

QUARTERLY REPORT, THIRD QUARTER 2021



HIGHLIGHTS OF THE THIRD QUARTER 2021

- Net sales was 83 MSEK (130)
- EBITDA was 13 MSEK (58)
- EBIT was -9 MSEK (40)
- Earnings per share was -0,07 SEK (0.18)
- Operative cashflow in Q3 was 14 (22) MSEK and cash and cash equivalents were 48 MSEK (30)
- Investments were 10 MSEK (4)
- The production was about 308 000 (433 000) ounces silver, 839 (923) ounces gold, 323 (419) tonnes lead, and 742 (818) tonnes zinc in concentrates
- Costs, i.e., supplies and other expenses, were 59 MSEK which was 3 MSEK lower than in Q3 last year. At the same time, processed ore volume increased almost by 13%.

Q1 – Q3 2021

- Net sales was 287 MSEK (287)
- EBITDA was 64 MSEK (67)
- EBIT was 1 MSEK (7)
- Earnings per share was -0.09 SEK (-0.13)
- Investments were 23 MSEK (18)
- The production was about 1 034 000 (1 231 000) ounces silver, 2 534 (2 996) ounces gold, 1 028 (1 202) tonnes lead, and 2 324 (2 497) tonnes zinc in concentrates

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

CEO ERKKI KURONEN

During the last few months, we have been in the middle of the transformation. As we all know, it is usually challenging and sometimes painful. By transformation, we want to change our way to operate to more long-sighted, remove silos, improve planning, and ultimately increase productivity and profitability. During the transformation we have faced low head grades at the plant due to the blending of ore with marginal ore. At the same time, we have managed to debottleneck our processing plant and enabled increase of the feed tons by over 25% during the times of low head grade. Through this development we have learned to process different metal grades efficiently. Looking forward, we are a lot more adaptable to ore grade and ore mix variance.

Our operative cashflow in Q3 was 14 MSEK and cash position at the end of the period was strong, 48 MSEK. Year to date operative cashflow has improved by 43 MSEK since the same period last year. The revenue of Q3 was 83 MSEK which included the negative impact of 6 MSEK due to the final price settlement from Q2 2021. As we have seen, it broadens the variance of the quarterly revenue and earnings.

Average silver grade of the period, 68 g/t, was heavily impacted by the above-mentioned use of the marginal ore. On the other hand, by being material efficient, our mining and processing costs per feed ore ton have reduced by 18 % compared to the previous quarter.

Surface drilling targeting to the levels between 550 to 700 meters depth commenced in September. Assay results of the earlier campaign will be utilised in the update and subsequent sign-off of the Mineral Resource estimate. We have engaged AFRY to act as an external auditor and they will sign-off the Mineral Resource estimate.

I look forward to work with our excellent team and wish all the best to our stakeholders.

BUSINESS

The Company operates the Silver Mine in Sotkamo, Finland. The production was started in March 2019 and the mine produces silver, gold, zinc, and lead in concentrates which are sold to a smelter. In addition, the Company holds mining and exploration rights to mineral deposits nearby current operations in Sotkamo region in Finland.

Key figures, group	Q3 2021	Q3 2020	FY 2020
Net sales MSEK	83	130	366
EBITDA MSEK	13	58	73
EBIT MSEK	-9	40	-10
Equity ratio (%)	39	36	32
Cash liquidity (%)	38	105	69
Personnel at end of period	52	46	50
Milled tonnes approx.	160 000	142 000	546 000
Average Silver grade g/tonne	68	111	104

Net sales in Q3 was 83 MSEK compared to 130MSEK in the previous year Q3. The variance was partly due to the lower metal production but also impacted by the final price settlement mechanism which had a positive impact to the net sales in Q3 2020 (+14MSEK) and negative (-6MSEK) in Q3 2021.

Other income and expenses included -2 MSEK (1) unrealised final sales price adjustment for the period due to the slightly decreased metal prices after 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.

