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IRC Limited 鐵江現貨有限公司
(Incorporated in Hong Kong with limited liability)
(Stock code: 1029)

**FIRST QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 31 MARCH 2022
4.2% INCREASE IN SALES VOLUME QoQ**

CONFERENCE CALL

A conference call will be held today at 14h00 Hong Kong time to discuss the first quarter trading update. The number is +852 2112 1888 and the passcode is 8126028#. Presentation slides to accompany the call are available at www.ircgroupp.com.hk. A replay call will be available from 29 April 2022 at http://www.ircgroupp.com.hk/en/ir_presentations.php

Thursday, 28 April 2022: The Board of Directors of IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) is pleased to provide the First Quarter Trading Update for the three months ended 31 March 2022.

HIGHLIGHTS – Q1 2022

K&S

- 4.2% increase in sales volume over the previous quarter;
- Production was 1.5% lower than the last quarter, mainly due to previously reported shipment constraints and lower ore quality;
- Diversifying customer base with alternate shipping routes to mitigate the impact of logistics issues;
- Development of Sutara on track for commissioning in late 2022/early 2023.

Corporate & Industry

- Cash balance of c.US\$39 million; net debt marginally increased to US\$69 million, mainly due to timing of cash flows;
- Platts 65% iron ore index averaged US\$170 per tonne, up 32% over the previous quarter; price premium between 65% Fe and 62% Fe increased by 47% over the previous quarter to US\$28 per tonne;
- Russian Rouble depreciated by 15% over the last quarter to an average of RUB86 per USD;
- Russian sanctions have no material direct impact on the Group;
- K&S resolving RTN issues while continuing to operate as usual;
- Capital reduction to be implemented which will put IRC in a position to consider dividend payments.

FIRST QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 MARCH 2022

	Q1 2022	Q4 2021	Change	Q1 2021	Change
Platts 65% Fe (average price per tonne)	USD170	USD129	31.8%	USD190	(10.5%)
Iron Ore concentrate					
– Production (tonnes)	593,074	601,843	(1.5%)	644,744	(8.0%)
– Sales (tonnes)	579,438	556,260	4.2%	665,664	(13.0%)

SUMMARY OF PERFORMANCE

In the first quarter of 2022, K&S recorded a 4.2% increase in sales of iron ore concentrate with 579,438 tonnes of the product being shipped to its customers. Sales would have been further increased if not for the railway congestion issue which is continuing to affect K&S's shipments to China. To mitigate the impact of the logistics difficulties at the railway border crossings, in addition to exploring alternative shipping routes, K&S is diverting more of its sales to the local market as well as to the Chinese seaborne customers.

593,074 tonnes of iron ore concentrate were produced, 2.4% higher than the amount of volume sold, but was 1.5% lower than the previous quarter. The production capacity of the K&S processing plant was curtailed due to ore quality issues at the Kimkan West as well as the aforementioned temporary railway shipment constraints. Stockpiles of commercial concentrate were accumulated but are expected to be sold in the subsequent months when the logistics situation improves.

K&S comprises of two separate pit sites: – “Kimkan” and “Sutara”. Kimkan's resources are gradually being depleted and as it slowly comes to the end of its mine life, the development of the Sutara pit is well underway and is scheduled to commence operation by the end of 2022 or early 2023. Ore in Sutara is expected to have higher iron magnetic properties to support higher levels of production.

During the quarter, IRC continues to benefit from strong iron ore prices and weak Russian Rouble. When comparing with the last quarter, average Platts 65% iron ore index surged by 32% to US\$170 per tonne while average Rouble depreciated by 15% to 86 to the US dollar. Net debt slightly increased to US\$69 million mainly due to timing of cashflows.

Commenting on the performance of the first quarter, Yury Makarov, Chief Executive Officer of IRC said, “We are pleased that we have once again demonstrated IRC's resilience in the face of various challenges. K&S's sales volume increased by 4.2% although issues with railway logistics and ore quality are hindering our operation. Increasing mining efficiency, diversifying customer base and exploring different shipping routes remain our key priorities.

