

SOTKAMO SILVER AB
(NGM: SOSI; NASDAQ: SOSI1)

August 23, 2019

HALF YEAR REPORT 2019



SECOND QUARTER 2019

- Revenue was 30 MSEK (0)
- Net profit was -35 MSEK (-8)
- Earnings per share was -0,26 SEK (-0,06)
- The first concentrate delivery was made on April 8th
- Erkki Kuronen, head of geology and mining, was appointed Managing Director of Sotkamo Silver Oy
- The Board resolved to a directed share issue of 4.2 million shares at 3,60 SEK and an issue of a convertible bond of 15 million SEK.

HALF YEAR 2019

- Cash flow from operating activities was -32 MSEK (4)
- Investments were 117 MSEK (75)
- Cash and cash equivalents were 8 MSEK (326)
- Equity was 267 MSEK (362)

- The production was about 220,000 oz silver, 600 oz gold, 150 tonnes lead and 290 tonnes zinc in concentrate.
- Milled tonnes were 88 000 and the Silver (Ag) mill-head grade 100 g/t Ag.

Comparative figures refer to the corresponding period of the previous year.



CEO TIMO LINDBORG

During the late spring and summer, production of Silver Mine has increased progressively towards full production capacity. We have already reached the long-term production capacity target of 450,000 ton a year (12 months) for both mining operation and process plant. With high feed rate, good performance of the mine and plant we expect to reach the earlier set 330 350,000 tonnes feed amount and the 1,15-1,25 million troy ounces of silver production target for this year. Because of the slightly delayed production start and use of the lower content ore during the ramp-up period the revenue was lower than during normal production. The goal is that the ramp-up period is completed and Silver Mine will be in full production by the end of August.

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 the environment.

Sotkamo Silver AB owns, directly and through its subsidiary Sotkamo Silver Oy, mineral deposits containing silver, gold, zinc, lead and tungsten. 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 by end of August.

KEY FIGURES (GROUP)	2019-06-30	2018-06-30	2018-12-31
Sales MSEK	30	0	0
EBIT MSEK	-47	-13	-54
Equity ratio (%)	38	62	51
Result per share SEK	-0,26	-0,03	-0,48
Equity per share SEK	1,98	2,77	2,32
Cash liquidity (%)	32	1 292	227
Personnel at end of period	45	12	31
Milled tonnes	88 000	0	0
Average mil feed grade g/t Ag (Silver)	100	0	0

Production ramp up

The production capacity has been increased to 450,000 tonnes per year. The goal is to mill 330,000 - 350,000 tonnes of ore in 2019. The silver ore is mined from the open pit and underground mine.

Until the end of June, we produced about 220,000 Oz silver, 600 Oz gold, 150 tonnes lead and 290 tonnes zinc in the concentrates, around 330,000 Oz silver equivalents (AgEq).

Underground mining and development have been in progress for the whole first half of 2019. Production ramp up at the concentrating plant was started at the end of March and has been the focus of the operations team at Silver Mine. By the end of June, designed milling capacity was achieved and optimization of the flotation process was ongoing. Metal recoveries and the performance of the plant has been positive and gives solid base for further optimization of the process and metal recoveries.

However, feed tonnes and head grades were below the target levels. During Q2 ca. 88 kt of ore was processed which is about 75 % of the targeted quarterly production for 2019. This is due to the gradual ramp up of feed rate and planned and unplanned shutdowns especially in April and May. The team has successfully solved the issues and plant achieved designed feed rate on the second half of the June. Head grades were ca. 20 % below the full year forecast due to the large share of ore feed comprising of the ore from the open pit and drifting. This will be compensated during the rest of the year as underground stoping will take place in full capacity.

Focus of the underground mine has been in the horizontal development and improving of the mine infrastructure, like ventilation, communications system and dewatering. Ore from drifting has been processed with ore from the first stope, open pit and old stockpile. The mining of the first stope started at the end of June. Open pit mining was done at small volume in April and stockpiled ore has been fed to the concentrating plant.

The slightly delayed production caused shortfall of revenues compared with the plan. Sales for the second quarter was 30 MSEK.

The AgEq values were calculated according the formula: $AgEq = Ag + (Au * Aueq \text{ factor}) + (Pb * Pbeq \text{ factor}) + (Zn * Zneq \text{ factor})$. The eq factor = (metal unit price)/(Ag unit price). The used metal prices were: Ag 14.99 \$/Oz; Au 1,358 \$/Oz; Pb 1,891 \$/tonne; Zn 2,602 \$/tonne.

