

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 and the period from December 22, 1994 (inception) through December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 of America 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 our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company has restated its consolidated financial statements for the years ended December 31, 2001 and 2000.



PricewaterhouseCoopers LLP

Denver, Colorado
March 27, 2003

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

General

The following discussion and analysis should be read together with the consolidated financial statements of Apex Silver Mines Limited and the selected financial data 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, Mexico, Central America and central Asia. We currently focus our resources primarily on the development and financing of our San Cristobal Project in Bolivia. At present, none of our properties are in production and, consequently, we have no current operating income or cash flow.

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.

Restatement of Prior Years

In March 2003, we discovered that an employee had embezzled approximately \$1.6 million over a 38 month period ending in February 2003. We have filed both civil and criminal charges against the former employee and are seeking to recover the amounts stolen. While we believe our internal controls are adequate and that there are no material weaknesses, management is reviewing internal controls with the assistance of outside accounting specialists to determine any appropriate improvements.

We have restated certain amounts in our financial statements for the fiscal years ended December 31, 2001 and 2000 to reflect the losses resulting from the embezzlement. No credits have been recorded against those losses. See Note 1 to our Consolidated Financial Statements for the fiscal years ended December 31, 2002, 2001 and 2000. See Note 13 for additional information about the effect on our quarterly results in 2002, 2001 and 2000. In 2003, the losses resulting from the embezzlement totaled \$0.2 million, which is included in the \$1.6 million total. The restated amounts are reflected in the following discussion and analysis.

Results of Operations

Interest and Other Income

Our company does not yet produce silver or any other mineral products and has no revenues from product sales. Our primary source of income is interest income. Our policy is to invest all excess cash in liquid, high credit quality, short-term financial instruments. Our interest and other income for the year ended December 31, 2002 was \$0.9 million compared to \$2.2 million and \$5.2 million for the years ended December 31, 2001 and 2000, respectively. The 2002 decrease in interest and other income compared to 2001 is primarily the result of lower average cash balances and lower interest rates during 2002. The decrease in interest and other income for 2001 compared to 2000 was also due to lower average cash balances and lower interest rates during 2001 as compared to 2000.

Trading Gains and Losses

Our company currently engages in limited metals trading activities utilizing puts and calls and other trading instruments in anticipation of potential lender requirements for the San Cristobal Project financing. We measured the fair value of open positions at each reporting date during 2002, recording the difference in the carrying value to current earnings, in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), which we adopted January 1, 2001. Adoption of FAS 133 had no effect on our results of operations or financial position as previously we had marked open positions to market and included gains or losses in earnings. We recorded a trading loss for the year ended 2002 of approximately \$0.1 million compared to a trading loss of approximately \$1.0 million for 2001 and a trading gain of approximately \$0.4 million for 2000. The improvement in 2002 of a \$0.1 million loss as compared to the \$1.0 million loss in 2001 is primarily the result of a smaller deterioration in the value of our long position in zinc during 2002. The 2001 \$1.0 million loss as compared to the \$0.4 million gain in 2000 is primarily the result of marking our long position in zinc, and to a lesser

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

extent, silver to market. Inception to date, we have recorded a loss of approximately \$0.5 million related to the trading program. Of that amount, approximately \$0.1 million represents cash losses and the remaining \$0.4 million represents unrealized losses at December 31, 2002. Under FAS 133, fair value measurements may vary substantially from period to period based on spot prices, forward prices and quoted option volatilities.

Exploration

Our company expenses mineral exploration expenditures on each property as incurred 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, 2002, we have expensed all acquisition and exploration costs as incurred. 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, including property holding costs and allocated administrative expenses, were \$3.9 million, including the \$0.9 million value of shares issued to acquire and maintain mineral rights, for the year ended December 31, 2002 as compared to \$3.7 million, including the \$0.9 million value of shares issued to acquire mineral rights, for the year ended December 31, 2001, and \$4.4 million for the year ended December 31, 2000. The decreases in our exploration expenses since 2000 are due primarily to the increased emphasis on conserving our cash balances.

Administrative

Our administrative expenses were \$5.5 million for the year ended December 31, 2002 compared to \$5.9 million and \$8.8 million for the years ended December 31, 2001 and 2000, respectively. The decrease in our administrative expenses since 2000 is primarily the result of cost savings associated with the reduction of personnel and office facilities as part of our cash conserving policy. In addition, the 2002 and 2001 expenses include \$1.9 million and \$0.5 million

respectively, for the value of stock, options and warrants issued to consultants in lieu of cash.

As a result of the employee embezzlement, the Company recognized a loss through a charge to administrative expense, included in the amounts above, and a reduction of the carrying value of its mineral properties in the amount of \$0.3 million, \$0.5 million and \$0.3 million for the years ended December 31, 2002, 2001 and 2000 respectively.

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 do not conduct or expect to conduct business that generates U.S. taxable income. The Cayman Islands currently impose no corporate taxation. Our company has been granted exemption until January 16, 2015 from any form of corporate taxation that may subsequently be adopted in the Cayman Islands. Deferred tax assets of approximately \$36 million at December 31, 2002, resulting from operating loss carryforwards of our company's subsidiaries, have been entirely offset by valuation allowances.

Liquidity and Capital Resources

As of December 31, 2002, our company had cash and cash equivalents of \$44.1 million compared to \$41.5 million at December 31, 2001. The increase in our cash and cash equivalents during 2002 is the result of \$6.5 million in proceeds received from the sale of Ordinary Shares and \$5.1 million in proceeds from the exercise of our company's stock options by certain employees, consultants and former directors, reduced by \$5.0 million invested in property, plant and equipment related to the development of the San Cristobal Project, \$3.7 million used to fund operations, property holding costs and administrative costs, net of interest and other income and, a \$0.3 million payment on outstanding notes.