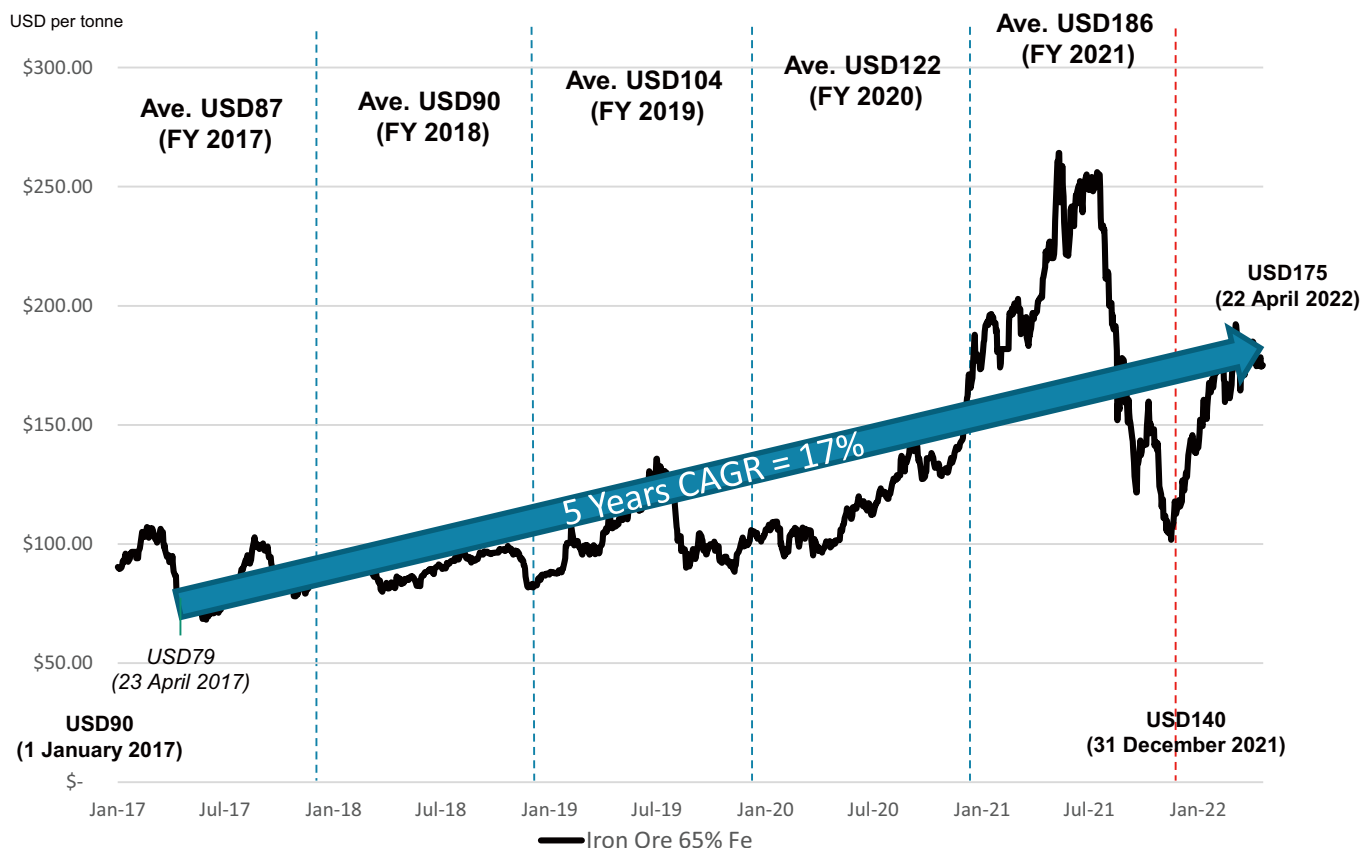
We are also pleased to note that the key operating parameters remain favourable to IRC. Iron ore prices have been recovering strongly since December last year as the easing of production curb in China's steel industry and a wetter-than-normal monsoon season in Brazil boosted iron ore demand and reduced supply. Roubles have been weak in light of the geopolitical concerns. All in all, 2022 has started well for IRC.

