HOCHSCHILD MINING

7 October 2009

**Production Report for the three months to 30 September 2009 ("Q309") & Interim Management Statement**

## Highlights

- Q3 production of 7.5 million attributable silver equivalent ounces, up 20% year-on-year
- On track to achieve full year production target of 28 million attributable silver equivalent ounces: representing a 7% increase on 2008
- Maintained focus on profitable ounces and cost reduction
- Increased strategic investment in Gold Resource Corporation from 17% to 24%
- Continued development of project pipeline and resource base
- Convertible bond offering and placing to raise approximately $250 million, as announced separately today

**Miguel Aramburú, Chief Executive Officer commented;**

*"I am delighted to report another quarter of strong production. With our production target on track, our focus is now on advancing our acquisition and investment strategy and developing our project pipeline to ensure a strong resource base for future growth. This is an exciting period for the Company. Our strategic investments in Lake Shore Gold and Gold Resource Corporation were well timed and both companies are making great strides towards production. With the support of the capital raising also announced today, we will continue to deliver our growth strategy in the interests of our shareholders."*

## Overview

Production in the third quarter increased 20% year-on-year and 3% quarter-on-quarter to 7.5 million attributable silver equivalent ounces, comprised of 5.0 million ounces of silver and 41.9 thousand ounces of gold.

With attributable production in the first nine months of 2009 up 18% year-on-year at 21.4 million silver equivalent ounces, the Company remains confident of reaching its full year production target of 28 million attributable silver equivalent ounces, comprised of approximately 19.1 million ounces of silver and 148.2 thousand ounces of gold.

Production at Arcata, Pallancata and San José continue to benefit from the capacity expansions which were completed in the second half of 2008. Results were particularly strong at Pallancata where both silver and gold production more than doubled year-on-year and at Arcata, where silver and gold production increased 11% and 30% respectively.

San José also reported impressive results, with silver and gold production up 42% and 82% respectively. This is despite temporary production stoppages in the second half due to industrial action at the operation, which has not impacted the Company's ability to achieve its full year production target. Hochschild continues to work closely with employees and unions to ensure that it maintains good relations across its operations.

The Company is focused on producing profitable ounces and diligently controlling costs. Good progress was made in this area in the first half of the year and management continues to implement and assess projects which will increase long term operational efficiency. For example, the conversion of Arcata's production to doré, which is due to be completed in 2010, will improve operational efficiency, maximise revenue, lower working capital requirements and allow the Company to benefit from more stable commercial terms.

**Acquisitions**

Hochschild maintains its disciplined approach to acquisitions, focusing on high margin precious metals projects, particularly in existing operational clusters or in new mineral rich regions of the Americas. Following an extremely active 18 months, in which the Company has spent $340 million on acquisitions and investments, Hochschild has announced today that it intends to raise additional funding via an equity placing and convertible bond offering. Proceeds will be used to reinforce the Company's balance sheet, pre-pay part of its syndicated loan facility and to provide increased financial flexibility to continue to pursue its M&A strategy, including potential further investment in its current strategic partners; Lake Shore Gold Corp. and Gold Resource Corporation ("GRC").

Lake Shore Gold continues to progress towards production with targets of 30,000 ounces of gold by the end of 2009, increasing to 100,000 ounces in 2010 and 200,000 ounces in 2011. Hochschild has invested a total of $182.2 million to date in Lake Shore Gold and currently maintains a 40% investment in the company, which has a market capitalisation of over $600 million.

In August 2009, Lake Shore Gold announced a definitive business combination agreement to acquire West Timmins Mining Inc. ("WTM"), creating the new large-scale, wholly-owned Timmins West Gold Mine Complex and giving Lake Shore Gold a dominant position in this highly prospective area. The Complex will consist of Lake Shore Gold's 100%-owned Timmins Mine with existing mine infrastructure, the Thunder Creek Joint Venture, where high-grade intercepts have been reported within 800 metres of the Timmins shaft, and an extensive land package of adjacent exploration properties. Hochschild is fully supportive of the transaction.

During the quarter, Hochschild increased its stake in GRC from 17% to 24%, bringing its total investment in the company to $38 million. GRC, which has a current market capitalisation in excess of $315 million, is a precious metals mining company with a number of 100% owned, high grade development projects in southern Mexico including the El Aguila project. This project is scheduled to begin production by the end of 2009 and the company expects to produce approximately 70,000 ounces of gold (4.2 million silver equivalent ounces) in its first full year of operation.

Hochschild is extremely confident about the long term potential of this investment and has the ability to increase its stake in GRC from 24% to 40% with the full support of the GRC board. After the standstill period ends in February 2011, Hochschild can purchase additional shares in GRC without restriction.

**Average realisable prices and sales**

Average realisable prices (which include commercial discounts) in Q309 were $957.53/oz for gold and $14.82/oz for silver (excluding forward sales contracts). Average realisable precious metals prices for the nine months to 30 September 2009 were $921.95/oz for gold and $13.71/oz for silver.

In response to the extreme market volatility in the second half of 2008, Hochschild announced in Q109 that it had sold forward 10.7 million silver equivalent ounces of its 2009 production comprised of 8.9 million ounces of silver and 30,000 ounces of gold. As at 30 September, 2.2 million ounces of silver and 9.0 thousand ounces of gold were outstanding at an average price of $12.11/oz and $971.75/oz respectively. A realised loss of $6.7 million will be recorded under finance income/expense for the third quarter of 2009, representing the difference between the average monthly market prices and the prices contracted in the above mentioned forward sales contracts. The mark-to-market unrealised loss amounts to $9.6 million as at 30 September 2009.

In order to ensure an ongoing level of cash flow stability to continue to fund its growth strategy, Hochschild has secured a 'zero cost collar' for 5.5 million ounces of its 2010 silver production with an average 'floor' at $12.7/oz and an average 'cap' at $19.7/oz. Hochschild will continue to monitor market trends and will consider further collars as appropriate.

