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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 2022
PRODUCTION VOLUME UP BY 4% OVER THE PREVIOUS QUARTER
K&S BATTLING WITH CHALLENGING OPERATING ENVIRONMENT**

CONFERENCE CALL

A conference call will be held today at 14h00 Hong Kong time to discuss the third quarter trading update. The number is +852 2112 1888 and the passcode is 8640608#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 9 November 2022 at http://www.ircgroup.com.hk/en/ir_presentations.php.

Tuesday, 8 November 2022: The Board of Directors (“**Board**”) 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 2022 (“**Q3 2022**”).

HIGHLIGHTS – Q3 2022

K&S

- 3.9% increase in production volume over the previous quarter (“**Q2 2022**”);
- 6.9% decrease in sales volume, mainly due to Russian cross-border railway congestion; and
- Continuous preparation of the Sutara deposit with the aim of processing Sutara ore by the second half of 2023.

Corporate & Industry

- Cash balance reduced to US\$46.0 million (Q2 2022: US\$77 million); net debt increased to US\$51.7 million (Q2 2022: US\$26 million) due to working capital movements, weak iron ore price, and heightened operating costs resulted from strong Russian Rouble;
- The Group’s principal lender, MIC invest Limited Liability Company (“**MIC**”), agreed to subscribe approximately 1.4 billion IRC shares at a total consideration of approximately US\$19 million, reducing the Group’s gearing and strengthening IRC’s balance sheet; subscription completed in October 2022;
- China’s COVID-19 measures and a slowing real estate market weakened the Chinese iron ore market, the Platts 65% Fe average price declined 28.0% quarter to quarter to US\$116 per tonne; and
- The Russian Rouble stabilised at an average of RUB59 per US Dollar after seeing a sharp appreciation in Q2 2022.

THIRD QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

SUMMARY OF PERFORMANCE

	Q3 2022	Q2 2022	Change	Q3 2021	Change	9M 2022	9M 2021	Change
Platts 65% Fe (average price per tonne)	US\$116	US\$161	(28.0%)	US\$191	(39.3%)	US\$148	US\$204	(27.5%)
Iron Ore concentrate Production (tonnes)	691,814	665,773	3.9%	645,233	7.2%	1,950,660	1,955,951	(0.3%)
Sales (tonnes)	649,180	697,610	(6.9%)	697,586	(6.9%)	1,926,228	1,997,631	(3.6%)

During the third quarter of 2022, the persistent cross-border railway congestion continued to affect K&S's shipments. K&S's mitigating measure of diversifying sales to the local and seaborne markets, was not economical and had been scaled down, as the low iron ore market price environment made K&S unable to offset the effect of higher freight costs and stronger Rouble currency. Despite the logistic constraints, the mine still managed to ship 649,180 tonnes of iron ore concentrate to its customers, representing about 82% of K&S's designed production capacity.

K&S maintained a solid pace and produced 691,814 tonnes of high-grade iron ore concentrate, up 3.9% from Q2 2022. K&S's average production rate during the third quarter was 87.0% of its designed capacity.

Due to the COVID-19 lockdowns and the weakening of the Chinese real estate market, the third quarter saw a decline in the demand for iron ore. Quarter over quarter, the Platts 65% Fe average price fell 28.0%. The average price premium between the 65% Fe and 62% Fe iron ore indexes also shrank by 47.8% from US\$23 in Q2 2022 to US\$12 per tonne in the third quarter of 2022 as a result of steel mills sourcing more economical ore to keep production costs low.

In light of the complex external operating environment and the market challenges, IRC entered into a subscription agreement with MIC in September 2022, pursuant to which MIC agreed to subscribe for new IRC shares under the general mandate to raise an equivalent of approximately US\$19 million of equity for the partial repayment of the loan facilities provided by Gazprombank (Joint-Stock Company) ("GPB") to K&S, which have been assigned by GPB to MIC in February 2022. The subscription was completed in October 2022.