Costs, i.e., supplies and other expenses, were 59 MSEK which was 3 MSEK lower than in Q3 last year and 7 MSEK lower than previous period, Q2 2021. At the same time, processed ore volume increased almost by 13% to 160 000 tonnes from 142 000 tonnes in Q3 2020 and 143 000 tonnes in previous quarter, Q2-2021.

Depreciation is based on the processed ore volume. Period's higher ore volume was the key driver for higher depreciation.

The YTD financial net expenses were -19 MSEK (-29), in previous year the expenses were significantly higher due to unrealised FX loss of intra-group capital loans. The Company has classified the intra-group capital loans as net investment loans in Q4 2020 and since then FX currency rate change impact of intra-group capital loans have been booked directly to equity and it will not impact financial income and expenses in 2021.

Environmental investments in the tailings pond area and investments in the underground mine and in the concentrating plant amounted to 10 MSEK (4) in Q3 and 23 MSEK (18) in Q1-Q3 2021.

PRODUCTION AND GUIDANCE

In the third quarter, 160 000 (142 000) tonnes of ore were milled. In Q3 the Company produced about 308 000 (433 000) ounces silver, 839 (923) ounces gold, 323 (419) tonnes lead and 742 (818) tonnes zinc in concentrates. The metal grades of the mill feed were lower than in the reference period resulting lower metal production in the concentrates.

Year to date, the production was about 1 034 000 (1 231 000) ounces silver, 2 534 (2 996) ounces gold, 1 028 (1 202) tonnes lead and 2 324 (2 497) tonnes zinc in concentrates. Milled tonnes until the end of Q3 were about 442 000 (407 000).

We had high variance in the metal grades during the first half of the year. To overcome this, we started a transformation process during the third quarter. We have reviewed and revised our mine plan and scheduled and implemented new processes to model, schedule and predict mine production. To give time and enable the transformation, we have utilised our marginal ore stock and continued development work in the underground mine. The impact of the changes will materialize in the coming months.

The annual production guidance of 1.45-1.75 million ounces remains unchanged. However, we expect that the annual production will end up close to the lower limit of 1.45 million ounces.

FINANCIAL POSITION

- The group's cash and cash equivalents were 48 MSEK (30)
- The group equity ratio was 39 % (36)
- The group equity was 248 MSEK (249) which corresponds to 1.24 SEK (1.38) a share non-diluted, and 1.24 SEK (1.30) diluted

Our operative cashflow in Q3 was 14 MSEK and cash position at the end of the period was 48 MSEK. Year to date operative cashflow has improved by 43 MSEK since the same period last year.

The Company continues to develop alternatives for funding structure to strengthen its long-term financial position.

SAFETY AND ENVIRONMENT

The lost time injury frequency rate (LTIFR) meaning the number of sick days due to accidents per a million working hours (rolling 12 months) was 26 (9) at the end of period, including all contractors. Sotkamo Silver has started a safety development program which goal is to reinforce and encourage safety culture in its own organization and with its contractors. New actions into the safety program are developed and implementation has been started in Q3. The Company's long-term goal for LTIFR is zero.

PERSONNEL

Sotkamo Silver had 52 (46) own employees at the end of period and 99 (84) contracted employees worked in the mine and laboratory.

EVENTS AFTER THE REPORTING PERIOD

No events after the reporting period.

SHARES AND SHARE TRADINGS

Sotkamo Silver AB's share capital on September 30, 2021, was 274 871 388 SEK and the number of shares 200 366 211.

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 2021 was 47 429 806 (119 263 435).

Share information	30.9.2021	30.9.2020	31.12.2020
Share price SEK	2.10	2.77	3.14
Highest share price SEK, during the period	2.95	3.42	3.57
Lowest share price SEK, during the period	2.05	1.96	2.63
Quota value SEK	1.37	1.37	1.37
Market Cap. MSEK	420	499	565
Number of shares	200 366 211	179 977 732	179 977 732
Share capital SEK	274 871 388	246 901 555	246 901 555

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 2020, p. 26–27.

COVID-19 UPDATE

At the time of publishing this report, Sotkamo Silver operations, including mining, production, and deliveries, has been facing hardly any impacts of COVID-19 even though a few cases have been reported.