It is fortunate that so far, the Russian sanctions have no direct material impact on IRC or its operation. But it is a fluid situation which we are closely monitoring. Inflation in Russia is slowly growing and the COVID pandemic is adding cracks to the Chinese economy. Against this backdrop, as always, IRC will remain vigilant in navigating through the uncertainties and challenges.”

MARKETING, SALES AND PRICES

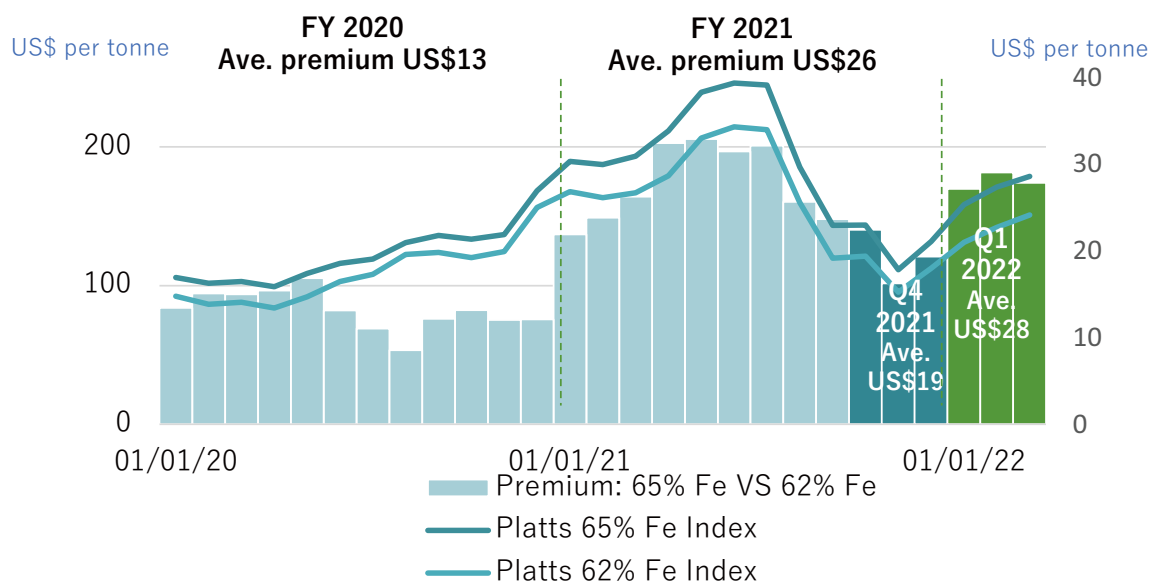
Iron Ore

In the first quarter of 2022, iron ore prices increased substantially with the average price of Platts 65% iron ore climbing to US\$170 per tonne, a 31.8% increase quarter over quarter. During the period, higher iron ore demand was triggered by the easing of Chinese winter steel production curb policy, which aided the Chinese steel mills to progressively improve output. Iron ore supply, on the other hand, was sluggish in the first quarter, especially in Brazil, due to a wetter-than-normal monsoon season. The influence of global geopolitical events also contributed to the tightening of the iron ore supply. With increasing demand and weakening supply, iron ore prices gradually rebounded from the lows in December of last year. As of 22 April 2022, the Platts 65% Fe price remains stable at the US\$175 per tonne.



* Source: Platts (as of 22 April 2022)

The decarbonisation of energy-intensive industries, such as steel, is a crucial step in achieving China's long-term carbon neutrality goal. As the use of high-grade iron ore helps steel mills reduce carbon emissions, demand for high-grade iron ore in China is on the rise. The price spread between high-grade and low-grade iron ore has become wider with the average premium between 65% iron ore and 62% iron ore extending to US\$28 per tonne in the first quarter, 47% more than the last quarter.



