

Apex Silver Mines Limited

**We
are
building**



Annual Report 2005



Apex Silver Mines Limited

SIL

We are building



Apex Silver Mines Limited is a mining development and exploration company. It has assumed an increasingly important profile within the silver sector since it was formed in 1993 and went public in 1997. The company is currently developing its flagship 100%-owned San Cristobal silver-zinc project, one of the world's largest open-pit silver-zinc-lead deposits. Located in southwestern Bolivia, it hosts an orebody which contains approximately 470 million ounces of silver, eight billion pounds of zinc and three billion pounds of lead in proven and probable reserves. Production at San Cristobal is expected to commence in 2007. Once in production, San Cristobal has sufficient reserves to operate for about 16 years, at the current design capacity of 40,000 tonnes of ore per day, and should become one of the world's largest producers of all three metals. Apex Silver also holds an extensive portfolio of exploration properties of highly prospective land located primarily in Bolivia, Peru, Mexico and Argentina. The company finished the year with approximately \$350 million in the treasury. The shares of Apex Silver trade on the American Stock Exchange under the symbol SIL.



San Cristobal Proven and Probable Reserves and Development Plan Parameters

Parameter	Units	Proven & Probable Reserves (Dec. 31, 2005)	Proven & Probable Reserves (Dec. 31, 2004)	Development Plan (December 2004)
Basis:				
Silver Price	\$/Oz	6.28	5.37	5.75
Zinc Price	\$/Tonne	1,084.63	884.05	1,102.31
Lead Price	\$/Tonne	782.64	608.48	661.39
Ore Tonnes	000	230,570	219,030	228,914
Grade:				
Silver	Grams/Tonne	63.10	64.69	63.29
Zinc	%	1.59	1.60	1.60
Lead	%	0.58	0.59	0.59
Contained Metal (1):				
Silver	Ounces	467,767,300	455,552,500	465,806,100
Zinc	Tonnes	3,666,100	3,504,500	3,662,600
Lead	Tonnes	1,337,300	1,292,300	1,350,600

Note: Proven and probable reserves are calculated on the basis of a three-year rolling price average for silver, zinc and lead.

(1) Amounts are shown as contained metals in ore and therefore do not reflect losses in the recovery process. Sulfide ore reserves are expected to have an approximate average recovery of 75.5% for silver, 91.9% for zinc and 85.6% for lead. Oxide ore reserves are expected to have an average recovery of 60% for silver and 50% for lead.

San Cristobal Development Plan Parameters

Parameter	Units	First Five Years	Life-of-Mine
Ore Throughput	Tonnes/Day	40,000	40,000
Grade:			
Silver	Grams/Tonne	82.77	63.29
Zinc	%	1.64	1.60
Lead	%	0.76	0.59
Avg. Payable Metal Production:			
Silver	Ounces/Yr	22,300,000	17,000,000
Zinc	Tonnes/Yr	182,500	167,500
Lead	Tonnes/Yr	85,000	63,500
Avg. Cash Operating Cost*:			
Silver	\$/Oz	1.31	1.43
Zinc	\$/Lb	0.39	0.41

* The term "average cash operating cost" is used on a per-ounce of payable silver and per-pound of payable zinc basis. Our estimated cash operating costs include estimated mining, milling and other mine related overhead costs. The per-ounce of silver cost also includes off-site costs related to projected silver refining charges. The per-pound of zinc cost also includes charges related to transportation of zinc concentrates and their projected treatment and smelting charges. All cash operating costs exclude taxes, depreciation, amortization and provisions for reclamation. The average cash operating cost per ounce of silver is equal to the pro-rata share of estimated average operating costs for the period reduced by the estimated value of lead by-product credits for the period divided by the number of "payable ounces". The lead by-product credits are net of charges related to transportation of lead concentrates and their projected treatment and smelting charges. The "payable ounces" are the estimated number of ounces of silver to be produced during the period reduced by the ounces required to cover estimated refining, treatment and transportation charges for the period. Average cash operating cost per pound of zinc is equal to the pro-rata share of estimated average operating costs for the period divided by the number of "payable pounds". The "payable pounds" are the estimated number of pounds of zinc to be produced during the period reduced by the pounds required to cover estimated refining, treatment and transportation charges for the period. We have included estimated average cash operating cost information to provide investors with information about the cash generating capabilities of the San Cristobal project. This information may differ from measures of performance determined in accordance with Generally Accepted Accounting Principles (GAAP) and should not be considered in isolation or as a substitute for measures of performance that will be prepared in accordance with GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations to be determined under GAAP and may not be comparable to similarly titled measures of other companies.



Jeffrey G. Clevenger
President,
Chief Executive Officer,
and Director

To Our Shareholders

The theme of our last year's annual report to shareholders was "Blast Off" signifying Apex Silver's decision to move forward with development of its San Cristobal silver-zinc-lead project in southwestern Bolivia. Now, a year later, we are pleased to report on a most successful launch.

