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IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

**THIRD QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021
K&S SALES INCREASED BY 10% QoQ**

CONFERENCE CALL

A conference call will be held today at 15h00 Hong Kong time to discuss the third quarter trading update. The number is +852 2112 1888 and the passcode is 7217028#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 29 October 2021 at http://www.ircgroup.com.hk/en/ir_presentations.php.

Thursday, 28 October 2021: The Board of Directors of IRC Limited (“**IRC**” or the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to provide the Third Quarter Trading Update for the three months ended 30 September 2021.

HIGHLIGHTS – Q3 2021

K&S

- 10% increase in sales volume quarter-to-quarter;
- K&S operated at an average capacity of 81%; performance of the mining contractors continues to disappoint; current production rate at c.84%;
- Dependence on the congested Grodekovo-Suifenhe crossing decreased by partial switching to seaborne shipments to customers in Southern China and the westward railway transportation route to customers in Northeast China via the Zabaikalsk-Manzhouli crossing;
- Sutara’s development is proceeding as planned.

Corporate & Industry

- Early repayments of US\$70 million to Gazprombank; loan balance reduced to US\$118 million;
- Cash balance of c.US\$58 million at the quarter end;
- Average Platt’s 65% iron ore index declined to US\$191 per tonne; but is still 57% higher than 2020 yearly average;
- Healthy price premium between 65% Fe and 62% Fe of US\$27 per tonne;
- Amur River bridge expected to be in use in the first half of 2022.

THIRD QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

	Q3 2021	Q2 2021	Change	Q1 2021	Change	9M 2021	9M 2020	Change
Platts 65% Fe (average price per tonne)	USD191	USD232	-17.7%	USD190	0.5%	USD204	USD113	80.5%
Iron ore concentrate								
– Production (tonnes)	645,233	665,974	-3.1%	644,744	0.1%	1,955,951	2,060,925	-5.1%
– Sales (tonnes)	697,586	634,381	10.0%	665,664	4.8%	1,997,631	2,032,319	-1.7%

SUMMARY OF PERFORMANCE

Sales volume in Q3 2021 increased by 10% over the previous quarter. The congestion at the Grodekovo-Suifenhe railway crossing, K&S’s main gateway for shipments to customers in China, has slightly alleviated but remains difficult. To address this issue, K&S has already made arrangements to ship via Zabaikalsk-Manzhouli railway crossing, as well as to ship products to Chinese customers by sea. Sea shipments are sometimes affected by the quarantine measures imposed at the Chinese ports, but it is hoped that the situation would gradually improve as the pandemic subsides.

Production volume in Q3 2021 was on par with the levels achieved in the previous two quarters. Mining volumes have been increasing and the backlog in the mining works accumulated over the past periods has been mostly caught up with. However, the performance of the mining contractors is still falling short of the targets. K&S is actively looking for new mining contractors, but finding capable and cost-efficient contractors requires patience and time.

K&S comprises of two main pits, Kimkan and Sutara. Initially, mining works were performed only at the Kimkan Central pit. As the development of the Kimkan Central pit advances, K&S started to mine at the Kimkan West pit, which has lower grades of Fe magnetic in the ore and is affecting K&S’s ability to increase the production capacity. K&S is looking at technological solutions to improve the yield and to increase the capacity further. The Sutara pit will be the long-term solution as the geological information confirms that the ore at Sutara has a higher grades of Fe magnetic. K&S is actively preparing the Sutara deposit for operation with the aim of including Sutara ore into the processing by the end of 2022 to early 2023. Construction permits have been obtained and the construction works are currently progressing as planned.

Commenting on the performance of the third quarter, Yury Makarov, Chief Executive Officer of IRC said, *“I am pleased to see our management team giving full play to their logistics experience and flexibility. Although the Russian railway congestion persists and many Russian producers are having difficulties shipping products to customers, K&S has been able to enhance its shipping level by employing different distribution channels.*

