

QUARTERLY REPORT, SECOND QUARTER 2020



HIGHLIGHTS OF THE SECOND QUARTER 2020

- Net sales was 67 MSEK (30)
- EBITDA was 0 MSEK (-20)
- EBIT was -22 MSEK (-32)
- Earnings per share was -0.34 SEK (-0.26), before and after dilution
- Cash and cash equivalents were 14 MSEK (8)
- Investments were 12 MSEK (30)
- The production was about 406 000 (220 000) ounces silver, 1 076 (600) ounces gold, 321 (150) tonnes lead, and 722 (290) tonnes zinc in concentrates
- The completed share issue of 62 MSEK strengthened company's cash position
- Erkki Kuronen was appointed as CEO on 29 June

HALF YEAR 2020

- Net sales was 158 MSEK (30)
- EBITDA was 9 MSEK (-31)
- EBIT was -30 MSEK (-47)
- Earnings per share was -0.32 SEK (-0.38), before and after dilution
- Investments were 21 MSEK (118)
- The production was about 798 000 (220 000) ounces silver, 2 073 (600) ounces gold, 783 (150) tonnes lead, and 1 680 (290) tonnes zinc in concentrates
- The renegotiated secured bond of 13.2 MEUR and share issue strengthened company's cash position

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

CEO ERKKI KURONEN

I started as the CEO of the company just two days before the second quarter ended. I feel very proud and humble in the front of this opportunity and look forward to work with the owners, colleagues and other stakeholders for the success and sustainability of Sotkamo Silver.

The fall of the metal prices in March and the ensuing downturn impacted to our invoicing rates during Q2 and final invoicing prices of earlier concentrate deliveries. This double hit is seen in our top and bottom lines.

However, we successfully continued the streamlining of our operations to improve our productivity and to optimise our processes to reduce the operative costs per mill feed ton. I thank the operations team of the company for the significant progress we have made during the first half of the year. This work creates a solid foundation and will help to deliver results in the future. During the reporting period we have started the pilot testing of the ore sorter. This development project will potentially further improve our energy and material efficiency and enable lower production costs per produced metal unit in the future.

In addition to this, we completed the successful rights issue and received a strong supportive message from our shareholders and investors as the issue was oversubscribed.

Looking forward to Q3, silver and gold prices have continued to improve, and actually silver price has doubled since its lowest in March.

The last few months have shown the power of change and uncertainty but simultaneously also the opportunities which are rising. We have realized the possibilities of the new tools and ways of working which will make us more flexible and more competitive in the future. People have seen that despite of the exceptional times in the society, they have been able to do their best and contribute to the success. I believe that we'll come out from the Covid-19 crisis more powerful, more resilient and more prepared to the challenges of the future.

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 since March 2019.

Key figures, group	Q2 2020	Q2 2019	FY 2019
Net sales MSEK	67	30	197
EBITDA MSEK	0	-20	8
EBIT MSEK	-22	-32	-75
Equity ratio (%)	32	38	31
Earnings per share SEK	-0.34	-0.26	-0.75
Cash liquidity (%)	51	32	34
Personnel at end of period	51	43	47
Milled tonnes approx.	137 000	88 000	343 000
Average Silver grade g/tonne	106	100	107

The economic impact of the Covid-19 epidemy hit the company in mid-March while most metal prices fell simultaneously with the stock market. Silver price started to recover in May and the

positive trend seems to continue, especially in July after the reporting period. On monthly basis, gold price continued on its positive trend throughout the period. Lead reached its lowest in May, later than the others, while zinc price simultaneously started already to improve. Lower and volatile metal prices had an adverse effect on the company's cash flow during the Q2. However, we have seen positive development in the stabilization of head grades and the reduction of the operative costs.

Net sales in Q2 was 67 MSEK (30). Other income of 6 MSEK (0) consists of estimated increase in final sales revenue for the period based on the positive metal price development. The final sales price for silver and gold is based on monthly average market price two months after the delivery, deducted by the customer's smelter charges.