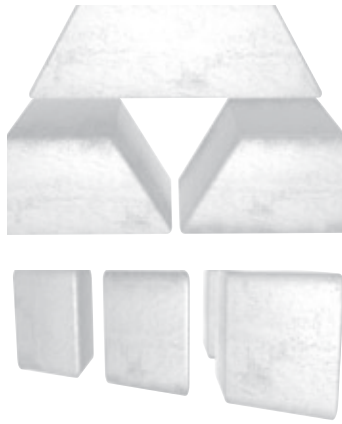
Building a Multi-faceted Project:

Benjamin Franklin once observed that *energy and persistence conquer all things*. For employees and directors of Apex Silver, Ben Franklin's words have proved to be true. After a protracted delay marked by low commodity prices, the company is well on its way to reap the rewards from persistence and energy applied towards development of this world class operation.

At the beginning of 2005, commodity prices continued their recovery from the lows of the 2000s. With Board approval, Apex Silver began putting the well-engineered Development Plan for San Cristobal into action. We recruited a top-notch team of mining professionals with extensive experience in large mine development and operation. Our mining contractor was mobilized allowing us to get a leg up on equipment deliveries and our engineering, procurement and construction contractor accelerated the final phases of project design and began procurement activities.

As we begin the year 2006, our project is on track to begin operations in the third quarter of 2007. Overburden removal and road and conveyor alignments are on schedule. Greater than 90% of the dollar value of purchased goods have been either paid for or committed. Over 16,000 cubic meters, or more than 50%, of the concrete has been poured to construct our milling facility. Flotation cells and the Semi Autogenous Grinding (SAG) mill are being installed. The project is on budget and on schedule.

At the end of 2005, we closed a \$225-million project financing facility with a syndication of 12 major international financial institutions led by Barclays Capital PLC and BNP Paribas. Infrastructure development is well advanced with roadways to Chile and the hub of Uyuni completed. The rail and power lines to the site are well advanced and on schedule. Frame contracts for concentrates are in place. Our project development is not limited to advancements in building a mine and a mill. The surrounding community is enjoying the rewards of Apex Silver's award-winning sustainable development projects. The tourist sector, not even in existence just a few years ago, is thriving, the greenhouse is producing fresh vegetables for local consumption and other initiatives are underway.



When one looks at San Cristobal's success to date it is important to look also at the underlying strength of the commodities we will be producing. During the year 2005, silver added 30% to its price and had reached \$8.83 per ounce at year's end. Zinc prices increased 63% closing the year at \$1,980 per tonne (\$0.90 per pound) on the London Metals Exchange, a price not seen since the early 1990s. The price of lead remained at historically high levels and closed the year at \$1,140 per tonne (\$0.52 per pound). Timing for developing projects is critical, particularly in the mining business.

While our primary focus has been on the successful startup of San Cristobal, we remain committed to profitable growth beyond 2007. In 2005, we expanded our exploration activities to Argentina and are already actively pursuing three potential discoveries on the Eastern flanks of the Andes. Worthy of note is an earn-in position that we negotiated for the Frontera property in northwestern Argentina. Trenching and rock sampling to date have identified potentially significant high-grade silver mineralization.