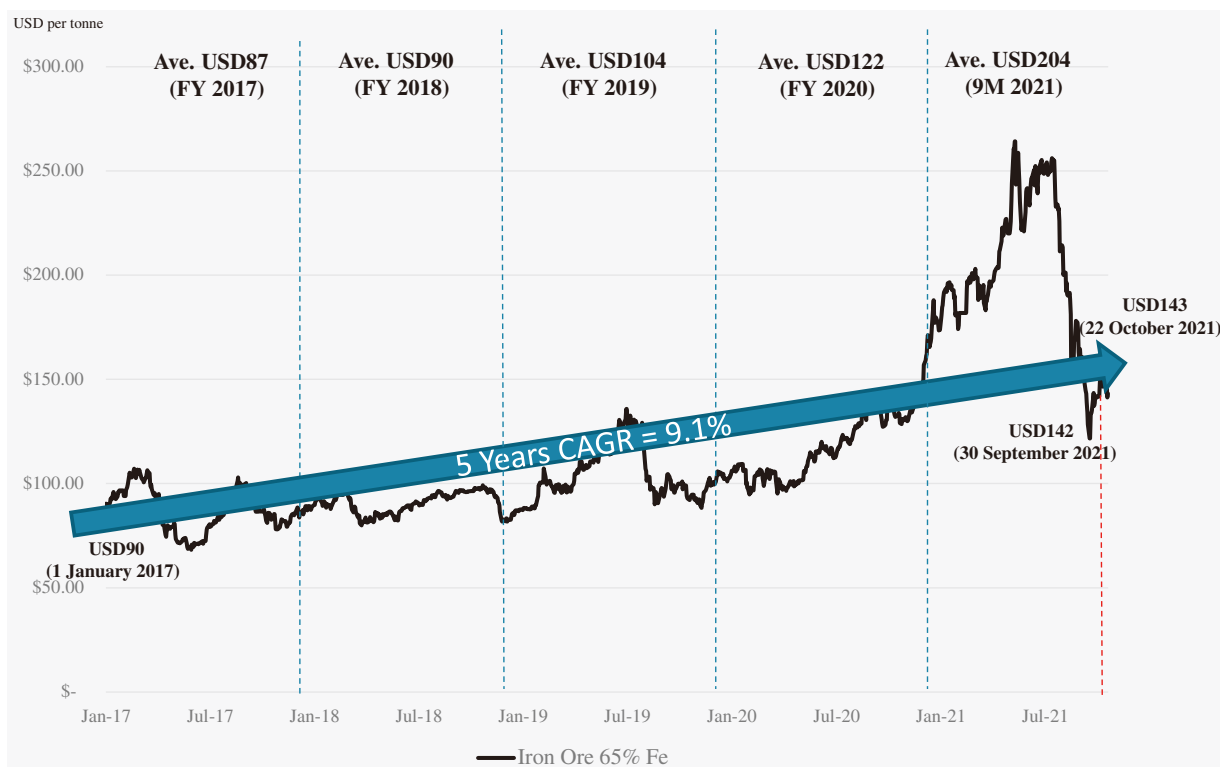
During the quarter, IRC took advantage of the strong iron ore pricing environment and made early loan repayments of US\$70 million to Gazprombank, reducing the Company’s gearing and finance costs. Although the iron ore prices experienced some corrections following the spectacular spike in the first half of 2021, the average price of Platt’s 65% iron ore index in the third quarter is still 57% higher than the 2020 yearly average. IRC’s cash flow continues to improve as a result of the current price level and K&S’s consistently high production rate.

The sustainability of IRC is particularly important for our stakeholders. The Sutara deposit will provide K&S with ample supply of high-quality feedstock to meet future production needs. K&S is starting to construct the infrastructure works and the development of Sutara is proceeding as planned.”

