

QUARTERLY REPORT, THIRD QUARTER 2020



HIGHLIGHTS OF THE THIRD QUARTER 2020

- Net sales was 130 MSEK (82)
- EBITDA was 58 MSEK (33)
- EBIT was 40 MSEK (3)
- Earnings per share was 0.19 SEK (0.01) non-diluted, 0.18 SEK (0.01) diluted
- Cash and cash equivalents were 30 MSEK (7)
- Investments were 4 MSEK (28)
- The production was about 433 000 (358 000) ounces silver, 923 (1 081) ounces gold, 419 (445) tonnes lead, and 818 (1 010) tonnes zinc in concentrates
- Due to the pricing mechanism in use, the final metal sales prices of Q2 2020 increased both the net sales and profitability of Q3 2020

Q1 – Q3 2020

- Net sales was 287 MSEK (111)
- EBITDA was 67 MSEK (3)
- EBIT was 7 MSEK (-43)
- Earnings per share was -0.13 SEK (-0.37) non-diluted, -0.12 SEK (-0.37) diluted
- Investments were 18 MSEK (145)
- The production was about 1 231 000 (582 000) ounces silver, 2 996 (1675) ounces gold, 1 202 (595) tonnes lead, and 2 497 (1305) tonnes zinc in concentrates

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

CEO ERKKI KURONEN

I am very excited to release the financial result of Q3 2020 and highlight some of our recent activities. The team at the Silver Mine has worked tirelessly to achieve the set goals but also had a chance to get some rest during the summer vacation period. The extraordinary times in the society and economy seem to continue and we must make our best efforts to adapt going forward.

Silver price achieved the seven year high in August after a quick rise from mid-July. Even the current price is two times higher than the lowest in March 2020. We got the double boost from this price rally and achieved the record revenue of 130 MSEK. The topline of Q2 and Q3 illustrate how the changes of the metal prices impact the sales. The final sales price determination of silver and gold two months after the delivery increases the positive or negative impact of metal price changes both on net sales and profitability.

The Board of Directors and the Management have had fruitful discussions while revising the Company's strategy. You have already seen some signs of the revised strategy as we have divested exploration assets in the Tampere and Bergslagen areas, and after Q3 period acquired new assets in the Kainuu region from Boliden. The revised strategy will be communicated in Q4. As a part of the strategy work, we are starting the evaluation of the refinancing alternatives to enable the next steps for Sotkamo Silver.

During Q3 we have been mining and producing from the underground mine between the levels 180 to 80 (meters below surface) and simultaneously we have been working with the development of the mine around 300 level where production will commence in the late 2020. At the concentrating plant we have maintained good operational reliability and recovery of the metals to our concentrates. This is demonstrated by the record through-put and silver production.

Piloting of the ore sorting has faced some delays due to the travel restrictions from abroad. However, achieved results of the piloting have been in line with the expectations. Preparations for the underground core drilling have been ongoing and drilling will commence in October. The focus of the core drilling program is to extend the life of the Silver Mine.

I look forward to work with our excellent team to develop the Company for the benefit of our stakeholders. Take care and stay safe!

BUSINESS

The Company operates the Silver Mine in Sotkamo, Finland. The production was started in March 2019 and mine produces silver, gold, zinc and lead in the concentrates which are sold to a smelter. In addition, company holds, directly and through its subsidiary Sotkamo Silver Oy, exploration rights to mineral deposits in Finland and Norway.

During Q3, the Company divested its exploration licenses in the Tampere region in Finland and Bergslagen in Sweden to New Peak Finland Oy and New Peak Sweden Oy, correspondingly.

