

QUARTERLY REPORT, THIRD QUARTER 2019



HIGHLIGHTS OF THE THIRD QUARTER 2019

- Sales was 85 MSEK (0)
- EBITDA was 33 MSEK (-9)
- EBIT was 3 MSEK (-9)
- Earnings per share was 0,00 SEK (-0,13)
- Cash-flow was 7 MSEK (128)
- Milled tonnes were 127,000 and the Silver (Ag) head grade 102 g/tonne
- The production was about 358,000 Oz silver, 1,081 Oz gold, 445 tonnes lead and 1,010 tonnes zinc, in concentrates.

HIGHLIGHTS OF THE JANUARY-SEPTEMBER 2019

- Sales was 114 MSEK (0)
- EBIT was -43(-22)
- Earnings per share was -0,27 SEK (-0,14)
- Cash flow was -112 MSEK (25)
- Investments were 145 MSEK (75)
- Milled tonnes were 218,000 and the Silver (Ag) head grade 101 g/tonne
- The production was about 582,000 Oz silver, 1,675 Oz gold, 595 tonnes lead and 1,305 tonnes zinc, in concentrates.

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



CEO TIMO LINDBORG

Our team has worked hard these past few months after the production started, navigating in the challenges of mine commissioning. I am very excited that during September the Silver Mine moved into a phase where mining and processing rates are now fully utilized, generating positive EBIT for the quarter. This is a significant milestone for any mining project.

I appreciate the work done by our entire team during the production start. We reached the full production capacity in the concentrating plant and the mine already during the Q3 period, which is in line with the production target. Positive EBIT soon after the outset of production is an excellent achievement. At the same time, our direct deliveries to smelters enable us to secure fast and agile deliveries and cash-flow from sales.

THE BUSINESS

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 was finalized by end of August.

Key figures	Q1-Q3 2019	Q1-Q3 2018	FY 2018
Sales MSEK	114	0	0
EBITDA	3	22	32
EBIT MSEK	-43	-22	-54
Equity ratio (%)	38	54	51
Earnings per share SEK	-0,26	-0,14	-0,48
Cash liquidity (%)	30	424	227
Personnel at end of period	42	12	31
Milled tonnes	218,000	0	0
Average grade Ag (Silver)	101	0	0

Production

The production ramp up was successfully completed by the end of August as planned. Reliability and usability of the concentrating plant has been at a very good level and metal recoveries have fulfilled the expectations. The goal is to mill 330,000 -350,000 tonnes of ore in 2019.

During Quarter 3 we produced ca. 358,000 Oz. silver, 1,081 Oz. gold, 445 tonnes lead and 1,010 tonnes zinc. Since the production start until end of September we produced about 582,000 Oz silver, 1,675 Oz gold, 600 tonnes lead and 1,305 tonnes zinc in the concentrates.

Underground mining and mine development have progressed as planned. Long hole drilling and underground stoping has been started but the share of stockpiled lower grade open pit ore was high in July effecting the head grades of the month. Since August, head grades have improved as the share of high-grade underground ore has increased.

By the end of June, designed milling capacity was achieved and since that the flotation process has been further optimized and stabilized. During the third Quarter 127,000 tonnes of ore was processed bringing the feed tonnes to 218,000 since the production start. The concentrating plant is operated at the designed capacity and with good reliability. Head grades have improved during the third quarter. Lead and zinc production exceed the forecast while silver and gold production were at the planned level at the end of the period.

Production guidance

The production guidance for 2019 is 330,000 – 350,000 milled tonnes as earlier published.

The latest silver production guidance for full year 2019 is 1,000,000 – 1,100,000 Oz Ag (1 150 000-1 250 000). Silver is estimated to account for 60-63% of the sales value.

FINANCIAL POSITION SEPTEMBER 30TH

- The group cash and cash equivalents were 7 MSEK (193).
- The equity ratio was 38 % (54).
- The group equity was 260 MSEK (362), which corresponds to 1,93 SEK (2,63) a share.

Ramp up of the Silver Mine project was delayed and investment cost overrun had a negative impact on the cash situation in the first half of 2019

The group has an unused overdraft facility of 10,7 MSEK.