MARKETING, SALES AND PRICES

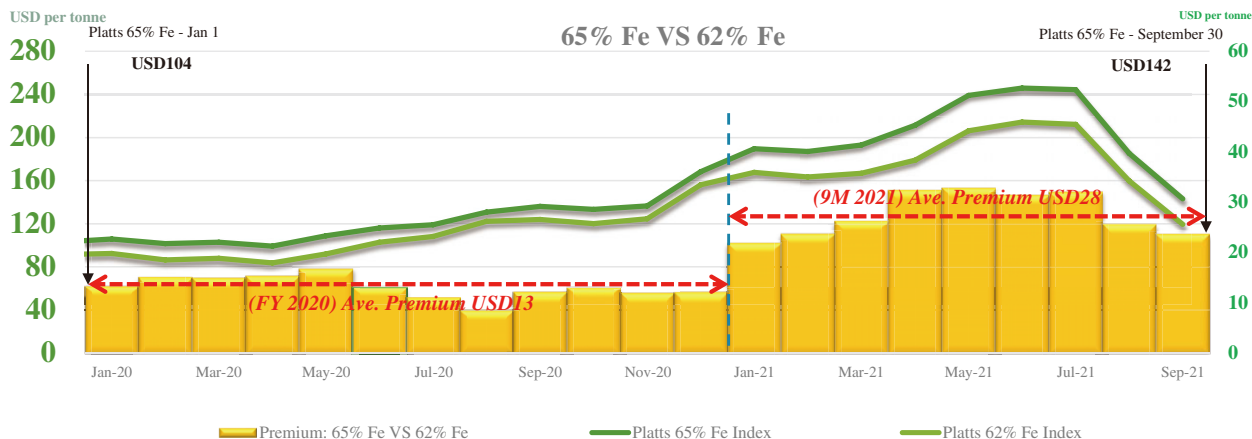
Iron Ore

Iron ore prices experienced a sharp correction in the third quarter of 2021, following a tremendous increase during the first half of the year. Despite the price reduction, the average Platt's 65% iron ore index for the third quarter of the year of US\$191 per tonne is still very strong and is approximately 57% higher than the 2020 full year average of US\$122 per tonne. The volatility of the iron ore price was primarily influenced by Chinese steel mills production curtailment and market concerns about future iron ore demand. China's crude steel output slumped by 13.2% year on year in August in order to meet the country's 2021 flat growth target. In addition, there are concerns about the impacts of the China Evergrande issue on China's property market, which may lead to a decrease in the appetite for steel. At the end of September, the Platt's 65% iron ore price closed at US\$142 per tonne. Despite the decrease, this level of iron ore price still provides a healthy operating margin for IRC.



Source: Platts (as of 22 October 2021)

Higher-grade iron ore continues to be an in-demand product among steelmakers due to its cost effectiveness and the ability to reduce airborne emissions such as carbon dioxide and fine particles. During the first nine months of 2021 the average premium between high-grade 65% iron ore and 62% iron ore increased to US\$28 per tonne. Furthermore, as coking coal prices are high due to China’s embargo on Australian coals, steel mills prefer higher-grade iron ore feedstocks which require less coal during the steel production process.



Source: Bloomberg (as of 22 October 2021)

The selling price of the K&S’s product is determined with the reference to the international Platts iron ore price indices. It should be noted that the headline benchmark prices for all commodities are based on a fungible product at a specified location and thus the actual delivered price for the physical product is different to the one on the futures exchange. Transportation and handling costs and the level of deleterious elements in the concentrate delivered also have an effect.

The railway congestion previously experienced by IRC persisted into the third quarter. As a result, and in order to find alternatives that would avoid the congestion at the border crossing, IRC has been diversifying its customer base by selling to customers in the southern part of China using seaborne bulk shipments. The delivered price that IRC can achieve in these locations is much closer to the benchmark price, however the transportation and handling costs are higher and thus the margin achieved at the seaborne deliveries is usually similar to or lower than the margin of inland deliveries.

The Amur River Bridge, which would improve the logistic efficiency of both IRC and its Chinese customers, will open the door to renegotiate sales terms and potentially improve the pricing. The bridge is expected to be in use in the first half of 2022.

Although K&S is strategically located at the doorstep of its Chinese market, most of the major Chinese steel mills nearby are owned or controlled by the same corporate organisation. This means that in the North-Eastern part of China, IRC is operating in a semi-captive market, where low transportation costs play an important positive role on the delivered cost of its product but the bargaining power in price negotiations is negatively affected. This means that IRC's Chinese customers expect a discount to the benchmark Platts price and IRC have relatively little power to resist these monopolistic requests. IRC understands that this has been the case for other Russian producers as well, with discounts being commonly offered to customers in the region. For this reason, sales have also been made by K&S to customers in Russia, but this market is not without its challenges in light of the market competition from other local producers. As the purchase prices offered by the Russian customers of K&S were not attractive, very minimal shipments were made to Russia in the first nine months of 2021 in favour of diverting more sales to the Chinese seaborne market, which offered better sales terms. Currently, K&S is also using the westward railway transportation route to China with shipments going via the Zabaikalsk/Manzhouli border crossing. K&S will continue monitoring the situation and adjusting its sales and marketing strategy accordingly.

The achieved selling price of K&S in the third quarter of 2021 is not published in this trading update for commercial reasons.