Investments in the underground mine, the concentrating plant, the sorter development and environmental investments amounted to 12 MSEK (30) in Q2 and 21 MSEK (118) in H1 2020.

PRODUCTION AND GUIDANCE

In the second quarter, 137 000 (88 000) tonnes of ore were milled. During the second quarter, the company produced about 406 000 (220 000) ounces silver, 1 076 (600) ounces gold, 321 (150) tonnes lead and 722 (290) tonnes zinc in concentrates.

During the first half of the year, the production was about 798 000 (220 000) ounces silver, 2 073 (600) ounces gold, 783 (150) tonnes lead and 1 680 (290) tonnes zinc in concentrates. Milled tonnes during first half were about 266 000 (88 000).

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.

FINANCIAL POSITION

- The group's cash and cash equivalents were 14 MSEK (8)
- The group equity ratio was 32% (38)
- The group equity was 216 MSEK (267), which corresponds to 1.20 SEK (1.98) a share

Financial income in Q2 includes negative currency rate valuation impact 24 MSEK of intra-group loan valuations. This impact for H1 period was +3 MSEK. It is a non-cash valuation item and has no cash flow impact.

The provision 30 MSEK (0) consist of the Asset Retirement Obligation (ARO), which was defined and booked during Q3 2019.

Accounts receivable increased during Q2 due to prolonging of customer invoicing frequency.

The financial position of the company improved after the finalisation of the rights issue of 62 MSEK in May 2020. The 15 MSEK bond was prolonged by one year to 31 May 2021, which was announced on 15 April 2020.

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 14 (11) at the end of June, including all contractors. The company's long-term goal for LTIFR is zero.

The Silver Mine has applied for an updated permit for increased mining tonnage and emission levels. The permitting process has progressed, and an updated permit is expected to be issued during H2 2020.

PERSONNEL

Sotkamo Silver had 51 (43) own employees at the end of June and 68 (41) contracted employees working in the mine and laboratory.

EVENTS AFTER THE REPORTING PERIOD

No significant events after the reporting period.

SHARES AND SHARE TRADINGS

Sotkamo Silver AB's share capital on 30 June 2020 was 246 901 555 SEK and the number of shares 179 977 732. The share capital and the number of shares increased during the period due to share issue.

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 June 2020 was 47 215 763 (13 452 863).

Share information	2020-06-30	2019-06-30	2019-12-31
Share price SEK	1.96	3.70	4.04
Highest share price SEK, during the period	4.45	5.00	5.00
Lowest share price SEK, during the period	1.60	3.31	3.31
Quota value SEK	1.37	1.37	1.37
Market Cap. MSEK	353	499	545
Number of shares	179 977 732	134 983 299	134 983 299
Share capital SEK	246 901 555	185 176 166	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.

The risks are described in the annual report of 2019, p. 26–27.

COVID-19 UPDATE

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. Since March-April, the metal prices have started to recover but uncertainty will remain in the market and long-term impacts of Covid-19 are difficult to predict.

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 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

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

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

The undersigned hereby affirm that this Interim Report provides a true and fair overview of the operations, positions and performance of Sotkamo Silver.

Stockholm, 5 August 2020

Eeva-Liisa Virkkunen
Chairman

Karri Alameri
Board member

Maria Neovius
Board member

Sixten Sunabacka
Board member

Ilkka Tuokko
Board member

Jarmo Vesanto
Board member

Erkki Kuronen
CEO

Auditor's report

Sotkamo Silver AB, org.nr 556224-1892

Introduction

We have reviewed the condensed interim financial information (interim report) of Sotkamo Silver AB as of 30 June 2020 and the six-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Stockholm, 5th August 2020

