has been true not just in silver but in base metals like zinc, where consolidation is being superimposed onto two very bullish features: corporate bankruptcies and production cutbacks. The net result of this industrial rationalization is a further reinforcement of the argument that investors in both silver and zinc now have a narrower spectrum on which to focus their attention, which may render the scarcity value of equities to be as pronounced as the scarcity value of the metals themselves.

This trend has been good to us. At the same time as our project is redefining what a truly low-cost, large-scale producer of silver can look like, there has been greater appreciation of our Company's value from the market. Indeed, Apex's inclusion in the XAU index itself was a milestone in our positioning as a leading silver equity. This institutional validation comes on top of the expansion of our shareholder base from approximately 1,300 in March 1998 to over 6,300 today.

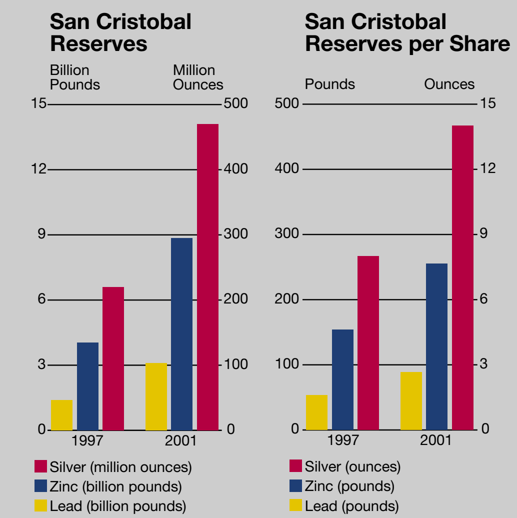
With our corporate strategy more valid now than ever before, Apex stands poised to reap the benefits of a new and more bullish cycle in mining shares. In conversations I have had with fund managers across the world, there is a renewed appreciation for companies with real assets in industries with genuine barriers to entry. They like the idea of world class assets with major reserves and the ability to provide lowest decile production costs. The combination of high volume reserves and vast exploration potential, when wedded to the inherent cost advantages of San Cristobal's open-pit characteristics, has indeed contributed to our favorable outlook as both a "value play" and, at the same time, as an exciting "growth stock". But we are unique in other ways as well. The list of world class projects owned 100 percent by an independent company in a first-tier mining region is very short if indeed, apart from a couple of developers like ourselves, it exists at all. This is not likely to change in the foreseeable future. With exploration expenditures falling globally, and with the nearly extinct junior mining sector less able to engage in aggressive mine finding, the odds of discovering new mineral deposits has plunged…rendering San Cristobal and our attractive exploration portfolio that much more valuable as assets. For a company already positioned to be what one well known hedge fund manager referred to as perhaps the smartest unexpiring warrant on proven silver and zinc reserves in existence, this combination portends good things for our future.



*San Cristobal life-of-mine cash costs are projected at $1.83 per ounce, net of lead by-product credits.

Q Apex has been described as a warrant on silver. What is meant by that?

A For all of the reasons we have outlined, including the leverage to metals prices afforded by the size of our proven reserves as well as our projected cost structure, Apex is excited to own what has been described as 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", existing reserves, but also on an immediately accessible resource base that could be much more than that. Add in the other corporate competitive advantages, including substantial cash and the value of our non-San Cristobal exploration assets that as recently as 1996 had a valuation (with an arguably less attractive portfolio than we have now) of several dollars per share…and the attractiveness of our equity is that much more apparent.



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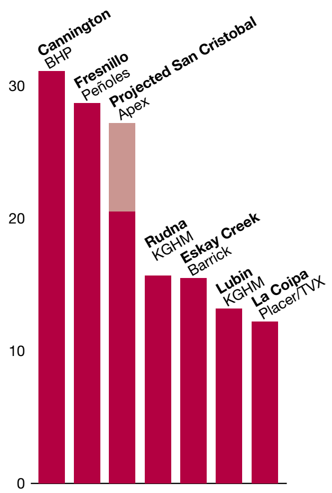
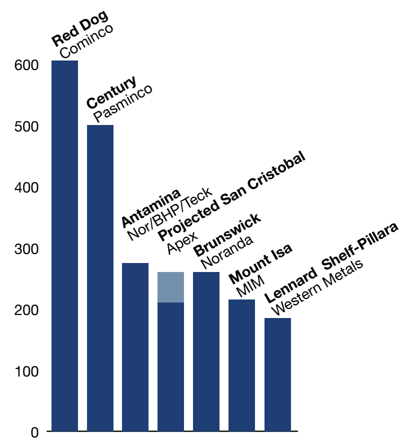


