



One Big Mine

What makes a mine big? With its potential capacity to produce metals and wealth, San Cristobal is destined to be BIG. In mining being BIG is important. While the initial investment is large, economies of scale reduce costs and provide sustainability in a lower metal price environment. When metals prices are robust, big mines can produce greater wealth for all stakeholders.


At San Cristobal, the mining operation will consist of an open pit producing, on average, about 40,000 tonnes of ore and 60,000 tonnes of waste rock per day. The waste-to-ore, or stripping ratio will be 1.56 to 1. To be efficient in extracting and hauling this amount of material, San Cristobal will use two hydraulic shovels, three front-end loaders and 13 200-tonne trucks. Mining will be carried out by a contractor. Mining costs at this high-throughput and relatively low-strip-ratio operation are expected to average approximately \$4 per tonne of ore over the life of the project.

More than 95% of the ore is expected to consist of sulfides with favorable metallurgical recovery characteristics. The operation is expected to recover approximately 76% of the silver, 92% of the zinc and 86% of the lead contained in the ore. It will be processed at a rate of 40,000 tonnes per day through a primary crusher, grinding and flotation plant, concentrate thickener and filtration units. Milling costs are expected to average approximately \$5.50 per tonne. San Cristobal is projected to produce annually approximately

600,000 tonnes of lead, zinc and bulk (or low-grade lead) concentrates for the first five years.

The operation will be highly mechanized, both on and off-site. For example, zinc and lead concentrates will be transported by rail from the mine site to the port, a distance of about 650 rail kilometers. Each rail flatbed car will transport two company-owned covered and sealed zinc or lead concentrate containers. Each container will hold approximately 21 tonnes of concentrate. On average, 48 rail cars will transport concentrate to the port in a 24-hour period. At the port, the concentrate containers will be lifted from the flatcar and unloaded by an overhead bridge crane. The flatcar will then proceed a short distance to a loading station where previously cleaned empty concentrate containers will be loaded and returned to the mine. The system is smart, highly mechanized, environmentally sound and low-cost to operate.

In addition to being very efficient, the San Cristobal project has been designed and permitted in accordance with International Finance Corporation, World Bank and Equator Principles standards. Adherence to these guidelines coincides with Apex Silver's deeply-held philosophy of promoting responsible environmental stewardship and socially responsible development. Our strategy is also rooted in our commitment to safety, a local workforce and delivery of lasting benefits to the community.

 **San Cristobal Positioned at the Lowest Edge of the World Silver Cash Cost of Production Curve**





Low-Cost Financing for San Cristobal

At the beginning of 2004, commodity prices began their long-awaited turnaround. The time was right for the San Cristobal project, endowed with large quantities of silver, lead and zinc in proven and probable reserves, to move into high gear for development. With no existing sources of operating cash flows, Apex Silver needed to raise approximately \$500 million to secure sufficient funds for the project to move forward. Treading new ground, we were unaware of any precedent in the mining industry for a company such as ours to be able to raise that much money in a short period of time. To make things more challenging, simply raising funds was not enough for Apex Silver's shareholder-value-oriented Board of Directors. Management had to ensure that the fundraising would be accomplished with:

- Minimum dilution to the existing shareholders
- Low-cost financial instruments
- Minimal bank-imposed hedging requirements for future metal production

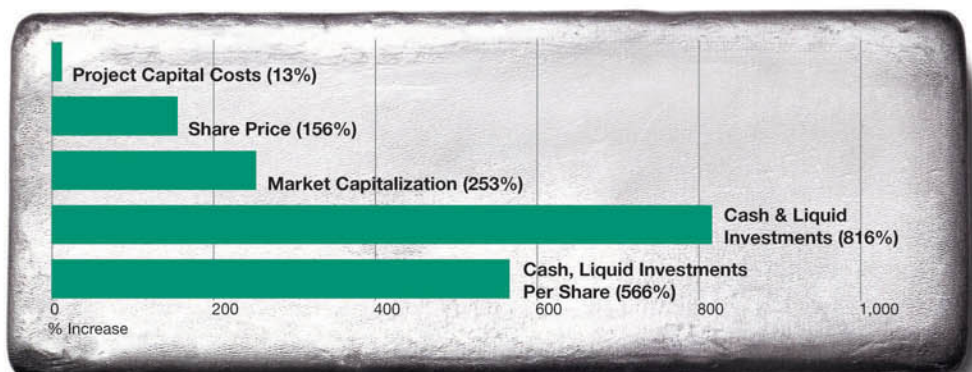
We had to rely on the strength of the commodity markets, the uniqueness of the San Cristobal deposit, its future ability to produce large quantities of silver, zinc and lead and its additional reserve growth potential. By mid-February, we had fully utilized existing shelf registrations to raise approximately \$210 million through two back-to-back equity