Source: Bloomberg (as of 22 April 2022)

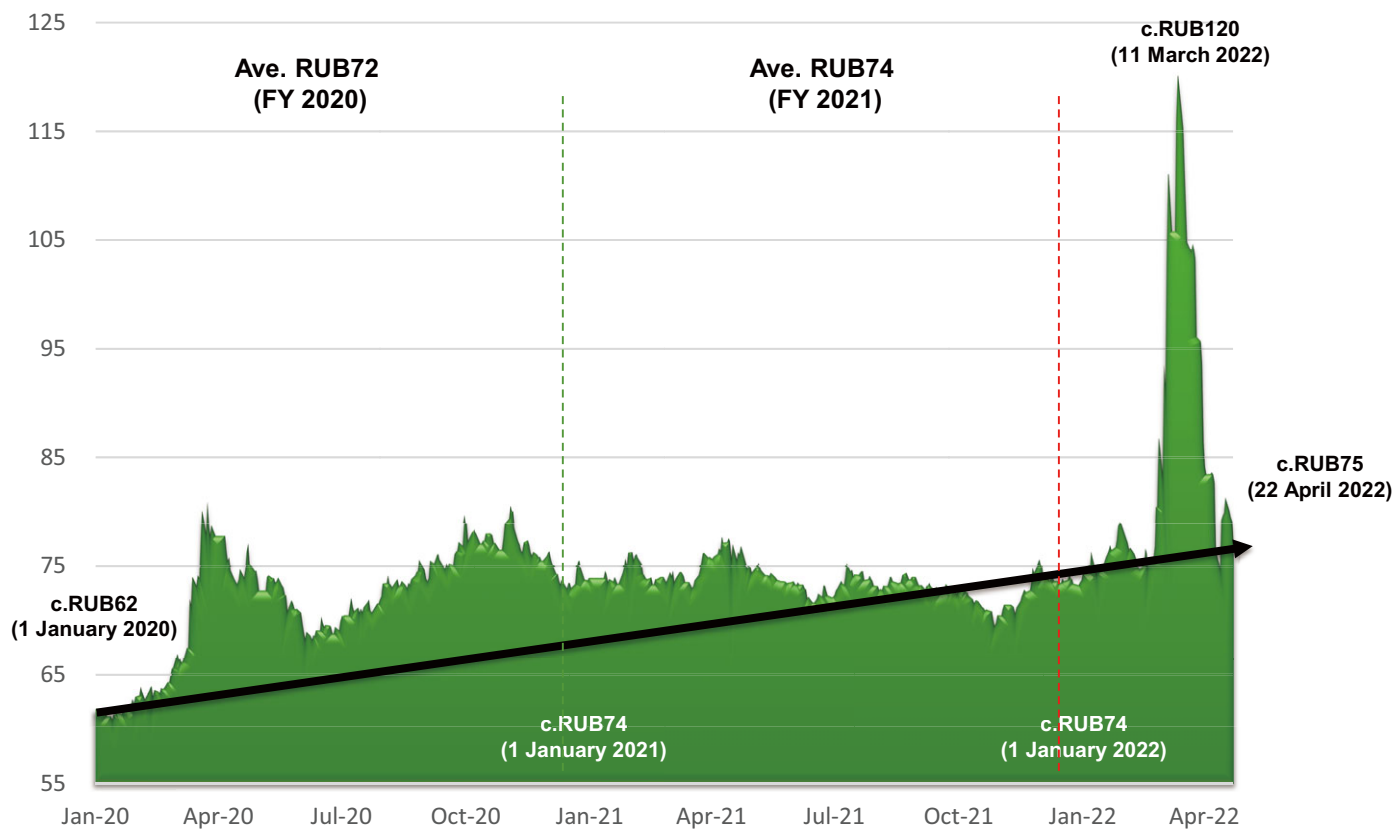
The selling price of the K&S's product is determined with the reference to the international Platts iron ore price indices. The achieved selling price of K&S in the first quarter of 2022 is not published in this trading update for commercial reasons. The relevant information will be analysed and disclosed in the 2022 interim results announcement.

