Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
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March 12, 2005

Regarding: File Number 4-497

Introduction

Apex Silver Mines is a development stage company listed on the AMEX stock exchange. The Company's primary asset is its San Cristobal project, located in the Potosi district in southwestern Bolivia, which is one of the world's largest open-pit silver-zinc-lead deposits. The project will require a capital investment of approximately $650 million. After a three year development hiatus brought on by low metals prices and the resulting lay offs of all non-essential personnel, in 2004 the Company reinitiated its development and financing efforts. During 2004 the Company raised approximately $540 million through several equity and convertible debt placements. The Company anticipates rising the additional Capital during 2005. The Company invested $25 million on the development of the San Cristobal mine during 2004 and anticipates a major construction effort during 2005 and 2006 with initial production from the mine beginning in mid-2007.

The Company's management is dedicated to the protection of the shareholders' assets and providing its shareholders with the most timely, complete, accurate and informative financial information possible. Our management's initial response to the requirements of Sarbanes-Oxley was positive and enthusiastic. The Company began implementation of the SOX 404 requirements in late 2003. By the end of 2004 the Company had spent in excess of $1 million on accounting, audit and legal fees directly related to the implementation of SOX and at least that much in lost business process time. Despite the large investment of money and time the company reported a material weakness in its internal controls for the year ended 2004; a material weakness that had no bearing whatsoever on investor interested in our stock.

By the time the Company filed its December 31, 2004 10-K to say that the frustration level on the part of management and the auditors was high would be an understatement. The material weakness was primarily the result of two errors in reporting: 1) the company expensed rather than capitalized certain interest payments (once this would have been considered conservative) and 2) the Company recorded as cash equivalents certain instruments including auction rate securities that were later reclassified as investments. The market had no apparent reaction to our announcement of the material weakness and one analyst said the following: "The Company pleaded "mea culpa" yesterday in that it had been "deficit" in its accounting practices according to SEC regulations. In particular, it had been expensing interest payments as opposed to capitalizing and it had misclassified what we consider cash and cash equivalents as cash and cash equivalents instead of short and long-term investments. We could only wish that more companies erred on this side of conservatism."

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One has to wonder what benefit the Company's shareholders' received from the expenditure directly and indirectly of over $2 million of their investment and the distraction to their management's productivity for the fiscal-year 2004. As mentioned above the Company will be changing drastically over the next few years as it moves from a development level company to an operating company. Management is fully aware of the need to keep up with internal controls surrounding the changing processes but to spend $1,500 to document, test and audit a $500 petty cash box, as was our experience in 2004, seems ludicrous and not in the best interest of the shareholder but had to be done for fear of another "material weakness."

Issues

Costs - $1 million +

Based on initial quotes from auditors and consultants we expected 2004 SOX 404 direct implementation costs to be approximately $300 thousand. Indeed we have read that the SEC estimated implementation costs of 404 to average $57 thousand. Our actual direct costs exceeded $1 million and indirect costs in the form of lost productivity and additional staff easily exceeded another $1 million. As a growing company we do not expect these annual costs to diminish over the next two years under the current interpretation of the 404 requirements. As a public company these costs are borne by the shareholders.

Demands on time taking away from business process

Every position in the Company has been directly impacted by SOX 404. Management subscribes to good entity level controls and "tone at the top" but the implementation requirements turned out to be so onerous and the interpretation has changed so quickly that a growing company such as ours could not keep up with the requirements and found itself being forced to put SOX requirements ahead of other business processes. Company personnel were consistently mired in defending, analyzing, and reporting past results, which greatly impeded the company's ability to focus on its future.

Concentration on minutia of processes

As mentioned in the introduction the Company spent $1,500 to document, test and audit a $500 petty cash box at the direction of our auditors and consulting accountants. Auditors, in their review of the company's 404 compliance program, were guided more by the "potential" for certain processes to produce a material error than the common sense practicality that one would actually occur and what risk it might pose to the investor. Until the audit firms know what to expect from PCAOB reviews, they are leaving no stone unturned no matter how small or immaterial. The threat of review by the PCAOB along with no hard rules or guidelines has resulted in extremes of review by the audit firms.