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

Our company has a universal shelf registration statement filed with the Securities and Exchange Commission that became effective September 8, 2000. The universal shelf registration statement allows us to raise up to \$200 million by selling any combination of equity or debt securities listed in the statement. Proceeds from offerings under the shelf registration, if any, may be used to construct and develop San Cristobal, continue exploring our other properties, maintain control or ownership of our properties and acquire additional mining related properties or businesses, and for general corporate purposes. From the effective date of the shelf registration statement through December 31, 2002 a total of 1,024,868 Ordinary Shares valued at \$14.2 million had been issued as summarized in the following table:

Description of Issuances	Number of Ordinary Shares Issued	Recorded Value of Ordinary Shares Issued
Sale of Ordinary Shares	500,000	\$ 6,550,000
Payment of consulting fees	240,655	\$ 4,088,485
Purchase and maintain mineral rights	154,443	\$ 1,798,910
Payment of notes payable	129,770	\$ 1,729,581
Totals	1,024,868	\$ 14,166,976

The major pre-financing expenditures related to San Cristobal have been completed and unless there is an improvement in metals markets in 2003, we expect to limit project spending during the year to approximately \$2 million for continuing work on our transportation, port and power arrangements and payment of holding and permitting costs. In addition, in order to maintain our current portfolio of mineral properties, we expect to make lease, patent and option payments during the next twelve months of about \$1 million. There also is likely to be some discretionary spending on attractive new exploration opportunities as they arise. Total administrative expenses are not expected to exceed \$6 million during 2003, net of interest and other income. Our company could maintain its current properties and retain key personnel while significantly reducing its expenditures should we deem it strategically desirable to do so. We plan to fund our project and operating expenditures

from our existing cash balances or, as in 2002 and 2001, we may issue limited amounts of stock.

We will be required to raise significant additional debt and equity financing from outside sources to complete development of the San Cristobal Project. Based on estimated revisions made during 2000 to the September 1999 feasibility study for the San Cristobal Project, which assumes contract mining, we forecast capital costs for construction to total approximately \$435 million net of approximately \$60 million in expected tax credits, including approximately \$25 million which will be recovered against our company's future Bolivian income taxes after commencement of production. We have spent approximately \$33 million on construction costs through December 31, 2002 and have expended over \$94 million in total project capital to date. When and if metals markets improve, our company expects to complete detailed engineering and incorporate into our feasibility study any changes deriving from our ultimate infrastructure arrangements, which may result in increases to our forecasted construction capital and working capital requirements. We continue to work with our co-lead arrangers for project financing, Barclays Capital and Deutsche Bank Securities Inc., as well as several multilateral funding agencies, to develop multilateral financing options for San Cristobal as part of a total financing package that may incorporate support from other official agencies as well as debt financing from banks and the use of capital markets. There can be no assurance that metals or capital markets will improve or that we will be able to obtain the required financing on terms that we find attractive, or at all.

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,

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

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.

Critical Accounting Policies

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have changed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules, and the use of judgment, to the specific set of circumstances existing in our business. We make every effort to properly comply with all applicable rules on or before their adoption, and we believe the proper implementation and consistent application of the accounting rules is critical. Our critical accounting policies are discussed below. You should also read Note 3 of the accompanying Notes to the Consolidated Financial Statements.

Our financial condition and results of operations as reflected in our financial statements are affected by estimates that we, or experts that we have retained, have made as to our proven and probable reserves. Reserve estimates involve subjective judgment and are based on numerous assumptions that may later prove to be inaccurate. These estimates include engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, changes in the market prices of metals may render certain reserves containing relatively lower grades of mineralization uneconomic to mine. Further, availability of permits, changes in operating and capital costs, and other factors could materially and adversely affect ore reserves.

We expense 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. Mineral properties include costs to acquire development properties and property development costs. When proven and probable ore reserves are developed and operations commence, capitalized costs will be amortized using the units-of-production method based upon estimated recoverable proven and probable reserves. 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 San Cristobal Project have been capitalized.

We evaluate our 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.

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 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.

To complete the project financing for San Cristobal, our company expects to be required to hedge a portion of its planned production. In addition, when San Cristobal enters production, we may sell forward a portion of our production and use price hedging techniques to mitigate some of the risks associated with fluctuating metals prices. Our company currently engages in limited metals trading activities, utilizing puts and calls and other market instruments in anticipation of potential lender requirements for the San Cristobal Project financing. See "Results of Operations."

Consolidated Balance Sheets

(Expressed in United States dollars)

December 31,	2002	2001
		<i>(Restated)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 44,145,593	\$ 41,536,181
Accrued interest receivable	136,489	79,045
Prepaid expenses and other assets	534,235	167,463
Current assets	44,816,317	41,782,689
Property, plant, and equipment (net)	93,781,351	88,873,269
Value added tax recoverable (net)	5,205,157	5,071,137
Other	251,959	170,709
Total assets	\$ 144,054,784	\$ 135,897,804
Liabilities and Shareholders' Equity		
Current liabilities		
Accrued salaries, wages and benefits	\$ 31,668	\$ 23,968
Accounts payable	1,438,425	1,464,906
Current portion of notes payable	84,000	512,915
Current liabilities	1,554,093	2,001,789
Notes payable	769,958	1,630,200
Commitments and contingencies (Note 10)	—	—
Shareholders' equity		
Ordinary Shares, \$.01 par value, 75,000,000 shares authorized; 36,268,317 and 34,802,397 shares issued and outstanding, respectively	362,683	348,024
Contributed surplus	214,136,784	196,032,436
Accumulated deficit	(72,768,734)	(64,114,645)
Total shareholders' equity	141,730,733	132,265,815
Total liabilities and shareholders' equity	\$ 144,054,784	\$ 135,897,804

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

Consolidated Statements of Operations

(Expressed in United States dollars)