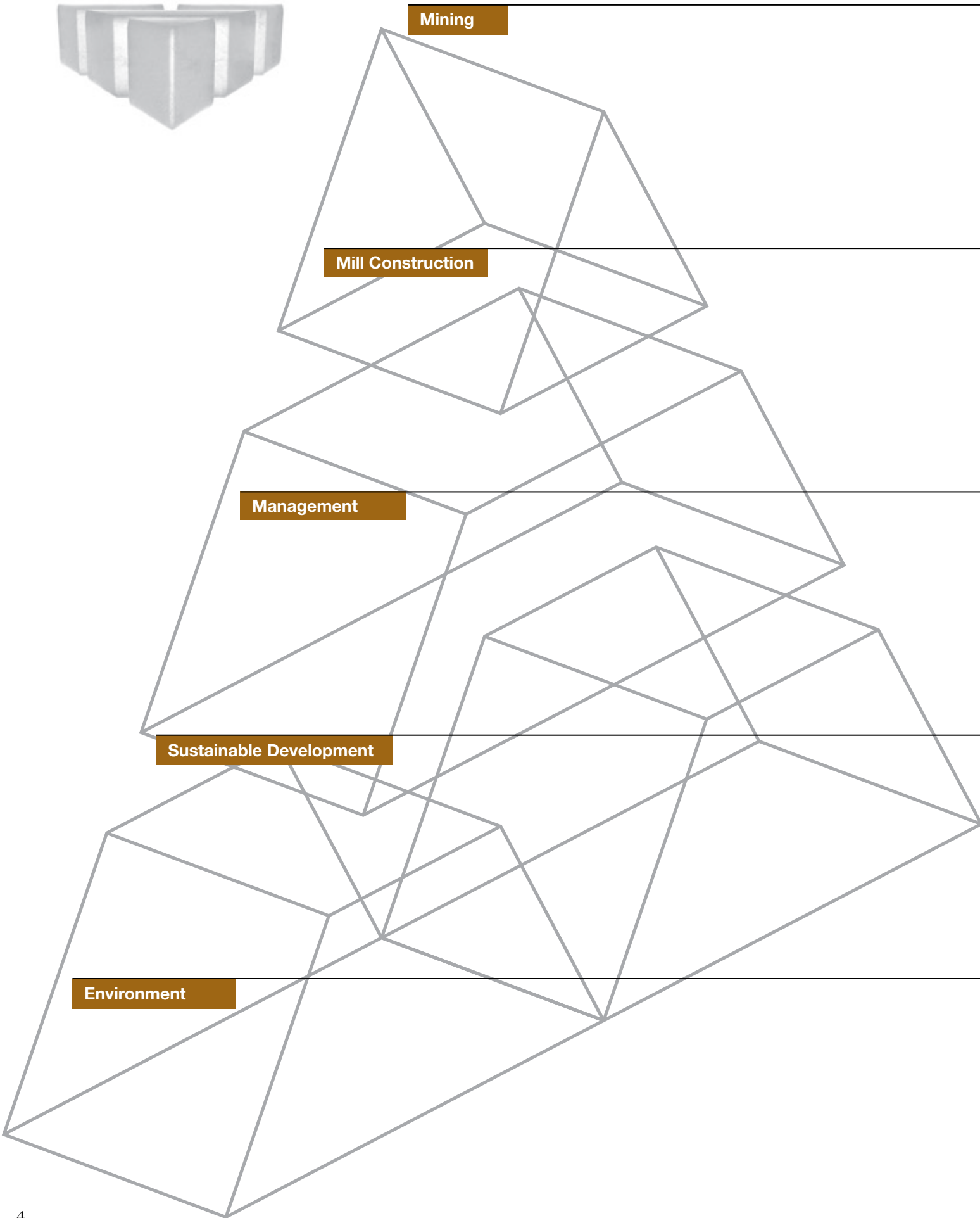
Maximizing Efficiency and Economy

As we continue to advance San Cristobal, Bolivia is undergoing a change of leadership. On December 18, 2005, the people of Bolivia elected Evo Morales of the MAS party to be their next President. Bolivia has demonstrated the strength of its democratic institutions electing Mr. Morales with a strong national mandate. We look forward to working with him and his new team of advisors to ensure that San Cristobal becomes a major success story for all constituencies involved with this major project. Apex Silver is proud of its 12-year track record in Bolivia, particularly in the areas of resource development, employee safety, sustainable development and environmental stewardship. We believe that we have a sound model of corporate citizenship which should serve the country well for many years to come.

As the calendar turned to 2006, we regret to report the passing of Sean Hanna, one of our original directors who left the company in 2004. He was our strong and loyal supporter and will be missed by everyone who knew him. In January 2006, Charles L. Hansard resigned from the Board of Apex Silver. We cannot thank Charles enough for his valuable contribution and counsel and wish him all the best in his future pursuits. Our heartfelt congratulations to Dr. Larry J. Buchanan, the 2006 recipient of the Prospectors and Developers' Thayer Lindsay International Discovery Award, for his leadership in discovering Apex Silver's San Cristobal deposit. We also extend our appreciation to all our stakeholders for their continued support and to our directors and employees for their hard work and unwavering commitment.

March 16, 2006

Jeffrey G. Clevenger
President,
Chief Executive Officer and Director



Mining

Mill Construction

Management

Sustainable Development

Environment



Mining 2005 marked the beginning of mining operations at San Cristobal. Two CAT 994 front-end loaders and six CAT 785 150-tonne trucks pre-stripped approximately three million tonnes of material before year-end. The ore will be sourced from two pits, Tesorera and Jayula. Approximately 20 million tonnes of material are expected to be removed before production begins in the third quarter 2007.



Mill Construction Construction of a 40,000-tonne-per-day mineral processing facility is a major undertaking. In 2006, at the peak of construction, the company is expected to employ approximately 3,000 people. Over 16,000 cubic meters of concrete (about 50%) was poured by December 31, 2005. The Semi Autogenous Grinding and one of two ball mills were put in place together with 16 flotation cells. Construction of the primary crusher was also well advanced.



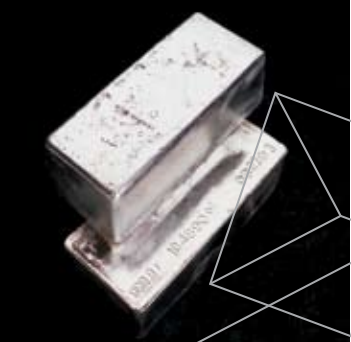
Management San Cristobal is being developed by an expert team of managers and operators led by General Manager Graham Buttenshaw (pictured with a team of engineers consisting of, left to right, Systems Engineer Myriam Castillo, Mining Engineer Max Peñafiel and Systems Engineer Roger Chavez). The workforce, over 95% Bolivian, is trained to execute its tasks with a particular focus on safety.