Commenting on the performance of the third quarter, Mr Denis Cherednichenko, Chief Executive Officer of IRC said, *"We have been facing a variety of hurdles and the third quarter of 2022 had been a tough period:– iron ore price remained low, inflation and energy prices were high, and the Russian Rouble was appreciating. K&S has also been facing a number of operating challenges, most notably the persistent railway congestion affecting shipments. Despite the difficulties, I am impressed by the resilience and commitments of the IRC workforce, allowing K&S to improve its production volume amid the current operating environment.*

While we are battling headwinds and our short-term outlook may not be particularly resounding, I am pleased that IRC has completed the issuance of new shares to our major financier – MIC. Through the subscription, we raised approximately US\$19 million for the partial repayment of our borrowing which would lower the Group's gearing and strengthen its balance sheet. And perhaps what is more important is the fact that the subscription reflected MIC's confidence in IRC, a belief that we share in common.

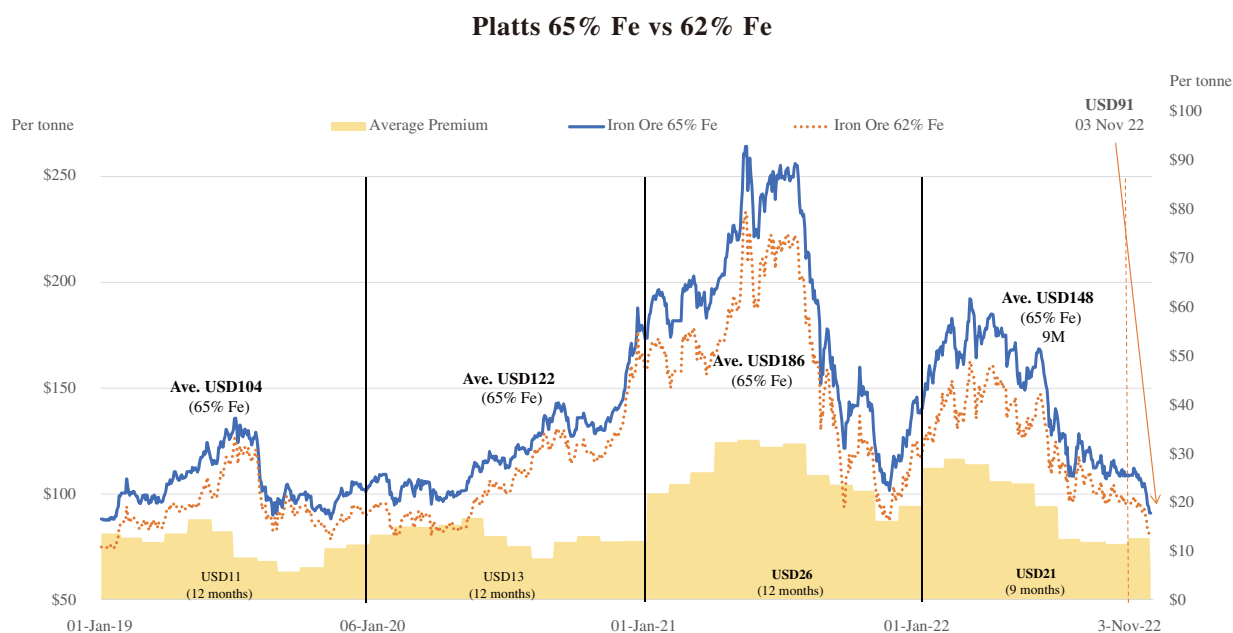
As we enter into the fourth quarter of the year, the operating environment, in particular the iron ore price, further deteriorates and K&S is generating negative margins. If the situation persists, we may have to consider scaling down its operation. IRC's financial position could be significantly adversely affected. This is a challenging time and the IRC Board will take a cautious approach in dealing with adversities."

MARKETING, SALES AND PRICES

Iron Ore

The third quarter of 2022 saw a decrease in the market demand for iron ore due to a slowdown in steel production. The COVID-19 lockdowns and a slowing Chinese real estate market caused the Chinese iron ore market to weaken. This trend persisted throughout the third quarter. Due to a bleaker forecast for economic growth and high energy prices, demand for iron ore also declined in other regions, such as the US and Europe.

When comparing to the same period last year, the Platts 65% Fe average price declined 39.3% in the third quarter and was 28.0% lower than Q2 2022, settling at the US\$109 per tonne level on 30 September 2022.



Source: Platts (as of 3 November 2022)

With the margins of the steel mills in the red for much of the third quarter, demand for low-grade and discounted medium-grade iron ore has been boosted as the steel producers prioritised cost-effectiveness. Conversely, the demand for high-grade iron ore, which K&S produces, weakened in the third quarter as steel mills was sourcing more cost-competitive ores and focused on keeping production costs low.