	Years ended December 31,			For the period
	2002	2001	2000	December 22, 1994 (inception) through December 31, 2002
		<i>(Restated)</i>	<i>(Restated)</i>	
Income and expenses				
Interest and other income	\$ 869,512	\$ 2,157,442	\$ 5,206,229	\$ 13,719,903
Trading gains (losses)	(71,213)	(971,669)	457,279	(512,134)
Exploration	(3,851,529)	(3,727,237)	(4,411,529)	(60,157,004)
Administrative	(5,533,450)	(5,915,444)	(8,756,083)	(29,283,051)
Amortization and depreciation	(67,409)	(126,661)	(235,749)	(1,095,334)
Loss before minority interest	(8,654,089)	(8,583,569)	(7,739,853)	(77,327,620)
Minority interest in loss of consolidated subsidiary	—	—	—	4,558,886
Net loss for the period	\$ (8,654,089)	\$ (8,583,569)	\$ (7,739,853)	\$(72,768,734)
Net loss per Ordinary Share— basic and diluted ⁽¹⁾	\$ (0.24)	\$ (0.25)	\$ (0.22)	\$ (2.73)
Weighted average Ordinary Shares outstanding	35,677,844	34,634,026	34,472,548	26,700,545

⁽¹⁾Potential dilutive Ordinary Shares were antidilutive for all periods presented.

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

Consolidated Statements 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 (\$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 unit)	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

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

Consolidated Statements of Changes in Shareholders' Equity (continued)

(Expressed in United States dollars)

	Shares Outstanding	Amount	Contributed Surplus	Accumulated Deficit and Comprehensive Deficit	Total Shareholders' Equity
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 (Restated)	—	—	—	(7,739,853)	(7,739,853)
Balance, December 31, 2000 (Restated)	34,486,629	344,866	192,742,800	(55,531,076)	137,556,590
Stock to acquire mineral rights (\$9.43 per share)	96,136	961	905,790	—	906,751
Stock options exercised (\$10.36 per share)	39,119	391	404,939	—	405,330
Stock issued as note payment (\$10.95 per share)	70,875	709	775,373	—	776,082
Stock (\$11.04 per share) and options to consultants	36,000	360	525,080	—	525,440
Stock awards (net) (\$9.27 per share)	73,638	737	678,454	—	679,191
Net loss and comprehensive loss (Restated)	—	—	—	(8,583,569)	(8,583,569)
Balance, December 31, 2001 (Restated)	34,802,397	348,024	196,032,436	(64,114,645)	132,265,815
Sale of Ordinary Shares (\$13.10 per unit)	500,000	5,000	6,545,000	—	6,550,000
Stock to acquire mineral rights (\$15.37 per share)	58,307	583	891,576	—	892,159
Stock options exercised (\$9.12 per share)	555,244	5,552	5,057,400	—	5,062,953
Stock issued as note payment (\$16.19 per share)	58,895	589	952,911	—	953,500
Stock (\$13.34 per share) and options to consultants	204,655	2,047	3,560,998	—	3,563,045
Stock awards (net) (\$12.95 per share)	88,819	888	1,149,263	—	1,150,151
Offering costs	—	—	(52,800)	—	(52,800)
Net loss and comprehensive loss	—	—	—	(8,654,089)	(8,654,089)
Balance, December 31, 2002	36,268,317	\$ 362,683	\$ 214,136,784	\$(72,768,734)	\$ 141,730,733

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

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

	Years ended December 31,			For the period
	2002	2001	2000	December 22, 1994 (inception) through December 31, 2002
		<i>(Restated)</i>	<i>(Restated)</i>	
Cash flows from operating activities:				
Net cash used in operating activities (Note 9)	\$ (3,692,392)	\$ (7,174,665)	\$ (7,582,973)	\$(72,102,868)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(4,975,491)	(12,244,412)	(27,171,622)	(85,640,930)
Net cash used in investing activities	(4,975,491)	(12,244,412)	(27,171,622)	(85,640,930)
Cash flows from financing activities:				
Net proceeds from issuance of				
Ordinary Shares	6,550,000	—	—	198,311,070
Payment of notes	(335,657)	(474,001)	(438,719)	(1,949,550)
Proceeds from exercise of stock options	5,062,952	325,996	—	5,810,827
Deferred organizational and financing costs	—	—	—	(282,956)
Net cash provided by (used in) financing activities	11,277,295	(148,005)	(438,719)	201,889,391
Net increase (decrease) in cash and cash equivalents	2,609,412	(19,567,082)	(35,193,314)	44,145,593
Cash and cash equivalents beginning of period	41,536,181	61,103,263	96,296,577	—
Cash and cash equivalents end of period	\$ 44,145,593	\$ 41,536,181	\$ 61,103,263	\$ 44,145,593
Supplemental non-cash transactions:				
Acquisition of mineral rights for Ordinary Shares at an average of \$15.37 and \$9.43 per share respectively	\$ 892,159	\$ 906,751	\$ —	—
Payment of debt with Ordinary Shares at an average of \$16.19 and \$10.95 per share respectively	\$ 953,500	\$ 776,082	\$ —	—
Payment of consulting services with Ordinary Shares, options and warrants at an average of \$13.34 and \$11.04 per share respectively	\$ 3,563,045	\$ 525,440	\$ —	—
Assets transferred as partial payment of debt	\$ —	\$ 206,911	\$ —	—

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

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

1. Restatement of Prior Years Results

In March 2003, the Company discovered that an employee had embezzled approximately \$1.6 million over a 38 month period ending in February 2003. The Company has filed both civil and criminal charges against the former employee and is seeking to recover the amounts stolen. The Company has restated certain amounts in the Consolidated Statements of Operations, Consolidated Statements of Cash Flows and Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2001 and 2000 to reflect the losses

resulting from the embezzlement. No credits have been recorded against the loss. Future recoveries, if any, will be recognized in results of operations when realized. The Company's financial position at December 31, 2001 as reflected in the Consolidated Balance Sheets has also been restated to recognize the loss previously capitalized in property, plant and equipment as a charge to administrative expense.