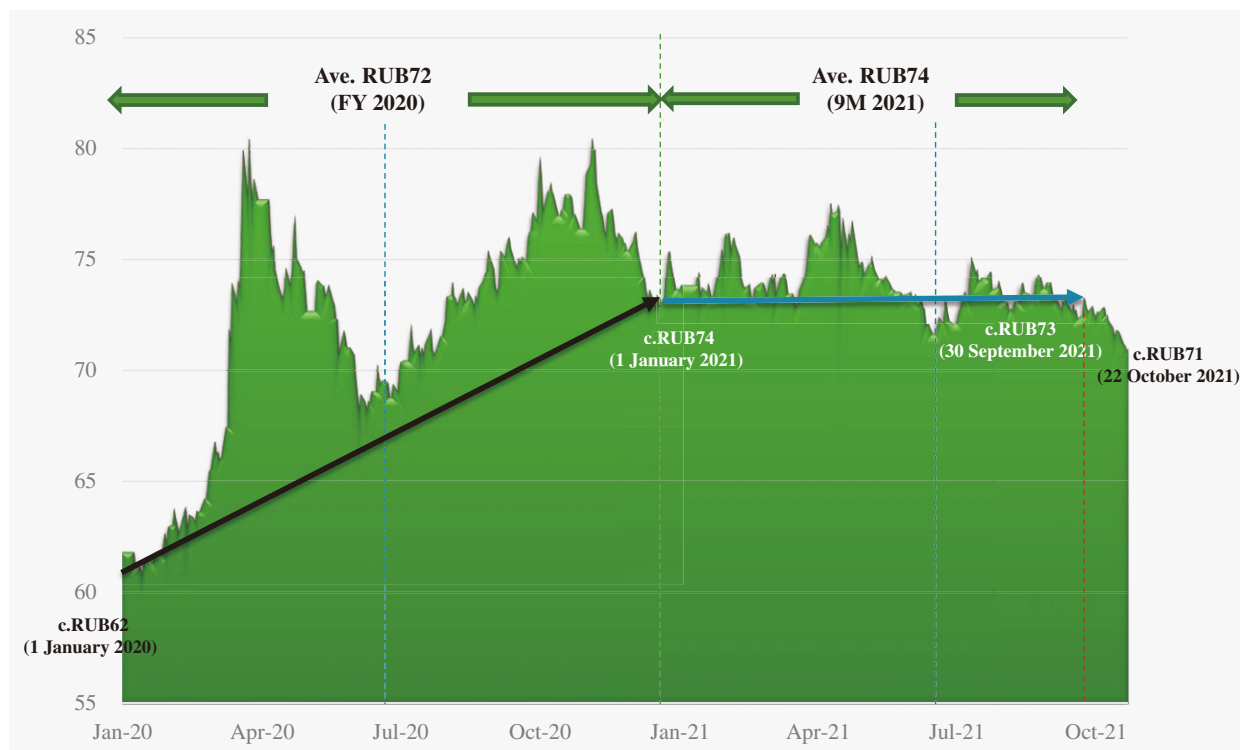
Iron Ore Hedging

IRC has taken the opportunity to lock-in the strong iron ore price by hedging about 40% of K&S's expected 2021 production volume. The hedging is mostly done by zero-cost collars using options on the 62% iron ore index, with Puts' strike at about US\$100 per tonne and Calls' strike at about US\$175 per tonne. A small part of the hedging is performed by buying Put options of 62% iron ore index at US\$100 per tonne. For Q1 2022, about 20% of K&S's expected production has been hedged with Put options of 62% iron ore index at about US\$110 per tonne.

It should be noted that the hedging is not speculative in nature and is for risk management purposes.

Foreign Exchange Movements and Hedging

In comparison to the year 2020, the Russian Rouble traded with relatively low volatility against the US Dollar in the first nine months of 2021 with an average of RUB74 per US Dollar. When compared to the same period last year, the currency has depreciated by c.4%. On 30 September 2021, the currency closed at c.RUB73 per US Dollar. In general, the Russian Rouble remained weak in the third quarter of 2021 with an average of RUB73 per US Dollar.