Following the adoption of IFRS 16 the assets increased by 76 MSEK which caused equity ratio decrease.

The investments in the Silver Mine project in January-September 2019 amounted to SEK 145 million. The investments were made in the mine, concentrating plant, water treatment plant, crushing facilities and for 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 20 at the end of September, including all contractors. Since mid-August, a new safety concept is being implemented. The company's long-term goal for LTIFR is 0.

The management informed the Kainuu Centre for Economic Development, Transport and the Environment (ELY Centre) that the 500,000 tonnes limit of mining in 2019 might be exceeded. The authority was also informed that the emission limits of nitrogen and sulphur in the current permit could be exceeded. The Silver Mine has applied for an updated permit that provides increased mining tonnage and emission levels, compared to the current permit.

PERSONNEL

The number of employees of the Group was 42 at the end of the reporting period and the number of employees hired by contractors operating the mine and laboratory was 54.

Sotkamo Silver Oy strengthened the organization with the following appointments;

Mikko Sopanen M.Sc. (Finance & Accounting) has been appointed to VP, Finance of Sotkamo Silver Oy.

Max Forsman, M.Sc. (Geology & Mineralogy) has been appointed to Head of Mining and Geology.

Kristian Colpaert, M.Sc. (Technology) has been appointed to Metallurgist at the concentrating plant.

EVENTS AFTER THE REPORTING PERIOD

No significant events after the reporting period.

SHARES AND SHARE TRADINGS

On September 30th, 2019 Sotkamo Silver AB's Share capital was SEK 185 176 166, the number of shares was 134 983 299.

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.

The number of shares traded on NGM Sweden and Nasdaq HEL Finland from January-September was 42 950 431 (38 681 665).

Share facts	2019-09-30	2018-09-30	2018-12-31
Share price SEK	4,10	3,77	3,90
Highest share price SEK, during the period	5,00	5,00	5,00
Lowest share price SEK, during the period	3,31	3,40	3,40
Quota value SEK	1,37	1,37	1,37
Market Cap. MSEK	553	493	510
No. of registered shares	134 983 299	130 783 299	130 783 299
Share Capital SEK	185 176 166	179 414 417	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.

Since production started during the second quarter of 2019 the risk factors have changed and in addition to the risks described in the annual report of 2018, p. 24-27 are also;

Risk	Description	Handling
Credit risk	The risk of not getting paid for outstanding invoices.	The company has customers with good credit rating and track record.
Liquidity risk	The risk of not having cash to pay the account payables	The company closely follows the cash-flow turn-out and cash-flow projections
Risk of shutdowns	When the production is shut-down	The company has an interruption insurance and also monitors the equipment closely.

NOMINATING COMMITTEE

The largest shareholder together with the three next largest shareholders at August 31st have appointed the nominating committee consisting of three members.

The Nominating Committee for the Annual General Meeting (AGM) 2020 in Sotkamo Silver AB consists of:

- Leena Siirala (chairman), General Counsel, Ilmarinen Mutual Pension Insurance Company.
- Timo Kärkkäinen, Investment Director, Suomen Malmijalostus Oy
- Mauri Visuri, CEO of Teknoventure Oy

The secretary of the nominating committee is lawyer Bertil Brinck, of A1 Advokater, Stockholm. Bertil Brinck receives motions, suggestions for the AGM and answers the shareholders questions regarding the nominating committee.

Bertil Brinck could be reached by phone; +46 8 545 811 00, or e-mail

bertil.brinck@a1advokater.se

FINANCIAL CALENDER

- Financial Statements 2018 on February 22, 2019
- AGM on April 11, 2019
- Q1 on May 14, 2019
- Q2 on August 23, 2019
- Q3 on November 15, 2019
- Financial Statements 2019 on February 14, 2020

FINANCIAL REPORTS

The reports are available at the Company webpage:

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

Stockholm, November 15th, 2019

Sotkamo Silver AB's Board of Directors

CONSOLIDATED STATEMENT OF INCOME					
	2019	2018	2019	2018	2018
Amount in kSEK	Q3	Q3	Q1-Q3	Q1-Q3	FY
Sales	81 686	0	111 355	0	0
Change of finished good and work in progress	2 522	0	2 522	0	0
Other income	418	0	601	54	119
Supplies	-32 959	0	-67 270	0	0
Other external expenses	-13 133	-5 089	-30 662	-14 625	-22 987
Employee expenses	-5 453	-4 154	-14 008	-7 207	-9 001
Depreciation and amortization of intangible and tangible fixed assets	-29 650	-54	-45 744	-132	-21 934
Other expenses	23	0	0	0	-132
Operating result	3 454	-9 296	-43 207	-21 910	-53 935
Financial income	6 336	-3 223	15 140	9 856	9 206
Financial expenses	-8 935	-4 665	-22 257	-9 098	-18 251
Financial net	-2 598	-7 888	-7 117	759	-9 045
Result after financial items	855	-17 185	-50 324	-21 151	-62 980
Taxes	0	0	0	0	0
RESULT FOR THE PERIOD	855	-17 185	-50 324	-21 151	-62 980
OTHER COMPREHENSIVE INCOME					
Result that may be reclassified to current period result:					
Translation differences	-7 281	-43	-5 804	538	634
Total comprehensive income	-6 426	-17 228	-56 128	-20 613	-62 346
Attributable to:					
The parent company shareholders	-6 426	-17 228	-56 128	-20 613	-62 346
TOTAL	-6 426	-17 228	-56 128	-20 613	-62 346
Profit per share, weighted average, SEK	0,00	-0,13	-0,27	-0,14	-0,49

CONSOLIDATED BALANCE SHEET			
<i>Amount in kSEK</i>	2019-09-30	2018-09-30	2018-12-31
Assets			
Fixed assets			
Intangible fixed assets	27 347	48 986	27 247
Tangible fixed assets	622 088	293 368	405 870
Financial fixed assets	19 337	14 001	14 371
Deferred tax asset	341	341	341
Total fixed assets	669 112	356 695	447 828
Current assets			
Inventories	4 957	0	0
Other assets	29 165	84 249	26 813
Bank accounts	6 765	192 676	122 697
Total current assets	40 887	276 925	149 510
Total assets	709 999	633 620	597 338
Equity and liabilities			
Equity	260 327	344 803	303 070
Provision	0	136	136
Long term liabilities	310 349	223 366	229 265
Short term liabilities	120 443	65 316	64 869
Total equity and liabilities	691 119	633 620	597 338

CONSOLIDATED STATEMENT OF CASH FLOW

	2019-01-01 2019-09-30	2018-01-01 2018-09-30	2018-01-01 2018-09-30
<i>Amount in kSEK</i>			
Operating activities			
Result for the period	-50 324	-21 151	-6 324
Adjustments for items not effecting cash	29 650	-8 430	2 151
Cash flow from operating activities before changes in working capital	-20 674	-29 581	-4 173
Cash flow from changes in working capital			
Change in inventories	-4 957	0	-1 151
Change in operating receivables	-2 396	-3 654	-1 151
Change in operating liabilities	3 427	58 243	5 151
Cash flow from operating activities	-24 600	25 008	8 827
Investing activities	-145 163	-169 688	-29 151
Cash flow from financing activities	53 510	170 052	25 151
Change in cash and cash equivalents	-116 253	25 372	-4 173
Cash and cash equivalents in the beginning of the period	122 697	164 171	164 171
Translating differences	351	3 133	3 133
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6 795	192 676	163 127

CONSOLIDATED CHANGE IN EQUITY

<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 period result				-21 151	-21 151
Sum Currents period result	0	0	0	-21 151	-21 151
OTHER COMPREHENSIVE INCOME					
Translation difference			538		538
Sum Other comprehensive income	0	0	538	0	538
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 2018-09-30	179 415	192 419	172	-27 203	344 803
Current period result Oct-Dec 2018				-41 829	
Translation difference Oct-Dec 2018			96		
Closing Equity 2018-12-31	179 415	192 419	268	-69 032	303 070
CURRENT PERIOD RESULT					
				-50 324	-50 324
Sum Current period result	0	0	0	-50 324	-50 324
OTHER COMPREHENSIVE INCOME					
Translation difference			-5 804		-5 804
Sum Other comprehensive income	0	0	-5 804	0	-5 804
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 2019-09-30	185 176	200 044	-5 536	-119 356	260 328