The following table sets forth a comparison of restated financial data to data originally reported for the years ended December 31, 2001 and 2000:

	As Originally Reported	Adjustment	As Restated
2001			
Exploration expense	\$ 3,741,927	\$ (14,690)	\$ 3,727,237
Administrative expense	\$ 5,403,117	\$ 512,327	\$ 5,915,444
Net loss for the period	\$ 8,085,932	\$ 497,637	\$ 8,583,569
Net loss per Ordinary Share—basic and diluted	\$ 0.23	\$ 0.02	\$ 0.25
Property, plant and equipment (net)	\$ 89,710,230	\$ (836,961)	\$ 88,873,269
Total assets	\$ 136,734,765	\$ (836,961)	\$ 135,897,804
Total shareholders' equity	\$ 133,102,776	\$ (836,961)	\$ 132,265,815
Total liabilities and shareholders' equity	\$ 136,734,765	\$ (836,961)	\$ 135,897,804
2000			
Exploration expense	\$ 4,440,931	\$ (29,402)	\$ 4,411,529
Administrative expense	\$ 8,387,357	\$ 368,726	\$ 8,756,083
Net loss for the period	\$ 7,400,529	\$ 339,324	\$ 7,739,853
Net loss per Ordinary Share—basic and diluted	\$ 0.21	\$ 0.01	\$ 0.22
Property, plant and equipment (net)	\$ 77,351,505	\$ (339,324)	\$ 77,012,181
Total assets	\$ 144,053,551	\$ (339,324)	\$ 143,714,227
Total shareholders' equity	\$ 137,895,914	\$ (339,324)	\$ 137,556,590
Total liabilities and shareholders' equity	\$ 144,053,551	\$ (339,324)	\$ 143,714,227

In addition, for the year ended December 31, 2002, the Company recognized a loss resulting from the embezzlement of \$0.3 million as an increase in administrative expense and a reduction in property, plant and equipment. Embezzled amounts totaling \$0.2 million in 2002 and \$0.1 million in 2001 had previously been reflected as expensed. These 2002 and 2001 amounts are included in the \$1.6 million total.

In 2003, the losses resulting from the embezzlement totaled \$0.2 million, which is included in the \$1.6 million total. No credits have been recorded for any period against the losses resulting from the embezzlement.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

2. 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 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 1996, Apex Limited issued 4,256,700 Ordinary Shares at \$8 per share in a private placement transaction (the “Private Placement”) for net proceeds of approximately \$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. In conjunction with the Recapitalization and the Private Placement, Apex Limited and the shareholders of Apex LDC entered into a 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 36,268,317 Apex Limited Ordinary Shares outstanding at December 31, 2002. At December 31, 2001, Apex 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.
- e. 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, priced at \$12.00 per unit, were

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

comprised of one Ordinary Share and a warrant which was exercisable for one-half of an Ordinary Share at a price of \$18.00 per ordinary share. All of the warrants expired on November 4, 2002 and none of the warrants were exercised.

- f. During April 2002, the Company sold 500,000 of its Ordinary Shares, pursuant to a universal shelf registration statement. The sale resulted in gross proceeds of approximately \$6.6 million and expenses of approximately \$0.1 million, which were paid in the form of a stock grant.
- g. 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.

- h. 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, Mexico, Peru and El Salvador. The Company is in the process of developing its San Cristobal property and evaluating certain of its other properties to determine the economic feasibility of bringing one or more of the properties into production.

3. 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 proven and probable 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, 2002, capitalized property and development costs related to the San Cristobal Project amounted to \$90,322,022. No other amounts related to mineral properties have been capitalized.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

e. Property, plant and equipment

Mineral properties include costs to acquire development properties and property development costs. Mineral properties brought into production will be charged to operations using the units-of-production method based on estimated recoverable proven and probable 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

At December 31, 2002, the Company has a stock-based employee compensation plan, which is described more fully in Note 8. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("FAS 123"), to stock-based employee compensation:

Years ended December 31,	2002	2001	2000
Net loss, as reported	\$ (8,654,089)	(Restated) \$ (8,583,569)	(Restated) \$ (7,739,853)
Less: Total stock based compensation expense determined under fair value based method for all awards, net of tax effect	(2,614,014)	(888,481)	(1,436,587)
Pro forma net loss	\$ (11,268,103)	\$ (9,472,050)	\$ (9,176,440)
Net loss per Ordinary Share:			
Basic and diluted—as reported	\$ (.24)	\$ (.25)	\$ (.22)
Basic and diluted—pro forma	\$ (.32)	\$ (.27)	\$ (.27)

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,	2002	2001	2000
Weighted average risk-free interest rate	3.10%	4.08%	6.21%
Volatility	42.50%	40.60%	40.50%
Expected dividend yield	—	—	—
Weighted average expected life (in years)	2.91	2.88	2.83

See Note 1 for discussion of restated amounts.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

b. 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 1,963,891, 1,895,150 and 1,498,128 Ordinary Shares were not included in the computation of diluted earnings per share at December 31, 2002, 2001, and 2000 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 Statement of Accounting Standards No. 137, *Deferral of the Effective Date of FAS Statement No. 133*, became effective for the Company January 1, 2001. 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 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.