Iron Ore Hedging

IRC has taken the opportunity to lock-in the strong iron ore price using derivatives on the 62% iron ore index. For Q1 2022, about 20% of K&S's expected production had been hedged with Put options on the 62% iron ore index at around 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

The Russian Rouble was volatile in the first quarter of 2022, softening to the RUB120 per US Dollar level in March, due to geopolitical concerns. By the end of the reporting period, the currency recovered some of its lost ground to close at 75. On average, the currency was RUB86 to the US dollar, representing a devaluation of about 15% quarter on quarter.



* Source: Bank of Russia (as of 22 April 2022)

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. To provide protection against the appreciation of the currency, for the first half of 2022, the Group has hedged about 10% of the Group's expected Rouble expenditure using zero-cost collars with Puts' strike varying in the low-70s and Calls' strike in the high-70s. Additionally, another 10% of the Group's expected Rouble expenditure for the period from February 2022 to January 2023 inclusive were hedged using zero-cost collars with Puts' strike in the mid-70s and Calls' strike in the mid-90s. 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

In the first quarter of 2022, K&S shipped 579,438 tonnes of iron ore concentrate to its customers, an increase of 4.2% over the last quarter. Similar to the previous quarter, sales were impeded by Russian cross-border railway congestion which has remained a major bottleneck for K&S in transporting products to customers throughout the winter. To mitigate the impact of the logistics difficulties at the railway border crossings, K&S is diversifying and shipping more products to the Chinese customers via sea and to the local markets, as well as exploring alternate shipping routes.

The drying unit functioned well and the K&S processing plant was performing effectively during winter. There were no serious breakdowns or stoppages during the period, aside from the plant's usual scheduled maintenance and repair. Due to the aforementioned Russian railway shipment constraints, the production capacity of K&S processing plant was curtailed, and stockpiles of commercial concentrate have been accumulated. This concentrate will be shipped to customers in the following summer months. K&S produced 593,074 tonnes of iron ore concentrate during the first quarter of 2022, a slight reduction of 1.5% from the previous quarter.

K&S comprises of two main pits, Kimkan and Sutara. Mining at the Kimkan deposit is carried out at two open pits. Mining works were originally 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 iron ore magnetic properties than Kimkan Central. As a result, beneficiation properties of the ore blend fed to the processing plant have resulted in a lower yield of commercial concentrate from the ore than designed. This is currently affecting K&S's ability to increase production capacity. The production capacity issues are expected to improve when the Sutara pit becomes operational. The Company expects the Sutara pit will be the long-term solution as the geological information confirms that the ore at Sutara has higher grades of iron magnetic properties. K&S is actively preparing the Sutara deposit for operation with the aim of processing ore from Sutara by the end of 2022 or early 2023. Sutara ore has similar magnetic properties to the ore from Kimkan deposit and therefore can be beneficiated at the K&S processing plant. Construction permits for the major infrastructure works of the Sutara project have been obtained and the construction works are currently ongoing.

Key mining data of K&S for Q1 2022

K&S	Q1 2022	Q4 2021	Changes
Mining (tonnes)	2,387,100	3,134,800	(23.9%)
Drilling (metre)	129,467	152,584	(15.2%)
Blasting (cubic metre)	3,505,050	4,064,460	(13.8%)
Rock mass moved (cubic metre)	4,288,600	4,158,500	3.1%
Ore fed to the primary processing plant (tonnes)	1,984,900	2,053,100	(3.3%)
Pre-concentrate produced (tonnes)	1,380,300	1,419,965	(2.8%)

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 tested for COVID-19 on a regular basis. Employees at K&S who tested positive will be quarantined or hospitalised, depending on the severity of the condition, and will 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.