Sustainable Development Apex Silver has been in Bolivia for 12 years. During that time the company has made a lasting contribution towards sustainable development in the area. Its award-winning program, mainly carried out under the auspices of the community-controlled foundation, includes enterprises involved in local tourism, education and agriculture. More initiatives are on the way.



Environment Apex Silver is strongly committed to the protection of the environment. The company is engaged in a broad range of programs to preserve the ecosystem surrounding San Cristobal. For example, an environmental team is regularly collecting extensive data on the river flow patterns long before production is scheduled to begin. This information will be used during the operations and after the mine is closed.



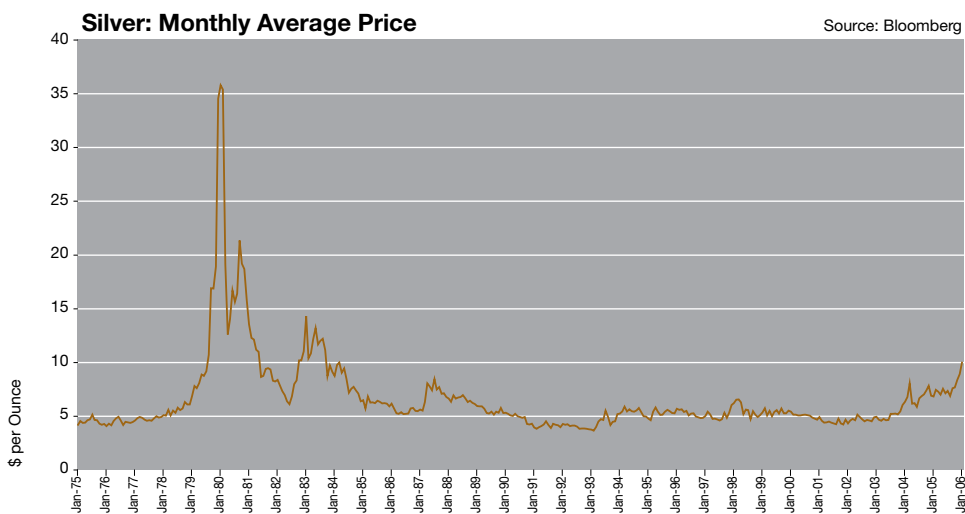
Jeffrey M. Christian

Managing Director,
CPM Group

The price of silver rose sharply after August 2005, moving from approximately \$6.75 to \$9.30 per ounce at the end of 2005 - beginning of 2006. Silver prices spent most of the time from 1989 through 2003 between \$3.50 and \$5.80 per ounce. Prices shifted to a higher range of \$5.50 - \$8.25 per ounce in 2004 and 2005 and they may be in the process of shifting higher once again, perhaps to a range of \$6.50 to \$10.50 per ounce.

The Silver Facet: Silver Investment Demand is Heating Up

This upward shift reflects increased investor interest in silver, as part of a broader move by investors into commodities. Silver in particular is capturing a great deal of interest and attention from a wide range of investors, including many institutional money managers, hedge funds and other asset managers.



The rise of investor interest becomes self-fueling. Since many investors buy more of an asset with a rising price, the increase in silver prices has generated additional interest in silver from new investors. It is not that investors have rediscovered silver. More accurately, a new wave of investors is discovering silver. Many notable investors such as George Soros, Warren Buffett and Bill Gates have invested in silver since the 1990s.

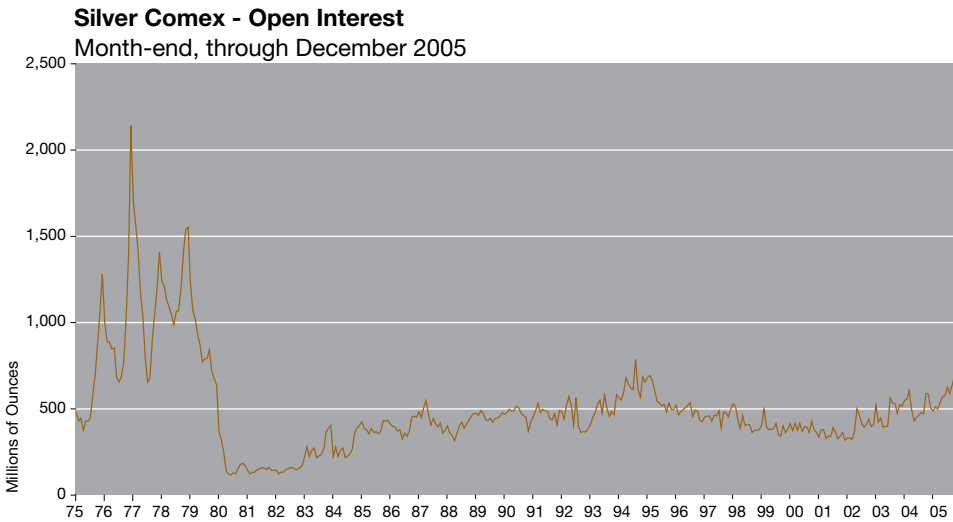
What has changed is that more investors are buying silver, both in physical form and through various derivative instruments such as futures, forwards and options. The range of investors buying silver for the first time is impressive, including some of the largest professional asset management companies in the world and private individuals in North America, the Middle East, Asia and Europe.

