

SOTKAMO SILVER AB YEAR-END REPORT 2021



HIGHLIGHTS OF THE FOURTH QUARTER 2021

- Net sales was 99 MSEK compared to the previous year 78 MSEK. The positive contributor was favourable development of zinc price
- EBITDA was 28 MSEK (7)
- EBIT was 6 MSEK (-16)
- Cash and cash equivalents were 37 MSEK (35)
- Investments were 25 MSEK (14) and included tailings pond dam raise amounting to 11 MSEK
- The production was about 341 000 (349 000) ounces of silver, 869 (969) ounces of gold, 466 (330) tonnes of lead, and 1 049 (757) tonnes of zinc in concentrates
- P700 surface drilling was completed in December, totalling ca. 3 800 meters. The assaying of the P700 underground drilling was completed and results were reported in October

HIGHLIGHTS OF THE FULL-YEAR 2021

- Net sales was 387 MSEK (366)
- EBITDA was 92 MSEK (73)
- EBIT was 7 MSEK (-10)
- Equity Ratio was 38 % (32)
- Earnings per share was -0.09 SEK (-0.26) non-diluted, -0.09 SEK (-0.24) diluted
- Investments were 48 MSEK (32) and included tailings pond dam raise amounting to 11 MSEK
- The production was about 1.38 million (1.58 million) ounces of silver, 3 403 (3 965) ounces of gold, 1 494 (1 532) tonnes of lead, and 3 373 (3 254) tonnes of zinc in concentrates

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



CEO WORD

Firstly, I would like to focus on a few numbers. Our operative cash flow during the Q4 was 18 MSEK positive and we had 37 MSEK cash and cash equivalents in our accounts at the year-end. Given the fact that we still had low head grades due to the mixing of marginal ore, this is a great achievement. Our operative expenses decreased by 4 MSEK to 64 MSEK compared to Q4/2020 and at the same time, our mill feed tonnes increased by 30 %. Smart utilization of the marginal ore enables us to increase throughput and metal production at the marginal cost.

Many shareholders are keen to hear more about the ore-sorting project. The pilot results have proven the technology itself but the integration of the sorting process to primary crushing and material handling is the key to successful implementation. The capital and operational expenses of the initial draft were not justifying the investment. To assess the technically and economically viable setup and to evaluate the feasibility of ore-sorting in production scale, we have returned to the drawing board. The engineering team consisting of

internal and external resources is working on the redesigning.

The core drilling campaigns conducted last year as a first step of the P700-project were encouraging. We have reported the first lot of assay results and the rest will be reported during Q1/2022. We have engaged a drill rig for 2022 and will continue drilling during the year with targets both in production planning and prolonging the life of mine. The update of the Mineral Resource and Ore Reserve estimates was started in Q4, and the results will be released in Q1. These new estimates incorporate the geological knowledge gathered from the mine with assays and state-of-the-art methods and practices for resource modelling. The new model sets the starting point for the work to increase the Mineral Resource and corresponding Ore Reserve and eventually the life of the silver mine.

I wish all the best for the Team at the silver mine and all the stakeholders in the challenges of 2022.

“...Our operative cash flow during the Q4 was 18 MSEK positive and we had 37 MSEK cash and cash equivalents in our accounts at the year-end...

...Our operative expenses decreased by 4 MSEK to 64 MSEK compared to Q4/2020 while our mill feed tonnes increased by 30 %.”



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 the Sotkamo region in Finland.

Net sales was 99 MSEK compared to the previous year 78 MSEK. The positive contributor was the favourable development of zinc production and price. Head grades of silver and other metals were impacted by the use of marginal ore. Milled ore tons were 182 000 tonnes, ca. 25 % higher than the average feed rate during the first half of 2021. Compared to the Q4 last year, we produced an equal volume of silver, ca. 10 % less gold while lead and zinc production were ca. 40 % above the comparison period.

Other income of 1 MSEK (5) included -0,4 MSEK (5) estimated unrealized final sales price adjustment due to price difference between provisional and final invoices for the period. Net sales included -1,8 MSEK estimated final metal content adjustment

due to metal content difference between provisional and final invoices for the period. The final sales price for silver and gold is based on the monthly average market price two months after the delivery, deducted by the customer's smelter charges.

Investments in the underground mine and environmental investments amounted to 25 MSEK (14) in Q4 and 48 MSEK (32). Environmental investments included tailings pond dam raise amounting to 11 MSEK. P700 project's exploration continued in Q4 which costs were included in the investments of the period.