Strained auditor/management relationship

The Company has found that its relationship with its audit firm has changed immensely in 2004 from what it has been in the past. Management is now reluctant to discuss issues with the auditors prior to having them fully resolved internally for fear that the mere existence of an unresolved accounting issue might be interpreted by the auditors as a control weakness. This has required management to spend thousands of dollars on additional external advice to anticipate in advance the auditors' interpretation of complex accounting policies and rules. Often, these complex interpretations are not initially well understood by even the auditors, who often are required to take the issue up with their national experts for resolution. All of this results in a very redundant and inefficient process, while further aggravating an adversarial relationship with the audit firm. What was once viewed as a "team-like" relationship with our auditors has become an "adversarial" or "rule-enforcement" type of role. In the past if the auditors found something we fixed it. Now it is a "gotcha" type scenario.

In a speech given by Daniel L. Goelzer, a PCAOB Board Member on March 21, 2005, Mr. Goelzer states that "AS No. 2 is not intended to erect a wall between auditors and clients." He goes on to say "within these limits, auditor-management free and open communications concerning financial reporting and internal control issues are still permissible. Common sense should resolve most issues." This seems to be a very shallow answer to what our management found to be the most disturbing issue regarding the SOX 404 process. Both the audit firm and the Company's management team are represented by some very intelligent individuals who exerted a great deal of common sense but the wall still existed. It seems that as long as the audit firms face some unknown level of scrutiny and sanctions from the PCAOB they are not willing to give their clients much of a benefit of the doubt and that cannot help but foster an adversarial climate. It isn't auditor/ client common sense that is at fault here, it is PCAOB's rules.

Unrealistic requirements on small and developing companies

As mentioned earlier our company is changing rapidly from a development company to an operating company and from a company with liquid funds of $40 million to a company with liquid funds of $540 million within a few months. The SOX 404 burden added to our normal growing pains and was a huge frustration to our company during 2004. In addition the rapid increase in equity as the result of our fund raising resulted in a market-cap that far exceeded the actual size of the company in terms of personnel. The ability to remain SOX 404 compliant through these transition periods is extremely difficult and inhibits a small enterprise from realizing a competitive advantage.

The requirement to rapidly comply with 404 regardless of the circumstances of the individual company resulted in a disproportional burden for our company. It is as if PCAOB says we should hire all of our accountants first, and then wait for a market opportunity.

Reliance on form over function (check the box)

One of the huge frustrations our management faced related to the 404 implementation is the need to evidence every control procedure no matter how small or large. It seemed that anything with a signature or check mark carried more weight than a well executed control that was not on a check list or was missing a signature. Several managers said that they spent more time documenting and evidencing processes than the time spent on the process itself. Once again this seems to arise from the audit firms' uncertainty regarding PCOAB scrutiny and sanctions. The overemphasis of focusing on form over substance, detail over ultimate outcome, may actually place an organization at greater risk for a material misstatement of financial results.

No "degrees" of material weakness

Even though our investors responded to our material weakness with a resounding yawn the investing public knows that Enron and WorldCom also suffered from a material weakness. Placing our company in the same category as companies that lost billions of dollars in shareholder value due to fraud is grossly unfair. It seems that the failure to capitalize a few hundred thousand dollars of interest should not be pegged with the same degree of material weakness that a company fraudulently recording billions of dollars of revenue would be charged with, but there is only one definition of material weakness. There has to be a better way to assess the severity of a material weakness relative to shareholder confidence.

Inflexibility of certifications

Because of our rapid growth and the huge time commitment to produce the 10-K under SOX, we have not adequately tested our controls for the first quarter of 2005. This is going to make the first quarter 302 certification very difficult in light of the fact that the 302 language is fixed by the SEC.

SOX 404 has become the ultimate example of the “tail wagging the dog”

Summary

In reviewing the December 31, 2004 10-K filings of small and developing public company’s such as our own, it appears that almost all of them were forced to disclose “material weaknesses”. Because the PCAOB forced all companies with a certain level of market capitalization, regardless of their individual circumstances, to comply with the SOX 404 requirements, the resulting rash of “material weaknesses” seem to have been met with complete disinterest by the investing public. One wonders if the investors feel that the expenditure of millions of dollars of their investments on SOX 404 compliance really made them feel any more secure. We would suggest that from the market reaction that we have witnessed that is not the case.

Sincerely,

\s\ Mark A. Lettes

Mark A. Lettes
Senior Vice President and CFO