Öhrlings PricewaterhouseCoopers AB

Anna Rosendal
Authorized Public Accountant

CONSOLIDATED, CONDENSED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

<i>Amount in MSEK</i>	2020	2019	2020	2019	2019
	Q2-20	Q2-19	H1-20	H1-19	FY
Net sales	67,1	29,7	157,7	29,7	197,1
Change of finished goods	2,3	0,0	-1,0	0,0	1,2
Other income	5,7	0,1	5,7	0,2	0,8
Supplies	-53,6	-34,3	-110,1	-34,3	-122,0
Other expenses	-11,2	-8,4	-24,1	-17,5	-45,3
Employee expenses	-9,9	-6,8	-19,5	-8,6	-24,0
EBITDA	0,4	-19,7	8,8	-30,5	7,9
Depreciation and amortization	-22,1	-12,7	-42,0	-16,1	-82,9
EBIT	-21,8	-32,4	-33,2	-46,6	-75,0
Financial income	-24,1	2,7	3,6	8,8	4,1
Financial expenses	-14,4	-5,3	-25,5	-11,7	-26,6
Interest expenses on lease payments	-0,7	-0,8	-1,6	-1,6	-3,6
Financial net	-39,3	-3,4	-23,4	-4,5	-26,0
Result after financial items	-61,0	-35,8	-56,6	-51,2	-101,1
Taxes	-0,3	0,0	-0,3	0,0	0,0
RESULT FOR THE PERIOD	-61,4	-35,8	-57,0	-51,2	-101,1
OTHER COMPREHENSIVE INCOME					
Result that may be reclassified to current period result:					
Translation differences	1,3	0,9	1,6	1,5	3,2
Total comprehensive income	-60,0	-34,8	-55,4	-49,7	-97,8
Attributable to:					
The parent company shareholders	-60,0	-34,8	-55,4	-49,7	-97,8
TOTAL	-60,0	-34,8	-55,4	-49,7	-97,8
Profit per share, non-diluted, SEK	-0,34	-0,26	-0,32	-0,38	-0,75
Profit per share, diluted, SEK	-0,34	-0,26	-0,32	-0,38	-0,75

CONSOLIDATED, CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	30.6.2020	30.6.2019	31.12.2019
Assets			
Fixed assets			
Intangible fixed assets	0,1	27,2	0,1
Tangible fixed assets	543,1	526,8	555,4
Right of use assets	60,2	97,0	71,7
Financial fixed assets	8,7	17,8	20,0
Deferred tax asset	0,0	0,3	0,3
Total fixed assets	612,0	669,2	647,6
Current assets			
Inventories	4,9	8,9	5,9
Accounts receivables	29,4	7,4	14,7
Other assets	12,3	13,9	10,5
Cash and cash equivalents	13,8	8,4	29,6
Total current assets	60,4	38,6	60,7
Total assets	672,4	707,8	708,3
Equity			
Share capital	246,9	185,2	185,2
Other contributed capital	190,7	200,0	200,0
Retained earnings	-165,0	-67,3	-65,5
Result of the period	-57,0	-51,2	-101,1
Total Equity	215,7	266,8	218,6
Liabilities			
Provision	30,2	0,0	29,5
Long term liabilities	276,2	252,2	222,7
Long term lease liabilities	40,2	70,8	51,5
Short term liabilities	86,7	91,8	163,0
Short term lease liabilities	23,4	26,2	22,9
Total liabilities	456,7	441,0	489,7
Total equity and liabilities	672,4	707,8	708,3
Equity Ratio %	32,1 %	37,7 %	30,9 %
Cash Liquidity Ratio %	64,0 %	32,3 %	33,6 %
Equity per share	1,20	1,98	1,62