Key figures, group	Q4 2021	Q4 2020	FY 2021	FY 2020
Net sales MSEK	99	78	387	366
EBITDA MSEK	28	6	92	73
EBIT MSEK	6	-16	7	-10
Equity ratio (%)	38	32	38	32
Cash liquidity (%)	27	69	27	69
Personnel at end of the period	49	50	49	50
Milled tonnes approx.	182 000	139 000	624 000	546 000
Average silver grade g/tonne	71	92	79	104

PRODUCTION AND GUIDANCE

In the fourth quarter, 182 000 (139 000) tonnes of ore were milled. In Q4 the Company produced about 341 000 (349 000) ounces silver, 869 (969) ounces gold, 466 (330) tonnes lead, and 1 049 (757) tonnes zinc in concentrates. As mentioned earlier, the head grades of the mill feed were lower than in the reference period, but this was compensated by the higher mill feed tonnes.

In 2021, the production was about 1.38 million (1.58 million) ounces silver, 3 403 (3 965) ounces gold, 1 494 (1 532) tonnes lead, and 3 373 (3 254) tonnes zinc in concentrates. Milled tonnes during 2021 were about 624 000 (546 000).

The annual production guidance for 2022 is ca. 1.5 million ounces of silver in 2022. However, the primary target is to maximize the revenue and operative cash flow. To achieve this, the Company adjusts the mix of metals in the ore feed which might have an impact on the produced silver ounces.

FINANCIAL POSITION

- The Group's cash and cash equivalents were 37 MSEK (35)
- The Group equity ratio was 38 % (32)
- The Group equity was 249 MSEK (212) which corresponds to 1.24 SEK (1.18) a share non-diluted and 1.18 SEK (1.11) diluted

The costs of raising the tailings pond dam for the whole year were capitalized during Q4. The costs amounted to 11 MSEK.

The Company is investigating the conditions and opportunities for refinancing financial instruments maturing in 2022 (secured bond and convertible bond). At the same time, the Company's main goal is to extend the maturity of its debt financing.

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 23 (13) at the end of the period, including all contractors. LTIFR of 23 corresponds to six Lost Time Injuries (LTI) within 12 months period. The company has continued a safety development program

during 2021 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. At the year-end, Company's own personnel, and regular contractors at mine had worked 182 days without LTI.

PERSONNEL

The Company had 49 (50) own employees and 93 (90) contracted employees who worked in the mine and laboratory at the end of the period.

EVENTS AFTER THE REPORTING PERIOD

On January 11, 2022, the Company announced that it is investigating the conditions and opportunities for refinancing financial instruments of both Sotkamo Silver AB and its Finnish subsidiary which are maturing in 2022 (secured bond and convertible bond). At the same time, the main goal is to extend the maturity of its debt financing. Current operations and metal market prices development give good grounds for refinancing.

SHARES AND SHARE TRADINGS

Sotkamo Silver AB's share capital on 31 December 2021 was 274 871 388 SEK and the number of shares was 200 366 211.

Sotkamo Silver AB's 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 October to December 2021 was 74 081 300 (70 285 649).

Share information	Q4 2021	Q4 2020
Share price SEK	1.57	3.14
Highest share price SEK, during the period	2,39	3.57
Lowest share price SEK, during the period	1,46	2.63
Quota value SEK	1.37	1.37
Market Cap. MSEK	315	565
Number of shares	200 366 211	179 977 732
Share capital SEK	274 871 388	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, Company's operations, including mining, production, and deliveries, have been facing hardly any impacts of COVID-19 even though a few cases have been reported.

The most recent variants, like Omicron, are less serious but its potentially rapid spread can cause difficulties in operating the silver mine and in the worst case may temporarily have to close parts of its operations.

FINANCIAL CALENDAR

- Annual report March 2022
- Q1 26 April 2022
- AGM 27 April 2022
- Q2 29 July 2022
- Q3 21 October 2022
- Q4 17 February 2023

FINANCIAL REPORTS

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

This report has not been reviewed by the Company's auditors.