On a quarterly basis, the average price spread between the 65% Fe and 62% Fe iron ore indexes decreased by 47.8% from US\$23 per tonne in Q2 2022 to US\$12 per tonne in the third quarter of 2022.

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

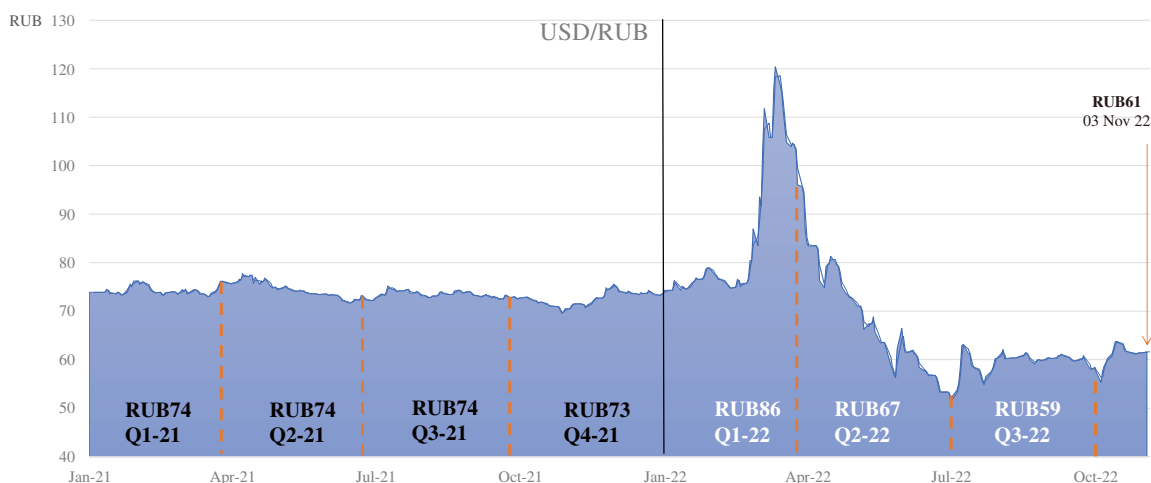
Iron Ore Hedging

Currently, IRC does not have any open iron ore hedging position, given that it is difficult to achieve meaningful hedges with the forward iron ore curve in backwardation. IRC would continue to monitor the price movements and could enter into hedging transactions if the hedging terms are considered favourable.

Foreign Exchange Movements

The Russian Rouble is one of the most volatile currencies in 2022 so far. While the currency depreciated to about RUB120 per US Dollar at one point in the first quarter of 2022, it appreciated drastically in the second quarter and stabilised at an average of RUB59 per US Dollar in the third quarter. The movement of the currency is influenced by factors including the growth in fossil-fuels price, high interest rates and geopolitical concerns.

The Movement of Russian Rouble



Source: Bank of Russia (as of 3 November 2022)

According to the media, the strength of Russian Rouble is unusual, and the Russian Deputy Prime Minister has commented that the Russian Rouble is over appreciated and considered that the industry's equilibrium and comfort zone should be in the region of 70 to 80 Rouble per US Dollar.

Foreign Exchange Hedging

The strengthening of the Russian Rouble has a negative 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, from July 2022 to January 2023, about US\$2 million equivalent of Rouble expenditure per month has been hedged using zero-cost collars with puts' strike at about RUB75 and calls' strike at about RUB94. 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. The hedging that IRC has entered into serves as a counter-measure against the strengthening of Rouble.

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 kilometres 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

The shipment of iron ore concentrate to China was constrained due to the ongoing cross-border railway congestion issue between Russia and China, which remained a major bottleneck for the operation of K&S. During the third quarter of 2022, K&S delivered 649,180 tonnes of iron ore concentrate to customers, a decrease of 6.9% over Q2 2022. On a year-to-date basis, K&S shipped 1,926,228 tonnes of iron ore concentrate in the first nine months of the year, a modest reduction of 3.6% over the same period last year. As a result of lower iron ore prices, higher sea freight charges, and stronger currency, shipments to Russian and seaborne customers are becoming uneconomical and sales to these customers have been scaled down.

