

## QUARTERLY REPORT, FIRST QUARTER 2021



### HIGHLIGHTS OF THE FIRST QUARTER 2021

- Net sales were 95 MSEK compared to the previous year 91 MSEK
- EBITDA was 14 MSEK (8)
- EBIT was -6 MSEK (-11)
- Cash and cash equivalents were 26 MSEK (10)
- Investments were 8 MSEK (9)
- The production was about 344 000 (391 000) ounces silver, 707 (998) ounces gold, 309 (462) tonnes lead, and 664 (958) tonnes zinc in concentrates
- The renegotiated secured bond of 13.2 MEUR (ca. 132 MSEK) strengthened Company's position and ability to conduct P700 and other development projects
- The directed share issue of 5 533 324 new shares (equivalent to ca. 16.6 MSEK of new equity) was carried out in March 2021

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

## CEO ERKKI KURONEN

Late last year we stated P700-project as one of the cornerstones of our development. P700 core drilling program of almost 5 000 meters was completed during the reporting period. The results will be used to update the geology and grade model for mine planning and mineral resource and ore reserve estimation. We have also strengthened our geology team.

Everyday life at the Silver Mine is about production. Our new Chief Operating Officer Mikko Jalasto started at the beginning of the year. He has taken a swift start and has initiated several workstreams to improve procedures to ensure seamless co-operation between the different functions of the company and ensure the efficient use of existing data to manage and steer daily production. I look forward to the outcome of the projects which will bring the performance of the Company to the next level.

Another key project has been preconcentrating, or in other words, ore sorting, project which we have advanced. Pilot testing of the ore sorting has progressed, and we are moving to the phase where engineering and design for full scale production can be started. We have now tested ore sorter both in summer and harsh winter weather conditions and gained valuable experience. Tests have included also longer runs where material has been processed for days to stock and we have been able to run sorted material through the mill. We have achieved targeted tons per hour through-put. Several tests have been performed to determine right parameters for sorting and to optimise metal recovery and capacity of the machine.

Our revenue reached 95 MSEK which was better than comparison period Q1/2020 and significantly better than Q4/2020. We faced high variance of metal grades which effected negatively to produced metal ounces and tons. Silver production during the Q1 was on the low end of the long-term range. High variance is part of the nature, but I am confident that the team has also taken it as an opportunity to learn and improve, the final target being better predictability and consequently, better profitability. I wish for all sunny spring and summer.

## 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	Q1 2021	Q1 2020	FY 2020
Net sales MSEK	95	91	366
EBITDA MSEK	14	8	73
EBIT MSEK	-6	-11	-10
Equity ratio (%)	36	31	32
Cash liquidity (%)	85	31	69
Personnel at end of period	51	44	50
Milled tonnes approx.	139 000	129 000	546 000
Average Silver grade g/tonne	91	110	104

Net sales were 95 MSEK compared to the previous year 91 MSEK due to the lower metal grades in production which was compensated by higher silver price.

Milled ore tons and online time of the mills were at the budgeted level. The average silver grade in the mill feed was lower than during the comparison period. The mining schedule and strong variation between the stopes have an impact to quarterly production which effectively smoothens in longer period.

Other income and expenses includes -2 MSEK (0) estimated 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.

The financial income at the comparison period Q1 2020 was significantly higher due to unrealised FX gain 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.

Investments in the underground mine and in the concentrating plant together with the sorter development and environmental investments amounted to 8 MSEK (9) in Q1. P700 project's core drilling costs are included in the investments of the period.

## **PRODUCTION AND GUIDANCE**

In the first quarter, 139 000 (129 000) tonnes of ore were milled. In Q1 the Company produced about 344 000 (391 000) ounces silver, 707 (998) ounces gold, 309 (462) tonnes lead and 664 (958) tonnes zinc in concentrates. As mentioned earlier, the head grades of the mill feed were lower than in the reference period resulting lower metal production in the concentrates.

The Company restates the annual production guidance for 2021 as 1.45 - 1.75 million ounces of silver.

## **FINANCIAL POSITION**

- The group's cash and cash equivalents were 26 MSEK (10)
- The group equity ratio was 36 % (31)
- The group equity was 235 MSEK (223) which corresponds to 1.24 SEK (1.24) a share non-diluted and 1.17 SEK (1.24) diluted

The refinancing project was accomplished during the period. The outcome of the project consisted of the following three actions:

February 9, 2021 Sotkamo Silver agreed with the convertible holder Formue Nord Markedsneutral A/S to amend the terms and conditions of the Company's outstanding convertibles 2019/2020 in the aggregate amount of 15 MSEK. In connection with the agreement on the amendment, the convertible holder requested a conversion of all outstanding convertibles to shares.