CONSOLIDATED, CONDENSED STATEMENT OF CASH FLOW

<i>Amount in MSEK</i>	1.1.2020- 30.6.2020	1.1.2019- 30.6.2019	1.1.2019- 31.12.2019
Operating activities			
Result for the period	-57,0	-35,8	-101,1
Adjustments for items not effecting cash	40,9	-15,1	76,9
Cash flow from operating activities before changes in working capital	-16,1	-50,9	-24,2
Cash flow from changes in working capital			
Change in inventories	1,0	-8,9	-5,9
Change in operating receivables	-5,1	2,8	1,6
Change in operating liabilities	-26,9	25,4	58,7
Cash flow from operating activities	-47,2	-31,7	30,2
Investing activities	-20,8	-117,5	-152,7
Share issue	61,7	15,1	15,1
Issue costs	-9,3	-1,7	-1,7
Repayments of lease liabilities	-10,8	-9,2	-18,4
Change in loans	10,4	27,3	34,1
Cash flow from financing activities including share issue	52,0	31,5	29,1
Change in cash and cash equivalents	-15,9	-117,6	-93,5
Cash and cash equivalents in the beginning of the period	29,6	122,7	122,7
Translation differences in cash and cash equivalent	0,1	3,3	0,4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13,8	8,4	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				-57,0	-57,0
Sum period result				-57,0	-57,0
OTHER COMPREHENSIVE INCOME					
Translation difference			1,6		1,6
Sum Other comprehensive income	0,0	0,0	1,6	0,0	1,6
Transactions with shareholders					
Share issue	61,7				61,7
Issue costs		-9,3			-9,3
Sum transactions with shareholders	61,7	-9,3	0,0	0,0	52,4
Closing Equity 30.6.2020	246,9	190,7	5,1	-227,1	215,7

PARENT COMPANY CONDENSED STATEMENT OF INCOME

<i>Amount in MSEK</i>	2020	2019	2019
	H1	H1	FY
Net sales	8,1	0,0	0,0
Other income	0,2	0,2	17,6
Other expenses	-6,5	-5,6	-6,4
Employee expenses	-2,4	-2,1	-8,8
EBITDA	-0,8	-7,5	2,3
Depreciation and amortization	0,0	0,0	-27,2
EBIT	-0,8	-7,5	-24,9
Financial income	22,0	21,1	29,6
Financial expenses	-7,5	-2,2	-6,2
Financial net	14,5	18,9	23,3
Result after financial items	13,8	11,4	-1,6
Taxes	0,0	0,0	0,0
RESULT FOR THE PERIOD	13,8	11,4	-1,6

PARENT COMPANY CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	30.6.2020	30.6.2019	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	432,1	389,5	402,3
Total fixed assets	607,1	598,4	577,2
Current assets			
Other assets	56,7	6,6	23,3
Cash and cash equivalents	4,2	9,5	1,3
Total current assets	60,8	16,1	24,5
Total assets	667,9	614,4	601,7
Equity and liabilities			
Equity	596,1	543,6	530,7
Long term liabilities	68,5	68,5	53,2
Short term liabilities	3,3	2,3	17,8
Total equity and liabilities	667,9	614,4	601,7

EXCHANGE RATES

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

	2020-06-30	2019-06-30	2019-12-31
Balance sheet day rate EURSEK	10.4804	10.5581	10.4336
Balance sheet day rate USDSEK	9.6756	9.2713	9.3171
Average exchange rate for the reporting period EURSEK	10.6598	10.5145	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 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, 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 of year 2019.

Revenue recognition, IFRS 15

The Group's revenue primarily consists 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.

Fair value of financial instruments and trade receivables

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.

At 30 June 2020, the fair value of accounts receivable amounts to SEK 29M (0) and is recognized in the item Trade Receivables in Current assets in the balance sheet. If there would have been any changes, the values would be reported in other operating income / expenses in the Consolidated statement of income. The fair value of accounts receivable is found in Level 2 of the fair value hierarchy.

DEFINITION OF KEY FIGURES

EBITDA, Earnings Before Interest, Taxes and Depreciations & Amortizations

EBIT, Earnings Before Interest and Taxes

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

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

A more comprehensive Key figure table is in the Annual report of 2019 p. 66–68