Source: Bank of Russia (as of 22 October 2021)

The weakness of the Russian Rouble has a positive impact on the Group's operating margin, as the operating costs of the Group are mainly denominated in Russian Roubles and revenue is mainly denominated in US Dollars. In 2021, IRC has taken the opportunity to lock-in the current weak Rouble exchange rate by hedging about 10% of the Group's expected Rouble expenditure using zero-cost collars with Puts' strike varying in the mid-70s and Calls' strike in the mid-90s, to provide protection against the appreciation of the currency. The Group may consider entering into further foreign exchange hedging contracts if deemed appropriate. It should be noted that the hedging is not speculative in nature and is for risk management purposes.

OPERATIONS

K&S (100% owned)

The K&S Mine is located in the Jewish Autonomous Region (EAO) of the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also on a federal highway 130 km away from the regional capital Birobidzhan and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S – Sales, Production and Sutara Development

During the third quarter of 2021, sales volume of iron ore increased by 10% to 697,586 tonnes over the previous quarter. The congestion at the Grodekovo-Suifenhe railway crossing, which is used by K&S as the main border crossing when shipping to the customers in the North-Eastern China, has slightly alleviated but remains difficult. Elevated demand from the Russian exporters, coupled with the strengthened Anti-COVID measures on the Chinese side, restricts K&S's ability to ship via the crossing, and creates K&S's need to divert shipments to other destinations. In anticipation that the situation in winter might temporarily worsen, as it had been the case in the past years, K&S has already made arrangements to ship via Zabaikalsk-Manzhouli railway crossing, as well as to ship products to Chinese customers by sea. However, sea shipments are sometimes affected by the quarantine measures imposed at the Chinese ports. It is hoped that the situation would gradually improve as the pandemic subsides.

Production volume in Q3 2021 was on par with the levels achieved in the previous two quarters. Since a new mining contractor started to work on site in Q2 2021, mining volumes have been increasing. Total amount of rock mass moved in Q3 2021 was 33% and 8% higher than those in Q1 2021 and Q2 2021 respectively. The backlog in the mining works accumulated over the past periods has been mostly caught up with. However, the performance of the contractors is still falling short of the targets. K&S is actively looking for new mining contractors, but given the captive market of mining contractors in the area, finding capable and cost-efficient mining contractors requires patience and time.

K&S comprises of two main pits, Kimkan and Sutara. Mining at the Kimkan deposit is carried out at two open pits. At the beginning, mining works were performed only at the Kimkan Central pit. As the development of the Kimkan Central pit advances, K&S started to mine at the Kimkan West pit, which has lower grades of Fe magnetic in the ore than Kimkan Central. As a result, beneficiation properties of the ore blend fed to the processing plant resulted in the yield of the commercial concentrate from the ore being lower than designed. This is currently affecting K&S's ability to increase the production capacity. K&S is looking at technological solutions to improve the yield and to increase the capacity further. The Sutara pit will be the long-term solution as the geological information confirms that the ore at Sutara has a higher grades of Fe magnetic. K&S is actively preparing the Sutara deposit for operation with the aim of including Sutara ore into the processing by the end of 2022 to early 2023. Sutara ore in its properties is similar to the ore from Kimkan deposit and therefore can be beneficiated at the K&S processing plant. Construction permits for the Sutara project have been obtained and the construction works are currently ongoing.

COVID-19

K&S has set up an emergency response office to prevent the spread of COVID-19 and has taken the necessary organisational and administrative measures to prevent the spread of the virus. A contingency plan for K&S, including quarantine arrangement, medical screening, travel restriction and reduction in face-to-face interaction, is in place. While the production at K&S continues uninterrupted, employees from the head office and administrative staff are encouraged to work from home.

Employees are regularly tested for COVID-19 and there is a number of employees at K&S who were tested positive. Most of the patients have mild or no symptoms. Those diagnosed get quarantined or hospitalised, depending on their conditions, and receive appropriate medical treatment. Employees are also encouraged to be vaccinated.

To date, there has been no material impact on IRC's operations due to the virus. The Group has taken the necessary measures to support the prevention of the COVID-19 at its operations and will continue to monitor closely the situation.

Mining

During the period, the mining contractors mined 2,019,400 tonnes (Q2 2021: 2,245,600 tonnes) of ore, drilled 163,022 metres (Q2 2021: 152,596 metres), moved 5,680,700 cubic metres (Q2 2021: 5,268,400 cubic metres) of rock mass, and blasted 4,947,800 cubic metres (Q2 2021: 4,754,175 cubic metres) of rock mass at the Kimkan Centre and Kimkan West pits. Concurrently, there were 2,101,600 tonnes (Q2 2021: 2,173,300 tonnes) of ore fed to the primary processing plant and 1,454,252 tonnes (Q2 2021: 1,464,914 tonnes) of pre-concentrate produced. Finally, 645,233 tonnes of commercial iron ore concentrate were produced, similar to the previous quarter.