FINANCIAL POSITION

- The group cash and cash equivalents at June 30th was 8 MSEK (326).
- The equity ratio was 38 % (62).
- The group equity was 267 MSEK (362), which corresponds to 1,98 SEK (2,77) a share.

Ramp up of the Silver Mine project was delayed and investment cost overrun had a negative impact on the cash situation.

To strengthen the financial position the Board resolved to a directed share issue of 4.2 million shares at 3,60 SEK and an issue of a convertible bond of 15 million SEK.

The investments in the Silver Mine project amounted to SEK 117 million during the first half of 2019, the money was spent on mining, concentrating plant, water treatment plant, crushing and on IT.

SAFETY AND ENVIRONMENT

The lost time injury frequency rate (LTIFR) or the number of sick days due to accidents per million working hours was 11 at the end of the reporting period, including all contractors during the construction period. Days without accidents at June 30th were 118. The company's goal for LTIFR is 0.

At the mine site of Sotkamo Silver Oy a pipe line broke due to a construction failure which resulted in water flowing into the nearby wetland between the concentrate plant and the side rock area. Elevated concentrations of nitrogen, sulphate, zinc, nickel and cadmium were observed in a ditch on the mining site in the environmental monitoring samples. In the lake Pieni Tipasjärvi levels of these elements were not found.

The local management informed the Centre for Economic Development, Transport and the Environment (ELY Centre) about the leakage on June 19, 2019. Upon receipt of the notice, the ELY Centre notified the company that, in the future, a notice should be submitted immediately after any similar incident is detected. The management have taken corrective actions.

EVENTS DURING THE REPORTING PERIOD

Annual General Meeting (AGM)

The following main decisions were made at the AGM:

The income statement and the balance sheet for both the parent company and the group regarding the financial year 2018 were adopted by the AGM. The AGM decided that no dividend would be paid out for the financial year 2018. The members of the Board and the CEO were granted discharge from liability for the financial year 2018.

The AGM decided that the Board would comprise of six ordinary members without deputy directors. Mauri Visuri, Jarmo Vesanto, Ilkka Tuokko, Matti Rusanen and Eeva-Liisa Virkkunen were re-elected as directors and Maria Neovius was elected as a new director. Mauri Visuri was re-elected chairman of the Board.

The AGM resolved to re-elect the auditing company PwC until the end of the AGM in 2020, with Anna Rosendal as the head auditor for the time being.

The guidelines for remuneration for the management and the procedure for appointing the members of the nomination committee were approved in accordance with the proposals from the Board.

The AGM approved the nomination committee's proposal for annual fees to the Board.

The AGM resolved, for the period until the next AGM, to authorize the Board, at one or several occasions, to issue new shares or other financial instruments. The authorization is limited to a maximum dilution of twenty (20) percent of the total number of shares outstanding at the time of the first Board resolution in accordance with the authorization.

Changes in the Management team

Head of Geology & Mining Erkki Kuronen was appointed as Managing Director of Sotkamo Silver Oy.

EVENTS AFTER THE REPORTING PERIOD

No significant events after the reporting period.

SHARES AND SHARE TRADINGS

Sotkamo Silver shares are traded 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 shares are also traded on Börse Berlin, Open Market where the Company Code number is A0MMF4 and ISIN-number is the same as on NGM Equity Stockholm; SE0001057910.

Share facts	2019-06-30	2018-06-30	2018-12-31
Share price SEK	3,70	3,85	3,90
Quota value SEK	1,37	1,37	1,37
Market Cap. MSEK	499	504	510
No. of registered shares	134 983 299	130 783 299	130 783 299
Share Capital SEK	185 176 166	163 679 896	179 414 417

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

FINANCIAL CALENDER

- Q3 is published November 15, 2019
- Year-end report 2019 is published February 14, 2020

FINANCIAL REPORTS

The reports are available at the Company webpage:

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

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

Stockholm August 23rd, 2019

SOTKAMO SILVER AB

Board of Directors

GROUP REPORT COMPREHENSIVE INCOME STATEMENT					
	2019	2018	2019	2018	2018
Amount in kSEK	Q2	Q2	H1	H1	FY
Sales	29 669	0	29 669	0	0
Other income	115	31	182	54	119
	0		0		
Supplies	-34 311	0	-34 311	0	0
Other external expenses	-8 441	-4 971	-17 529	-9 536	-22 987
Employee expenses	-6 766	-1 796	-8 555	-3 053	-9 001
Depreciation and amortization of intangible and tangible fixed assets	-12 667	-46	-16 094	-78	-21 934
Other expenses	-23	0	-23	0	-132
Operating result	-32 424	-6 782	-46 661	-12 613	-53 935
Financial income	2 737	3 297	8 803	13 079	9 206
Financial expenses	-6 120	-4 371	-13 322	-4 432	-18 251
Financial net	-3 383	-1 074	-4 518	8 647	-9 045
Result after financial items	-35 807	-7 856	-51 179	-3 966	-62 980
Taxes	0	0	0	0	0
CURRENT YEAR RESULT	-35 807	-7 856	-51 179	-3 966	-62 980
OTHER COMPREHENSIVE INCOME					
Result that may be reclassified to current year result:					
Translation differences	936	-122	1 477	581	634
Total comprehensive income	-34 871	-7 978	-49 702	-3 385	-62 346
Attributable to:					
The parent company shareholders	-34 871	-7 978	-49 702	-3 385	-62 346
TOTAL	-34 871	-7 978	-49 702	-3 385	-62 346
Profit per share, weighted average, SEK	-0,26	-0,06	-0,38	-0,03	-0,49

GROUP REPORT OF CONSOLIDATED BALANCE SHEET			
Amount in kSEK	2019-06-30	2018-06-30	2018-12-31
Assets			
Fixed assets			
Intangible fixed assets	27 222	49 014	24 851
Tangible fixed assets	526 755	201 540	405 870
Right of use assets	97 036	0	0
Financial fixed assets	17 813	413	14 371
Deferred tax asset	341	341	341
Total fixed assets	669 167	251 307	445 432
Current assets			
Inventories	8 949	0	0
Other assets	21 316	7 569	24 929
Bank accounts	8 357	326 297	122 697
Total current assets	38 623	333 867	147 626
Total assets	707 790	585 174	593 059
Equity and liabilities			
Equity	266 753	362 030	304 952
Provision	0	339	136
Long term liabilities	252 227	196 958	223 102
Leasing liabilities	97 036	0	0
Short term liabilities	91 774	25 846	64 869
Total equity and liabilities	707 790	585 174	593 059

CONSOLIDATED CASH FLOW STATEMENTS			
	2019-01-01 2019-06-30	2018-01-01 2018-06-30	2018-01-01 2018-12-31
<i>Amount in kSEK</i>			
Operating activities			
Operating income before tax	-35 807	-3 966	-62 981
Adjustments for items not effecting cash	-15 094	-12 819	20 957
Cash flow from operating activities before changes in working capital	-50 901	-16 785	-42 024
Cash flow from changes in working capital			
Change in inventories	-8 949	0	0
Change in operating receivables	2 754	2 178	-17 056
Change in operating liabilities	25 431	18 591	56 644
Cash flow from operating activities	-31 665	3984	-2 436
Investing activities	-117 454	-75 491	-299 437
Cash flow from financing activities	31 507	225 156	257 787
Change in cash and cash equivalents	-117 612	153 649	-44 086
Cash and cash equivalents in the beginning of the period	122 697	164 171	164 171
Translating differences	3 273	8 447	2 612
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8 358	326 267	122 697

GROUP CHANGE IN EQUITY

Amount in kSEK					
	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				-51 179	-51 179
Sum Currents year result	0	0	0	-51 179	-51 179
OTHER COMPREHENSIVE INCOME Q1					
Translation difference			1 477		1 477
Sum Other comprehensive income	0	0	1 477	0	1 477
Transactions with shareholders					
Share issue	5 761	9 359			15 120
Issue costs		-1 734			-1 734
Sum transactions with shareholders	5 761	7 625	0	0	13 386
Closing Equity 2019-06-30	185 176	200 044	1 745	-120 211	266 753