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These investors have been attracted to silver for several reasons. For one thing, silver prices have been rising strongly, outpacing many other types of assets, including most stocks and bonds. Additionally, other investors have been buying silver because the fundamental case for silver is solid. Fabrication demand is rising, mine production remains relatively stagnant and available inventories continue to be drawn down to meet fabrication demand. In a period when many investments have been lingering horizontally, the price strength and compelling fundamentals of silver have been instrumental in pulling investors toward this metal.

One of the issues facing the silver market in 2006 and beyond is the metal's capacity to accommodate increased investor interest. The truth is that there is not that much physical silver bullion lying around for investors to buy.



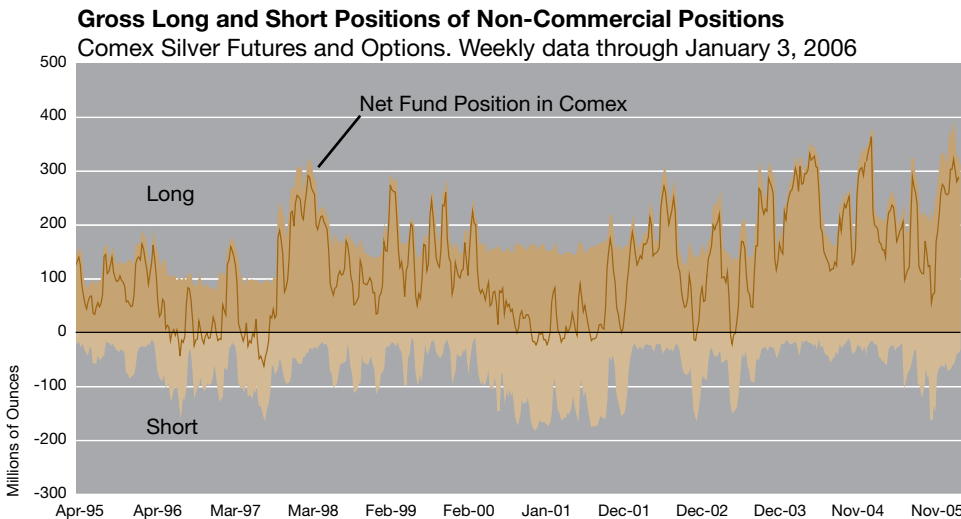
The situation is further exacerbated by the fact that over 70% of mined silver comes in the form of a by-product of production of other metals and hence will not be increased even in a favorable price environment. This situation also should help push silver prices higher, which speaks to the need for silver-oriented investment products.

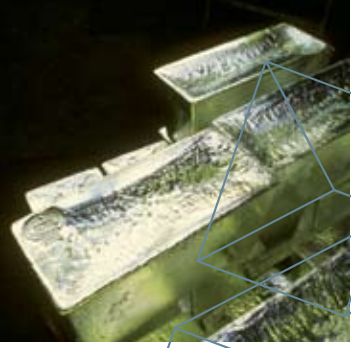
Futures, forwards and options have “absorbed” some investor interest. The volumes of silver futures and options being held by institutional investors are at record levels, while total investor activity in silver futures is the highest since the 1970s (with the exception of the 1994-1995 levels which included large speculative

positions reportedly held by a couple of large bullion trading companies). The investor demand for silver metal and products is clearly increasing especially since many investors do not invest in futures.

There is a proposal before the U.S. Securities and Exchange Commission (SEC) to create a silver Exchange Traded Fund (ETF), similar to the gold ETFs which resulted in more

than 11 million ounces of gold (worth approximately six billion dollars at early 2006 prices) being bought by investors. A similar silver ETF also could create a great deal of investor interest in the metal. Such a new security, should the SEC approve the fund, would be expected to attract many new investors who previously had not invested in physical silver bullion, futures or options. Investor interest in silver may spawn other new silver investment vehicles which could be launched in the near future, as financial institutions seek to develop new financial instruments to meet investment demand.





Claire Hassall

Principal,
CHR Metals Limited

After a number of years in the doldrums (or worse), zinc has now emerged as the base metals market's front-runner, with prices racing up to more than \$2,000/tonne in the opening weeks of 2006, effectively double their level of two years earlier, and exceeding their previous historic high in February 1989, when the LME cash price averaged \$2,003/tonne.