March 22, 2021 the Board of directors of Sotkamo Silver AB (publ), based on the authorization from the annual general meeting held on April 2, 2020, carried out a directed new share issue of 5 533 324 shares to a subscription price of 3.00 SEK. Through the Directed New Share Issue the Company received proceeds of approximately 16.6 MSEK before transaction costs.

March 22, 2021 Sotkamo Silver Oy agreed the renegotiated terms and conditions of its 13,200,000 EUR Senior Secured Fixed Rate Notes 2018 (ISIN:FI4000315379) . As a result, the company's obligation to collect funds into a pledged account for repayments postponed so that instead of paying 1,350,000 EUR quarterly starting in Q1 2021 amounting in total EUR 5,400,000 in 2021, the new payment dates and amounts are as follows: 1,350,000 EUR on December 31, 2021 and 1,350,000 EUR on March 31, 2022. The new Final Maturity Date is June 27, 2022 instead of March 27, 2022.

## **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 24 (10) at the end of the period including all contractors. As a reference, LTIFR of 24 corresponds to six Lost Time Injuries (LTI) within 12 months period. Sotkamo Silver 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.

## **PERSONNEL**

Sotkamo Silver had 51 (44) own employees and 104 (77) contracted employees working in the mine area at the end of the period.

## **ANNUAL GENERAL MEETING**

The following main decisions were made at the AGM on 27 April 2021:

The income statement and the balance sheet for both the parent company and the group regarding the financial year 2020 were adopted by the AGM. The AGM decided that no dividend would be paid out for the financial year 2020. The members of the Board and the CEO were granted discharge from liability for the financial year 2020.

The AGM decided that the Board would comprise of six ordinary members without deputy directors. Jarmo Vesanto, Ilkka Tuokko, Eeva-Liisa Virkkunen, Sixten Sunabacka and Karri Alameri were re-elected as directors and Kimmo Luukkonen was elected as director. Eeva-Liisa Virkkunen was elected chairman of the Board.

The AGM resolved to re-elect the auditing company PWC until the end of the AGM 2022, with Martin Johansson as the head auditor for the time being.

## EVENTS AFTER THE REPORTING PERIOD

On April 23, 2021, the Company made a press release to inform that the silver production since the start of the production has exceeded 3 million ounces. Simultaneously the produced silver ounces during Q1 were disclosed and annual production guidance was restated. Silver production during the first three weeks of April has been 97 000 ounces.

The company has arranged a guarantee for the 5,9 MEUR pledge required for the updated environment permit.

## SHARES AND SHARE TRADINGS

Sotkamo Silver AB's share capital on March 31, 2021 was 253 131 173 SEK and the number of shares 184 518 783.

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 April 30, 2021. Subscription and simultaneous cash payment for new shares will take place during the period between May 1, 2021 and May 28, 2021. Upon full exercise of warrants, the share capital will increase by 15 428 568.84 SEK and the number of shares will increase by 11 246 583 shares.

On March 22, 2021, the Company carried out and completed a directed share issue of 5 533 324 new shares (equivalent to ca. 16.6 MSEK of new equity).

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 March 2021 was 139 602 123 (49 190 209).

Share information	Q1 2021	Q1 2020	2020-12-31
Share price SEK	3.20	2.62	3.14
Highest share price SEK, during the period	5.53	4.45	3.57
Lowest share price SEK, during the period	3.00	1.60	2.63
Quota value SEK	1.37	1.37	1.37
Market Cap. MSEK	565	354	565
Number of shares	184 518 783	134 983 299	179 977 732
Share capital SEK	253 131 173	185 176 166	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. The development work of the ore sorting delayed due to the travel and visiting restrictions.

If Covid-19 occurs among Company's or partners' employees, in addition to the impact on 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. Until now, the community around the Silver Mine has had very low incident rate of COVID-19 cases. Even though the vaccinations of the people have started, we must still stay awake and ensure that our employees and their families stay safe, and we can overcome this epidemic.

### **FINANCIAL CALENDER**

- Q2                                15 July 2021
- Q3                                15 October 2021
- Q4 2021                        17 February 2022

### **FINANCIAL REPORTS**

The reports are available at the Company webpage: [www.silver.fi/en/investors](http://www.silver.fi/en/investors)

This report has not been subject to a review by the Company's auditors.