**Exploration**

Exploration is a vital part of Hochschild's strategy and the Company continues to commit significant investment to expanding its resource base with the aim of increasing future profitable production.

The Company is focused on brownfield exploration in order to expand the mine life of its main operations, Arcata, Pallancata and San José. The drill programme at Arcata, the Company's flagship silver mine in southern Peru, is delivering positive results with the discovery of three new mineralised structures in close proximity to the property's existing Mariana vein:

| **Alexandra vein<br>New discovery at mine site:** | **Socorro vein** | **800 vein** |
|---|---|---|
| 0.9m at 5.56g/t Au & 2,065g/t Ag | 0.7m at 4.6 g/t Au & 468 g/t | 0.7m at 2.7 g/t Au, 533 g/t Ag |
| | 0.6m at 1.7 g/t Au and 539 g/t Ag | 0.2m at 14.4 g/t Au & 437 g/t Ag |
| | 0.5m at 7.8 g/t Au & 3,910 g/t Ag | |

At Pallancata in Peru, the Company is mainly focused on the eastern extension of the Pallacata vein and in the newly discovered Rina vein:

| **Pallancata East** | **Rina** |
|---|---|
| Recognized for additional 800m along strike, still open to the SE: | 1.2m at 0.8 g/t Au & 344 g/t Ag |
| 0.7m at 0.9 g/t Au & 325 g/t Ag | |
| 0.7m at 1.20 g/t Au & 370 g/t Ag | |
| 0.70m at 2.0 g/t Au and 306 g/t Ag | |

In Argentina, the Company has discovered two new veins at San José which are rapidly being drilled to increase the resource and reserve base of the operation:

| **Ramal Kospi 861D: High-grade intersects** | **Ramal Ayelen** |
|---|---|
| 1.5m. at 60.9 g/t Au &1,376 g/t Ag | 1.0 m 5.81g/t Au & 655 g/t Ag |
| 1.3m. at 7.4 g/t Au & 928 g/t Ag | 2.7 m at 4.0 g/t Au & 515 g/t Ag |

Azuca, is a 100% owned development in Peru, where we are moving towards an initial economic assessment. It has an initial resource of 1.8 million tonnes with 327 g/t silver and 1.34 g/t gold (as of December 2008). Two new veins discovered this year with very encouraging results:

| **Azuca Oeste vein** | **Yanamayo vein** |
|---|---|
| Wide drill intercept | High grade silver and gold |
| 12.1m at 2.4 g/t Au & 350 g/t Ag | 0.9m at 4.6 g/t Au & 1,442 g/t Ag in surface samples |
| | 1.6m at 6.4 g/t Au & 830 g/t Ag in surface samples |

The Company has an active pipeline with numerous projects throughout Argentina, Canada, Chile, Mexico and Peru at various stages of development. All projects are subject to a rigorous evaluation process to ensure that investment is targeted towards quality assets that will ultimately be brought to production.

The Company is currently focusing its greenfield exploration activities on its extensive land package in southern Peru: Preliminary results at Crespo, which was acquired as part of the Liam land package, show gold/silver deposits with high grade zones and we aim to have the first resource estimation on this project by the end of the year.

In Chile, the Company's two joint ventures are reporting encouraging results. The Encrucijada project is located along the same structural corridor and equivalent geological context as Yamana's El Peñon mine, located 100km north (endowment approx. 9.0 moz Au eq). At the North target a 10 hole (3,362m) fence revealed multiple concealed gold vein structures in a 120 metre wide structural corridor that averages 0.4 g/t Au (best intercepts include 2m at 4.0 g/t Au; 3m at 3.8 g/t Au; 1m at 4.5 g/t Au). Follow-up drilling along strike as well as first-pass drilling in three more targets are to be tested by the end of the year.

At the Victoria project, significant precious metal mineralisation has been identified at the Vaquillas target where 4,000m was drilled in 14 holes. Partial results from 9 holes confirm a broad zone of highly anomalous gold and silver over an area of 1km by 1 km, with high-grade discrete veins (open in all directions). Significant results include: 12m at 1,8 g/t Au & 208 g/t Ag; 8m at 5.5 g/t Au & 15 g/t Ag (includes 1m at 37.7 g/t Au & 60 g/t Ag).

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Other than as described in this announcement, there have been no material events or transactions in the period from 1 July 2009 to 6 October 2009 which have affected Hochschild's financial position.

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A conference call will be held at 3.15pm (London time) on 7 October 2009 for analysts and investors.

Dial in details as follows:

UK +44 (0) 203 003 2666

A recording of the conference call will be available for one week following its conclusion, accessible from the following telephone number:

UK + 44 (0) 208 196 1998
Access code 8906758#

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**About Hochschild Mining plc:**
Hochschild Mining plc is a leading precious metals company listed on the London Stock Exchange (HOCM.L / HOC LN) with a primary focus on the exploration, mining, processing and sale of silver and gold. Hochschild has over forty years' experience in the mining of precious metal epithermal vein deposits and currently operates four underground epithermal vein mines, three located in southern Peru, one in southern Argentina and one open pit mine in northern Mexico. Hochschild also has numerous long-term prospects throughout the Americas.

**TOTAL GROUP PRODUCTION[1]**

| | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Silver production (koz) | 6,668 | 6,217 | 4,890 | 18,460 |
| Gold production (koz) | 56.80 | 53.62 | 45.98 | 160.53 |
| Total silver equivalent (koz) | 10,075 | 9,434 | 7,649 | 28,092 |
| Total gold equivalent (koz) | 167.92 | 157.24 | 127.48 | 468.19 |
| Silver sold (koz) | 6,969 | 6,485 | 4,661 | 17,874 |
| Gold sold (koz) | 61.15 | 59.30 | 47.36 | 159.76 |

[1] Total production includes 100% of all production, including production attributable to joint venture partners at San José and Pallancata.