Key figures, group	Q3 2020	Q3 2019	FY 2019
Net sales MSEK	130	82	197
EBITDA MSEK	58	33	8
EBIT MSEK	40	3	-75
Equity ratio (%)	36	37	31
Cash liquidity (%)	105	37	34
Personnel at end of period	46	42	47
Milled tonnes approx.	142 000	127 000	343 000
Average Silver grade g/tonne	111	102	107

Net sales in Q3 was 130 MSEK (82). Other income of 1 MSEK (0) does not include any estimated unrealised final sales price adjustment for the period. 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 and in the concentrating plant together with the sorter development and environmental investments amounted to 4 MSEK (28) in Q3 and 18 MSEK (145) in Q1-Q3 2020.

PRODUCTION AND GUIDANCE

In the third quarter, 142 000 (127 000) tonnes of ore were milled. In Q3 the company produced about 433 000 (358 000) ounces silver, 923 (1081) ounces gold, 419 (445) tonnes lead and 818 (1010) tonnes zinc in concentrates.

Year to date, the production was about 1 231 000 (582 000) ounces silver, 2 996 (1675) ounces gold, 1 202 (595) tonnes lead and 2 497 (1305) tonnes zinc in concentrates. Milled tonnes until the end of Q3 were about 407 000 (218 000).

The annual production guidance of 13 March 2020 remains unchanged. Accordingly, we expect to process 480 000 - 540 000 tonnes of ore. Correspondingly, the silver production is forecasted to be 1.4 - 1.7 million ounces in 2020.

FINANCIAL POSITION

- The group's cash and cash equivalents were 30 MSEK (7)
- The group equity ratio was 36 % (37)
- The group equity was 249 MSEK (260) which corresponds to 1.38 SEK (1.93) a share non-diluted and 1.30 SEK (1.93) diluted

Financial income in Q3 includes positive currency rate valuation impact of 4 MSEK due to intra-group loan valuations. This impact year to date was +7 MSEK. It is a non-cash valuation item and has no cash flow impact. The provision 31 MSEK (19) consist of the Asset Retirement Obligation (ARO).

The Company is starting a project to evaluate refinancing alternatives for the current debt structure. The Company sees that the current operations and metal market prices development could enable a new long-term financing. The possible reorganised funding would support the plan of expanding operations in Sotkamo region and increasing the mineral resources to prolong the life of mine.

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 9 (20) at the end of period, including all contractors. Sotkamo Silver has started a safety development program early 2020 which goal is to reinforce and encourage safety culture in its own organization and with its 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 Q4 2020.

PERSONNEL

Sotkamo Silver had 46 (42) own employees at the end of period and 84 (54) contracted employees worked in the mine and laboratory.

EVENTS AFTER THE REPORTING PERIOD

Sotkamo Silver Oy has entered into an agreement with Boliden to purchase the mining and exploration rights of the Hietaharju and Peura-aho mining concessions and the Hietaharju North exploration area in Suomussalmi. Press release of acquisition was published on 6 October 2020.

SHARES AND SHARE TRADINGS

Sotkamo Silver AB's share capital on 30 September 2020 was 246 901 555 SEK and the number of shares 179 977 732.

In May 2020 Sotkamo Silver AB issued 11 246 583 warrants, which gives the holder the right to subscribe to one new share in Sotkamo Silver at a subscription price of SEK 2.00. 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. Upon full exercise of warrants, the share capital will

increase by 15 428 568.84 SEK to 262 330 123.52 SEK and the number of shares will increase by 11 246 583 shares to 191 224 315 shares.

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 July to September 2020 was 119 263 435 (42 950 431).

Share information	2020-09-30	2019-09-30	2019-12-31
Share price SEK	2.77	4.10	4.04
Highest share price SEK, during the period	3.42	5.00	5.00
Lowest share price SEK, during the period	1.96	3.31	3.31
Quota value SEK	1.37	1.37	1.37
Market Cap. MSEK	499	553	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

At the time of publishing this report, Sotkamo Silver operations, including mining, production and deliveries, has not been facing 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.

The company has taken measures to ensure that the risks of Covid-19 can be minimised. These include for example, the measures to minimise unnecessary contacts between the employees and preparedness for interferences in supplies of services and goods as well as planning to substitute absence of the employees due to the sickness or quarantine measures due to the exposure to Covid-19.

