



APEX SILVER MINES LIMITED



Global Positioning in Silver

ANNUAL REPORT 2002



Thomas S. Kaplan
Chairman

Keith R. Hulley
Chief Executive Officer

Our tale of two cities begins in Louisiana. Every year there is a conference in New Orleans for very committed believers in hard assets. Not for them the quaint notions of fiat money, least of all faith in the dollar. As speakers on the virtues of silver in general and our company in particular, we were received like rock stars, replete with a standing ovation that was derived from the fact that the room was so full that most people were indeed already standing. This was the best of times, and represented a far cry from the welcome we had received only weeks earlier as presenters at a well-known investment conference in New York.

There, in view of the outperformance of mining shares, including our own, we had anticipated a bravura reception from a “new crowd” of generalists. Alas, it was not to be for us...or the major “brand name” gold mining companies that were also present. While not quite the worst of times, instead of applause, our combined welcome resembled one of those amusing cartoons where the tenors reach the stage only to hear, emanating from the darkness, the quaint chirping of a few kind crickets. Apparently, our presentation was competing with a seminar on the joys of stochastics and moving average convergences. The stalwarts of the bull market in financial assets were not only very much alive, but kicking quite fiercely. A funny thing happened on the way from our forum, however. One witness to the event, an acclaimed market forecaster who had made brilliant calls on oil, platinum, natural gas and gold and had recently turned his attention to semiconductors and silver, laughingly proclaimed it one of the most bullish anecdotal indicators of a coming bull market in metals that he had ever seen and promptly upgraded his recommendation on Apex.

Silver lining in hand, and keen observers that we are of the human condition (especially as it relates to our own livelihoods), we drew this conclusion from our experience: that the bull market in metals, far from being over, has barely just begun. Far indeed from being overbought, mining share ownership is still confined to a rather narrow corner of the investing public and is likely to remain so until the subject becomes much more topical and, in truth, fully priced. As one famous iconoclast, a *Barron's* Roundtable member (and Apex shareholder) put it: when people at cocktail parties start speaking about which gold and silver shares they own, it will be time to lighten up on one's holdings. We can report that one is nowhere near that point.

Your company has worked hard to position itself as a “Go To” stock in the silver sector, a vehicle by which investors wanting maximum leveraged exposure can accomplish in a similar manner to which Apex has accomplished in effect, that SIL equals GPS.

To Our Shareholders

In wishing to position our shareholders to hold the vehicle most highly leveraged to silver prices, Apex also encompasses one of the largest, and most prospective, exploration portfolios ever assembled...a land bank of over 280,000 hectares (700,000 acres) that is being expanded aggressively in some of the most attractive silver mining regions of the world.

As we stated in our letter to shareholders last year, it is our belief that when the financial history of this period is written, it is very likely that 2001 will be cited as the year that the bear market in precious metals ended. With even greater conviction, as stalwart representatives of a once reviled asset class, we can report that the reversals in fortune of our investment backwater were further confirmed with the consolidation of 2002. Our guess is that we will soon witness the genuine fundamentals underpinning the metals beginning to be recognized not as mere transient phenomena to be trumpeted by fervent gold bugs, but as factors worthy of at least a cursory glance by that wider universe of those who had never witnessed a sustained exodus from financial assets. While, as we have related above, it is true that mining equities remained woefully under-owned (a fact that is likely only to be corrected by a multiplying of share values), a few hardy souls, particularly on the institutional side, were positioning their investors for a new cycle. They know that, with the shortage of "institutional-quality names" never more apparent than it is today, the really big payoff is likely to come from buying sooner rather than later, when the shares are rising sharply and the entry opportunities diminish in direct proportion to the market's newfound conviction that the move is indeed "real this time." We were glad to make the early birds a decent return this past year...and look forward to being able to continue to do so.

There is an old adage among professional investors which says that when the markets put in a top (or bottom, as is the case today in metals) "they don't ring a bell" to tell you it has happened. Whether one is attuned to the tolling bells or not, investors in financial assets have a great deal more to take into account today when making asset allocations than they have had in decades. Consider the following factors: destabilization in the Middle East and Persian Gulf, tensions between India and Pakistan, the potential for nuclear confrontation with North Korea and Iran, unprecedented political altercations between the United States and "old Europe", massive fiscal and monetary stimulus in the major economies, the emergence of China as a major consumer of raw materials and as the low-priced exporter of choice, religious extremism and terrorism on a global scale and corporate hooliganism. The list goes on and on. And these are just the recent dislocations. If one believes that inflation may not be as dead as conventional wisdom would allow...or that currency stability is not a foregone conclusion either, then the nascent trend to invest in companies with real assets and exposure to the non-correlated commodities sector is likely to prove to be long-term and secular rather than cyclical.

Your company has worked hard to position itself as a "Go To" stock in the silver sector, a vehicle by which investors wanting maximum leveraged exposure can accomplish their own one-stop Global Positioning in Silver in a similar manner to which Apex has accomplished this positioning corporately; in effect, that SIL equals GPS. This strategy is working. One noted mining analyst has said that, in the way we regard the stewardship of our assets, Apex is one of the intellectual leaders of the industry...and an example for the major mining companies to follow. With our mottos of "scarcity value" and "not giving away our metal" now becoming watchwords of the investor faithful, Apex is poised to enter the new era in commodities well prepared to



