

QUARTERLY REPORT, FIRST QUARTER 2020



HIGHLIGHTS OF THE FIRST QUARTER 2020

- Net sales was 91 MSEK (0)
- EBITDA was 8 MSEK (-11)
- EBIT was -11 MSEK (-14)
- Earnings per share was 0.03 SEK (-0.12)
- Cash and cash equivalents were 10 MSEK (33)
- Investments were 9 MSEK (88)
- The production was about 391 000 ounces silver, 998 ounces gold, 462 tonnes lead, and 958 tonnes zinc in concentrates
- Milled tonnes were about 129 000 and average silver head grade 110 g/tonne
- Safety measurement LTIFR was 10
- The renegotiated secured bond of 13.2 MEUR strengthened company's short-term cash position

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

CEO PAUL JOHANSSON

At the end of the quarter Sotkamo Silver celebrates a year in production, but it has also been a quarter that has changed the world with the effects of COVID-19. Operationally Sotkamo Silver has not been influenced in the same way as many other industries. Our staff has so far stayed healthy and production and deliveries have been going on as planned. We processed 129,000 tonnes of ore and produced about 391,000 Oz of silver.

The silver price has however dropped from levels above 17 USD/ Oz to as low as 12 USD/Oz and at the end of the reporting period stabilizing around 15 USD /Oz, which directly effects our revenues. The market environment has been unstable, and it has become clear that the future is hard to predict.

Sotkamo Silver will continue the work that begun at the end of 2019; to optimize the production flows and seeking cost savings in order to be profitable in a world with volatile prices. We are on a positive EBITDA level but need to work harder to obtain a positive EBIT as well.

The rights issue initiated during the first quarter was a success and was oversubscribed once completed in May. The funds raised from the issue will be welcome as cash reserve in these unstable times and will give a foundation for prolonging the life of mine.

BUSINESS

Sotkamo Silver AB owns, directly and through its subsidiary Sotkamo Silver Oy, mineral deposits containing silver, gold, zinc, and lead. The Company's main project is the Silver Mine in Sotkamo where the production has been running for one year.

Key figures, group	Q1 2020	Q1 2019	FY 2019
Sales MSEK	91	0	197
EBITDA MSEK	8	-11	8
EBIT MSEK	-11	-14	-75
Equity ratio (%)	31	42	31
Earnings per share SEK	0.03	-0.12	-0.75
Cash liquidity (%)	31	70	35
Personnel at end of period	44	38	47
Milled tonnes approx.	129 000	-	343 000
Average Silver grade g/tonne	110	-	107

The metal prices were fluctuating during Q1. Especially silver price was volatile, which affected the sales and profitability negatively. Price fluctuation decreased by the end of March. The high variance in the head grades and mining costs impacted also the company's cash flows.

Sotkamo Silver has invested 9 MSEK (88) during Q1 2020 in the underground mine, the concentrating plant and the sorter development.

Financial income includes 27.7 MSEK intra-group loan valuations. It is a non-cash valuation item and has no cash flow impact.

PRODUCTION AND GUIDANCE

In the first quarter, 129 000 tonnes of ore were milled. During the first quarter, the company produced about 391 000 ounces silver, 998 ounces gold, 462 tonnes lead, and 958 tonnes zinc.

The annual production guidance of 13 March 2020 remains unchanged. Accordingly, we expect to process 480 – 540 kt of ore. Correspondingly, the silver production in 2020 is forecasted to be 1.4 - 1.7 million ounces. The production target is conditional to receiving of an updated environmental permit.

FINANCIAL POSITION

- The group's cash available was 21 MSEK including group's cash and cash equivalents 10 MSEK (123) and an undrawn overdraft facility of 11 MSEK (0)
- The group equity ratio was 31% (42)
- The group equity was 223 MSEK (290), which corresponds to 1.65 SEK (2.22) a share

The financial position of the company will improve significantly after the finalisation of the rights issue in May 2020. The renegotiated secured bond of 13,2 MEUR strengthened company's short term cash position and improved the company's cash position.

IFRS 16 adoption and Asset Retirement Obligation provision (ARO) decreased the equity ratio by 4 percentage points.

SAFETY AND ENVIRONMENT

The lost time injury frequency rate (LTIFR) meaning the number of sick days due to accidents per a million working hours was 10 at the end of March, including all contractors. The company's long-term goal for LTIFR is zero.

The Silver Mine has applied for an updated permit that would allow for increased mining tonnage and emission levels as compared to the current permit.

PERSONNEL

Sotkamo Silver had 43 (38) own employees at the end of March and 77 contracted employees working in the mine and laboratory.