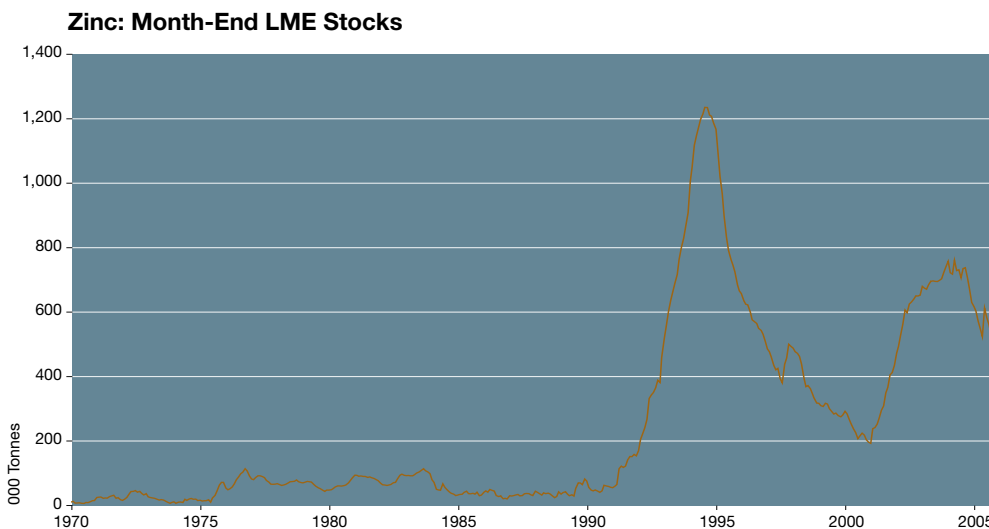
The Zinc Facet: The Base Metals Market's Front-Runner

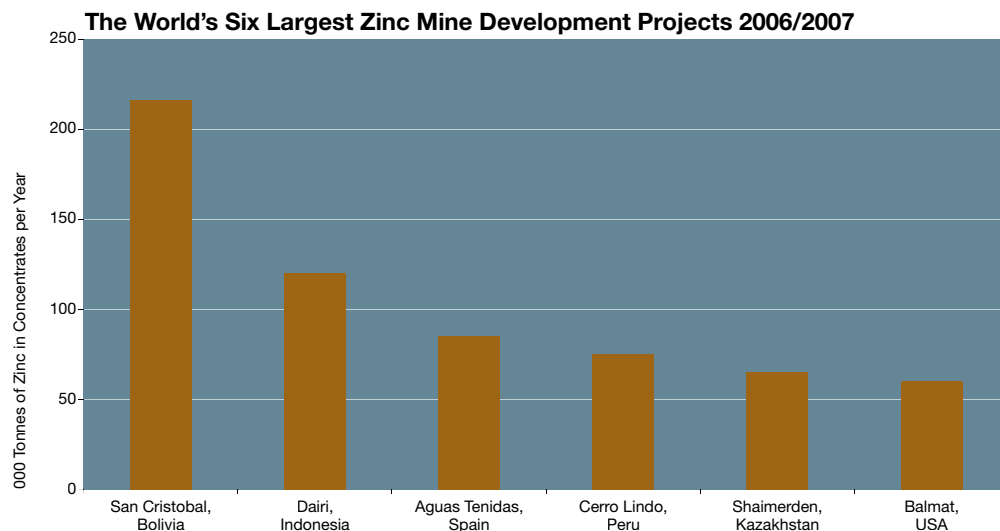
Whilst zinc prices have been helped by very good economic growth worldwide, led by China, but assisted by substantive recovery in Germany, Japan, South Korea and the U.S.A., which has boosted other metals prices and commodities, at the heart of zinc's strength is a very supportive fundamental position. Low prices in the

early 2000s all but killed investment in new mine projects and, though the impact of this was initially masked by continuing growth of output in China, this supply straitjacket is now biting very hard.

In terms of the market for concentrates, mine supply has fallen well short of global zinc smelting capacity for a number of years; and this is in spite of a number of closures of smelting capacity, both permanent and temporary, during the course of

the last couple of years. As well as these closures and production losses, refined zinc production is being limited at other smelters because of the zinc concentrate shortage, with some smelters unable to purchase, at any price, enough concentrates to operate at full capacity. The rise in zinc prices since 2003 has rekindled interest in developing new zinc mines and reopening mines that were closed during the period of low prices. Over the next two years, around 15 such properties are expected to be commissioned though most of these are relatively small.