**ATTRIBUTABLE GROUP PRODUCTION[1]**

| | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Silver production (koz) | 4,978 | 4,839 | 4,041 | 14,228 |
| Gold production (koz) | 41.94 | 40.16 | 36.73 | 119.54 |
| Attrib. silver equivalent (koz) | 7,494 | 7,249 | 6,245 | 21,400 |
| Attrib. gold equivalent (koz) | 124.90 | 120.82 | 104.08 | 356.67 |

[1] Attributable production includes 100% of all production from Arcata, Ares and Moris, 60% from Pallancata and 51% from San José.

## QUARTERLY PRODUCTION BY MINE

### ARCATA

| Product | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Ore production (tonnes) | 168,718 | 161,999 | 158,893 | 480,224 |
| Average head grade silver (g/t) | 493.81 | 547.91 | 533.66 | 524.32 |
| Average head grade gold (g/t) | 1.68 | 1.62 | 1.48 | 1.63 |
| Concentrate produced (tonnes) | 5,456 | 6,064 | 5,502 | 16,844 |
| Silver grade in concentrate (kg/t) | 14.21 | 13.54 | 13.86 | 13.82 |
| Gold grade in concentrate (kg/t) | 0.05 | 0.04 | 0.04 | 0.04 |
| Silver produced (koz) | 2,475 | 2,624 | 2,236 | 7,445 |
| Gold produced (koz) | 8.31 | 7.44 | 6.39 | 22.39 |
| Silver sold (koz) | 2,512 | 2,080 | 1,683 | 6,686 |
| Gold sold (koz) | 8.04 | 5.64 | 4.27 | 20.02 |

### ARES

| Product | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Ore production (tonnes) | 88,933 | 84,671 | 89,798 | 250,897 |
| Average head grade silver (g/t) | 106.91 | 84.05 | 139.66 | 95.51 |
| Average head grade gold (g/t) | 3.91 | 4.99 | 5.67 | 4.57 |
| Doré total (koz) | 273.73 | 209.32 | 368.74 | 699 |

| | | | | |
|---|---|---|---|---|
| Silver produced (koz) | 262 | 196 | 352 | 661 |
| Gold produced (koz) | 10.30 | 12.79 | 15.47 | 34.46 |
| Silver sold (koz) | 246 | 221 | 934 | 641 |
| Gold sold (koz) | 10.41 | 14.09 | 23.13 | 34.06 |

**PALLANCATA[1]**

| Product | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Ore production (tonnes) | 269,128 | 220,288 | 88,247 | 644,969 |
| Average head grade silver (g/t) | 334.72 | 306.81 | 337.22 | 316.09 |
| Average head grade gold (g/t) | 1.49 | 1.37 | 1.56 | 1.40 |
| Concentrate produced (tonnes) | 2,160 | 1,781 | 909 | 5,164 |
| Silver grade in concentrate (kg/t) | 36.10 | 32.88 | 30.76 | 34.27 |
| Gold grade in concentrate (kg/t) | 0.14 | 0.13 | 0.11 | 0.13 |
| Silver produced (koz) | 2,507 | 1,883 | 899 | 5,689 |
| Gold produced (koz) | 9.62 | 7.17 | 3.35 | 21.73 |
| Silver sold (koz) | 2,351 | 2,054 | 824 | 5,542 |
| Gold sold (koz) | 8.78 | 7.36 | 3.02 | 20.22 |

[1] The Company has a 60% interest in Pallancata.

**SELENE[1]**

| Product | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Ore production (tonnes) | - | 44,881 | 67,659 | 109,893 |
| Average head grade silver (g/t) | - | 191.26 | 205.09 | 216.76 |
| Average head grade gold (g/t) | - | 0.95 | 1.23 | 1.09 |
| Concentrate produced (tonnes) | - | 430 | 845 | 1,057 |
| Silver grade in concentrate (kg/t) | - | 16.48 | 13.05 | 18.55 |
| Gold grade in concentrate (kg/t) | - | 0.07 | 0.07 | 0.09 |
| Silver produced (koz) | - | 228 | 400 | 628 |
| Gold produced (koz) | - | 1.03 | 2.20 | 3.02 |
| Silver sold (koz) | 60 | 393 | 364 | 610 |
| Gold sold (koz) | 0.28 | 1.77 | 1.93 | 2.83 |

[1] Selene was closed on 28 May 2009

**SAN JOSÉ[1]**

| Product | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Ore production (tonnes) | 122,342 | 119,184 | 67,589 | 360,511 |
| Average head grade silver (g/t) | 406.63 | 400.17 | 546.58 | 411.36 |
| Average head grade gold (g/t) | 6.65 | 5.65 | 6.78 | 5.87 |
| Silver produced (koz) | 1,402 | 1,265 | 990 | 3,966 |
| Gold produced (koz) | 22.47 | 18.08 | 12.34 | 57.11 |

| | | | | |
|---|---|---|---|---|
| Silver sold (koz) | 1,783 | 1,709 | 846 | 4,330 |
| Gold sold (koz) | 28.14 | 21.93 | 9.76 | 61.45 |

[1] The Company has a 51% interest in San José.