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

Stockholm, February 17, 2022

**Sotkamo Silver AB's Board of Directors
and CEO**

CONSOLIDATED, CONDENSED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

<i>Amount in MSEK</i>	2021	2020	2021	2020
	Q4-21	Q4-20	FY21	FY20
Net sales	99	78	387	365
Change of finished goods	1	1	1	-2
Other income	1	5	1	12
Supplies	-48	-53	-204	-212
Other expenses	-16	-15	-54	-52
Employee expenses	-10	-10	-39	-39
EBITDA	28	6	92	73
Depreciation and amortization	-22	-23	-85	-83
EBIT	6	-16	7	-10
Financial income	0	0	0	7
Financial expenses	-5	-8	-23	-41
Interest expenses on lease payments	0	-1	-2	-3
Financial net	-6	-8	-25	-37
Result after financial items	0	-24	-17	-46
Taxes	0	0	0	0
RESULT FOR THE PERIOD	0	-24	-17	-47
OTHER COMPREHENSIVE INCOME				
Result that may be reclassified to current period result:				
Translation differences	0	-12	4	-12
Total comprehensive income	0	-36	-13	-59
Attributable to:				
The parent company shareholders	0	-36	-13	-59
TOTAL	0	-36	-13	-59
Profit per share, non-diluted, SEK	0,00	-0,13	-0,09	-0,26
Profit per share, diluted, SEK	0,00	-0,13	-0,09	-0,26

CONSOLIDATED, CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	31.12.2021	31.12.2020
Assets		
Fixed assets		
Intangible fixed assets	0	0
Tangible fixed assets	516	521
Right of use assets	30	49
Financial fixed assets	35	11
Total fixed assets	581	581
Current assets	0	0
Inventories	5	4
Trade receivables	29	28
Other assets	12	10
Cash and cash equivalents	37	35
Total current assets	83	77
Total assets	664	658
Equity	0	0
Share capital	275	247
Other contributed capital	213	191
Retained earnings	-221	-179
Result of the period	-17	-47
Total Equity	249	212
Liabilities	0	0
Provision	43	41
Non-current borrowings	54	245
Non-current lease liabilities	11	30
Current borrowings	195	15
Current lease liabilities	23	23
Trade payables and other payables	89	91
Total liabilities	415	446
Total equity and liabilities	664	658
Equity Ratio %	37,5 %	32,2 %
Cash Liquidity Ratio %	27,2 %	68,7 %
Equity per share, SEK	1,24	1,18
Equity per share, diluted SEK	1,18	1,11

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					
Sum of period result				-17	-17
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 31.12.2021	275	213	-4	-234	249

CONSOLIDATED, CONDENSED STATEMENT OF CASH FLOW

<i>Amount in MSEK</i>	1.1.2021- 31.12.2021	1.1.2020- 31.12.2020
Operating activities		
Result for the period	-17	-47
Adjustments for items not effecting cash*	105	108
Interests paid	-21	-25
Cash flow from operating activities before changes in working capital	67	36
Cash flow from changes in working capital		
Change in inventories	-1	2
Change in operating receivables	-27	-5
Change in operating liabilities	-3	-31
Cash flow from operating activities	36	2
Investing activities	-48	-32
Share issue	37	62
Issue costs	-2	-9
Repayments of lease liabilities	-20	-21
Change in loans	-1	5
Cash flow from financing activities including share issue	13	37
Change in cash and cash equivalents	1	7
Cash and cash equivalents in the beginning of the period	35	30
Translation differences in cash and cash equivalent	1	-1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	37	35

*Includes e.g. depreciations, IFRS 16 adjustment and unpaid inter-company interests

PARENT COMPANY CONDENSED STATEMENT OF INCOME

<i>Amount in MSEK</i>	2021	2020
	FY	FY
Net sales	0	0
Other income	1	0
Other expenses	-6	-8
Employee expenses	-2	-8
EBITDA	-7	-17
Depreciation and amortization	0	0
EBIT	-7	-17
Financial income	37	37
Financial expenses	3	-26
Financial net	40	11
Result after financial items	33	-6
Taxes	0	0
RESULT FOR THE PERIOD	33	-6

PARENT COMPANY CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	31.12.2021	31.12.2020
Assets		
Fixed assets		
Shares in subsidiaries	175	175
Financial fixed assets	495	414
Deferred tax asset	0	0
Total fixed assets	670	589
Current assets		
Other assets	12	52
Cash and cash equivalents	32	5
Total current assets	44	57
Total assets	714	646
Equity and liabilities		
Equity	660	577
Liabilities		
Long term liabilities	0	51
Short term liabilities	54	17
Total liabilities	54	69
Total equity and liabilities	714	646

EXCHANGE RATES

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

	31.12.2021	31.12.2020
Balance sheet day rate EUR/SEK	10.23	10.04
Balance sheet day rate USD/SEK	9.04	8.19
Average rate for the reporting period EUR/SEK	10.14	10.49

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 (IFRS) 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 the 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 been 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, 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. The metal content between the provisional and final invoices may differ due to refined laboratory analysis. Adjustments due to differences in metal content are made up to date of final pricing. The changes in fair value are reported in net sales.

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.

On 31 December 2021, the fair value of accounts receivable amounts to 29 M SEK (28) 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 by 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