REPORT OF COMPREHENSIVE RESULT PARENT COMPANY

<i>Amount in kSEK</i>	2019 Q1-Q3	2018 Q1-Q3	2019 Q3	2018 Q3
Other income	4 238	4 196	214	
Other external expenses	-8 379	-5 842	-5 623	
Employee expenses	-1 820	-3 704	-2 114	
Depreciation and amortization of intangible and tangible fixed assets	0	0	-54	0
Other expenses	0	0	0	0
Operating result	-5 961	-5 350	-7 577	0
Financial income	35 603	22 606	21 100	17 853
Financial expenses	-5 404	-2 201	-2 223	-895
Financial net	30 199	20 405	18 877	16 958
Result after financial items	24 238	15 055	11 300	16 958
Taxes	0	0	0	0
CURRENT PERIOD RESULT	24 238	15 055	11 300	16 958

REPORT OF FINANCIAL POSITION PARENT COMPANY

<i>Amount in kSEK</i>	2019-09-30	2018-09-30	2018-12-31
Assets			
Fixed assets			
Intangible fixed assets	27 194	48 740	27 027
Tangible fixed assets	6 263	6 547	6 883
Shares in subsidiaries	174 913	174 913	174 913
Financial fixed assets	408 695	306 745	312 279
Total fixed assets	617 064	536 945	521 102
Current assets			
Other assets	5 802	4 880	5 796
Cash and cash equivalents	3 960	53 080	48 498
Total current assets	9 763	57 961	54 295
Total assets	626 827	594 906	575 397
Equity and liabilities			
Equity	556 477	538 737	518 853
Provision	0	136	136
Long term liabilities	69 719	52 504	53 496
Short term liabilities	631	3 530	2 912
Total equity and liabilities	626 827	594 907	575 397

EXCHANGE RATES

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

	2019-09-30	2018-09-30	2018-12-31
Balance day rate SEK/EUR	10,7287	10,2945	10,2753
Balance day rate SEK/USD	9,8047	8,873	8,971
Average exchange rate for the reporting period SEK/EUR	10,5656	10,2384	10,2620

SALES PER GEOGRAPHIC AREA

Sales per geographic area, MSEK	Jan-Sep 2019	Jan-Sep 2018	FY 2018
Finland, Zinc concentrate	22	0	0
Sweden, Lead Silver concentrate	91	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 principles

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, *except for the following*;

Depreciation of assets

Activated preparations, facilities and equipment in mines are depreciated as the ore extraction from the underlying mines is utilized, ie with a production-dependent depreciation method ("unit-of-production method"). The depreciation rates are based on ore reserves and ore assets that are expected to be extracted from these. These estimates, in turn, are largely dependent on ore reserves and consequently, among other things, on expected future metal prices. Changed conditions may mean that the future depreciation rate will change.

As the Silver Mine project has been, and is still, under development, no amortization of fixed assets belonging to the project has been made in previous years. From the start of production in the second quarter, fixed assets are amortized over the economic life of the individual asset.

IFRS 16 Leasing

The effects on the Group's financial report for the adoption of IFRS 16 as of January 1, 2019, are explained below in accordance with the transitional rules in IFRS 16, the Group has applied the simplified transitional method and has therefore not recalculated the comparative figures. The reclassifications and adjustments that have arisen due to the new leasing rules are therefore reported in the opening balance as of January 1, 2019. The new accounting principles are described below.

At the transition to IFRS 16, the Group recognizes leasing liabilities attributable to leases previously classified as operating leases in accordance with the rules in IAS 17 Leases. These liabilities have been valued at the present value of future minimum lease payments. In the calculation, the lessee's marginal loan interest rate was used as of 1 January 2019.

All rights of use are valued at the transition on January 1, 2019 at an amount corresponding to the lease debt adjusted for prepaid lease fees attributable to the agreement as of December 31, 2018. The following relief rules have been applied during the transition:

- the use of a uniform discount rate for a portfolio of similar leasing contracts;
- Reporting of operating leases with a shorter lease period than a year from January 1st 2019 as a short-term lease;
- Exclusion of initial direct costs in calculating the utility asset at the date of initial implementation

Adjustments reported in the balance sheet January 1, 2019 and effects on profit and cash flow 2019

For leases previously classified as operating leases with the Group as lessee, a leasing liability is reported at the present value of future leasing payments, amounting to SEK 71 million as of January 1, 2019. The Group reports rights of use of SEK 71 million as of January 1, 2019.