The Company has continued the earlier measures to ensure that the risks of COVID-19 can be minimised. However, the uncertainty continues, and the Company could experience difficulties in operating the Silver Mine and in the worst case may temporarily have to close parts of its operations.

NOMINATING COMMITTEE

The largest shareholder together with the three next largest shareholders at August 31st 2021 appointed the Nominating Committee consisting of three members.

The Nominating Committee for AGM 2022 at Sotkamo Silver AB:

Leena Siirala (Chairman), nominated by Ilmarinen Mutual Pension Insurance Company

Vesa Heikkilä, nominated by Timo Lindborg with companies

Tuomo Mäkelä, independent member, mining industry expert

FINANCIAL CALENDER

- Q4 and year-end report 2021 on 17 February 2022

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 Release is given in Swedish and there may be differences in the translated versions.

Stockholm, 15 October 2021

Sotkamo Silver AB's Board of Directors and CEO

**CONSOLIDATED, CONDENSED
STATEMENT OF INCOME AND OTHER
COMPREHENSIVE INCOME**

<i>Amount in MSEK</i>	2021 Q3-21	2020 Q3-20	2021 Q1-Q3-21	2020 Q1-Q3-20	2020 FY20
Net sales	83	130	287	287	365
Change of finished goods	0	-2	1	-3	-2
Other income	-2	1	-1	7	12
Supplies	-47	-49	-156	-159	-212
Other expenses	-12	-12	-38	-36	-52
Employee expenses	-9	-9	-29	-29	-39
EBITDA	13	58	64	67	73
Depreciation and amortization	-22	-18	-63	-60	-83
EBIT	-8	40	1	6	-10
Financial income*	0	3	0	7	7
Financial expenses*	-6	-8	-18	-33	-41
Interest expenses on lease payments	0	-1	-1	-2	-3
Financial net	-6	-5	-19	-29	-37
Result after financial items	-14	34	-18	-22	-46
Taxes	0	0	0	0	0
RESULT FOR THE PERIOD	-14	34	-18	-23	-47
OTHER COMPREHENSIVE INCOME					
Result that may be reclassified to current period result:					
Translation differences	2	-2	4	0	-12
Total comprehensive income	-12	32	-14	-23	-59
Attributable to:					
The parent company shareholders	-12	32	-14	-23	-59
TOTAL	-12	32	-14	-23	-59
Profit per share, SEK	-0,07	0,18	-0,09	-0,12	-0,24

*) Q1-Q3-2020 Financial income and expenses as well as the Result of the period was affected by the unrealised FX loss of intra-group capital loans. The Company has classified the intra-group capital loans as net investment loans in Q4 2020 and since then there is no FX impact in the Income Statement.

CONSOLIDATED, CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	30.9.2021	30.9.2020	31.12.2020
Assets			
Fixed assets			
Intangible fixed assets	0	0	0
Tangible fixed assets	507	538	521
Right of use assets	33	57	49
Financial fixed assets	18	10	11
Total fixed assets	558	604	581
Current assets			
Inventories	5	3	4
Trade receivables	17	43	28
Other assets	11	11	10
Cash and cash equivalents	48	30	35
Total current assets	80	87	77
Total assets	638	692	658
Equity			
Share capital	275	247	247
Other contributed capital	213	191	191
Retained earnings	-221	-167	-179
Result of the period	-18	-23	-47
Total Equity	248	248	212
Liabilities			
Provision	42	31	41
Non-current borrowings	114	273	245
Non-current lease liabilities	16	36	30
Current borrowings	135	0	15
Current lease liabilities	21	24	23
Trade payables and other payables	63	80	91
Total liabilities	390	444	446
Total equity and liabilities	638	692	658
Equity Ratio %	38,9 %	35,9 %	32,2 %
Cash Liquidity Ratio %	38,2 %	105,3 %	68,7 %
Equity per share, SEK	1,24	1,30	1,11