**MORIS**

| Product | Q3 2009 | Q2 2009 | Q3 2008 | 9mths 2009 |
|---|---|---|---|---|
| Ore production (tonnes) | 316,725 | 341,413 | 193,009 | 949,222 |
| Average head grade silver (g/t) | 5.04 | 5.18 | 6.31 | 5.02 |
| Average head grade gold (g/t) | 1.44 | 1.37 | 1.53 | 1.39 |
| Silver produced (koz) | 22 | 23 | 14 | 71 |
| Gold produced (koz) | 6.09 | 7.11 | 6.24 | 21.82 |
| Silver sold (koz) | 16 | 28 | 10 | 65 |
| Gold sold (koz) | 5.51 | 8.51 | 5.25 | 21.20 |

*The securities mentioned herein (the "Securities") have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold into the United States absent registration or an exemption from the registration requirements of the Securities Act. There will be no public offer of the Securities in the United States.*

***Forward looking statements***

*This announcement contains certain forward looking statements, including such statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, such forward looking statements may relate to matters such as the business, strategy, investments, production, major projects and their contribution to expected production and other plans of Hochschild Mining plc and its current goals, assumptions and expectations relating to its future financial condition, performance and results.*

*Forward-looking statements include, without limitation, statements typically containing words such as “intends”, “expects”, “anticipates”, “targets”, “plans”, “estimates” and words of similar import. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results, performance or achievements of Hochschild Mining plc may be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that could cause or contribute to differences between the actual results, performance or achievements of Hochschild Mining plc and current expectations include, but are not limited to, legislative, fiscal and regulatory developments, competitive conditions, technological developments, exchange rate fluctuations and general economic conditions. These factors, risks and uncertainties are referred to in the section of this announcement entitled 'Risks' which, in turn, refers to matters disclosed in the Risk Management section of the 2008 Annual Report. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.*

*The forward looking statements reflect knowledge and information available at the date of preparation of this announcement. Except as required by the Listing Rules and applicable law, the Board of Hochschild Mining plc does not undertake any obligation to update or change any forward looking statements to reflect events occurring after the date of this announcement. Nothing in this announcement should be construed as a profit or production forecast.*

***Risks Relating to the Issuer***

***Risks relating to the operations of the Issuer and its subsidiary undertakings (the "Group")***

**The business of mining metals involves a number of risks and hazards, not all of which are fully covered by insurance.**

The mining business is subject to risks and hazards, many of which are outside the Group's control. These risks include, but are not limited to, environmental hazards, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, flooding, earthquakes and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, reduced production and delays in mining, asset write-downs, monetary losses and possible legal liability. In particular, the Group's Peruvian and Mexican mines and projects are located in areas of high seismic risk. Although the facilities have been designed to take account of such potential activity, a major earthquake could lead not only to significant damage to the Group's facilities, but also to the collapse of tailings dams which could result in significant environmental damage.

Although the Group maintains insurance in an amount that it considers to be adequate, liabilities might exceed policy limits, in which event the Group could incur significant costs that could materially and adversely affect its results of operations. Insurance fully covering many environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not generally available to the Group or to other companies in the mining industry. The realisation of any significant liabilities in connection with the Group's mining activities as described above could have a material adverse effect on its results of operations or financial condition.

**The Group's financial performance is highly dependent upon the price of silver and gold.**

The Group's financial performance is highly dependent on the market price of silver, which accounted for approximately 61 per cent. of its revenue in 2008, and the market price of gold, which accounted for approximately 39 per cent. of its revenue in 2008. These prices have historically been subject to wide fluctuations and are affected by numerous factors beyond the Group's control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by producers and others, and actions of participants in the commodities markets.

To a lesser extent, the market prices of silver and gold are also subject to the effects of inventory carrying costs and currency exchange rates. In addition, the market prices of silver and gold have occasionally been subject to short-term changes. The market price of silver and gold on 30 June 2009 were $13.94 per ounce and $934.50 per ounce (p.m. price where applicable), respectively, according to the London Bullion Market Association, compared with 30 December 2008 prices of $10.83 per ounce and $869.75 per ounce (p.m. price where applicable), respectively. The price of silver and gold may decline in the future. Factors that are generally understood to contribute to a decline in the price of silver and gold include sales by private and government holders, and, in relation to silver, a general global economic slowdown. Future prolonged reductions or declines in the world silver and gold prices could have a material adverse effect on the Group's revenues, profitability and reserves.

**The Group's business will be affected by its ability to raise funding to meet its capital expenditure needs and to achieve its operational and strategic objectives.**

The mining business is capital intensive and the development and exploitation of silver and gold reserves and the acquisition of machinery and equipment require substantial capital expenditure. The Group has a number of development projects and prospects, as well as plans for its existing operations, which involve significant capital expenditure. In particular, the Group must continue to invest significant capital to maintain or to increase the amount of reserves that it exploits and the amount of metal that it produces. Some of the Group's development projects and prospects may require greater investment than currently planned. In addition, the Group's ability to continue its exploration, exploitation, development and operational activities will depend ultimately on its ability to attract financing. There can be no assurance that the Group will be able to maintain its production levels and generate sufficient cash flow, or that the Group will have access to sufficient investments, loans or other financing alternatives, to continue its exploration, exploitation, development and processing activities at or above present levels and failure to do so, could result in delay of projects, postponement of further exploration, assessment or development of certain properties or projects.

**The Group's future performance will be affected by its ability to realise its existing reserves base, convert resources into reserves and mineralised potential into resources, and conduct successful exploration.**

As at 31 December 2008, the average life of mine of the Group's operating mines was 3.2 years. To ensure the continued operation of the business and the delivery of its growth strategy, it is essential that the Group continues to realise its existing identified reserves, convert resources into reserves, develop its resource base through the realisation of identified mineralised potential, and/or undertake successful exploration or acquire new resources.

The Group's mineral reserves and resources constitute estimates that comply with standard evaluation methods generally used in the international mining industry and are stated in conformity with the JORC Code. In respect of these estimates, no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realised or that mineral reserves can be mined or processed profitably. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated levels. In addition, there can be no assurance that mineral recoveries in small scale laboratory tests will be duplicated in larger-scale tests under on-site conditions or during production. Lower market prices, increased production costs, reduced recovery rates and other factors may render the Group's reserves uneconomic to exploit and may result in revision of its reserve estimates from time to time. Reserve data are not indicative of future results of operations. If the Group's actual mineral reserves and resources are less than current estimates or, if the Group fails to develop its resource base through the realisation of identified mineralised potential, the Group's results of operations or financial condition may be materially and adversely affected.

