

QUARTERLY REPORT, FIRST QUARTER 2019



FIRST QUARTER 2019

- Investments were 88 MSEK (25)
- Other income was 0 MSEK (0)
- Net profit was -15 MSEK (4)
- Earnings per share was -0,12 SEK (0,03)
- Equity was 290 MSEK (372)
- Cash and cash equivalents were 33 MSEK (308)
- Cash flow was -77 MSEK (138), of which investments were 88 MSEK and financing 5 MSEK
- The Company invested a mechanical BAT (Best Available Technology) water treatment plant
- The concentrate production started late March and the opening ceremony was held on March 27th

Comparative figures refer to the corresponding period of the previous year

The official Quarterly Reports are given in Swedish and there may be differences in the translated versions.



CEO TIMO LINDBORG

Silver is a “green” metal, and its industrial use accounts for about 60% of demand. Demand for electric cars and vehicles is expected to grow significantly. The demand for silver in the automotive industry is about 1,610 tonnes, equivalent to 10% of industrial use or 5% of total consumption. In 2018, silver use in hybrid vehicles and battery-powered vehicles alone was estimated at 123 tonnes, but demand is expected to be doubled by 2020 and to reach 450 tonnes by 2025. Silver demand for internal combustion engine cars is estimated to grow from the current 1,490 tonnes to 2,350 tonnes by 2040. The total demand for the automotive industry is expected to be around 4,500 tonnes in 2040, half of which will come from electric cars. (Alchemist Issue 90 / LBMA Thomson Reuters (2018) report)

Similarly, the Silver Institute (2018) estimates that silver demand for green technology is about 4,300 tonnes in 2030, of which about 50% is in the automotive industry.

I believe that silver demand will grow faster than the current market, thanks to the need for green technology. The growth of the silver demand should have a positive impact on the price of silver in the future.

The opening ceremony of the Silver Mine took place on 27th March 2019. Currently production lines are in use, and the deliveries to the smelters are growing as planned. The goal is to concentrate ore with 450,000 tonnes annual capacity.

The cash flow of the Silver Mine is running, and the metal contents in concentrates have been high since the beginning of production. The flotation process has worked as expected. We believe that the production start-up and optimization of the concentrating process will be completed by the end of summer.

The Group has strengthened its cash position with a financing package consisting of a directed share issue and convertible bond in May, May as to cover the investments and start-up costs originating from the production start of the Silver Mine. Strengthening the company's cash resources will facilitate the smooth ramp-up of production. This is important for the positive development of the company's operations.

I am therefore pleased that the financial package was welcomed in the financial markets and was subscribed as planned. The size of the package is in line with the goal and fully subscribed by professional investors. The financing package was constructed to minimize the dilutive effect of its shareholding of the shareholders.

THE BUSINESS

Sotkamo Silver's business concept is to develop and extract mineral deposits in the Nordic region. Operations are conducted with comprehensive consideration of people and environment.

Sotkamo Silver owns, directly and through its subsidiary Sotkamo Silver Oy, mineral deposits containing silver, gold, zinc and tungsten in Finland, Sweden and Norway. The company's main project is the Silver Mine in Sotkamo municipality, where production ramp up started during the first quarter 2019 and the ramp-up period is planned to be finalized before the end of the summer.

SIGNIFICANT EVENTS DURING THE FIRST QUARTER 2019

Mechanical water treatment plant

The company invested in a mechanical water treatment plant at the Silver Mine as part of a four-stage water treatment process. This is part of the mine's investment in the BAT technology (BAT = Best Available Technology).

The processes in the mechanical treatment plant, after chemical conditioning, are lamella sedimentation and sand filtration. In addition to these steps, the water treatment process includes the already existing clarification ponds and surface drainage fields. Besides solids, also water-soluble impurities are also removed from the water. The plant has been constructed and will be operated by Hyxo Oy. Sanitary wastewater is treated in a biochemical treatment plant at the mine site.

Concentrate production and Opening ceremony

Silver Mine concentrate production begun in late March. The goal is to concentrate ore with 450,000 tonnes annual capacity.

Finnish Prime Minister Juha Sipilä visited the opening ceremony. He gave an interesting and encouraging speech while celebrating the start of the concentrate production at the Silver Mine.