profit from it. Moreover, with the wind at our back for the first time in years, we expect the market's recognition of companies with real assets in an industry rightly famous for its "barriers to entry" will only accelerate our share price appreciation in the future. After all, we have the goods. With over 450 million ounces of silver and 8 billion pounds of zinc, and the bankable-quality feasibility studies that enable us to cast them as SEC-qualified reserves, the 100%-owned San Cristobal project represents the kind of company-making flagship on which great mining companies have historically been built. While an already significant orebody, San Cristobal's promising geology suggests excellent potential to expand the reserves further. With the feasibility work in place, it is indeed likely that Apex possesses the ability to add high-quality open-pit silver reserves quicker and cheaper than perhaps any other company in our sector. At approximately 13 in-situ ounces per share, Apex share is thus not only the perfect unexpiring warrant on existing silver reserves, but on an expansion of silver reserves that would be accretive to shareholders as well. Moreover, the leverage we provide to our owners for future production and cash flow is equally enormous. Even in its first five years of production, San Cristobal is projected to emerge as both one of the largest (at 27 million ounces of contained silver per year), as well as lowest cost producers of silver (at \$1.20 per ounce) in the world. In sum, the competitive advantage San Cristobal enjoys as both a great asset play and growth vehicle is, we believe, second to none.

As excited as we are for the prospects of San Cristobal, we are keenly aware that this asset represents but a facet of our upside potential. In wishing to position our shareholders to hold the vehicle most highly leveraged to silver prices, Apex also encompasses one of the largest, and most prospective, exploration portfolios ever assembled...a land bank of over 280,000 hectares (700,000 acres) that is being expanded aggressively in some of the most attractive silver mining regions of the world. With a proprietary database derived from a decade of exploration and discovery, and recognizing early on that our targets must compare favorably to San Cristobal to add meaning for our corporate profile, we went "elephant hunting", with all the attendant rewards (and, it should be emphatically stated, great odds against success) that this implies. And we did so at a time when exploration expenditures were imploding, rendering our acquisition costs for such prospective properties to be modest indeed. Many companies thirst for attractive prospects; we are blessed with having accumulated so many that we are left with the challenge to determine the right way to unlock their potential value for our shareholders. But being so aware from our own experience that there are fewer ways to create great wealth than through exploration success...we are keenly optimistic that our proven team of mine finders can continue to do just that. The encouraging drill results we reported from the Paca-Pulacayo district, lying directly between Potosi and our own San Cristobal, both among the largest silver deposits ever discovered, point to the size and quality of targets we are searching for.

Fortunately, Apex has established a structure to be able to capitalize on its asset base. With over \$40 million in cash, a modest burn rate and practically no debt, we are well positioned to ride out the tough times that the metals have experienced and are poised to take advantage of the markets...rather than letting them take advantage of us. Our experienced management team, comprised of experts in the discovery,

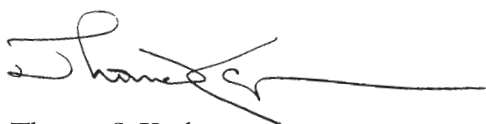
in the silver sector,
sure can accomplish their own one-stop Global Positioning in Silver
Apex has accomplished this positioning corporately;

most highly leveraged to silver prices,
t prospective, exploration portfolios ever assembled...
a land bank of over 280,000 hectares (700,000 acres) that is being expanded
ressively in some of the most attractive silver mining regions of the world.

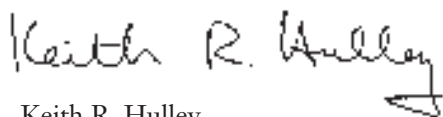
development, financing and operation of major mines for major mining companies, is motivated to make money for our shareholders. This team wants to build nothing less than the finest institutional-quality silver equity in the world today. As judged by our inclusion in the benchmark XAU index of leading precious metals equities, we are well on our way to accomplishing this objective. This process is ongoing. Step by step we have been building value as we surmount challenges along the value chain: be it in the aggressive acquisition of properties with features that lend themselves to the discovery of new orebodies; taking our flagship project through feasibility and optimizing the future projected operational results; securing our mining and environmental permits; ongoing consultations with interested governments on the optimal infrastructure arrangements regarding transport and power; maintaining excellent community relations which have been cited by major mining companies and government officials as being a paradigm for the industry; updating letters of intent with smelters eager to secure our clean, silver-rich concentrates; and bringing strategic partners into our financing package to lower the cost of capital.

As a company with one of the largest percentages of insider ownership amongst the world's larger capitalization mining equities, we have always said, *with* reason and *without* embarrassment, that our aim is nothing less than *to make a killing for our shareholders*. This philosophy lies at the core not only of everything that we do but also of those things we do **not** do: of **not** subsidizing the world's consumption of silver and zinc by "burning" valuable reserves; of **not** acquiring new higher-cost reserves that dilute existing shareholders; of **not** making the hasty financial and technical decisions that have destroyed so much capital in our industry; of **not** eroding shareholder equity. Some might argue that this discipline ties our hands. But if it keeps us focused on what really matters, and keeps us well-positioned to profit from the future, then so be it. We are rightly excited by what that future is likely to be. With consolidations, the continuing erosion of reserves, bankruptcies and production cutbacks that have decimated much of the mining sector, we stand by our prediction that the foundation exists for a truly secular bull market in both precious and base metals that could prove to be, in a word, *spectacular*.

With deepest gratitude, we wish to thank all our stakeholders, directors and employees who, with their support, have strived to attain our investors' goals of achieving their own Global Positioning in Silver while advancing Apex' single-minded vision to be one of the very best investments in mining today. We look forward to delivering the results that should ensure superior returns to our shareholders in the months and years ahead.



Thomas S. Kaplan
Chairman
March 26, 2003



Keith R. Hulley
Chief Executive Officer
March 26, 2003