NOMINATING COMMITTEE

The members of the nominating committee will be published on the Company webpage: www.silver.fi as soon as the nominating committee is formed.

FINANCIAL CALENDER

- Q4 and year-end report 2020 on 17 February 2021

FINANCIAL REPORTS

The reports are available at the Company webpage: www.silver.fi/en/investors

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.

Sotkamo Silver AB's Board of Directors and CEO

Stockholm, 14 October 2020

CONSOLIDATED, CONDENSED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

<i>Amount in MSEK</i>	2020	2019	2020	2019	2019
	Q3-20	Q3-19	Q1-Q3-20	Q1-Q3-19	FY
Net sales	129,7	81,7	287,3	111,4	197,1
Change of finished goods	-1,9	2,5	-2,9	2,5	1,2
Other income	0,9	0,4	6,6	0,6	0,8
Supplies	-48,9	-33,0	-158,9	-67,3	-122,0
Other expenses	-12,4	-13,1	-36,5	-30,7	-45,3
Employee expenses	-9,2	-5,5	-28,7	-14,0	-24,0
EBITDA	58,1	33,1	66,9	2,5	7,9
Depreciation and amortization	-18,4	-29,7	-60,4	-45,7	-82,9
EBIT	39,7	3,4	6,5	-43,2	-75,0
Financial income	3,0	6,3	6,7	15,1	4,1
Financial expenses	-7,6	-7,8	-33,1	-19,5	-26,6
Interest expenses on lease payments	-0,7	-1,1	-2,2	-2,7	-3,6
Financial net	-5,3	-2,6	-28,7	-7,1	-26,0
Result after financial items	34,4	0,8	-22,2	-50,3	-101,1
Taxes	0,0	0,0	-0,3	0,0	0,0
RESULT FOR THE PERIOD	34,4	0,8	-22,5	-50,3	-101,1
OTHER COMPREHENSIVE INCOME					
Result that may be reclassified to current period result:					
Translation differences	-2,0	-7,3	-0,4	-5,8	3,2
Total comprehensive income	32,5	-6,4	-22,9	-56,1	-97,8
Attributable to:					
The parent company shareholders	32,5	-6,4	-22,9	-56,1	-97,8
TOTAL	32,5	-6,4	-22,9	-56,1	-97,8
Profit per share, non-diluted, SEK	0,19	0,01	-0,13	-0,37	-0,75
Profit per share, diluted, SEK	0,18	0,01	-0,12	-0,37	-0,75

CONSOLIDATED, CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	30.9.2020	30.9.2019	31.12.2019
Assets			
Fixed assets			
Intangible fixed assets	0,0	27,3	0,1
Tangible fixed assets	537,9	546,6	555,4
Right of use assets	56,5	75,5	71,7
Financial fixed assets	10,0	19,3	20,0
Deferred tax asset	0,0	0,3	0,3
Total fixed assets	604,5	669,1	647,6
Current assets			
Inventories	3,0	5,0	5,9
Trade receivables	43,3	19,6	14,7
Other assets	10,9	9,6	10,5
Cash and cash equivalents	30,0	6,8	29,6
Total current assets	87,2	40,9	60,7
Total assets	691,7	710,0	708,3
Equity			
Share capital	246,9	185,6	185,2
Other contributed capital	190,7	200,0	200,0
Retained earnings	-166,9	-75,0	-65,5
Result of the period	-22,5	-50,3	-101,1
Total Equity	248,2	260,3	218,6
Liabilities			
Provision	30,6	18,9	29,5
Non-current borrowings	272,6	255,3	222,7
Non-current lease liabilities	36,3	55,1	51,5
Current borrowings	0,0	6,8	40,9
Current lease liabilities	24,0	22,6	22,9
Trade payables and other payables	80,0	91,0	122,2
Total liabilities	443,5	449,7	489,7
Total equity and liabilities	691,7	710,0	708,3
Equity Ratio %	35,9 %	36,7 %	30,9 %
Cash Liquidity Ratio %	105,3 %	36,7 %	33,6 %
Equity per share, SEK	1,38	1,93	1,62
Equity per share, diluted, SEK	1,30	1,93	1,62