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), mineral extraction tax, hauling distances, as well as the general inflation in Russia which has increased quite significantly in light of the recent geopolitical conflicts, the production cash costs are likely to increase. IRC will continue to apply stringent cost control measures.

The relevant cash cost information for the first half of year of 2022 will be analysed and disclosed in the 2022 interim 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. The Company continues to review and consider the impact, if any, of the UK, EU and US sanctions. As of now and so far as the Board is aware, based on its current assessment and the information currently available to it, the sanctions have no material direct impact on the Group or its operations. Although currently, the Group's operations and activities in Russia and elsewhere are continuing as usual, as the geopolitical situation continues to develop, there is a risk of supply chain disruptions affecting K&S's operation, the purchase of mining fleet and the development of the Sutara pit. The Company will continue to closely monitor sanctions developments and will, if necessary, make a further announcement.

CORPORATE AND INDUSTRY UPDATE

Change in Largest Shareholders

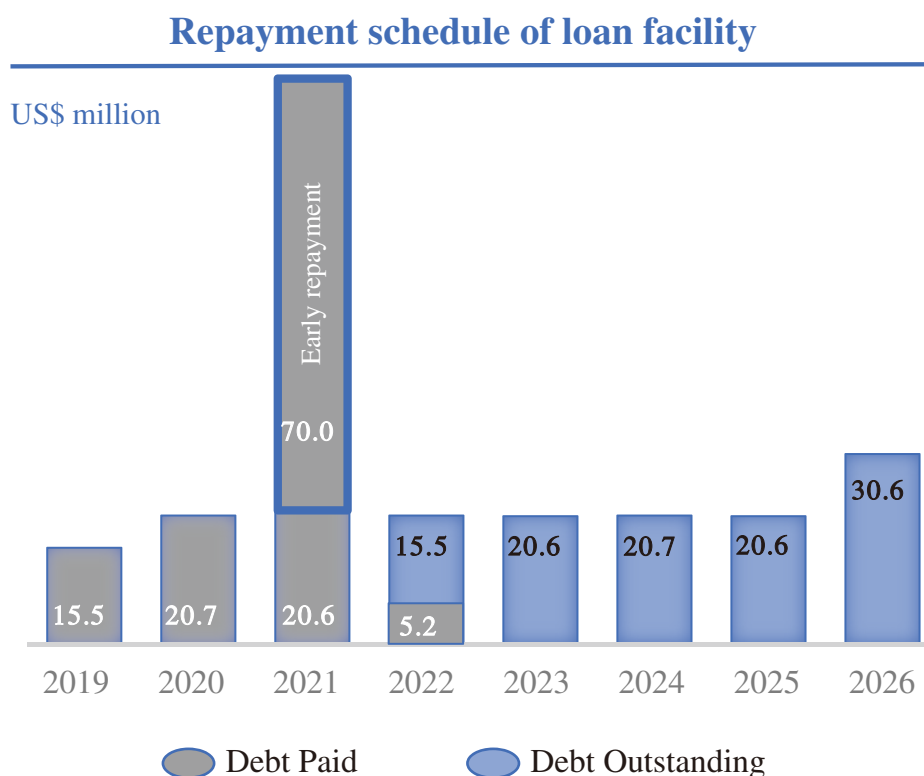
As previously announced, on 30 December 2021, the Company became aware that Cerisier Ventures Limited (“**Cerisier**”) and Major Mining Partner (CY) Limited (“**Major Mining**”) had entered into separate sale and purchase agreements to sell their respective entire equity interests in the Company to Axiomi Consolidation Ltd (“**Axiomi**”), a wholly-controlled company of Mr. Nikolai Levitskii (**Mr. Levitskii SPAs**).

The Mr. Levitskii SPAs was completed on 28 January 2022. As such, the Company understands that Cerisier and Major Mining have ceased to hold any shares in the Company and ceased to be shareholders in the Company and Mr. Levitskii has become a substantial shareholder holding (through his wholly-controlled company) 29.86% of the issued share capital of the Company and is the largest single shareholder of the Company.