Production and Marketing

	<u>Q3 2021</u>	<u>Q2 2021</u>	<u>Changes</u>
K&S			
Production (tonnes)	645,233	665,974	-3.1%
Sales (tonnes)	697,586	634,381	+10.0%

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability. While K&S is making more seaborne sales, the transportation costs also increase accordingly. Besides, due to the recent increase in the stripping ratio (the ratio of waste removed to ore mined), hauling distances, the gradual recovery of oil prices, as well as the general inflation in Russia, the production cash costs are on the rise. IRC will continue to apply stringent cost control measures.

The relevant cash cost information for the full year 2021 will be analysed and disclosed in the 2021 annual results announcement.

Impact of U.S. Sanctions Against Russia

IRC is listed in Hong Kong Stock Exchange with operational mines in Russian Far East. Most of the Group's suppliers and customers are based in China and Russia. As such, K&S has not been subject to any direct negative impact from the sanctions against Russia.

SLAG REPROCESSING PROJECT (46% owned)

Having successfully sourced feedstock from China, IRC's slag reprocessing project, a joint venture with Jianlong Steel, has recommenced operation and this diversifies the product mix of the Company. Due to the relatively small scale of the project, contribution from the joint venture is not material.

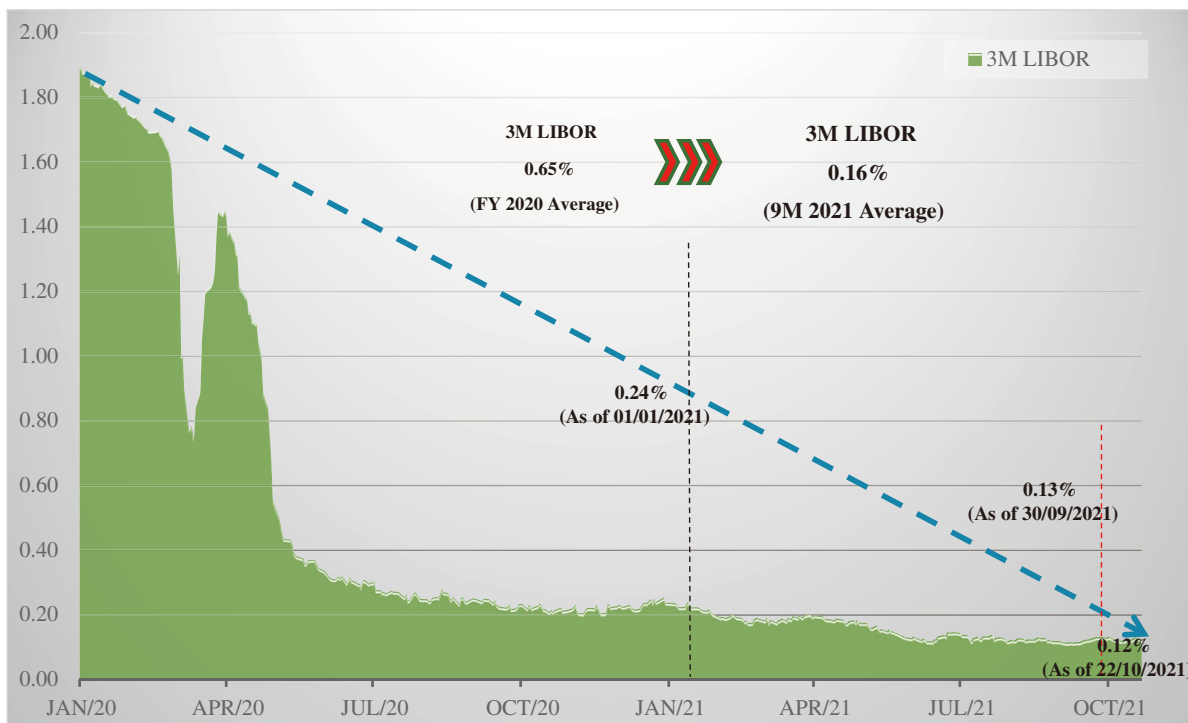
CORPORATE AND INDUSTRY UPDATE

Group's Cashflow Position and Gazprombank Facility

The Gazprombank facility is secured by charges over the assets of K&S and is guaranteed by Petropavlovsk PLC. During the third quarter of 2021, a total of c.US\$77.9 million was paid to Gazprombank as loan principal repayment and interest, of which c.US\$70 million was early principal repayments. US\$0.5 million was also paid to Petropavlovsk PLC as guarantee payment.