Minerals exploration is highly speculative in nature, involves many risks and is frequently unsuccessful. Once mineralisation is discovered, it may take a number of years to complete the geological surveys to assess whether production is possible and, even if production is possible, the economic feasibility of production may change during that time. Substantial capital expenditure is required to identify and delineate ore reserves through geological surveying, trenching and drilling, to determine metallurgical processes to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. In particular, the geological characteristics of the Group's operating mines mean that it is difficult to prove up reserves without significant investment in underground development. Notwithstanding, the Group is committed to expanding its reserve and resource base with the aim of increasing future production and continues to dedicate significant investment to achieving a minimum 8 year total resource life, including a 4 year reserve life (except the Ares and Moris mines). However, despite the Group's consistent track record of replacing its reserves and the Group's expertise in relation to mineral deposits of this nature, there can be no assurance that the Group will be able to identify future reserves or continue to extend the mine life of its existing operations. Any failure by the Group to identify and delineate ore reserves in the future could have a material adverse effect on its results of operations or financial condition.

**An increase in the Group's production costs could materially and adversely affect its profitability.**

Changes in the Group's production costs could have a major impact on its profitability. Its main production expenses are personnel costs, materials and energy. Changes in the costs of the Group's mining and processing operations could occur as a result of unforeseen events, including international and local economic and political events, and could result in changes in profitability or reserve estimates. Many of these factors may be beyond the Group's control.

The Group relies on third party suppliers for a number of its raw materials, including for the supply of cement, wood, cyanide and steel used in the construction and continuing development of its mines and the processing of ore. Any material increase in the cost of raw materials, or the inability by the Group to source third party suppliers for the supply of its raw materials, could have a material adverse effect on the Group's results of operations or financial condition.

**The Group's current operations, projects and prospects are located in remote areas and the Group's production, processing and product delivery relies on the infrastructure being adequate and remaining available.**

The Group's mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. The regions where the Group's current operations, projects and prospects are located are sparsely populated and difficult to access. The Group requires reliable roads, bridges, power sources and water supplies to access and conduct its operations and the availability and cost of this infrastructure affects capital and operating costs and the Group's ability to maintain expected levels of production and sales. Unusual weather or other natural phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could impact development of a project, reduce mining volumes, increase mining or exploration costs, or delay the transportation of raw materials to the mines and projects or doré and concentrate to customers. Any such issues arising in respect of the infrastructure supporting or on the Group's sites could materially and adversely affect the Group's results of operations or financial condition.

Furthermore, any failure or unavailability of the Group's operational infrastructure (for example, through equipment failure at its concentrator or leaching facilities or disruption to its transportation arrangements) could adversely affect the production output from its mines or impact its exploration activities or development of a mine or project.

In particular, the Group sources the electricity supply for each of its operating units in Peru and Argentina from the national grid via supply lines (the Moris mine in Mexico operates with power generators). Whilst back-up power generators are located at each of the operating units in Peru and Argentina, in the event of a failure of these supply lines from the national grid, there can be no assurance that these back-up generators will be effective in preventing any interruption to the operations of the Group. Any prolonged or persistent failure of the power supply from the national grid could increase production costs, significantly delay or halt operations and, consequently, have a material adverse effect on the Group's results of operations or financial condition.

The Group depends upon trucking to deliver fuel, wood, cement, cyanide, steel and other supplies to its operations and to deliver its commodities to its customers. These transport services in some cases may not be adequate to support the Group's existing operations or to support the Group's expanded operations. Disruptions of these transport services because of weather-related problems, key equipment failures, strikes, lock-outs or other events could temporarily impair the Group's ability to supply its commodities to its customers which could materially and adversely affect the Group's results of operations or financial condition.

The Group depends on a pumping system to extract water located underground at the Arcata unit and to prevent the Arcata mine from flooding. Whilst the Group has infrastructure in place for the extraction and storage of water, any prolonged or persistent failure in the operation of the pumping system leading to a significant delay in extracting water could lead to flooding of the Arcata mine which, in turn, could result in damage to, or destruction of, a portion of the Group's production facilities or injury to the Group's employees and contracted personnel. Any damage to or destruction of such production facilities or injury to employees or contracted personnel could have a material adverse effect on the Group's results of operations, financial condition or reputation.

**Delay or failure by the Group to complete its development projects could have a material adverse effect on the Group's growth prospects.**

Successful completion of the Group's development projects is subject to various factors, many of which are not within its control. These factors include the granting of consents and permits from the relevant government departments, the availability, terms, conditions and timing of acceptable arrangements for transportation, construction and refining and the performance of engineering and construction contractors, mining contractors, suppliers and consultants. The lack of availability of acceptable contractual terms, or a slower than anticipated performance by any contractor, could delay or prevent the successful completion of any of the Group's development projects. Completion or further expansion of the Group's development projects may be compromised in the event of a prolonged decline in price levels for silver and gold. There can be no guarantee as to when the Group's development projects will be completed, whether the resulting operations will achieve the anticipated production volumes or whether the costs in developing these projects will be in line with those anticipated. The Group's inability to complete its development projects as planned may have a material adverse effect on the results of operations or financial condition of the Group.