On-site there were more than 240 guests and Sotkamo Silver's friends.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- The first concentrate delivery was made on April 8th
- The AGM was held on April 11th
- Erkki Kuronen, head of geology and mining, was appointed COO of Sotkamo Silver Oy
- The Board resolved to a directed share issue of maximum 4.2 million shares at 3,60 SEK and an issue of a convertible bond of maximum 15 million SEK. Together the share issue and the bond issue will strengthen the Company's cash with 30 million SEK before issue costs. The reason for the issues and the derogation from the shareholders' pre-emption rights was the company's need to strengthen its cash position due to investments originating from the production start of the Silver Mine and increased need of capital due to the production capacity increase during the first half of 2019.

SAFETY AND ENVIRONMENT

The lost time injury frequency rate (LTIFR) or the number of sick days due to accidents per million working hours is 10 including all contractors during the construction period. The company's goal for LTIFR is 0.

No deviations have been reported in the environmental monitoring at the mine.

EXPLORATION AND MINING UPDATES FIRST QUARTER 2019



During the first quarter 2019 most work within the geology department have been focused on The Silver Mine projects mining ramp up. Mining has proceeded as planned.

More information on the Company's mining claims and deposits is available on the Company's homepage and the Annual report pages 5–10.

FINANCIAL POSITION

The group cash holdings at the end of Q1 were 33 MSEK (122). The equity ratio was 42 % (50) and the group equity was 290 MSEK (372), which corresponds to 2,22 SEK (2,75) per share.

Investments

During the quarter the Silver Mine project has almost been finalized and the total investment in the project amounts to 88 MSEK (25) during Q1.

Cash Flow

During the quarter SEK 5 million was added to the Group through development loans from Business Finland (33).

The investments in the Silver Mine project amount to SEK 88 million and have been invested in mining, concentrating plant, water treatment plant and crushing.

GROUP REPORT OF COMPREHENSIVE RESULT

	2019	2018	2018
<i>Amount in Ksek</i>	Q1	Q1	FY
Other income	68	23	119
		0	
Other external expenses	-9 088	-4 565	-22 987
Employee expenses	-1 790	-1 258	-9 001
Depreciation and amortization of intangible and tangible fixed assets	-3 427	-32	-24 330
Other expenses	0	0	-132
Operating result	-14 236	-5 832	-56 331
Financial income	4 449	9 782	9 206
Financial expenses	-5 585	-61	-13 972
Financial net	-1 136	9 721	-4 766
Result after financial items	-15 372	3 889	-61 097
Taxes	0	0	0
CURRENT YEAR RESULT	-15 372	3 889	-61 097
OTHER COMPREHENSIVE INCOME			
Result that may be reclassified to current year result:			
Translation differences	541	565	634
Total comprehensive income	-14 831	4 454	-60 464
Attributable to:			
The parent company shareholders	-14 831	4 454	-60 464
TOTAL	-14 831	4 454	-60 464
Profit per share, weighted average, SEK	-0,12	0,03	-0,48

GROUP REPORT OF FINANCIAL POSITION

<i>Amount in kSEK</i>	2019-03-31	2018-03-31	2018-12-31
Assets			
Fixed assets			
Intangible fixed assets	27 241	49 035	24 851
Tangible fixed assets	496 587	148 229	405 870
Right of use assets	96 698	0	0
Financial fixed assets	16 296	412	14 371
Deferred tax asset	341	341	341
Total fixed assets	637 162	198 017	445 432
Current assets			
Inventories	2 546	0	0
Other assets	11 475	11 745	24 929
Bank accounts	33 384	308 258	122 697
Total current assets	47 404	320 003	147 627
Total assets	684 566	518 021	593 059
Equity and liabilities			
Equity	290 121	372 716	304 952
Provision	164	669	136
Long term liabilities	233 139	130 866	223 102
Leasing liabilities	96 698	0	0
Short term liabilities	64 443	13 770	64 869
Total equity and liabilities	684 566	518 021	593 059