Accounting principle IFRS 16

The Group leases various buildings, mining machinery, enrichment and crushing equipment

The leasing agreements are reported as rights of use and a corresponding liability, the date on which the leased asset is available for use by the Group. Each lease payment is divided between the amortization of the debt and the financial cost. The financial cost should be distributed over the lease period so that each accounting period is charged with an amount corresponding to a fixed interest rate for the liability reported during each period. The right of use is amortized on a straight-line basis over the shorter of the asset's useful life and the duration of the lease.

Assets and liabilities arising from leasing agreements are initially reported at present value. Leasing liabilities include the present value of the following lease payments:

- fixed fees (including fees that are fixed in their substance), less incentive claims
- Guaranteed residual value that the lessee expects to pay to the lessor
- the exercise price of a call option, if it is reasonably certain that the lessee will exercise the option, and

- the penalty for terminating the lease, if the duration of the lease reflects the assumption that the lessee will use this opportunity.

Leasing payments are discounted with the implicit interest rate if that interest rate can be determined, otherwise the marginal loan rate.

Assets with rights of use are valued at cost and include the following:

- the amount of the lease liability originally valued at 71 MSEK
- lease fees paid on or before the commencement date, less any benefits received in connection with the signing of the lease,
- initial direct expenditure

Payments for short contracts and leases of lesser value are expensed on a straight-line basis in the income statement. Short contracts are agreements with a lease term of 12 months or less.

Options to extend or terminate agreements are included in the asset and liability as it is reasonably certain that they will be utilized. The terms are used to maximize the flexibility of handling the agreements.

Revenue recognition, IFRS 15

The Group's revenues primarily consist of sales of silver concentrates and by-products. Sales are recognized as revenue when control of the concentrate is transferred to the customer, which it is considered to have done when the concentrate has been transported and received by the customer. Where the agreements contain multiple performance commitments, the transaction price is allocated to each separate performance commitment based on their standalone selling prices.

For revenue relating to the flotation concentrate, the transaction price is calculated on preliminary data on the amount of concentrate, metal content, metal price and less reimbursement for treatment costs and contaminant content. Final billing occurs when all input parameters (concentrate quantity, metal content and price, contaminant content, etc.) have been determined. Any changes in the amount of concentrate and metal content on final invoicing are reported as net sales.

Silver concentrates are usually sold within pricing arrangements, which means that the final price is determined by quoted market prices for a specified period after the actual sale date. Regarding these sales, the Group must estimate the transaction price to be received at the sale date considering relevant commodity market prices. Adjustments due to movements in quoted commodity prices are made up to the date of final pricing. This adjustment mechanism is based on the market price of the raw material, whereby the changes in value are not considered to constitute revenue from agreements with customers. The changes in fair value are reported in other operating income / expenses.

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

Inventories

The Group's inventories consist mainly of concentrate and ore. Inventories are reported at the lower of cost and net realizable value. The acquisition value is determined 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 production capacity. The net realizable value is the estimated selling price of metal content in accordance with applicable sales terms, less any applicable variable sales costs.

Financial instruments - Fair value of financial instruments

At 30 September 2019, the fair value of accounts receivable amounts to SEK 20 M (0) and is recognized in the item "Other current assets" in the balance sheet and changes in value are reported in other operating income / expenses in the statement of comprehensive income. The fair value of accounts receivable is found in Level 2 of the fair value hierarchy.

For other financial instruments, the carrying amount is a reasonable estimate of fair value. The fair value of embedded derivatives is found in Level 2 of the fair value hierarchy.

Definition of Key figures

EBITDA, Earnings Before Interest and depreciations

EBIT, Earnings Before Interest

Equity ratio (%), The equity in relation to total Assets

Earnings per share SEK, The Earnings divided with the number of shares

Cash liquidity (%), Short term assets minus inventories in relation to short term liabilities

A more comprehensive Key figure table is in the Annual report of 2018 p 65-68