**The Group's joint venture arrangements and options may not be successful.**

The Group has entered into joint venture arrangements and options for certain of its development projects in order to gain access to mineral assets as part of its growth strategy. Some of these joint ventures are fundamental to the Group's business plan to achieve production growth. The Group is currently operating the San José (Argentina) and Pallancata (Peru) mines under joint venture arrangements. The Group is also developing advanced and early stage development projects through joint venture arrangements. Although the Group has sought to protect its interests in these development projects by ensuring it has management control and through the terms of the governing agreements, joint ventures necessarily involve special risks associated with the possibility that the joint venture partners may (i) have economic or business interests or goals that are inconsistent with those of the Group, (ii) take action contrary to the Group's policies or objectives with respect to its investments, for instance by veto of proposals in respect of the joint venture operations, or (iii) as a result of financial or other difficulties, be unable or unwilling to fulfil their obligations under the joint venture or other agreements. Any of the foregoing may have a material adverse effect on the results of operations, financial condition or prospects of the Group through the delay or non- completion of its development projects. In addition, the termination of certain of these joint ventures, if not replaced on similar terms, could have a material adverse effect on the results of operations, financial condition or prospects of the Group.

**If the Group fails to consummate or integrate acquisitions successfully, the Group's rate of expansion could slow and its results of operations or financial condition could suffer.**

The Group has expanded operations in the Americas through both development and acquisition of new projects, and the Group expects to continue to do so in the future. The Group intends to pursue a strategy of identifying and acquiring early stage projects and/or existing businesses with a view to expanding its operating businesses. There can be no assurance that the Group will continue to identify suitable projects, acquisitions and strategic investment opportunities or that any business acquired will prove to be profitable at all, or as profitable as its current operations. In addition, acquisitions and investments involve a number of risks, including possible adverse effects on the Group's operating results, diversion of management's attention, failure to retain key personnel in the acquired businesses, risks associated with unanticipated events or liabilities and difficulties in the integration of the operations.

**Fluctuations in currencies may adversely affect the Group's results of operations and financial condition.**

The Group's revenues are almost entirely in U.S. dollars, whilst a substantial proportion of the Group's costs are incurred in local currencies at its different operating locations. In addition, the Group expects the amount of these costs it incurs in local currencies to increase if its pipeline of development projects and prospects in the Americas commences production. The Group does not undertake any hedging activities in relation to exchange rates. As a result, if these local currencies were to significally strengthen against the U.S. dollar, this could have a material adverse effect on the Group's financial condition and results of operations. Similarly, Peru and the other Latin American countries where the Group's projects are located have experienced periods of high inflation and substantial currency devaluation over recent decades. Although inflation has been largely stable in recent years in these jurisdictions, if it were to increase without a corresponding devaluation of the relevant local currency relative to the U.S. dollar, the Group's financial condition and results of operations could be materially and adversely affected

**The Group engages in limited hedging activities and, therefore, is exposed to future changes in commodity prices*.***

The Group is exposed to the effect of changes in commodity prices (in particular, to the price of silver and gold and to changes in interest rates). The Group engages in limited hedging activities in relation to prices of silver and gold, principally (but not limited to) in connection with the security arrangements for its long-term financing. Accordingly, the Group's results of operations are exposed to changes in commodity prices.

**The Group's revenues are primarily derived from silver and gold production at five facilities.**

The Group's current revenues are primarily from silver and gold produced by the Arcata, Ares and Pallancata mines in Peru, the San José mine in Argentina and the Moris mine in Mexico and plant processing services at its Selene Mine Plant. If mining or processing operations in any one of these complexes were materially reduced, interrupted or curtailed, then the Group's results of operations or financial condition could be materially and adversely affected.

**A reduction or discontinuance in the Group's refining arrangements could have an adverse effect on the Group's cashflows, results of operations or financial condition.**

There are a limited number of refineries available throughout the world for the refining of the Group's doré . The doré produced by the Group is primarily sent to Johnson Matthey and Argor Heraeus for refining under contracts which are renewed on a yearly basis. If the refineries were to reduce or discontinue the arrangements it has in place with the Group or did not agree to a renewal of its contract, no assurance can be given that an alternative refiner would be available on acceptable contractual terms, or that delays or disruptions in sales would not be experienced that could result in an adverse effect on the Group's cash flows, results of operations or financial condition.

**The Group's sales of concentrate could be adversely affected if there were to be a reduction or discontinuance of purchases by the Group's main customers.**

The Group currently sells its concentrate production to a limited number of smelters and traders worldwide. These sales contracts normally last for a calendar year and are therefore subject to annual negotiations. If any of these customers were unexpectedly to reduce or discontinue its purchasing of the Group's concentrate or did not agree to a renewal of its contract, no assurance can be given that delays or disruptions in sales would not be experienced until such time as alternative customers could be found, or that arrangements with alternative customers would be entered into on terms as favourable to the Group. Any of the foregoing risks could result in an adverse effect on the Group's cash flows, results of operations or financial condition.

**The Group faces competition from other mining companies for the acquisition of new properties.**

Mines have finite lives and, as a result, the Group seeks to replace and expand its reserves through the acquisition of new properties and by developing projects. There is a limited supply of desirable properties with potential mineralisation available in the areas where the Group would consider conducting exploration and/or production activities. Because the Group faces competition for new properties from other mining companies, some of which may have greater financial resources than the Group, the Group may be unable to acquire attractive new mining properties on terms that it considers acceptable. As a result, the Group's revenues from the sale of silver and gold may decline over time, thereby materially and adversely affecting its results of operations or financial condition.

**The Group depends on its key personnel. If the Group is unable to attract and retain key personnel, its business may be materially and adversely affected.**

The Group's business depends in significant part upon the contributions of a number of the Group's key senior management and personnel, in particular its highly skilled team of engineers and geologists. There can be no certainty that the services of its key personnel will continue to be available to the Group. Factors critical to retaining the Group's present staff and attracting additional highly qualified personnel include the Group's ability to provide these individuals with competitive compensation arrangements. If the Group is not successful in retaining or attracting highly qualified individuals in key management positions and highly skilled engineers and geologists, its business may be materially harmed. In some of the jurisdictions where the Group's operations and development projects are located, particularly Argentina, it may be difficult for the Group to find or hire qualified people in the mining industry who are situated in those jurisdictions or to obtain all of the necessary services or expertise locally or to conduct operations on its projects at reasonable rates.