CONSOLIDATED, CONDENSED STATEMENT OF CASH FLOW

<i>Amount in MSEK</i>	1.1.2021- 30.9.2021	1.1.2020- 30.9.2020	1.1.2020- 31.12.2020
Operating activities			
Result for the period	-18	-23	-47
Adjustments for items not effecting cash	79	77	108
Interests paid	-20	-24	-25
Cash flow from operating activities before changes in working capital	41	30	36
Cash flow from changes in working capital			
Change in inventories	-1	3	2
Change in operating receivables	3	-19	-5
Change in operating liabilities	-25	-39	-31
Cash flow from operating activities	18	-25	2
Investing activities	-23	-18	-32
Share issue and convertible loan conversion	52	62	62
Issue costs	-2	-9	-9
Repayments of lease liabilities	-16	-14	-21
Change in loans	-16	5	5
Cash flow from financing activities including share issue	17	44	37
Change in cash and cash equivalents	12	0	7
Cash and cash equivalents in the beginning of the period	35	30	30
Translation differences in cash and cash equivalent	0	0	-1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	48	30	35

CONSOLIDATED, CONDENSED CHANGE IN EQUITY

<i>Amount in MSEK</i>	Share capital	Other contributed capital	Translation differences	Retained earnings	Total Equity
Opening Equity 1.1.2020	185	200	4	-170	219
PERIOD RESULT				-47	-47
Sum of period result				-47	-47
OTHER COMPREHENSIVE INCOME					
Translation difference			-12		-12
Sum of other comprehensive income	0	0	-12	0	-12
Transactions with shareholders					
Share issue	62				62
Issue costs		-9			-9
Sum of transactions with shareholders	62	-9	0	0	52
Closing Equity 31.12.2020	247	191	-9	-217	212
PERIOD RESULT				-18	-18
Sum of period result				-18	-18
OTHER COMPREHENSIVE INCOME					
Translation difference			4		4
Sum of other comprehensive income	0	0	4	0	4
Transactions with shareholders					
Share issue and convertible loan conversion	28	24			52
Issue costs		-2			-2
Sum of transactions with shareholders	28	22	0	0	50
Closing Equity 30.9.2021	275	213	-4	-235	248

PARENT COMPANY CONDENSED STATEMENT OF INCOME

<i>Amount in MSEK</i>	2021 Q1-Q3	2020 Q1-Q3	2020 FY
Net sales	0	12	0
Other income	1	0	0
Supplies	0	0	0
Other expenses	-5	-9	-8
Employee expenses	-1	-4	-8
EBITDA	-6	-1	-17
Depreciation and amortization	0	0	0
EBIT	-6	-1	-17
Financial income	27	34	37
Financial expenses	3	-9	-26
Financial net	31	25	11
Result after financial items	25	24	-6
Taxes	0	0	0
RESULT FOR THE PERIOD	25	24	-6

PARENT COMPANY CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	30.9.2021	30.9.2020	31.12.2020
Assets			
Fixed assets			
Intangible fixed assets	0	0	0
Tangible fixed assets	0	0	0
Shares in subsidiaries	175	175	175
Financial fixed assets	484	435	414
Total fixed assets	659	610	589
Current assets			
Other assets	13	63	52
Cash and cash equivalents	33	3	5
Total current assets	46	66	57
Total assets	705	676	646
Equity and liabilities			
Equity	653	605	577
Long term liabilities	52	69	51
Short term liabilities	0	2	17
Total equity and liabilities	705	676	646

EXCHANGE RATES

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

	30.9.2021	30.9.2020	31.12.2020
Balance sheet day rate EURSEK	10.2010	10.5410	10.0375
Balance sheet day rate USDSEK	8.7911	9.3951	8.1886
Average exchange rate for the reporting period EURSEK	10.1515	10.5567	10.4867

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 2020.

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 2020.

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 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.

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 2021, the fair value of accounts receivable amounts to 17 MSEK (43) and was recognized in the item Trade Receivables in Current assets in the balance sheet. If there had 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 meaning the number of sick days due to accidents per million working hours

Ounce, Troy ounce which is 31.1035 grams