offerings. These equity offerings in turn allowed us a month later to raise an additional \$200 million by issuing 2 7/8% Convertible Senior Subordinated Notes due 2024. With common shares trading near to an all-time high, we were able to minimize share dilution, secure a low coupon rate on the debt and achieve a 30%+ note conversion premium. Furthermore, this financing, sourced from public markets, did not come laden with the burden of any production hedging requirements. We were well on our way to ensuring that the objectives set out by the Board were met.

The final component of capital-market debt funding for the development of San Cristobal came in mid-December in the form of \$140 million of 4.0% Convertible Senior Subordinated Notes due in 2024. We finished the year with approximately \$550 million in the treasury, a well-engineered project and commitments to ensure the timely development of San Cristobal. Throughout the fundraising process, we received advice from two international banks, Barclays Capital and BNP Paribas, who have since become lead arrangers for the commercial debt portion of the project financing. These major financial institutions are expected to assemble a consortium of banks and multilateral agencies to complete financing for what we believe will be one of the most significant developments in the mining industry for many years to come.

While Awaiting a Turnaround in Commodity Markets Apex Silver Significantly Improved Its Financial Position

October 8, 2004 versus December 31, 2000



Notes: 1. Cash & Liquid Investments as of September 30, 2004 adjusted for net proceeds from October 2004 4% Convertible Note offering
2. On October 8, 2004, Apex Silver completed evaluation of the San Cristobal project.



Taking Advantage of Concentrate Market Conditions to Maximize Future Revenues

Approximately 50% of San Cristobal's life-of-mine cash operating costs are expected to relate to off-mine-site activities. These costs include on and off-shore concentrate transportation and third-party smelter processing, with the latter constituting approximately two-thirds of total off-site costs. A well-coordinated concentrate production planning and marketing strategy will be critical in controlling overall operating costs and improving profit margins at San Cristobal.

A well-coordinated concentrate production planning process begins with optimization of the distribution of silver between lead and zinc concentrates. Lead smelters achieve better silver recovery and pay for approximately 25% more silver than zinc smelters. Consequently, our process flow sheet and operating strategy will be geared towards directing most of the silver to lead concentrates.

Over the last five years, worldwide lead and zinc concentrate inventories have declined by approximately 53%* and 28%*, respectively. The reduction in the stockpiles has been attributed to the faster rates of growth in metal demand compared to supply, which normally comes as mine-produced concentrates. The changing supply-demand balance has resulted in the lowering of treatment charges levied by the smelters. The lower treatment charges coupled with higher commodity prices have resulted in improved operating margins for the miners.

This economic trend has had a particularly positive effect on Apex Silver. In early 2001, the company postponed the development of San Cristobal for strategic reasons. Since then, lead metal prices, for example, have almost doubled and lead concentrate treatment charges have declined by about 15%*. Zinc metal prices remained much the same, but contracted treatment charges for zinc concentrates have declined by almost 30%* and spot-market treatment charges have declined by up to 50%*. The price of silver has also increased by approximately 60%. These market-driven changes have had a profoundly positive effect on the economics of San Cristobal. During the first five years of operation, San Cristobal is scheduled to produce annually approximately 600,000 tonnes of concentrates containing approximately 22,300,000 ounces of payable silver, 182,500 tonnes of payable zinc and 85,000 tonnes of payable lead.

With their low content of deleterious materials, San Cristobal's concentrates are expected to be highly valued by the smelters. Apex Silver has already covered a majority of the anticipated annual concentrate production through Letters of Intent with eight major lead and 11 zinc smelters around the world.