To complete the project financing on San Cristobal, the Company may be required to hedge a portion of its planned production. In addition, when San Cristobal enters production, the Company may sell forward a portion of its production and use price-hedging techniques to mitigate some of the risks associated with fluctuating metals prices. The Company currently engages in limited metals trading activities utilizing puts and calls and other market instruments in anticipation of potential lender requirements for the San Cristobal project financing. The Company measured the fair value of open positions at each reporting period during 2002, recording the difference in the carrying value to current earnings, in accordance with FAS 133. Adoption of FAS 133 had no effect on the Company's results of operations or financial position as previously the Company had marked its open positions to market and included gains or losses in earnings. During 2002, 2001 and 2000 the Company recorded mark to market gains (losses) of approximately (\$71,000), (\$972,000) and \$457,000 respectively. Inception to date the Company has recorded a loss of approximately \$512,000 related to the trading program. Of that amount, approximately \$107,000 represents a cash loss and the remaining \$405,000 represents unrealized losses in value at December 31, 2002. Under FAS 133, fair value measurements may vary substantially from period to period based on spot prices, forward prices and quoted option volatilities.

j. New Accounting Standards

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"). FAS 143 is effective for fiscal years beginning after June 15, 2002 (January 1, 2003 for the Company), and establishes an accounting standard requiring the recording of the fair value of liabilities associated with the retirement of long-lived assets in the period in which they are incurred. The Company is in the process of

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

determining the future impact that the adoption of FAS 143 may have on its earnings or financial position but does not believe it will be material based on its current mine plan and understanding of the standard.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, *Rescission of FAS Statements No. 4, 44 and 64, Amendment of FAS Statement No. 13, and Technical Corrections* (“FAS 145”), which is generally effective for transactions occurring after May 15, 2002. Through the rescission of FAS Statements 4 and 64, FAS 145 eliminates the requirement that gains and losses from extinguishment of debt be aggregated and, if material, be classified as an extraordinary item net of any income tax effect. FAS 145 made several other technical corrections to existing pronouncements that may change accounting practice. The Company does not believe FAS 145 will have a material impact on its results of operations or financial position.

In June 2002, the FASB issued Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (“FAS 146”). FAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The Company does not believe that FAS 146 will have a material impact on its results of operations or financial position.

In December 2002, the Financial Accounting Standards Board issued Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* (“SFAS No. 148”). SFAS No. 148, amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition,

SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As the Company accounts for stock-based employee compensation using the intrinsic value method in accordance with APB No. 25, *Accounting for Stock Issued to Employees*, the Company has adopted the disclosure requirements of SFAS No. 148, effective December 31, 2002.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (“FIN No. 45”). FIN No. 45 broadens the disclosures to be made by the guarantor about its obligations under certain guarantees. FIN No. 45 also requires a guarantor to recognize a liability for the fair value of the obligation undertaken in issuing the guarantee at the inception of a guarantee. The recognition provision of FIN No. 45 is applicable on a prospective basis for guarantees that are issued or modified after December 31, 2002. As required by FIN No. 45, the Company has adopted the disclosure requirements effective December 31, 2002. The Company does not believe adoption of the recognition portion of FIN No. 45 will have a material impact on its results of operations or financial position at the time of adoption or in the future.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (“FIN No. 46”), which requires the consolidation of certain variable interest entities, as defined. FIN No. 46 is effective immediately for variable interest entities created after January 31, 2003, and on July 1, 2003 for investments in variable interest entities acquired before February 1, 2003; however, disclosures are required currently if a company expects to consolidate any variable interest entities. We do not believe that the adoption of FIN No. 46 will have an impact on our results of operations, financial position or cash flows.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

4. 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 may 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, 2002 and 2001, operating loss carryforwards generated by our activities in Bolivia amounted to approximately \$18.6 and \$17.3 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.

As of December 31, 2001 and 2000, operating loss carryforwards generated by the Company's subsidiaries other than Bolivia amounted to approximately \$17.8 and \$17.0 million, respectively. The deferred tax assets resulting from these operating loss carryforwards have been entirely offset by valuation allowances.

5. 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 according to Mexican law is recoverable upon application to the tax authorities. Although the Company has filed applications to recover all VAT paid through the third quarter of 2002, the Mexican tax authorities have not refunded

any VAT to the Company since early 2000. The Company has been informed that the Mexican tax authorities, for their own fiscal reasons, have made no VAT refunds to any companies since early 2000. Based on these circumstances, the Company recorded a 50% impairment of the recoverable VAT in Mexico, although it remains the Company's intent to recover the full amount. At December 31, 2002, the recoverable VAT recorded for Bolivia and Mexico is \$5,022,604 and \$182,553 respectively after the impairment.

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

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

6. Property, Plant and Equipment

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

December 31,	2002	2001
		<i>(Restated)</i>
Mineral properties (San Cristobal)	\$90,322,022	\$84,839,669
Buildings	1,408,242	1,408,242
Mining equipment and machinery	3,039,941	3,049,941
Other furniture and equipment	845,252	845,268
	95,615,457	90,143,120
Less: Accumulated depreciation	(1,834,106)	(1,269,851)
	\$93,781,351	\$88,873,269

Depreciation expense for the periods ended December 31, 2002, 2001 and 2000 totaled \$67,409, \$126,661 and \$235,749, respectively. For the periods ended December 31, 2002, 2001 and 2000, depreciation associated with the San Cristobal Project was capitalized in the amounts of \$507,874, \$384,852 and \$195,505 respectively.

See Note 1 for discussion of restated amounts.

7. Notes Payable

The Company's notes payable consist of the following:

December 31,	2002	2001
San Cristobal area properties	\$ 164,000	\$ 643,657
San Cristobal Foundation	689,958	1,499,458
Sub-total	853,958	2,143,115
Less: Current portion	(84,000)	(512,915)
Total	\$ 769,958	\$1,630,200

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 – During 2002 the Company made cash payments totaling \$275,657 as payment in full of the note plus accrued interest due to Banco de Santa Cruz.

Barex – During 2001 the Company issued 70,875 of its Ordinary Shares valued at \$776,082 and paid \$56,700 cash as payment in full of its \$900,000 note to Barex.