Group's Cashflow Position and Loan Facility

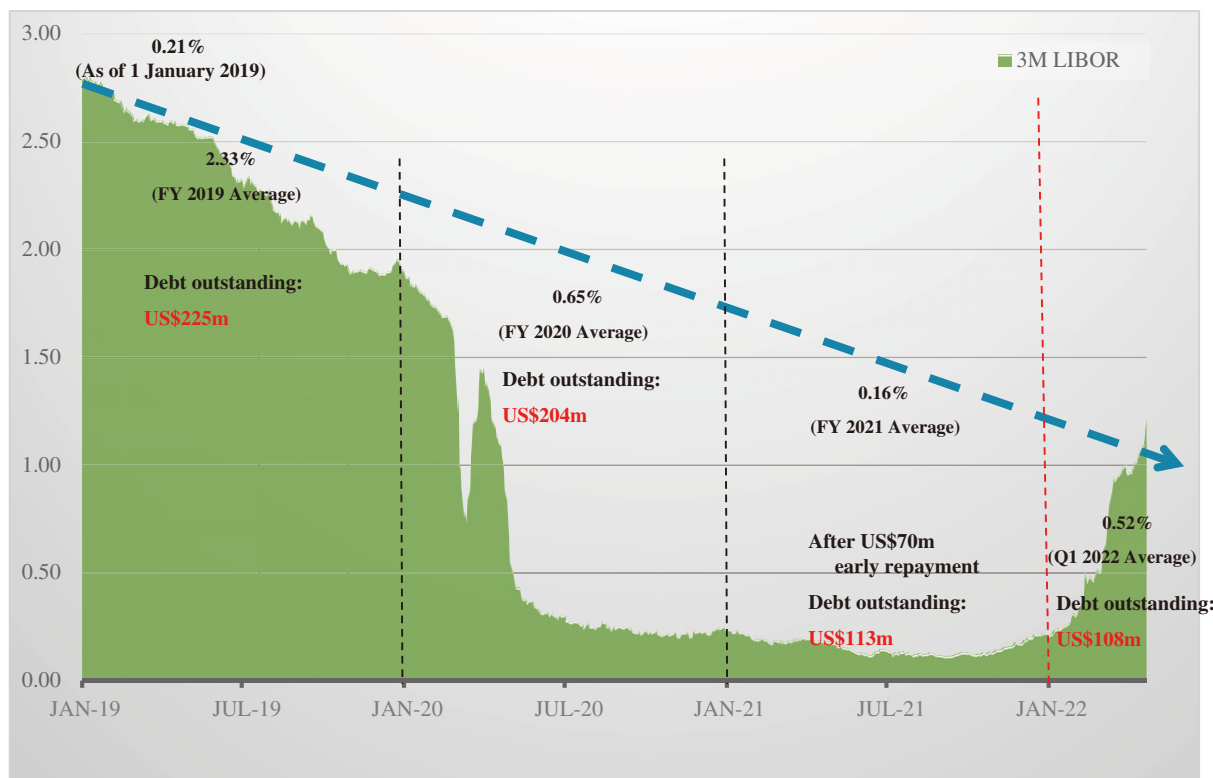
During the quarter, Gazprombank assigned its rights under the Gazprombank Facility to MIC invest Limited Liability Company, a company wholly-controlled by Ms. Marina Alexeevna Kolesnikova. So far as the Company is aware, the assignments have not resulted in any changes to the terms and conditions of the documentation for the Gazprombank Facility that the Group previously entered into.

