

**>> TERRAFAME LTD.
INTERIM REPORT Q1 2017**

Terrafame produced a record amount of nickel in the first quarter – net sales EUR 41.3 million

Key figures in January–March 2017

- 10,070 tonnes of nickel (Q4 2016: 11,757) and 20,239 tonnes of zinc (Q4 2016: 22,144) were stacked on the primary heap.
- 5,086 tonnes of nickel (Q4 2016: 4,885) and 10,380 tonnes of zinc (Q4 2016: 10,697) were leached.
- 4,787 tonnes of nickel (Q4 2016: 3,875) and 9,791 tonnes of zinc (Q4 2016: 8,680) were produced.
- Net sales totalled EUR 41.3 million (Q4 2016: 47.6).
- EBITDA was EUR -18.4 million (Q4 2016: 16.0).
- 12 month rolling lost-time injury frequency, meaning the number of injuries per one million person-hours worked, was 6.4 (2016: 8.4).

Key events in January–March 2017

- In the first quarter, the metals production plant reached the highest quarterly production volume in the site's history, 4,787 tonnes of nickel produced during a quarter (2016 Q4: 3,875). New monthly production records were also achieved in February and March. The metals production plant resumed operations on 13 January 2017 after a fire in a H₂S reactor at the end of December and a maintenance stoppage implemented at the same time.
- At the end of the first quarter, a total of 22.2 million tonnes of ore had been stacked to primary heaps during Terrafame's operations between 15 August 2015–31 March 2017. By the end of March, slightly over 90% of the primary bioleaching area had been stacked by Terrafame.
- The value of work in-process increased by EUR 14.9 million as planned, totalling EUR 65.0 million at the end of March.
- The production use of the new centralised water treatment plant began after the Northern Finland Regional State Administrative Agency (RSAA) granted the plant an environmental permit as well as a permit to begin operations on 4 January 2017.
- The amount of water stored at the site decreased to 2.9 million cubic metres which is in line with the target level of 1–3 million cubic metres. Thanks to this, the Lake Nuasjärvi discharge pipe was used between 15–31 March only as much as was necessary to keep the pipe free of ice.
- Terrafame's management system – meaning quality, environmental and safety management systems – were certified according to international standards. Quality Control was certified in accordance with the ISO 9001 : 2015 standard, Environmental Management in accordance with the ISO 14 001 : 2015 standard, and the management of Occupational Health & Safety in accordance with the BS OHSAS 18001 : 2007 standard.

- Negotiations aimed at securing private financing for the company were continued. The new financing arrangement needed for the ramp-up of operations as well as the commercial cooperation with Trafigura Group were announced on 10 February 2017.

Events following the reporting period

- On 6 April 2017, the Kainuu ELY Centre announced the environmental impact assessment (EIA) report on Terrafame's water management.
- On 27 April 2017, Terrafame's Annual Report 2016 was published at www.terrafame.com/annualreport

Financial and production figures

| | 2017 Q1 | 2016 Q4 | 2016 Q1 | Year 2016 |
|-------------------------------------|------------|------------|------------|--------------|
| Finances | | | | |
| Net sales, EUR million | 41.3 | 47.6 | 14.2 | 101.0 |
| EBITDA, EUR million | -18.4 | 16.0 | -53.1 | -120.4 |
| Operating profit/loss, EUR million | -22.5 | 12.2 | -56.1 | -134.4 |
| Investments, EUR million | 16.5 | 20.2 | 10.8 | 84.3 |
| Ore processing | | | | |
| Ore to primary heap, million tonnes | 3.9 | 4.1 | 2.7 | 14.2 |
| Nickel to heap, tonnes | 10,070 | 11,757 | 6,630 | 37,042 |
| Zinc to heap, tonnes | 20,239 | 22,144 | 12,776 | 70,299 |
| Bioleaching | | | | |
| Nickel leached, tonnes | 5,086 | 4,885 | 1,495 | 11,584 |
| Zinc leached, tonnes | 10,380 | 10,697 | 2,578 | 27,868 |
| Metals production plant | | | | |
| Nickel produced, tonnes | 4,787 | 3,875 | 1,555 | 9,554 |
| Zinc produced, tonnes | 9,791 | 8,680 | 3,497 | 22,575 |