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

Stockholm, April 29, 2021

Sotkamo Silver AB's Board of Directors and CEO

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

<i>Amount in MSEK</i>	<b>2021</b>	<b>2020</b>	<b>2020</b>
	Q1-21	Q1-20	FY20
Net sales	95,1	90,6	365,5
Change of finished goods	0,9	-3,3	-1,9
Other income	-1,7	0,1	11,6
Supplies	-54,2	-56,5	-211,7
Other expenses	-15,8	-12,9	-51,7
Employee expenses	-10,2	-9,6	-38,5
<b>EBITDA</b>	<b>14,1</b>	<b>8,4</b>	<b>73,4</b>
Depreciation and amortization	-20,2	-19,8	-83,0
<b>EBIT</b>	<b>-6,1</b>	<b>-11,5</b>	<b>-9,6</b>
Financial income	0,1	27,7	6,8
Financial expenses	-6,6	-11,0	-40,7
Interest expenses on lease payments	-0,5	-0,8	-2,9
<b>Financial net</b>	<b>-7,0</b>	<b>15,9</b>	<b>-36,7</b>
<b>Result after financial items</b>	<b>-13,1</b>	<b>4,4</b>	<b>-46,4</b>
Taxes	0,0	0,0	-0,3
<b>RESULT FOR THE PERIOD</b>	<b>-13,1</b>	<b>4,4</b>	<b>-46,7</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Result that may be reclassified to current period result:</b>			
Translation differences	5,2	0,3	-12,1
<b>Total comprehensive income</b>	<b>-7,9</b>	<b>4,7</b>	<b>-58,8</b>
<b>Attributable to:</b>			
The parent company shareholders	-7,9	4,7	-58,8
<b>TOTAL</b>	<b>-7,9</b>	<b>4,7</b>	<b>-58,8</b>
Profit per share, non-diluted, SEK	-0,07	0,03	-0,26
Profit per share, diluted, SEK	-0,06	0,03	-0,24

**CONSOLIDATED, CONDENSED BALANCE SHEET**

<i>Amount in MSEK</i>	<b>31.3.2021</b>	<b>31.3.2020</b>	<b>31.12.2020</b>
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible fixed assets	0,0	0,1	0,0
Tangible fixed assets	525,5	581,1	521,2
Right of use assets	44,5	82,0	49,2
Financial fixed assets	12,6	7,5	10,7
<b>Total fixed assets</b>	<b>582,5</b>	<b>670,8</b>	<b>581,2</b>
<b>Current assets</b>			
Inventories	4,9	2,8	3,9
Trade receivables	28,8	12,7	27,5
Other assets	9,3	17,3	10,1
Cash and cash equivalents	26,0	9,5	35,4
<b>Total current assets</b>	<b>69,0</b>	<b>42,3</b>	<b>76,9</b>
<b>Total assets</b>	<b>651,6</b>	<b>713,1</b>	<b>658,0</b>
<b>Equity</b>			
Share capital	260,7	185,2	246,9
Other contributed capital	207,6	200,0	190,7
Retained earnings	-220,2	-166,3	-178,7
Result of the period	-13,1	4,4	-46,7
<b>Total Equity</b>	<b>235,1</b>	<b>223,3</b>	<b>212,2</b>
<b>Liabilities</b>			
Provision	42,0	28,5	41,2
Non-current borrowings	250,1	285,8	245,3
Non-current lease liabilities	25,8	47,3	30,4
Current borrowings	0,0	0,0	15,0
Current lease liabilities	22,9	24,5	22,9
Trade payables and other payables	75,7	103,6	91,2
<b>Total liabilities</b>	<b>416,5</b>	<b>489,8</b>	<b>445,9</b>
<b>Total equity and liabilities</b>	<b>651,6</b>	<b>713,1</b>	<b>658,0</b>
Equity Ratio %	36,1 %	31,3 %	32,2 %
Cash Liquidity Ratio %	84,7 %	38,1 %	68,7 %
Equity per share, SEK	1,24	1,24	1,18
Equity per share, diluted, SEK	1,17	1,24	1,11

## CONSOLIDATED, CONDENSED CHANGE IN EQUITY

<i>Amount in MSEK</i>	Share capital	Other contributed capital	Translation differences	Retained earnings	Total Equity
<b>Opening Equity 1.1.2020</b>	185,2	200,0	3,5	-170,1	218,6
<b>PERIOD RESULT</b>				-46,7	-46,7
<b>Sum of period result</b>				-46,7	-46,7
<b>OTHER COMPREHENSIVE INCOME</b>					
Translation difference			-12,1		-12,1
<b>Sum of other comprehensive income</b>	0,0	0,0	-12,1	0,0	-12,1
<b>Transactions with shareholders</b>					
Share issue	61,7				61,7
Issue costs		-9,3			-9,3
<b>Sum of transactions with shareholders</b>	61,7	-9,3	0,0	0,0	52,4
<b>Closing Equity 31.12.2020</b>	246,9	190,7	-8,6	-216,8	212,2
<b>PERIOD RESULT</b>				-13,1	-13,1
<b>Sum of period result</b>				-13,1	-13,1
<b>OTHER COMPREHENSIVE INCOME</b>					
Translation difference			5,2		5,2
<b>Sum of other comprehensive income</b>	0,0	0,0	5,2	0,0	5,2
<b>Transactions with shareholders</b>					
Share issue and convertible loan conversion	13,8	17,8			31,6
Issue costs		-0,9			-0,9
<b>Sum of transactions with shareholders</b>	13,8	16,9	0,0	0,0	30,7
<b>Closing Equity 31.3.2021</b>	260,7	207,6	-3,4	-229,9	235,1