Monica de Prudencio – During 2002 the Company issued 8,895 of its Ordinary Shares valued at \$144,000 and paid cash of \$60,000 on the note due Monica de Prudencio. The Company is required to make payments of \$12,000 per month for the period June 2003 through June 2004 with 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 \$164,000 at December 31, 2002.

Oscar Bonifaz – During 2001 the Company paid in full a non-interest bearing note to Oscar Bonifaz for \$60,000.

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. During 2002 the Company issued 50,000 of its Ordinary Shares valued at \$809,500 to the San Cristobal Foundation as partial payment on the note. The note was being carried on the Company's books for \$689,958 at December 31, 2002.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

8. 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. 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 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 ten 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.

A summary of the Company's stock options at December 31, 2002, 2001 and 2000 and changes during those years is presented in the following table:

Options	2002		2001		2000	
	Number of Shares	Average Price Per Share	Number of Shares	Average Price Per Share	Number of Shares	Average Price Per Share
Outstanding at beginning of period	1,895,150	\$ 9.69	1,498,128	\$ 9.91	915,817	\$ 9.98
Granted during period	635,235	\$13.11	571,548	\$ 9.24	582,311	\$ 9.79
Forfeited or expired during period	(11,250)	\$ 9.03	(135,407)	\$10.53	—	—
Exercised during period	(555,244)	\$ 9.12	(39,119)	\$ 8.33	—	—
Outstanding at end of period	1,963,891	\$11.01	1,895,150	\$ 9.69	1,498,128	\$ 9.91
Exercisable at end of period	971,116		922,720		713,602	
Weighted average of fair value of options outstanding		\$ 3.02		\$ 2.27		\$ 1.76
Weighted average remaining contractual life	7.9 years		7.9 years		8.0 years	

Options granted during 2002, 2001 and 2000 ranged in exercise price from \$7.00 to \$15.76, \$7.44 to \$10.32 and \$9.13 to \$11.63 respectively.

In addition, on December 4, 2002, December 13, 2001 and December 13, 2000, the Company issued

61,396, 73,638, and 15,361 respectively of its Ordinary Shares to employees as performance bonuses. For 2002 and 2001, 100% of the bonus was paid in shares while 25% of the bonus was paid in shares for 2000.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

9. Cash Flow Information

The following is a reconciliation of net earnings to cash from operations:

	Years ended December 31,			For the period December 22, 1994 (inception) through December 31, 2002
	2002	2001	2000	
		<i>(Restated)</i>	<i>(Restated)</i>	
Cash flows from operating activities:				
Net loss	\$(8,654,089)	\$(8,583,569)	\$(7,739,853)	\$(72,768,734)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization and depreciation	67,409	126,661	235,749	1,095,334
Minority interest in loss of consolidated subsidiary	—	—	—	(4,558,886)
Stock compensation expense	954,647	758,524	468,451	2,698,773
Shares issued in consideration for services	3,563,045	525,440	—	5,613,030
Shares issued to purchase mineral rights	892,159	906,754	—	1,798,913
Changes in operating assets and liabilities:				
(Increase) decrease in accrued interest receivable	(57,444)	135,214	(153,140)	(136,489)
(Increase) decrease in prepaid expenses and other assets	(366,772)	60,301	(13,021)	(620,977)
Increase in value added tax recoverable	(134,020)	(47,116)	(1,213,561)	(5,205,157)
Increase (decrease) in accrued salaries, wages and benefits	7,700	(135,497)	41,357	31,668
Increase (decrease) in accounts payable	146,868	(933,158)	305,587	(456,215)
Other increase (decrease)	(111,895)	11,781	485,458	405,872
Net cash used in operating activities	\$(3,692,392)	\$(7,174,665)	\$(7,582,973)	\$(72,102,868)

See Note 1 for discussion of restated amounts.

10. Commitments and Contingencies

The Company has lease commitments associated with the corporate headquarters office space, which expire in 2006 as follows:

	2003	2004	2005	2006	2007
Corporate headquarters office lease	\$207,694	\$211,205	\$214,715	\$181,367	\$ —

Payments associated with this lease were recorded to rent expense by the Company in the amounts of \$214,631, \$145,666 and \$203,759 for the years ended December 31, 2002, 2001 and 2000 respectively.

The Company had outstanding letters of credit totaling \$200,000 and \$610,000 at December 31, 2002 and 2001, respectively. In May 2002, Electroandina,

the owner of the Tocopilla Port in Chile, drew down its full \$410,000 letter of credit from the Company as reimbursement for its out-of-pocket expenses incurred to date. At December 31, 2002, the Company has a remaining outstanding letter of credit in the amount of \$200,000 associated with the power facilities for the San Cristobal Project.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

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 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, 2002 and 2001, are as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Value added tax recoverable	\$ 5,205,157	\$ 3,783,134	\$ 5,071,137	\$ 3,685,728
Notes payable	769,958	629,621	1,630,200	1,276,100

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 Statement of Accounting Standards No. 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) (Restated)

The following table summarizes the Company's quarterly results of operations and financial data as discussed in Note 1, for the years ended December 31, 2002, 2001 and 2000. As more fully described in Note 1, the quarterly results of operations and financial data have been restated to reflect charges previously capitalized in property, plant and equipment and expensed to exploration expense as administrative expense. See Note 1 for further discussion of restated amounts.