CEO Joni Lukkaroinen's review

"In the first quarter of the year, we continued the determined ramp-up and stabilising of operations. We re-started the metals production plant on 13 January 2017 after a fire in a H₂S reactor in December, and a maintenance stoppage implemented at the same time. Despite the stoppage, our metals production was at a record level, and we were able to continue customer deliveries at the end

of January. Our operative costs also stayed within budget. During the first quarter, however, the average price of nickel in the global market decreased by 5% when compared with the fourth quarter of 2016, which weakened the result somewhat.

Ore mining and processing progressed as planned, and by the end of the first quarter, Terrafame had stacked slightly more than 90% of the primary bioleaching area. Bioleaching recovery rates at the primary and secondary heaps were in line with the target. We estimate to operate at a full production rate by the third quarter of 2018.

The unit costs of metal production per nickel tonne decreased as predicted and, during the first quarter, were lower than ever before during the company's operations. In the same time frame, we reached a quarterly production record for nickel as well as monthly production records for nickel in February and March.

In the beginning of the year, Terrafame's management system, meaning quality, environmental and safety management systems, was certified according to international standards. This is a great achievement for our personnel. Our goal is to continue improving the productivity and safety at work by working systematically and in a process-oriented manner.

Market development

During the first quarter of 2017, the average price of nickel was USD 10,271 per tonne, which is 5.0% lower than in the final quarter of 2016 (Q4 2016: 10,810) but 21.0% higher than in the first quarter of 2016 (Q1 2016: 8,499). Key factors affecting price fluctuation at the beginning of the year were the decision by the government of Indonesia to partially lift the export ban of nickel ore, as well as the plans announced by the Philippines to shut down or suspend production at several mines due to environmental reasons. China's strong stainless steel production and the increased use of nickel in batteries for electric cars drove demand for nickel. It is estimated that the production volume of stainless steel has increased by 11% globally in the first quarter of 2017 when compared with the corresponding period in 2016.

During the first quarter of 2017, the combined nickel stock levels of the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE) decreased by more than 7,000 tonnes, totalling approximately 450,000 tonnes. The market for intermediate nickel products continued to develop favourably in January–March.

During the first quarter of 2017, the average price of zinc was USD 2,780 per tonne, which was 10.4% higher than in the final quarter of 2016 (Q4 2016: 2,517) and 65.6% higher than during the first quarter of 2016 (Q1 2016: 1,679). The positive price development was driven by the decreasing zinc stock levels as well as a growing shortage of zinc raw materials starting to feed through into cuts in refinery production.

LME's zinc stock levels decreased by approximately 56,000 tonnes during the first quarter of 2017 and totalled at about 371,000 tonnes. The levels of other zinc stocks as well as stocks of zinc

concentrate and intermediate products also fell significantly. The processing premiums paid by mines in 2017 are clearly lower than earlier.

Investments

In the first quarter of 2017, Terrafame's investments totalled EUR 16.5 million (Q4 2016: 20.2, year 2016: 84.3).

The most significant investments of the first quarter include the construction of foundations for two secondary bioleaching heaps and a new waste rock area as well as the planning of a third hydrogen sulphide production line. The company also invested in increasing the zinc filtration capacity as well as in the alteration work required by copper recovery.

Environmental safety

Since the beginning of summer 2016, the amount of water stored at the Terrafame mine area has decreased also due to the well-working bioleaching and metals production plant. During the first quarter of 2017, the amount of stored water fell below the safe target level of 3 million cubic metres, which enabled the company to use the Lake Nuasjärvi discharge pipe between 15–31 March only as much as was necessary to keep the pipe free of ice. At the end of March, there were about 2.9 million cubic metres of water stored at the site (end of Q4 2016: 3.8, end of Q4 2015: 10.1). The quality of the purified water discharged from the site was still good in the first quarter. The sulphate and metal concentrations were clearly below the limits set for them.