During the third quarter of 2022, K&S mainly sold its products by railway to its customers in the north-eastern region of China. China's strict zero-COVID rules have caused a sharp slowdown in the country's economy. This results in significant decrease in the profitability of the Chinese steel mills. Consequently, IRC's customers are demanding for greater sales discount.

K&S continued to operate at a respectable rate and produced 691,814 tonnes of high-grade iron ore concentrate in the third quarter of 2022, an increase of 3.9% from Q2 2022. The issue with the cross-border railway congestion is expected to be transient, and once alleviated or when the Amur River Bridge becomes operational, could allow K&S to improve its production rate. The significant increase in the mining volumes during the third quarter of 2022 reflects the improved performance of the mining contractors, which was a restricting factor in the previous periods. Increase in mining volume helps increase the mining works fronts and improve the access to the ore which can stabilise the ore feed quality and optimise the performance of the K&S processing plant.

Key mining data of K&S for Q3 2022

K&S	Q3 2022	Q2 2022	Changes
Mining (tonnes)	2,617,300	1,459,600	79.3%
Drilling (metre)	169,495	110,244	53.7%
Blasting (cubic metre)	4,375,300	3,257,200	34.3%
Rock mass moved (cubic metre)	5,111,800	3,876,900	31.9%
Ore fed to the primary processing plant (tonnes)	2,379,100	2,192,000	8.5%
Pre-concentrate produced (tonnes)	1,601,209	1,538,985	4.0%

K&S – Sutara Development

K&S comprises of two main pits, Kimkan and Sutara. The Kimkan operation comprises two key ore zones – Central and West. Open pit mining at the Kimkan deposit is currently carried out at both zones. Mining works were originally performed only at the Kimkan Central pit. As the development of the Kimkan Central pit advances, K&S has 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 second half of 2023. It is estimated that the total initial capital expenditure required to bring the Sutara pit into operation would amount to approximately US\$50.6 million. Up to 30 September 2022, approximately US\$17.5 million had been incurred. The remaining sum of US\$33.1 million is expected to be self-funded by cashflow generated by K&S.

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 COVID-19. 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 COVID-19. The Group has taken the necessary measures to support the prevention of COVID-19 at its operations and will continue to monitor closely the situation.

Partial military mobilisation

In September 2022, the Russian government announced a partial mobilisation of military reservists in Russia, and as at the date of this announcement, some K&S's workers have been called to the service. As of now, and so far as the Board is aware, based on its current assessment and the information currently available, there is no material impact on the operation of K&S. The Company will closely monitor the development of the situation.

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability, and IRC will continue to apply stringent cost control measures.

Inflation is a key concern among Russian businesses. Russian inflation rate has increased dramatically to double digits since the end of the first quarter of 2022. The average inflation rate in the third quarter of 2022 was 14.4%, up 7.5% from the same period last year. Inflation is worsening largely as a consequence of geopolitical issues and rising energy prices. Inflation has a negative impact on K&S's operational costs as most of these costs are paid in Russian Rouble.

The Movement of Russian Inflation Rate



Source: *Tradingeconomics.com*

The relevant cash cost information for the full year of 2022 will be analysed and disclosed in the 2022 annual results announcement.

Impact of U.S. Sanctions Against Russia

IRC is listed on the 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, the sanctions have no material direct impact on the Group or its operations. Although the Group’s operations and activities in Russia and elsewhere are currently 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 further announcement(s).

CORPORATE AND INDUSTRY UPDATE

Group’s Cashflow Position and Loan Facility

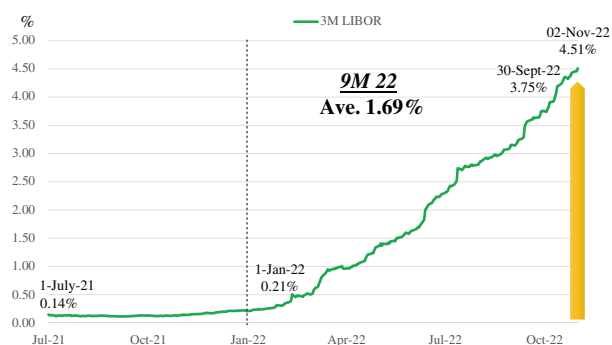
In the first half of 2022, GPB assigned its rights under two facility agreements for a loan in aggregate of US\$240 million (the “**GPB Facilities**”) to MIC, a company wholly-controlled by Ms Marina Kolesnikova. So far as the Company is aware, the assignments have not resulted in any change to the terms and conditions of the documentation for the GPB Facilities that the Group previously entered into.