	As Originally Reported	Adjustment	As Restated
2002 First Quarter			
Exploration expense	\$ 602,684	\$ (15,345)	\$ 587,339
Administrative expense	\$ 668,442	\$ 84,280	\$ 752,722
Net loss for the period	\$ 1,001,300	\$ 68,935	\$ 1,070,235
Net loss per Ordinary Share—basic and diluted	\$ 0.03	\$ —	\$ 0.03
Property, plant and equipment (net)	\$ 91,164,485	\$ (905,896)	\$ 90,258,589
Total assets	\$ 137,577,999	\$ (905,896)	\$ 136,672,103
Total shareholders' equity	\$ 133,787,603	\$ (905,896)	\$ 132,881,707
Total liabilities and shareholders' equity	\$ 137,577,999	\$ (905,896)	\$ 136,672,103
2002 Second Quarter			
Exploration expense	\$ 769,852	\$ (15,894)	\$ 753,958
Administrative expense	\$ 2,667,400	\$ 87,298	\$ 2,754,698
Net loss for the period	\$ 3,193,233	\$ 71,404	\$ 3,264,637
Net loss per Ordinary Share—basic and diluted	\$ 0.09	\$ —	\$ 0.09
Property, plant and equipment (net)	\$ 92,528,845	\$ (977,300)	\$ 91,551,545
Total assets	\$ 146,137,238	\$ (977,300)	\$ 145,159,938
Total shareholders' equity	\$ 143,008,453	\$ (977,300)	\$ 142,031,153
Total liabilities and shareholders' equity	\$ 146,137,238	\$ (977,300)	\$ 145,159,938
2002 Third Quarter			
Exploration expense	\$ 1,483,850	\$ (17,467)	\$ 1,466,383
Administrative expense	\$ 733,582	\$ 95,937	\$ 829,519
Net loss for the period	\$ 2,333,913	\$ 78,470	\$ 2,412,383
Net loss per Ordinary Share—basic and diluted	\$ 0.06	\$ 0.01	\$ 0.07
Property, plant and equipment (net)	\$ 93,513,635	\$ (1,055,770)	\$ 92,457,865
Total assets	\$ 145,107,806	\$ (1,055,770)	\$ 144,052,036
Total shareholders' equity	\$ 141,755,111	\$ (1,055,770)	\$ 140,699,341
Total liabilities and shareholders' equity	\$ 145,107,806	\$ (1,055,770)	\$ 144,052,036
2002 Fourth Quarter			
Net loss for the period	\$ 1,096,834	\$ —	\$ 1,096,834
Net loss per Ordinary Share—basic and diluted	\$ 0.05	\$ —	\$ 0.05

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

	As Originally Reported	Adjustment	As Restated
2001 First Quarter			
Exploration expense	\$ 1,091,380	\$ (3,673)	\$ 1,087,707
Administrative expense	\$ 1,468,338	\$ 128,085	\$ 1,596,423
Net loss for the period	\$ 1,871,591	\$ 124,412	\$ 1,996,003
Net loss per Ordinary Share—basic and diluted	\$ 0.05	\$ 0.01	\$ 0.06
Property, plant and equipment (net)	\$ 82,537,415	\$ (463,736)	\$ 82,073,679
Total assets	\$ 142,505,427	\$ (463,736)	\$ 142,041,691
Total shareholders' equity	\$ 136,334,073	\$ (463,736)	\$ 135,870,337
Total liabilities and shareholders' equity	\$ 142,505,427	\$ (463,736)	\$ 142,041,691
2001 Second Quarter			
Exploration expense	\$ 842,173	\$ (5,130)	\$ 837,043
Administrative expense	\$ 2,172,979	\$ 178,900	\$ 2,351,879
Net loss for the period	\$ 2,531,516	\$ 173,770	\$ 2,705,286
Net loss per Ordinary Share—basic and diluted	\$ 0.07	\$ 0.01	\$ 0.08
Property, plant and equipment (net)	\$ 86,236,951	\$ (637,506)	\$ 85,599,445
Total assets	\$ 139,618,279	\$ (637,506)	\$ 138,980,773
Total shareholders' equity	\$ 135,367,577	\$ (637,506)	\$ 134,730,071
Total liabilities and shareholders' equity	\$ 139,618,279	\$ (637,506)	\$ 138,980,773
2001 Third Quarter			
Exploration expense	\$ 1,069,141	\$ (1,736)	\$ 1,067,405
Administrative expense	\$ 910,300	\$ 60,537	\$ 970,837
Net loss for the period	\$ 1,780,283	\$ 58,801	\$ 1,839,084
Net loss per Ordinary Share—basic and diluted	\$ 0.05	\$ —	\$ 0.05
Property, plant and equipment (net)	\$ 87,617,208	\$ (696,307)	\$ 86,920,901
Total assets	\$ 138,016,824	\$ (696,307)	\$ 137,320,517
Total shareholders' equity	\$ 134,326,127	\$ (696,307)	\$ 133,629,820
Total liabilities and shareholders' equity	\$ 138,016,824	\$ (696,307)	\$ 137,320,517
2001 Fourth Quarter			
Exploration expense	\$ 739,233	\$ (4,152)	\$ 735,081
Administrative expense	\$ 851,500	\$ 144,806	\$ 996,306
Net loss for the period	\$ 1,902,542	\$ 140,654	\$ 2,043,196
Net loss per Ordinary Share—basic and diluted	\$ 0.05	\$ 0.01	\$ 0.06
Property, plant and equipment (net)	\$ 89,710,230	\$ (836,961)	\$ 88,873,269
Total assets	\$ 136,734,765	\$ (836,961)	\$ 135,897,804
Total shareholders' equity	\$ 133,102,776	\$ (836,961)	\$ 132,265,815
Total liabilities and shareholders' equity	\$ 136,734,765	\$ (836,961)	\$ 135,897,804