<i>Amount in kSEK</i>	Share capital	Other contributed capital	Translation differences	Retained earnings	Total Equity
Opening Equity 2018-01-01	163 680	171 257	-366	-6 052	328 519
CURRENT YEAR RESULT				-62 980	-62 980
Sum Currents year result	0	0	0	-62 980	-62 980
OTHER COMPREHENSIVE INCOME					
Translation difference			634		634
Sum Other comprehensive income	0	0	634	0	634
Transactions with shareholders					
Share issue	15 735	24 009			39 744
Issue costs		-2 847			-2 847
Sum transactions with shareholders	15 735	21 162	0	0	36 897
Closing Equity 2018-12-31	179 415	192 419	268	-69 032	303 070
CURRENT YEAR RESULT Q1					
Sum Currents year result	0	0	0	-15 372	-15 372
OTHER COMPREHENSIVE INCOME Q1					
Translation difference			541		541
Sum Other comprehensive income	0	0	541	0	541
Closing Equity 2019-03-31	179 415	192 419	810	-84 404	288 239

CONSOLIDATED CASH FLOW STATEMENTS

<i>Amount in kSEK</i>	2019-03-31	2018-03-31	2018-12-31
Operating activities			
Operating income before tax	-15 372	3 889	-62 980
Adjustments for items not effecting cash	-11 449	-7 229	20 957
Cash flow from operating activities before changes in working capital	-26 821	-3 340	-42 023
Cash flow from changes in working capital			
Change in inventories	-2 546	0	0
Change in operating receivables	13 454	-1 595	-17 056
Change in operating liabilities	9 639	6 826	56 644
Cash flow from operating activities	20 547	-1 891	-2 435
Investing activities	-87 592	-25 128	-299 437
Cash flow from financing activities	5 094	161 668	257 787
Change in cash and cash equivalents	-77 323	138 431	-44 085
Cash and cash equivalents in the beginning of the period	122 697	164 171	164 171
Translating differences	541	5 656	2 612
CASH AND CASH HOLDINGS AT END OF PERIOD	33 384	308 258	122 697

PARENT COMPANY INCOME STATEMENTS

	2019	2018	2018
<i>Amount in kSEK</i>	Q1	Q1	FY
Other income	0	901	5 413
		0	
Other external expenses	-1 195	-2 510	-7 622
Employee expenses	-1 190	-1 020	-5 015
Depreciation and amortization of intangible and tangible fixed assets	-0	-2	-21 749
Operating result	-2 385	-5 832	-28 973
Financial income	6 066	850	28 100
Financial expenses	4 635	-41	-3 955
Financial net	10 701	809	24 145
Result after financial items	8 316	-1 762	-4 828
Taxes	0	0	0
CURRENT YEAR RESULT	8 316	- 1 762	-4 828

PARENT COMPANY REPORT OF FINANCIAL POSITION

<i>Amount in kSEK</i>	2019-03-31	2018-03-31	2018-12-31
Assets			
Fixed assets			
Intangible fixed assets	27 042	48 279	27 027
Tangible fixed assets	6 883	9 993	6 883
Financial fixed assets	529 278	321 604	487 192
Total fixed assets	563 203	379 876	521 102
Current assets			
Other assets	6 466	2 010	5 796
Bank accounts	14 440	59 018	48 498
Total current assets	20 906	61 028	54 294
Total assets	584 109	440 904	575 396

	2019-03-31	2018-03-31	2018-12-31
Equity and liabilities			
Equity	527 168	436 671	304 952
Long term liabilities	53 496	250	223 102
Short term liabilities	3 445	983	64 869
Total equity and liabilities	584 109	440 904	593 059

Exchange rates

For the compilation of the company's accounts, exchange rates have been calculated using the following values:

	2019-03-31	2018-03-31	2018-12-31
Balance day rate SEK/EUR	10,4221	10,2931	10,2753
Balance day rate SEK/USD	9,2821	8,3596	8,971
Average exchange rate for the reporting period/year SEK/EUR	10,4173	9,9938	10,2620

OTHER INFORMATION

Accounting

The interim report has been prepared for the Group in accordance with IAS 34, Interim Financial Reporting, the Annual Accounts Act and the Securities Market Act. For the parent company, the interim report has been prepared in accordance with the Annual Accounts Act and the Securities Market Act, which is in accordance with the provisions of RFR 2 Accounting for Legal Entities. The parent company's and the Group's accounting principles for the report are unchanged compared to the latest annual report, with the exception of the following.