As of 31 March 2022, after the repayment of a total loan principal and interest of US\$6.9 million, the Group had an unaudited cash and deposits balance of c.US\$39.0 million. The total debt due to MIC amounted to US\$108.1 million as of the end of the reporting period. Net debt increased from US\$61.1 million at the 31 December 2021 to US\$69.1 million, mainly due to timing of cash flow following aggressive cash management at the 2021 year end. The repayment profile of the loan is as follows:



Source: IRC Limited (As of 22/04/2022)

The interest rate of the loan facility is determined based on LIBOR. Inflation has defied expectations around the world, and interest rates are on the rise. Since the beginning of 2022, the three-month LIBOR has been steadily rising with an average interest rate of 0.52% in Q1 2022. Despite the raising interest rate, IRC had repaid US\$91 million of the loan in 2021 and another US\$5 million in Q1 2022. Besides, the loan is no longer guaranteed by Petropavlovsk, saving the Group from making guarantee fee payments. As a result, the burden of the Group's financing costs has been reduced.



* Source: Bloomberg (as of 22 April 2022)

Update on Administrative Offence Against K&S

As previously announced, construction of K&S was carried out based on the original project design, which received the necessary approvals of the Russian authorities before the construction works began. However, for various reasons, including improvement of technology, production efficiency, cost saving considerations and correction of the construction deficiencies of the main contractor, some equipment and machinery were replaced and/or added. As a result, some of the actual production facilities deviated from the approved project design. The Company believes that this is not an uncommon occurrence when a relatively complex production facility is put into operation. Thus, the design documentation should have been updated and submitted to the Russian State authorities for approval.

While K&S was in the process of updating the design documents and preparing the application for approvals, RTN made an inspection of K&S during which it determined the deviations from the approved design as non-compliant. RTN requested K&S to resolve the matter by 31 December 2021. While the Group has tried to resolve the matter as quickly as practicable, due to the COVID-19 pandemic and the fact that it is an extensive process, the required works were not completed by the due date. In early December 2021, K&S requested RTN to extend the deadline but the request was not accepted.

Given that the matter was not resolved by the deadline, in February 2022, RTN conducted an unscheduled inspection of K&S. Two administrative offence proceedings were issued to K&S, being:

- the K&S project is operating without the proper operating permit. The operating permit cannot be obtained without completion of the above-mentioned design documents update, which K&S is working on. RTN imposed an administrative penalty on K&S of RUB500,000 (equivalent to approximately US\$6,000).
- K&S failed to comply with the legal orders issued by RTN on time. RTN has brought this offence at the local court. The date of the court hearing will be on 17 May 2022 and in the intervening period, K&S will continue to operate to the highest possible standard as usual.

At the end of March 2022, a meeting was held between K&S, RTN, and the local and federal authorities. In the meeting, in addition to explaining the reasons for the delay in updating the design documents, K&S also presented the progress that had been made in preparing the required documents and the necessary procedures for the application of the operating permit. The Company considers that the meeting was constructive, and K&S will continue to work closely with the local and federal authorities to resolve the matter promptly. The Company will defend its position in the court hearing and will keep shareholders and potential investors informed of any further material developments in this matter as and when appropriate.

Capital Reduction

The Board intends to put forward for approval by the shareholders a proposal to reduce the credit standing to the share capital account of the Company by an amount of US\$1,100 million. The credit arising from the proposed capital reduction will be applied to a capital reduction reserve account of the Company and the Company will use such reserve to eliminate accumulated losses. The proposal to set off accumulated losses with the reserve arising from the proposed capital reduction would put the Company in a position to consider dividends and/or undertake any corporate exercise which requires the use of distributable reserves, subject to, inter alia, obtaining shareholders' approval, if required. The Company intends to proceed with the proposed capital reduction in the first half of 2022.

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 media, the construction of the bridge has been completed, and the Russian Siberian Railway is now connected with China's Northeast railway network. The bridge is expected to be put into use during 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 as well as its customers 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 tonnes.

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

Hong Kong, People's Republic of China
Thursday, 28 April 2022

As at the date of this announcement, the Executive Directors of the Company are Mr Yury Makarov and Mr Danila Kotlyarov. The Non-Executive Directors are Mr Peter Hambro and Mr Nikolai Levitskii. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith, Mr Raymond Kar Tung Woo, Mr Martin Davison and Mr Dmitry Dobryak.

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