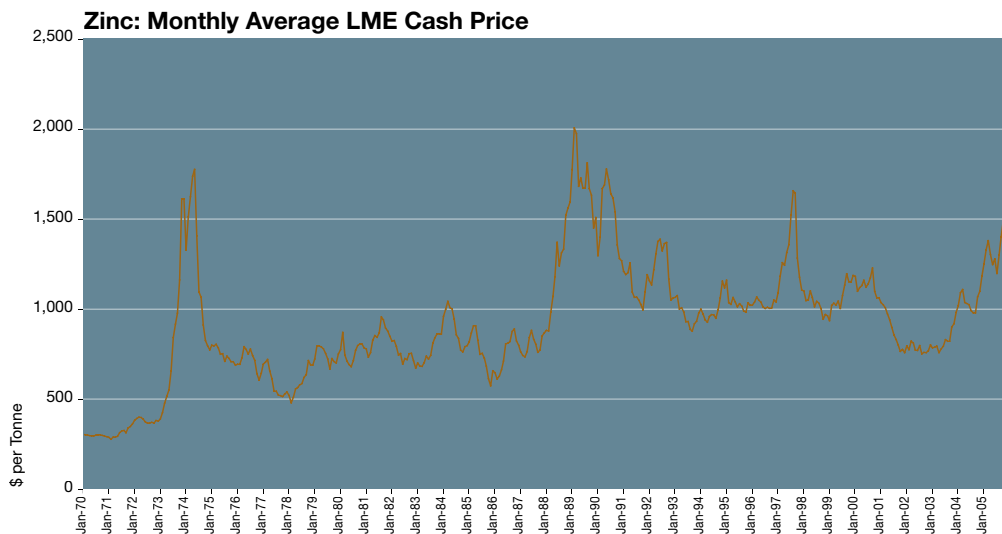


This supply bottleneck has coincided with very strong demand growth as the Chinese economy accelerated following its accession to the World Trade Organization in 2001, which unleashed an investment boom. This has not just been in manufacturing facilities, important though this area of investment has been, but also in residential property. Investment in infrastructure has struggled to keep pace with expanding industrial output and capacity in China. However, additional expenditure has been announced in the 11th Five Year Plan to expand further the nation's rail network, highways and power transmission network and this will help to maintain zinc demand, even if, as expected, some of the heat of the investment boom is dissipated over the next couple of years.

Though in 2004 and 2005, around three-quarters of global zinc demand growth was in China, an anticipated slowing in China's rate of expansion should be more than offset by demand growth elsewhere with economic activity improving in many other parts of the world in 2006. A further substantial deficit between zinc supply and demand is expected, with LME zinc inventories expected to fall to their lowest level in 16 years. With zinc coming late to this current bull market, it is seen by many investors as providing the best potential for price gains supported by its very positive fundamentals. For zinc miners the outlook for the next couple of years is very encouraging, with very high zinc prices supplemented by historically low zinc concentrate processing fees. This positive outlook is expected to continue through 2007 even though global zinc production should be rising more strongly by then.

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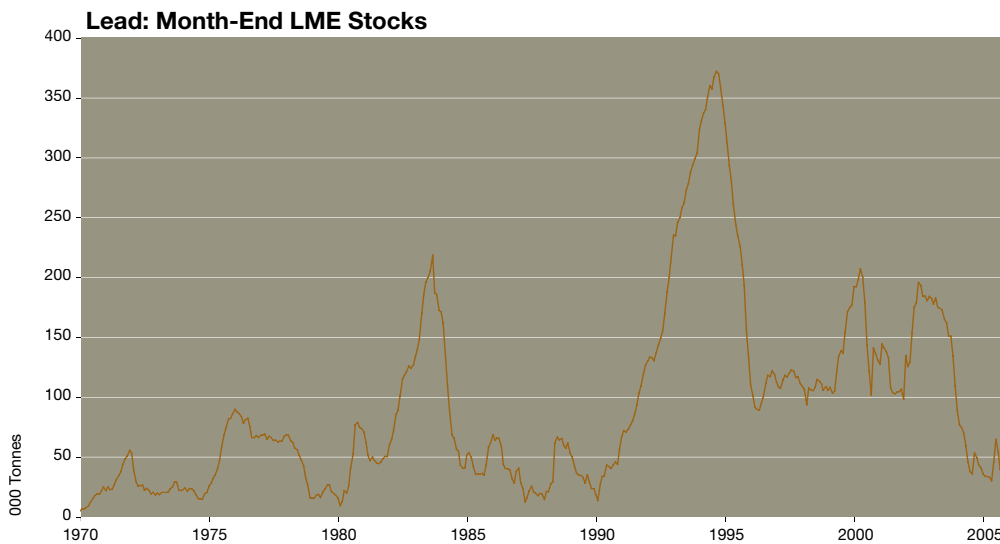


Huw Roberts

Principal,
CHR Metals Limited

Global lead demand has grown steadily in recent years, principally as a result of a rapid increase in demand in China, and has outpaced growth in new supply. Evidence of this was most clear in 2004, when inventories of refined lead held in LME warehouses fell sharply to their lowest levels since 1989. LME inventories at the end of 2005 were largely unchanged year-on-year, while the physical market remained exceedingly tight.