The interest rate of the Gazprombank facility is determined based on LIBOR, which has experienced a steep decline in 2020 after the central-bank policymakers around the world signalled that action would be taken as needed to stabilise the financial markets in the face

of the growing threat of COVID-19. The three-month LIBOR continued to fall in the first nine months of this year, from an average of 0.65% in 2020 to 0.16%. The lower LIBOR rate allows IRC to reduce its finance costs.



Source: Bloomberg (as of 22 October 2021)

As of 30 September 2021, the Group’s unaudited cash and deposits balance was approximately US\$58 million. After K&S made the scheduled and early repayments to Gazprombank, the total debt outstanding as of 30 September 2021 amounted to approximately US\$118 million, all of which represents the Gazprombank loans.

Updates on Administrative Offence Against K&S

As previously announced, the administrative offence case was deemed by the Court to be outside its jurisdiction and the matter was returned to RTN. RTN made a ruling to impose an administrative penalty on K&S of RUB200,000 (equivalent to approximately US\$3,000) in respect of the non-registration of the K&S facility as hazardous. K&S was ordered to take measures to eliminate reasons and conditions leading to the non-registration and to inform RTN about the measures taken. RTN did not require K&S to suspend operations nor has it imposed or specified any further action in relation to the non-registration. K&S has settled the administrative penalty and has been working on rectifying the non-compliance during the quarter.

The updating of the project design documents have been completed, and K&S is now working with the Russian Federal Autonomous Institution “Main Department of State Expertise” (“**Glavgosexpertiza**”) on the design document’s approval. Also, K&S has engaged third-party experts to conduct voluntary independent safety inspection of K&S, to ensure its compliance with the established requirements and facilitate the future registration in the State register of the K&S facility as hazardous.

The Company believes the administrative offence case is not an uncommon occurrence when a relatively complex production facility is put into operation. K&S will endeavour to resolve the non-registration as soon as practicable and, in the intervening period, will continue to operate as usual.

Amur/Heilongjiang River Bridge

The project to build a railway bridge across the Amur River border between Russia and China was first launched by IRC in 2006. The project was sold to Russian and Chinese development funds in November 2014. In early June 2016, the regional government of the Jewish Autonomous Region announced that the Russian part of the Amur River Bridge would commence construction.

According to the reports in the Russian media, the construction of the bridge has been completed and the Russian Siberian Railway can now be connected with China’s Northeast railway network. The bridge is expected to be put into use by the first half of 2022. The railway bridge is expected to enhance the region’s economic development by providing a more efficient transportation alternative on top of the existing ferries and railway routes.

K&S Mine is situated approximately 240 kilometres from the bridge site and IRC’s nearest customer within China is approximately 180 kilometres away from the bridge. Thus, IRC will benefit from the project with the reduced transportation distance and shipment time. The railway bridge can also alleviate any railway congestion of the region. Shipping time to customers in China will be reduced from 3-5 days to 1-3 days.

* *Figures in this announcement may not add up due to rounding. All volume tonnage used in this announcement, unless specify, refer to wet metric tonnes. All dollars refer to United States Dollar unless otherwise stated.*

Production volumes disclosed in this announcement are determined net of the excessive moisture content within the products, as shipped to the customers. Production rate of K&S is calculated based on an annual production capacity of c.3,155 thousand wet metric tonne.

By Order of the Board
IRC Limited
Yury Makarov
Chief Executive Officer

Hong Kong, People’s Republic of China
Thursday, 28 October 2021

As at the date of this announcement, the Executive Director of the Company is Mr Yury Makarov. The Non-Executive Directors are Mr Peter Hambro, Mr Danila Kotlyarov, Mr Denis Alexandrov and Mr Aleksei Kharitontsev. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith, Mr Raymond Kar Tung Woo and Mr Martin Davison.

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