ANNUAL GENERAL MEETING

The following main decisions were made at the AGM on 2 April 2020:

The income statement and the balance sheet for both the parent company and the group regarding the financial year 2019 were adopted by the AGM. The AGM decided that no dividend would be paid out for the financial year 2019. The members of the Board and the CEO were granted discharge from liability for the financial year 2019.

The AGM decided that the Board would comprise of six ordinary members without deputy directors. Jarmo Vesanto, Ilkka Tuokko, Eeva-Liisa Virkkunen and Maria Neovius were re-elected as directors and Sixten Sunabacka and Karri Alameri were elected as directors. Eeva-Liisa Virkkunen was elected chairman of the Board.

The AGM resolved to re-elect the auditing company PWC until the end of the AGM 2021, 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 approved the Board's resolution on 27 February 2020 to issue new shares with preferential rights for existing shareholders with the following main terms:

- Shareholders in Sotkamo Silver have preferential rights to subscribe for one (1) new share for every three (3) existing shares, i.e. a subscription ratio of 1:3.
- The subscription price is set at 1.38 SEK per new share. Provided that the Rights Issue is fully subscribed, the company will receive approximately 62 MSEK in issue proceeds before the deduction of issue costs.
- The record date for the Rights Issue is 14 April 2020 and the subscription period runs from 16 April to 5 May 2020.

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.

EVENTS AFTER THE REPORTING PERIOD

UPDATED TERMS AND CONDITIONS FOR CONVERTIBLES 2019/2020

15 April 2020 Sotkamo Silver and Formue Nord Markedsneutral A/S have, inter alia, agreed to postpone the maturity date of the loan and the period within which conversion can be made with one year. The new maturity date for the loan is 31 May 2021 and the new conversion period run from 1 May 2021 until 31 December 2021. As remuneration for prolonging the convertibles, Formue Nord Markedsneutral A/S receives a cash payment of 0.75 MSEK.

RIGHTS ISSUE COMPLETED WITH THE WARRANT ISSUE

11 May 2020 the Rights Issue was completed. In the Rights Issue, 36,593,195 shares, corresponding to approximately 81.3 percent of the Rights Issue, were subscribed for with the use of subscription rights. In addition, 17,555,412 shares, corresponding to approximately 39.0 percent of the Rights Issue, were subscribed for without the use of subscription rights. In total, the Rights Issue was subscribed to approximately 120.3 percent, which implies that Sotkamo Silver raises approximately 62 MSEK before deduction for issue costs. The subscription of 120.3 percent means that the guarantee commitments do not have to be utilized.

Through the Rights Issue, the company's share capital increases by 61,725,388.67 SEK from 185,176,166.01 SEK to 246,901,554.68 SEK and the number of shares increases by 44,994,433 shares from 134,983,299 shares to 179,977,732 shares. Thus, the dilution effect for shareholders who did not participate in the Rights Issue amounts to 25 percent.

Allotment of shares subscribed for without the use of subscription rights has been made in accordance with the principles set out in the prospectus that has been prepared in connection with the Rights Issue and published by the company on 15 April 2020. Notice of allotment is provided through the distribution of a settlement note by mail to the respective subscriber. Allotted shares shall be paid for in accordance with the instructions on the settlement note. Only those who are allotted shares will be notified.

Trading in paid subscribed shares (Sw. BTA) will continue on NGM Equity (SOSI BT) and Nasdaq Helsinki (SOSI1N0120) until the Rights Issue has been registered with the Swedish Companies Registration Office (Sw. Bolagsverket), which is expected to take place in May 2020.

One (1) 2020/2021 warrant will be obtained for every four (4) shares subscribed and paid for through the new share issue with preferential right for existing shareholders, which means that the company will transfer 11,246,583 warrants. The warrants are issued without consideration. The warrants will be delivered separately once the new share issue has been fully registered by the Swedish Companies Registration Office. The warrants will be transferred only to those who have subscribed for, paid for and received shares in the Rights Issue and thus not to those who have bought BTAs on the secondary market.

Each warrant gives the holder the right to subscribe to one (1) new share in Sotkamo Silver at a subscription price of 2.00 SEK per share. The final EUR subscription price for subscription of new shares will be established on 30 April 2021. Subscription and simultaneous cash payment for new shares will take place during the period between 1 May 2021 and 28 May 2021.

At full exercise of the warrants, Sotkamo Silver will be provided with additional 22.5 MSEK before deduction of issue costs. Upon full exercise, the share capital will increase by 15,428,568.84 SEK, from 246,901,554.68 SEK to 262,330,123.52 SEK and the number of shares will increase with 11,246,583 shares from 179,977,732 shares to 191,224,315 shares.

Sotkamo Silver intends to apply for listing of the 2020/2021 warrants on NGM Equity and Nasdaq Helsinki. The warrants are expected to commence trading in mid-June 2020.