IFRS 16

IFRS 16 Leasing, which replaces IAS 17, enters into force on January 1, 2019. Applies the standard from the above day and applies the simplified method in which no recalculation is made of the information regarding comparative periods afterwards.

IFRS 16 will have an impact on almost all leases and rentals. Instead of reporting the leasing fee as an operating expense, it will be reported as a right of use asset and a financial liability, thus a depreciation of the asset as well as an interest on the debt will be calculated and reported.

EBITDA, interest expenses and depreciation are affected in the comprehensive income and the balance sheet total and associated key figure calculations will be affected. EBITDA will be positively affected while the equity ratio will decrease.

Since the Company is under expansion phase and part of the financing of the Silver Mine project has been done through leasing, lease agreements or parts of the operation being outsourced, this have a major impact on the balance sheet.

Balance sheet transition effects

Sotkamo Silver has chosen to report the transition to the new standard with the simplified method. In accordance with the simplified method, comparison years have not been recalculated. The size of the right of use assets has been valued to correspond to the size of the leasing debt at the time of transition. The right of use has been established with knowledge in retrospect about how the termination and extension clauses have been applied. Use rights agreements shorter than 12 months or which terminate within 12 months from the transition date are classified as short-term contracts and are therefore not included in the reported liabilities or rights of use. In addition, user rights agreements with a new acquisition value of less than USD 5,000 have been classified as low value contracts and are not included in the reported liabilities or user rights.

During the first quartal 2019 MSEK 5,0 of leasing costs have been reclassified from "Other external expenses" in the Group Comprehensive result, to "Depreciations" MSEK 3,4 and "Financial expenses" MSEK 1,6.

Important estimates and assessments for accounting purposes

Estimates and assessments are continuously evaluated and based on historical experience and other factors, including expectations of future events that are considered reasonable under the prevailing circumstances.

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that result from this will, by definition, rarely correspond to the actual result. The estimates and assumptions that entail a significant risk of significant adjustments in the carrying amounts of assets and liabilities during the next financial year are discussed below.

KEY FIGURES (GROUP)	2019-03-31	2018-03-31	2018-12-31
Return on average equity	Neg	Neg	Neg
Return on average total capital	Neg	Neg	Neg
Equity ratio(%)	42,4	72,0	50,7
Interest coverage	Neg	Neg	Neg
Result per share	-0,12	0,03	-0,48
Equity per share	2,32	3,12	2,32
Cash liquidity (%)	70	1 679	227

**Definition of Key figures is in the Annual report of 2018 p. 65-66*

RISK FACTORS

Financial and operational risks have an impact on the Company's operations. The Company's operations must be evaluated against the background of the risks, complications and additional costs that mining and exploration companies are exposed to. The company can control and counteract these risks to varying degrees.

For a more detailed info of significant risks and uncertainties and how the Company deal with them, see Sotkamo Silver's Annual Report for 2018, p. 24-27.

LISTING AND SHARE FACTS

The Company is listed on NGM Equity in Stockholm and on NASDAQ Helsinki. The Company ticker code is SOSI at NGM Equity and SOSI1 at NASDAQ Helsinki. The shares ISIN-number is SE0001057910. The share is also listed on Börse Berlin, Open Market where the Company Code number is A0MMF4 and ISIN-number is the same as on NGM Equity Stockholm; SE0001057910.

	2019-03-31	2018-03-31	2018-12-31
Share facts			
Share price SEK	4,415	4,325	3,90
Quota value SEK	1,37	1,37	1,37
Market Cap. MSEK	577	566	510
Number of registered shares	130 783 299	130 783 299	130 783 299
Share Capital SEK	179 414 417	179 414 417	179 414 417

FINANCIAL CALENDER

Sotkamo Silver will publish economic information on the following dates:

- Q2 is published August 23 2019
- Q3 is published November 15 2019
- Q4 is published February 14 2020

FINANCIAL REPORTS

The reports are available at the Company webpage:

http://www.silver.fi/sivu/en/finansiella_rapporter/

The CEO assures that the report provides a true and fair view of the Parent Company's and the Group's operations, position and results, and describes the significant risks and uncertainties that the Parent Company and its subsidiaries that are part of the Group face.

This report has not been subject to review by the Company's auditors.

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Stockholm May 14, 2019

Sotkamo Silver AB

Timo Lindborg, CEO