Silver Mine Production
Contained Annual Silver Production
(Million Ounces)
Average first five years
Source: CPM Group (2001)



Zinc Mine Production
Contained Annual Zinc Production
(Thousand Tonnes)
Average first five years
Source: CHR Metals (2001)

It is within the overarching context of **scarcity value** that our competitive advantage comes even more sharply into focus. For, as a company-making project, San Cristobal is truly exceptional. Building on the positive metallurgical recoveries and the lower projected cash operating costs from our September 2000 update to the feasibility study, the Company further reinforced its position as one of the leading mining projects in the world today. San Cristobal's first five full years of production are projected to average 27 million ounces of contained silver and 570 million pounds of contained zinc annually, rendering the mine one of the largest, as well as lowest cost, producers of *both* metals simultaneously…a key competitive advantage.

To that end, 2001 was a year marked by accomplishments in the advancement of San Cristobal and, as such, Apex's ambition to position itself as one of the world's premier mining investments. A successful international tender conducted by our own Mac DeGuire led to a winning bid in September for the provision of electricity to our project. And, by July, the Company announced that it passed very significant milestones and had been granted its key environmental and mining permits for the mine site as well as for the road to Chile. Meanwhile, the demand for San Cristobal's product is projected to be high, with over 90 percent of its total concentrate production covered under letters of intent with smelters around the world who are keen to secure the long-life, clean, silver-rich zinc and lead concentrates our project represents.

In summary, for the first time in a long time, the market trends may now be seen to be our friend at a time when the impact on share prices from any meaningful capital flows could indeed be greater than in past bull markets. With consolidations, the burning of reserves, bankruptcies and production cutbacks having decimated much of the mining sector, the foundation exists for a truly secular bull market in both precious and base metals that could prove to be, in a word, *spectacular*. As a renowned gold fund manager advised us last year, "Just keep to your strategy: advance a unique world class asset, keep plenty of cash on your balance sheet to weather the storm and, for Pete's sake, don't buy anything stupid…and you'll do just great. The next uptrend will be long; Apex Silver will likely go from being extremely undervalued to being extremely overvalued by the time the cycle plays itself out." We wish this fellow well…and that all of our shareholders will reap the benefits of his vision.

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Q How big can San Cristobal be...and what are you doing to prepare for it?

A Given San Cristobal's highly favorable geology, the project is likely to expand with time. As such, an element of our strategy is to superimpose our competitive advantages onto the ongoing rationalization of our industry and thus into an even more pronounced franchise value. For if, as we strongly believe, the next bull cycle is not characterized simply by a price spike, but rather a "long wave" uptrend, we might well be able to capitalize on bigger reserves with either a longer life for the mine, a higher rate of production…or both. If this long wave allows commodities producers to transit from their present role of subsidizing the world's consumption to having greater freedom to price their valuable raw materials, the prospects for an exceptional return on capital for the sector will represent a lifetime opportunity for those with large-scale, long-life assets. Admittedly, this is a contrarian scenario. But the fact that exploration is so out of favor, that there are so few big discoveries and so few new projects in development…and that there are cutbacks in production when the outlook is for higher consumption…might collectively suggest that this picture may not be so wide of the mark. Come what may, the point is that we are positioning ourselves for it. In this context, for example, the project has been engineered to allow for as seamless a transition to higher throughput as is prudent to do at this stage. Additionally, our energy providers have already agreed to construct power lines that are capable of supplying the incremental power necessary for a possible future 50 percent expansion to a production rate of 60,000 tonnes of ore per day under Phase Two of San Cristobal's development.

In building our own corporate vision, Apex's management has been exceptionally fortunate to benefit from a committed, multi-talented and highly experienced Board of Directors. Their frame of reference in fields ranging from mining itself to engineering, finance, shipping and the law have added considerably to our enterprise value over the course of this past year. This group was joined in June by Charles Hansard. With a background both in mining from Anglo American, and in project finance and fund management from his affiliation with Moore Global and other funds, Mr. Hansard's active participation represents a welcome addition to our collective knowledge. He replaces a very dear friend, Eduardo Elsztain. As with Johnny Delgado, who retired as President of Andean Silver Corporation, both men contributed so much to the Company from its earliest days…and we convey our sincerest appreciation. They are well missed and we wish them Buena Fortuna. We thank our Audit Committee - its Chairman, Kevin Morano, as well as Ove Hoegh and Sean Hanna - for their diligence in keeping the Company out of harm's way. And we thank our Project Development Committee - comprised of Paul Soros, Charles Smith, Keith Hulley and Harry Conger, who also chairs our Compensation Committee, for their collaboration 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 advancing 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 29, 2002