SHARES AND SHARE TRADINGS

Sotkamo Silver AB's share capital on 31 March 2020 was 185 176 166 SEK and the number of shares 134 983 299.

The Sotkamo Silver shares are traded on NGM Equity 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 Equity and Nasdaq Helsinki from January to March 2020 was 49 190 209 (15 938 542).

Share information	2020-03-31	2019-03-31	2019-12-31
Share price SEK	2.62	4.42	4.04
Highest share price SEK, during the period	4.45	3.50	5.00
Lowest share price SEK, during the period	1.60	4.90	3.31
Quota value SEK	1.37	1.37	1.37
Market Cap. MSEK	354	566	545
Number of shares	134 983 299	130 783 299	134 983 299
Share capital SEK	185 176 166	179 414 417	185 176 166

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 the previous quarter the COVID-19 has been added as risk factor in addition to the risks described in the annual report of 2019, p. 26–27.

COVID-19

The outbreak of COVID-19 was declared as a pandemic by the World Health Organisation on 11 March 2020 and have had a significant impact on societies, businesses, manufacturing and financial markets all around the world. The silver and other company's metal prices have been very volatile and are expected to continue be volatile. As a consequence of COVID-19 gold and silver are facing strong price fluctuations.

At the time of publishing this report, Sotkamo Silver operations, including mining, production and deliveries, has not been facing material impacts of COVID-19. However, if the spread of COVID-19 does not stop and if COVID-19 occurs among company's or partners' employees,

in addition to the impact on the world economy and the development of the silver price, the company could experience difficulties in operating the Silver mine, and in the future, Sotkamo Silver would not be able to conduct its operations as efficiently as before and, by extension, the company may temporarily have to close down parts of its operations.

FINANCIAL CALENDER

- Q2 on 5 August 2020
- Q3 on 28 October 2020
- Q4 and year-end report 2020 on 17 February 2021

This report has not been subject to a financial review by the company's auditors.

The official Stock Exchange Releases are given in Swedish and there may be differences in the translated versions.

Stockholm, 29 May 2020

Sotkamo Silver AB's Board of directors and CEO

CONSOLIDATED, CONDENSED STATEMENT OF INCOME

	2020	2019	2019
<i>Amount in MSEK</i>	Q1	Q1	FY
Net sales	90,6	0,0	197,1
Change of finished goods	-3,3	0,0	1,2
Other income	0,1	0,1	0,8
Supplies	-56,5	0,0	-122,0
Other expenses	-12,9	-9,1	-45,3
Employee expenses	-9,6	-1,8	-24,0
EBITDA	8,4	-10,8	7,9
Depreciation and amortization	-19,8	-3,4	-82,9
EBIT	-11,5	-14,2	-75,0
Financial income	27,7	6,1	4,1
Financial expenses	-11,9	-7,2	-30,2
Financial net	15,9	-1,1	-26,0
Result after financial items	4,4	-15,4	-101,1
Taxes	0,0	0,0	0,0
RESULT FOR THE PERIOD	4,4	-15,4	-101,1
OTHER COMPREHENSIVE INCOME			
Result that may be reclassified to current period result:			
Translation differences	0,3	0,5	3,2
Total comprehensive income	4,7	-14,8	-97,8
Attributable to:			
The parent company shareholders	4,7	-14,8	-97,8
TOTAL	4,7	-14,8	-97,8
Profit per share, weighted average, SEK	0,03	-0,13	-0,75

CONSOLIDATED, CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	31.3.2020	31.3.2019	31.12.2019
Assets			
Fixed assets			
Intangible fixed assets	0,1	27,2	0,1
Tangible fixed assets	663,1	496,6	627,1
Financial fixed assets	7,5	16,3	20,0
Total fixed assets	670,8	637,2	647,6
Current assets			
Inventories	2,8	2,5	5,9
Accounts receivables	12,7	0,0	14,7
Other assets	17,3	11,5	10,5
Cash and cash equivalents	9,5	33,4	29,6
Total current assets	42,3	47,4	60,7
Total assets	713,1	684,6	708,3
Equity			
Share capital	185,2	179,4	185,2
Other contributed capital	200,0	192,7	200,0
Retained earnings	-166,3	-66,6	-65,5
Result of the period	4,4	-15,4	-101,1
Total Equity	223,3	290,1	218,6
Liabilities			
Provision	28,5	0,2	29,5
Long term liabilities	333,1	329,8	274,2
Short term liabilities	128,1	64,4	185,9
Total liabilities	489,8	394,4	489,7
Total equity and liabilities	713,1	684,6	708,3

- Fair values of financial assets are same as book values above.