CONSOLIDATED, CONDENSED STATEMENT OF CASH FLOW

<i>Amount in MSEK</i>	1.1.2020- 30.9.2020	1.1.2019- 30.9.2019	1.1.2019- 31.12.2019
Operating activities			
Result for the period	-22,5	-50,3	-101,1
Adjustments for items not effecting cash	52,5	29,7	76,9
Cash flow from operating activities before changes in working capital	30,0	-20,7	-24,2
Cash flow from changes in working capital			
Change in inventories	2,9	-5,0	-5,9
Change in operating receivables	-19,0	-2,4	1,6
Change in operating liabilities	-39,1	3,4	58,7
Cash flow from operating activities	-25,3	-24,6	30,2
Investing activities	-18,3	-145,2	-152,7
Share issue	61,7	15,1	15,1
Issue costs	-9,3	-1,7	-1,7
Repayments of lease liabilities	-14,0	-13,8	-18,4
Change in loans	5,3	53,9	34,1
Cash flow from financing activities including share issue	43,7	53,5	29,1
Change in cash and cash equivalents	0,1	-116,3	-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	0,3	0,4	0,4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	30,0	6,8	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				-22,5	-22,5
Sum period result				-22,5	-22,5
OTHER COMPREHENSIVE INCOME					
Translation difference			-0,4		-0,4
Sum Other comprehensive income	0,0	0,0	-0,4	0,0	-0,4
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 30.9.2020	246,9	190,7	3,1	-192,6	248,2

PARENT COMPANY CONDENSED STATEMENT OF INCOME

<i>Amount in MSEK</i>	2020 Q1-Q3	2019 Q1-Q3	2019 FY
Net sales	12,0	0,0	0,0
Other income	0,2	0,2	17,6
Other expenses	-8,9	-5,6	-6,4
Employee expenses	-4,0	-2,1	-8,8
EBITDA	-1,0	-7,5	2,3
Depreciation and amortization	0,0	0,0	-27,2
EBIT	-1,0	-7,5	-24,9
Financial income	34,3	21,1	29,6
Financial expenses	-9,3	-2,2	-6,2
Financial net	25,0	18,9	23,3
Result after financial items	24,0	11,4	-1,6
Taxes	0,0	0,0	0,0
RESULT FOR THE PERIOD	24,0	11,4	-1,6

PARENT COMPANY CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	30.9.2020	30.9.2019	31.12.2019
Assets			
Fixed assets			
Intangible fixed assets	0,0	0,0	0,0
Tangible fixed assets	0,0	0,0	0,0
Shares in subsidiaries	174,9	174,9	174,9
Financial fixed assets	434,6	432,1	402,3
Total fixed assets	609,5	607,1	577,2
Current assets			
Other assets	62,7	56,7	23,3
Cash and cash equivalents	3,4	4,2	1,3
Total current assets	66,0	60,8	24,5
Total assets	675,6	667,9	601,8
Equity and liabilities			
Equity	605,3	596,1	530,7
Long term liabilities	68,8	68,5	53,2
Short term liabilities	1,5	3,3	17,8
Total equity and liabilities	675,6	667,9	601,7

EXCHANGE RATES

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

	2020-09-30	2019-09-30	2019-12-31
Balance sheet day rate EURSEK	10.5410	10.7287	10.4336
Balance sheet day rate USDSEK	9.3951	9.8047	9.3171
Average exchange rate for the reporting period EURSEK	10.5567	10.5656	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 September 2020, the fair value of accounts receivable amounts to 43 M SEK (20) 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