If qualified people and services or expertise cannot be obtained in those jurisdictions, those services will need to be obtained from people located elsewhere which will require work permits and compliance with applicable laws and could result in delays and higher costs to develop its projects.

**The Group's business depends on good relations with its employees and with the communities surrounding its operations.**

Although management believes that labour and community relations are currently stable, there can be no assurance that this will continue and that disruption to the Group will not occur as a result of work slowdown, work stoppage or strike or through the failure to maintain good relations with the communities living in the localities of the Group's operations. During 2009, the Group has had to suspend operations at its mines in Peru and Argentina due to industrial action and work stoppages. Work slowdowns, stoppages or other labour-related developments or community related disputes could result in a decrease in the Group's production levels and lead to adverse publicity, which could have a material adverse effect on the Group's results of operations or financial condition.

**Termination of the Group's stability arrangements could have a material adverse effect on its financial condition or operating results.**

The Group has been granted stability certificates by the Ministry of Mines in Argentina in respect of its San José mine whereby the national and provincial tax regimes are frozen for a period of 30 years from 15 May 2006 and 20 June 2006, respectively. The termination, renegotiation or withdrawal of the Group's stability certificates, or any successful challenge as to the validity of these stability certificates could result in an increase in the amount of tax or royalties the Group might have to pay or the imposition of new duties or charges, including a claim for previous non-payment of tax or governmental royalties covered by these arrangements, which in turn could have a material adverse effect on the financial condition and operating results of the Group.

**The Group is subject to significant laws and governmental regulations, and their related costs may negatively affect the Group's business.**

The Group's operations and exploration and development activities are subject to extensive laws and regulations governing various matters. These include laws and regulations relating to environmental protection, management and use of toxic substances and explosives, management of natural resources, exploration, development of mines, production and post- closure reclamation, exports, price controls, repatriation of capital and exchange controls, taxation, mining royalties, labour standards and occupational health and safety, including mine safety, and historic and cultural preservation.

The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations, changes to existing laws and regulations (including the imposition of higher taxes and mining royalties) or more stringent enforcement or restrictive interpretation of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of the Group's operations and delays in the development of its properties. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety impacts of the Group's past and current operations, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions.

**The Group's activities are subject to environmental hazards as a result of the processes and chemicals used in the Group's extraction and production methods, which could have a material adverse effect on the Group's business, financial condition or result of operations.**

Mining activities are generally subject to environmental hazards as a result of the processes and chemicals used in the extraction and production methods. In particular, the Group employs cyanide in the production of its doré and high levels of naturally occurring arsenic may be found in its concentrate production at the Arcata unit. As a result, environmental hazards may exist at the Group's properties which are currently unknown to it or may arise irrespective of whether the Group is in compliance with current environmental regulations. In addition, the storage of tailings may present a risk to the environment, property and persons. Whilst the design of the Group's tailings dams is in accordance with governmental guidance in each of the countries where it operates and the Group has only previously experienced minor leakage from one of its dams at the Arcata unit in Peru, there remains a risk of leakage from or failure of the Group's tailings dams. Furthermore, whilst the Group treats the water discharged from its operating facilities in accordance with Peruvian, Mexican and Argentine law and current international standards, the long term implications of such discharge on the environment are difficult to predict.

The Group may be liable for losses associated with such hazards, or may be forced to undertake extensive remedial clean-up action or to pay for governmental remedial clean-up actions, even in cases where such hazards have been caused by previous or subsequent owners or operators of the property, or by the past or present owners of adjacent properties or by natural conditions. Although the Directors believe the Group is in substantial compliance with applicable laws and regulations, they cannot guarantee that any such law, regulation, enforcement or private claim will not have a material adverse effect on the Group's business, financial condition or results of operations.

In addition, Peru, Argentina and Mexico are all signatories to, and have each ratified, the Kyoto Protocol. The Kyoto Protocol is intended to limit or capture emissions of greenhouse gases such as carbon dioxide and methane. Whilst the precise nature of the revised environmental regulations and enforcement regime within these jurisdictions is yet to be finalised, compliance with new environmental requirements that may be enacted to ensure compliance with the Kyoto Protocol may require the Group to incur significant capital expenditure and failure to comply with any new legislation could result in the Group incurring fines and other penalties.

**The Group's mining concessions may be terminated in certain circumstances.**

Under the laws of the jurisdictions where the Group's operations, development projects and prospects are located, mineral resources belong to the state and government concessions are required to explore for and exploit mineral reserves. The Group holds mining, exploration and other related concessions in each of the jurisdictions where it is operating and where it is carrying on development projects and prospects. The concessions held by the Group in respect of its operations, development projects and prospects may be terminated under certain circumstances, including where minimum investment or production levels are not achieved by the Group (or a corresponding penalty is not paid), if certain fees are not paid or if environmental and safety standards are not met. Termination of any one or more of the Group's mining, exploration or other concessions could have a material adverse effect on the Group's financial condition or results of operations.

**Costs associated with the Mine Closure Laws in Peru, Argentina and Mexico could have a material adverse effect on the Group's financial condition or results of operations.**

Mine operators in Peru, Argentina and Mexico are subject to the mine closure obligations under the existing legislation or pursuant to contractual arrangements. Although the Issuer has provisions for mine closures, there can be no assurance that costs associated with closure of any of the Group's operating mines would not exceed such provisions, which could have a material adverse effect on its financial condition or results of operations.