CONSOLIDATED, CONDENSED STATEMENT OF CASH FLOW

<i>Amount in MSEK</i>	1.1.2020- 31.3.2020	1.1.2019- 31.3.2019	1.1.2019- 31.12.2019
Operating activities			
Result for the period	4,4	-15,4	-101,1
Adjustments for items not effecting cash	-18,9	-11,4	88,4
Cash flow from operating activities before changes in working capital	-14,5	-26,8	-12,7
Cash flow from changes in working capital			
Change in inventories	3,1	-2,5	-5,9
Change in operating receivables	-4,8	13,5	1,6
Change in operating liabilities	-1,6	9,6	58,7
Cash flow from operating activities	-17,8	-6,3	41,7
Investing activities	-8,5	-87,6	-185,5
Cash flow from financing activities	5,7	5,1	47,5
Change in cash and cash equivalents	-20,7	-88,8	-96,3
Cash and cash equivalents in the beginning of the period	29,6	122,7	122,7
Translation differences in cash and cash equivalent	0,5	-0,5	3,2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,5	33,4	29,6

CONSOLIDATED, CONDENSED CHANGE IN EQUITY

<i>Amount in MSEK</i>	Share capital	Other contributed capital	Translation differences	Retained earnings	Total Equity
Opening Equity 1.1.2019	179,4	192,4	0,3	-69,0	303,1
PERIOD RESULT				-101,1	-101,1
Sum period result				-101,1	-101,1
OTHER COMPREHENSIVE INCOME					
Translation difference			3,2		3,2
Sum Other comprehensive income	0,0	0,0	3,2	0,0	3,2
Transactions with shareholders					
Share issue	5,8	9,4			15,1
Issue costs		-1,7			-1,7
Sum transactions with shareholders	5,8	7,6	0,0	0,0	13,4
Closing Equity 31.12.2019	185,2	200,0	3,5	-170,1	218,6
PERIOD RESULT				4,4	4,4
Sum period result				4,4	4,4
OTHER COMPREHENSIVE INCOME					
Translation difference			0,3		0,3
Sum Other comprehensive income	0,0	0,0	0,3	0,0	0,3
Transactions with shareholders					
Share issue					
Issue costs					
Sum transactions with shareholders	0,0	0,0	0,0	0,0	0,0
Closing Equity 31.3.2020	185,2	200,0	3,8	-165,7	223,3

PARENT COMPANY CONDENSED STATEMENT OF INCOME

<i>Amount in MSEK</i>	2020	2019	2019
	Q1	Q1	FY
Net sales	0,1	0,0	0,0
Other income	4,1	0,0	17,6
Other expenses	-2,8	-1,2	-12,4
Employee expenses	-1,2	-1,2	-2,8
EBITDA	0,2	-2,4	2,3
Depreciation and amortization	0,0	0,0	-27,2
EBIT	0,2	-2,4	-24,9
Financial income	36,9	10,7	29,6
Financial expenses	-4,8	0,0	-6,2
Financial net	32,1	10,7	23,3
Result after financial items	32,3	8,3	-1,6
Taxes	0,0	0,0	0,0
RESULT FOR THE PERIOD	32,3	8,3	-1,6

PARENT COMPANY CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	31.3.2020	31.3.2019	31.12.2019
Assets			
Fixed assets			
Intangible fixed assets	0,0	27,0	0,0
Tangible fixed assets	0,0	6,9	0,0
Shares in subsidiaries	174,9	174,9	174,9
Financial fixed assets	429,3	354,4	402,3
Total fixed assets	604,2	563,2	577,2
Current assets			
Other assets	34,5	6,5	23,3
Cash and cash equivalents	0,7	14,4	1,3
Total current assets	35,2	20,9	24,5
Total assets	639,4	584,1	601,7
Equity and liabilities			
Equity	562,9	527,2	530,7
Long term liabilities	71,5	53,5	53,2
Short term liabilities	4,9	3,4	17,8
Total equity and liabilities	639,4	584,1	601,7

EXCHANGE RATES

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

	2020-03-31	2019-03-31	2019-12-31
Balance sheet day rate EURSEK	11.0832	10.2931	10.4336
Balance sheet day rate USDSEK	10.0771	8.3596	9.3171
Average exchange rate for the reporting period EURSEK	10.6647	9.9938	10.5892

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 are described in the annual report 2019.

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 L29 May 2020, egal Entities. The parent company's and the group's accounting principles for the report are unchanged compared to the latest annual report of year 2019.

ACRONYMS

EBITDA, Earnings Before Interest, Taxes and Depreciations & Amortizations

EBIT, Earnings Before Interest and Taxes

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

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

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

LTIFR, Lost time injury frequency rate (LTIFR) meaning the number of sick days due to accidents per million working hours

Ounce, Troy ounce which is 31.1035 grams

Key figures are explained in the annual report of 2019 p. 66–68.