**CONSOLIDATED, CONDENSED STATEMENT OF CASH FLOW**

<i>Amount in MSEK</i>	1.1.2021- 31.3.2021	1.1.2020- 31.3.2020	1.1.2020- 31.12.2020
<b>Operating activities</b>			
Result for the period	-13,1	4,4	-46,7
Adjustments for items not effecting cash	24,3	2,2	107,7
Interests paid	-16,0	-15,8	-24,6
<b>Cash flow from operating activities before changes in working capital</b>	<b>-4,7</b>	<b>-9,2</b>	<b>36,3</b>
<b>Cash flow from changes in working capital</b>			
Change in inventories	-1,0	3,1	1,9
Change in operating receivables	-2,3	-4,8	-4,7
Change in operating liabilities	-4,3	-1,6	-31,4
<b>Cash flow from operating activities</b>	<b>-12,4</b>	<b>-12,6</b>	<b>2,0</b>
<b>Investing activities</b>	<b>-8,0</b>	<b>-8,5</b>	<b>-31,7</b>
Share issue and convertible loan conversion	31,6	0,0	61,7
Issue costs	-0,9	0,0	-9,3
Repayments of lease liabilities	-5,2	-5,3	-21,1
Change in loans	-15,0	5,7	5,3
<b>Cash flow from financing activities including share issue</b>	<b>10,5</b>	<b>0,4</b>	<b>36,6</b>
<b>Change in cash and cash equivalents</b>	<b>-10,0</b>	<b>-20,7</b>	<b>7,0</b>
Cash and cash equivalents in the beginning of the period	35,4	29,6	29,6
Translation differences in cash and cash equivalent	0,6	0,5	-1,2
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>26,0</b>	<b>9,5</b>	<b>35,4</b>

## PARENT COMPANY CONDENSED STATEMENT OF INCOME

<i>Amount in MSEK</i>	2021	2020	2020
	Q1	Q1	FY
Net sales	0,0	0,1	0,0
Other income	0,6	4,1	0,0
Supplies	0,0	0,0	-0,4
Other expenses	0,9	-2,8	-8,2
Employee expenses	-4,0	-1,2	-8,0
<b>EBITDA</b>	<b>-2,4</b>	<b>0,2</b>	<b>-16,5</b>
Depreciation and amortization	0,0	0,0	0,0
<b>EBIT</b>	<b>-2,4</b>	<b>0,2</b>	<b>-16,5</b>
Financial income	9,1	36,9	37,3
Financial expenses	6,8	-4,8	-26,4
<b>Financial net</b>	<b>15,8</b>	<b>32,1</b>	<b>10,9</b>
<b>Result after financial items</b>	<b>13,4</b>	<b>32,3</b>	<b>-5,6</b>
Taxes	0,0	0,0	0,0
<b>RESULT FOR THE PERIOD</b>	<b>13,4</b>	<b>32,3</b>	<b>-5,6</b>

## PARENT COMPANY CONDENSED BALANCE SHEET

<i>Amount in MSEK</i>	31.3.2021	31.3.2020	31.12.2020
<b>Assets</b>			
<b>Fixed assets</b>			
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	422,5	429,3	402,3
<b>Total fixed assets</b>	<b>597,4</b>	<b>604,2</b>	<b>577,2</b>
<b>Current assets</b>			
Other assets	75,5	34,5	23,3
Cash and cash equivalents	4,5	0,7	1,3
Total current assets	80,0	35,2	24,5
<b>Total assets</b>	<b>677,4</b>	<b>639,4</b>	<b>601,7</b>
<b>Equity and liabilities</b>			
Equity	621,6	562,9	530,7
Long term liabilities	52,2	71,5	53,2
Short term liabilities	3,6	4,9	17,8
<b>Total equity and liabilities</b>	<b>677,4</b>	<b>639,4</b>	<b>601,8</b>

## EXCHANGE RATES

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

	31.3.2021	31.3.2020	31.12.2020
Balance sheet day rate EURSEK	10.2376	11.0832	10.0375
Balance sheet day rate USDSEK	8.7239	10.0771	8.1886
Average exchange rate for the reporting period EURSEK	10.1176	10.6647	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 March 31, 2021, the fair value of accounts receivable amounted to 29 MSEK (13) 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