The new centralised water treatment plant, which had been in trial use since November 2016, was granted an environmental permit and a permit to begin operations at the beginning of 2017. The new plant will replace the smaller water treatment units that were in use earlier and can be used as an backup system. The company also continued directing the reject containing sulphate from the reverse osmosis plant back to the bioleaching heaps, which has greatly contributed to controlling the sulphate balance. In January–March, approximately 1,560 tonnes of sulphate (Q4 2016: 1,420) were directed back to the heaps. The amount of solution in bioleaching also returned to an optimal level after production was restarted at the metals production plant.

In the beginning of February, the Northern Finland Regional State Administrative Agency (RSAA) published Terrafame's environmental permit application, which concerns restoring precipitates and sludges of water treatment, temporarily stored at the site. From the start, the company's goal has been to restore areas which have precipitates resulting from water treatment. The new centralised water treatment plant will also improve the processing of precipitates so that it is formed in one place and can be deposited directly in the gypsum ponds designed for it.

On 17 February 2017, the Vaasa Administrative Court issued three decisions concerning discharges of purified water made in 2015 and 2016 by Terrafame Ltd. and Talvivaara Sotkamo Ltd.'s bankruptcy estate. The Vaasa Administrative Court dismissed all complaints concerning Terrafame's operations. At the same time, the Administrative Court annulled the decision by the Kainuu ELY Centre due to Terrafame's appeal and approved the notification made by Terrafame based on article 123 of the

Environmental Protection Act. The Court's decisions and justifications correspond with Terrafame's understanding of how a company operating responsibly must act in exceptional situations which endanger dam and environmental safety.

In April 2016, the Vaasa Administrative Court required Terrafame to apply for a new environmental permit for its operations by the end of August 2017. As a result, the company has two ongoing environmental impact assessment (EIA) procedures. During the first quarter of 2017, the EIA of mining operations progressed from the programme commenting phase to preparing the report. In the beginning of April, the Kainuu ELY Centre announced the EIA report on water management.

Personnel and occupational safety

At the end of March, Terrafame employed 662 people (end of Q4 2016: 645). In addition, approximately 70 partner companies employing approximately 623 people operated at the site in the first quarter.

Terrafame's lost-time injury frequency, meaning the number of injuries per one million person-hours worked, was 6.4 for the past 12 months (2016: 8.4). This year, the target is below 5.0. In addition to the occupational safety of the company's own employees, Terrafame will be investing strongly into developing and measuring the occupational safety of partner companies' employees in 2017.

In the first quarter, Terrafame announced the summer jobs available in production and in office. The company will hire approximately 90 people for the summer months. Terrafame is also supporting a Finnish campaign promoting responsible summer jobs. Companies participating in the Responsible Summer Job campaign want to guarantee that young people gain good experiences from their summer jobs.

Financing for future operations

Negotiations concerning private financing required for Terrafame's ramp-up, which were began in autumn 2016, were also continued in early 2017. In the beginning of February, Terrafame Group Ltd., Terrafame Ltd., Trafigura Group and Galena fund, part of Trafigura, reached an agreement on a funding arrangement and long term commercial cooperation. Terrafame Group and Sampo Plc are co-investors in the arrangement. The funding arrangement totals EUR 250 million and consists of equity investments and loan arrangements.

Near-term outlook

Terrafame's target is to increase the production and delivery volumes of nickel-cobalt and zinc as well as to improve cost-efficiency, in accordance with the business plan. The company has continued the commercialisation of copper, begun in 2016, and is preparing to start selling copper sulphide product this year. The company will also study possibilities for further processing of nickel in the coming months. In addition, Terrafame will evaluate the opportunities related to uranium oxide.

During the coming summer, Terrafame's goal is to bring the EIA procedures concerning mining operations and water management to a close. The EIA procedures will finish once the Kainuu ELY Centre has submitted its statement on the report phases to Terrafame. The EIA report will be added to the environmental permit applications which Terrafame will hand in by the end of August 2017.

Terrafame Ltd.'s financial information for 2016 presented in this release are unaudited FAS figures.

Further information:

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Terrafame Ltd. is a Finnish multi-metal company producing nickel, zinc and cobalt at its mine and metals production plant located in Sotkamo. Our aim is to conduct environmentally sustainable, safe and profitable operations.