**The Group is required to obtain governmental permits to expand operations or commence new operations. The costs and delays associated with such approvals could affect the Group's operations, reduce the Group's revenues, and negatively affect the Group's business as a whole.**

The Group is required to seek governmental permits for the expansion of existing operations or for the commencement of new operations in each of the jurisdictions where its operations, development projects and prospects are located. Obtaining the necessary governmental permits is a complex and time-consuming process often involving public hearings and costly undertakings. The duration and success of permitting efforts are contingent on many factors that are outside the Group's control. The governmental approval process may increase costs and cause delays, depending on the nature of the activity to be permitted, and could cause the Group not to proceed with the development of a mine.

***Risks relating to operating in Peru, Mexico and Argentina***

**Local economic and political conditions may have a material adverse effect on the Group's financial condition or results of operations.**

The Group's operating mines are located in Peru, Mexico and Argentina. Accordingly, the Group's business, financial condition or results of operations could be adversely affected by changes in economic or other policies of the Peruvian, Mexican or Argentinean governments or other political, regulatory or economic developments in these jurisdictions.

Latin America in general, and the jurisdictions where the Group's operations, development projects and prospects are located in particular, have had a history of political instability that has included a succession of regimes with differing policies and programmes. Past governments in each of these jurisdictions have frequently intervened in the nation's economy and social structure. Among other actions, past governments have imposed controls on prices, exchange rates and local and foreign investment as well as limitations on imports, restricted the ability of companies to dismiss employees, expropriated private sector assets (including mining companies) and prohibited the remittance of profits to foreign investors.
The Directors cannot predict future election results nor whether the elected parties will maintain policies that are conducive to a business environment within the relevant country.

**Localised violence in Mexico linked to drug-trafficking could lead to disruption in the Group's Mexican operations, development projects and prospects which, in turn, could have a material adverse effect on the Group's financial condition or results of operations.**

Certain areas in the north of Mexico have experienced outbreaks of localised violence linked to drug-trafficking in the region. Whilst the Group's Mexican operations, projects and prospects have, to date, been materially unaffected by such outbreaks, any increase in the level of violence, or a concentration of the violence in areas where the Group's Mexican operations, projects and prospects are located, could have a material adverse effect on the Group's financial condition or results of operations.

**Potential local opposition to mining could lead to disruption in the Group's mine development projects and prospects which could have a material adverse effect on the Group's financial condition or results of operations.**

There is the potential for local opposition to mine development projects and prospects. Opposition in each of the jurisdictions where the Group's operations, development projects and prospects are located has arisen in the past. Whilst the Group believes it maintains good relations with local communities, the Group cannot rule out the possibility of local opposition arising in the future in respect of its existing operations, development projects or prospects or in relation to obtaining concessions for current or future projects. If the Group were to experience opposition in connection with its existing operations or current or future projects, it could have a material adverse effect on the Group's financial condition or results of operations.

**The courts of the jurisdictions in which the Group operates or might operate in the future may offer less certainty as to the judicial outcome or less effective forms of redress or a more protracted judicial process than is the case in the United States and western Europe which could result in risks for the Group.**

The courts and legal systems in the jurisdictions in which the Group operates or might operate in the future may offer less certainty as to judicial outcome and less effective forms of redress than is the case in the United States or western Europe. Accordingly, the Group could, inter alia, face risks from (i) a higher degree of discretion on the part of governmental authorities; (ii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iii) inconsistencies or conflicts between and with various laws, regulations, decrees, orders and resolutions; (iv) relative inexperience of the judiciary and courts in such matters; or (v) a more protracted judicial process resulting in delays in reaching a judicial outcome. Similarly, there may be less certainty that government officials and agencies will abide by legal requirements, licences, permits and negotiated agreements. There can be no assurance that the foregoing would not have an adverse effect on the validity or enforceability of the joint ventures, licences, permits or other legal arrangements entered into by the  Group or the application or enforcement of laws and regulations to which the Group is subject.

***Risks relating to the Group's structure***

**Certain principal shareholders exercise significant control over the Group and, as a result, investors may not be able to influence the outcome of important decisions in the future.**

The principal shareholder of the Issuer (the "**Principal Shareholder**"), which is controlled by Eduardo Hochschild, the Executive Chairman of the Issuer, beneficially owns over 50 per cent. of the issued Ordinary Shares in the Issuer. As a result, this Principal Shareholder will be able to exercise significant influence over all matters requiring shareholder approval, including the election of Directors and significant corporate transactions. The Issuer has entered into a relationship agreement with the Principal Shareholder and Eduardo Hochschild dated 20 October 2006 (the "**Relationship Agreement**") to ensure that the Group is capable of carrying on its business independently, and to ensure that transactions and relationships between the Group, the Principal Shareholder and Eduardo Hochschild are at arm's length and on normal commercial terms.

However, the concentration of ownership may have the effect of delaying or deterring a change in control of the Group, could deprive shareholders of an opportunity to receive a premium for their Ordinary Shares as part of a sale of the Group and might affect the market price and liquidity of the Ordinary Shares.

**Because the Issuer is primarily a holding company, its ability to pay dividends depends upon the ability of its subsidiaries to pay dividends and to advance funds.**

The payment of dividends by the Issuer is subject to the Issuer having sufficient distributable reserves for such purposes. The Issuer is reliant upon receiving dividends from its subsidiaries in order to generate distributable reserves, which may impact the Issuer's ability to pay dividends. Other contractual and legal restrictions applicable to the Issuer's subsidiaries could also limit its ability to obtain cash from them, including under the terms of the secured loan agreement dated 28 January 2008 (the "**Secured Loan Agreement**"). The Issuer's rights to participate in any distribution of its subsidiaries' assets upon their

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liquidation, reorganisation or insolvency would generally be subject to prior claims of the subsidiaries' creditors, including any trade creditors.

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