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

	As Originally Reported	Adjustment	As Restated
2000 First Quarter			
Exploration expense	\$ 1,042,338	\$ (29,402)	\$ 1,012,936
Administrative expense	\$ 1,362,597	\$ 78,697	\$ 1,441,294
Net loss for the period	\$ 723,296	\$ 49,295	\$ 772,591
Net loss per Ordinary Share—basic and diluted	\$ 0.02	\$ —	\$ 0.02
Property, plant and equipment (net)	\$ 54,398,539	\$ (49,295)	\$ 54,349,244
Total assets	\$ 148,904,386	\$ (49,295)	\$ 148,855,091
Total shareholders' equity	\$ 144,206,928	\$ (49,295)	\$ 144,157,633
Total liabilities and shareholders' equity	\$ 148,904,386	\$ (49,295)	\$ 148,855,091
2000 Second Quarter			
Exploration expense	\$ 1,245,841	\$ —	\$ 1,245,841
Administrative expense	\$ 2,005,371	\$ 58,566	\$ 2,063,937
Net loss for the period	\$ 1,888,071	\$ 58,566	\$ 1,946,637
Net loss per Ordinary Share—basic and diluted	\$ 0.05	\$ 0.01	\$ 0.06
Property, plant and equipment (net)	\$ 66,506,015	\$ (107,861)	\$ 66,398,154
Total assets	\$ 147,607,095	\$ (107,861)	\$ 147,499,234
Total shareholders' equity	\$ 142,393,723	\$ (107,861)	\$ 142,285,862
Total liabilities and shareholders' equity	\$ 147,607,095	\$ (107,861)	\$ 147,499,234
2000 Third Quarter			
Exploration expense	\$ 1,463,784	\$ —	\$ 1,463,784
Administrative expense	\$ 2,000,346	\$ 45,645	\$ 2,045,991
Net loss for the period	\$ 2,148,069	\$ 45,645	\$ 2,193,714
Net loss per Ordinary Share—basic and diluted	\$ 0.06	\$ —	\$ 0.06
Property, plant and equipment (net)	\$ 74,988,521	\$ (153,506)	\$ 74,835,015
Total assets	\$ 146,223,610	\$ (153,506)	\$ 146,070,104
Total shareholders' equity	\$ 140,261,618	\$ (153,506)	\$ 140,108,112
Total liabilities and shareholders' equity	\$ 146,223,610	\$ (153,506)	\$ 146,070,104
2000 Fourth Quarter			
Exploration expense	\$ 688,968	\$ —	\$ 688,968
Administrative expense	\$ 3,019,043	\$ 185,818	\$ 3,204,861
Net loss for the period	\$ 2,641,093	\$ 185,818	\$ 2,826,911
Net loss per Ordinary Share—basic and diluted	\$ 0.08	\$ —	\$ 0.08
Property, plant and equipment (net)	\$ 77,351,505	\$ (339,324)	\$ 77,012,181
Total assets	\$ 144,053,551	\$ (339,324)	\$ 143,714,227
Total shareholders' equity	\$ 137,895,914	\$ (339,324)	\$ 137,556,590
Total liabilities and shareholders' equity	\$ 144,053,551	\$ (339,324)	\$ 143,714,227

Board of Directors

Harry M. Conger
Former Chairman
Homestake Mining Company
Age 72

Thomas S. Kaplan
Chairman and Founder
Apex Silver Mines Limited
Age 40

David Sean Hanna
Partner
Arthur D. Hanna
Age 42

Kevin R. Morano
Executive Vice President and Chief Financial Officer
Lumenis Ltd.
Age 49

Charles L. Hansard
Director
Moore Global Investments, Ltd.
Age 54

Charles B. Smith
Former President and Chief Operating Officer
Southern Peru Copper Company
Age 64

Ove Hoegh
Senior Partner
Hoegh Invest
Age 66

Paul Soros
Investment Advisory Committee Member
Quantum Industrial Partners LDC
Age 76

Keith R. Hulley
Chief Executive Officer
Apex Silver Mines Limited
Age 63

Corporate Information

Shareholder Information

Investor Relations Contact:

Igor Levental
Vice President, Investor Relations and
Corporate Development
Apex Silver Mines Corporation
1700 Lincoln Street, Suite 3050
Denver, CO 80203
(303) 839-5060
(888) 696-2739
information@apexsilver.com
Fax: (303) 839-5907

Stock Transfer Agent

Questions regarding your Shareholder account
should be addressed to:

American Stock Transfer
40 Wall Street, 46th Floor
New York, NY 10005
(718) 921-8200
(800) 937-5449
Attn: Geraldine Zarbo

Market Information

Apex Silver Mines Limited ordinary shares
trade on the American Stock Exchange under
the symbol "SIL".

Independent Accountants

PricewaterhouseCoopers LLP
1670 Broadway, Suite 1000
Denver, CO 80202

Annual Meeting

Thursday, May 29, 2003, 4:00 p.m. (EDT)

St Regis Hotel
La Maisonnette I Room
2 East 55th Street at Fifth Avenue
New York, NY 10022

General Information

Corporate Headquarters Address

Apex Silver Mines Limited
Walker House
Mary Street
George Town, Grand Cayman
Cayman Islands, British West Indies

Unit Conversion Table:

1 troy ounce = 31.103 grams
1 (short) ton = 0.907 (metric) tonnes
1 troy ounce per (short) ton = 34.286 grams
per (metric) tonne
1 foot = 0.305 meters
1 mile = 1.609 kilometers
1 acre = 0.405 hectares

Stock Market Information

Our company's Ordinary Shares are listed on the American Stock Exchange under the symbol "SIL". As of March 26, 2003, we had approximately 170 shareholders of record and an estimated 6,500 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 26, 2003 was \$13.17.

Period	Ordinary Shares			
	2002		2001	
	High	Low	High	Low
1st Quarter	\$13.46	\$ 9.73	\$10.60	\$7.35
2nd Quarter	\$18.12	\$11.85	\$11.49	\$7.20
3rd Quarter	\$17.00	\$11.55	\$11.38	\$8.65
4th Quarter	\$15.63	\$12.15	\$10.10	\$8.42