GROUP REPORT OF COMPREHENSIVE RESULT PARENT COMPANY			
<i>Amount in kSEK</i>	2019 H1	2018 H1	2018 FY
Other income	214	901	5 413
Other external expenses	-5 623	-4 539	-7 494
Employee expenses	-2 114	-2 518	-5 015
Depreciation and amortization of intangible and tangible fixed assets	0	0	-21 749
Other expenses	0	0	-128
Operating result	-7 523	-6 156	-28 973
Financial income	21 100	17 853	28 100
Financial expenses	-2 223	-895	-3 955
Financial net	18 877	16 958	24 145
Result after financial items	11 354	10 802	-4 828
Taxes	0	0	0
CURRENT YEAR RESULT	11 354	10 802	-4 828

GROUP REPORT OF FINANCIAL POSITION PARENT COMPANY			
<i>Amount in kSEK</i>	2019-06-30	2018-06-30	2018-12-31
Assets			
Fixed assets			
Intangible fixed assets	27 046	48 740	27 027
Tangible fixed assets	6 883	8 155	6 883
Shares in subsidiaries	174 913	174 913	174 913
Financial fixed assets	389 519	296 916	312 279
Total fixed assets	598 361	528 724	521 102
Current assets			
Other assets	6 559	6 276	5 796
Cash and cash equivalents	9 517	56 034	48 498
Total current assets	16 076	62 311	54 295
Total assets	614 437	591 035	575 397
Equity and liabilities			
Equity	543 593	534 483	518 853
Provision	0	338	136
Long term liabilities	68 496	53 151	53 496
Short term liabilities	2 348	3 063	2 912
Total equity and liabilities	614 437	591 035	575 397

Exchange rates

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

	2019-06-30	2018-06-30	2018-12-31
Balance day rate SEK/EUR	10,5581	10,4213	10,2753
Balance day rate SEK/USD	9,27	8,3596	8,971
Average exchange rate for the reporting period/year SEK/EUR	10,5145	9,8497	10,2620

Revenue per geographic zone, MSEK	Jan-Jun 2019	Jan-Jun 2018	FY 2018
Finland, Zinc concentrate	5	0	0
Sweden, Lead Silver concentrate	25	0	0

OTHER INFORMATION

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.

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

From the beginning of 2019 Sotkamo Silver adopted IFRS 16 Leasing, replacing the previously used IAS 17 Leases and the related interpretations. 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.

The Silver Mine project has partially been financed through leasing and parts of the operation have been outsourced, which has 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 half year 2019 MSEK 11,1 of leasing costs have been reclassified from "Other external expenses" in the Group Comprehensive result, to "Depreciations" MSEK 7,9 and "Financial expenses" MSEK 3,2. The adjusted amount of leases at January 1st 2019 was 72,3 MSEK and 32,8 MSEK have been acquired during the first half of 2019.

Revenue recognition, IFRS 15

Revenue includes the sale of silver concentrates and by-products that are reported on delivery to the customer in accordance with the sales conditions. Revenue is recognized when material rights and obligations associated with ownership transfer to the customer. The right of ownership according to current sales terms will expire when the concentrate arrives at the customer. Sales are reported as the fair value of goods and services sold, excluding value added tax, discounts and exchange rate differences in sales in foreign currency. There are no intra-group sales of goods.

The Group's concentrates are recognized as revenue upon the customer's receipt of delivery. Revenue for flotation concentrates is calculated on preliminary data on quantity of concentrate, metal content, metal price and with deduction for reimbursement for treatment costs and pollution content. Final invoicing takes place when all the input parameters (concentrate quantity, metal content and price, contaminant content etc.) have been determined.

Revenue from activities outside ordinary operations is reported as other income.

Inventory

The Group's inventory consists mainly of concentrate and ore. Inventories are reported at the lower of cost and the net realizable value. The acquisition value is determined by using the first in, first out method (FIFO). The acquisition value for concentrate consists of ore from own mine, direct wages, other direct costs and attributable indirect manufacturing costs including attributable depreciation based on normal manufacturing capacity. The sales value is the estimated sale price of metal content in accordance with applicable sales terms with deductions for applicable variable sales costs.

Depreciation and mine depletion

Depreciation periods for preparations, plants and equipment in mines depend on future ore extraction and the life of the mine.

These estimates, in turn, are largely dependent on ore reserves and consequently, among other things, on expected future metal prices. There are established annual production plans for the mining life based on ore reserves. Changed conditions may mean that the future depreciation rate will change. Depletion is made in relation to mined ore.

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