The Lead Facet: Prices Reach New Highs As LME Inventories Remain Tight

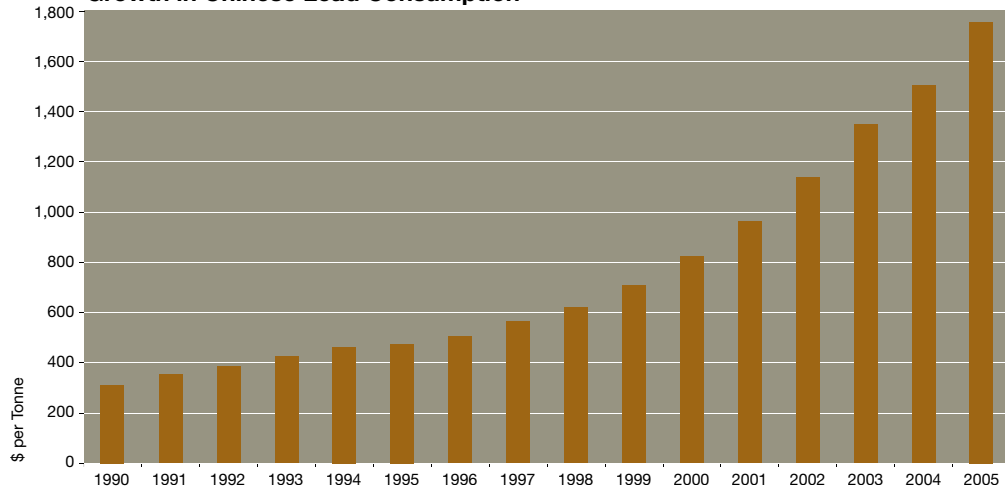


Any further destocking, if indeed this was possible, took place throughout the supply, manufacturing and, possibly, wholesale and retail distribution chains for lead-acid batteries, the main final end use for lead.

With lead in short supply for the third year in a row, prices were sustained at a high level through much of 2005. Towards the end of the year and into the early part of 2006, prices were pushed to their highest level in 25 years, as all metals markets experienced a strong inflow of funds from the investment community.

Confidence is buoyed by the expectation that supplies of metal will again fall short of demand in 2006, and for two key reasons. The first is that the Chinese economy will not lose its already huge appetite for non-ferrous metals and that the growth in demand for metals will continue to be rapid. The second is that supply will be constrained by the fact that few new large-scale mines are in the development pipeline and, in any event, cannot be brought on line in the very near term. Outside China, this is as true for lead as it is for the other metals.

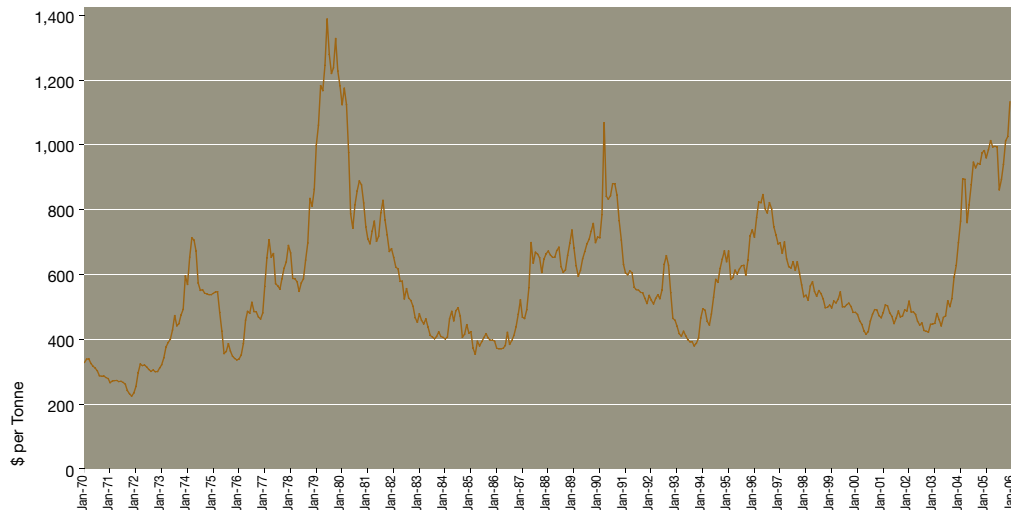
Growth in Chinese Lead Consumption



China holds the key to future developments in the lead market over the next few years. It has a rapidly expanding automobile industry and vehicle fleet, one of the main factors in propelling China to the top of the list of global lead consumers in 2005, finally surpassing the U.S.A. It also continues to spend heavily on telecommunications and power infrastructure, both sectors having a significant demand for industrial batteries. And the widespread use of computers in commerce, industry and in the home has also provided a huge new market for lead-acid batteries to provide back-up power in the event of power outages. Finally, China has developed a very large industry exporting lead-acid batteries in recent years, although this has been, to some degree, at the expense of battery manufacturers elsewhere.

China is a major exporter of refined lead, but the quantity shipped abroad has not increased in recent years as domestic demand has successfully absorbed annual increases in local output. Unless this situation changes, the balance between lead supply and demand elsewhere is likely to remain tight for some time yet which will help sustain prices well above long-term averages.

Lead: Monthly Average LME Cash Price



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