As of 30 September 2022, after repaying a total loan principal and interest of US\$7.2 million in the third quarter, the Group had an unaudited cash and deposits balance of approximately US\$46.0 million. The total debt due to MIC was US\$97.7 million as of 30 September 2022.

The interest rate of the loan facility is determined based on London Interbank Offered Rate (“**LIBOR**”). The rising global inflation is pushing interest rate into a more aggressive position. The three-month LIBOR has been steadily rising with an average interest rate of 1.69% in the first nine months of 2022.

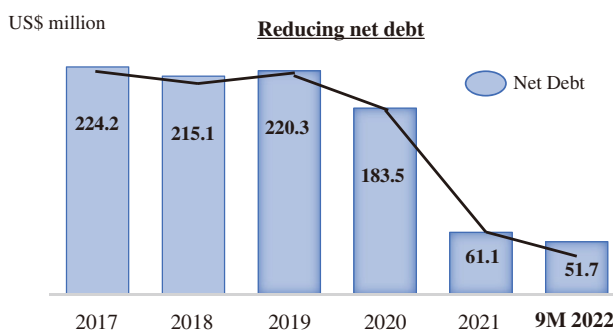
IRC drew down the US\$240 million loan facility in 2019 and since then and up to 30 September 2022, IRC has repaid US\$142 million. Another US\$19 million was repaid in October 2022 upon completion of the subscription of new IRC shares under the general mandate by MIC, as described below. The significant reduction in the loan principal put IRC in a better position to withstand the volatile interest rates. In addition, the loan is no longer guaranteed by Petropavlovsk PLC, saving the Group from making guarantee fee payments.

The Movement of 3 Months LIBOR



Source: Bloomberg (as of 2 November 2022)

Low Net Debt of IRC



Source: IRC Limited (as of 30 September 2022)

Subscription of New Shares Under General Mandate

In contemplation of the complex external operating environment which continues to get worse in the third quarter of 2022 and the market challenges that the Group faces, including the weakening of iron ore prices, appreciation of Russian Rouble, heightening of inflation rate, and the increase in market interest rate, the Group is in need of cash to deal with these external factors which are largely out of the Group’s control.

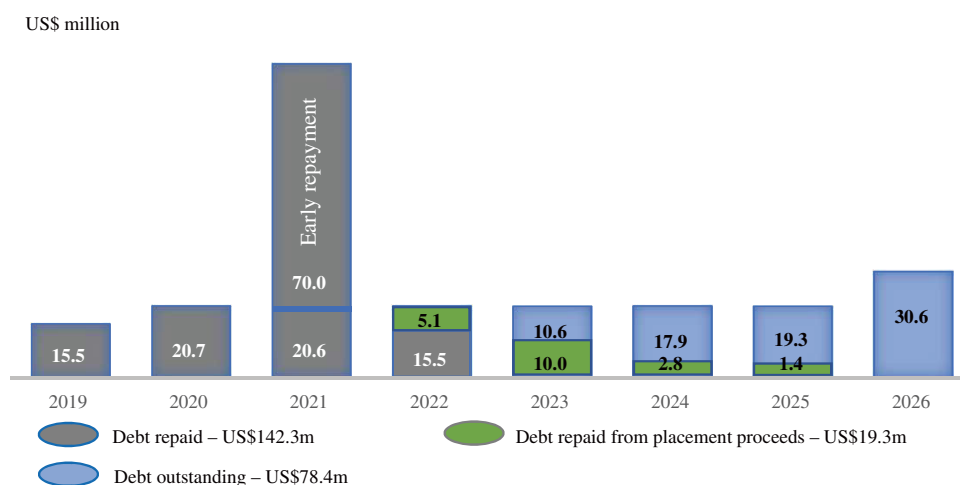
In light of the funding need, on 14 September 2022, the Company entered into a subscription agreement with MIC pursuant to which MIC had agreed to subscribe for and the Company had agreed to allot and issue 1,419,942,876 new IRC shares (the “**Subscription Shares**”) at a subscription price of HK\$0.10641 per Subscription Share. The Subscription Shares represent 20.0% of the then existing issued share capital of the Company and approximately 16.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The net proceeds from the subscription amounted to an equivalent of approximately US\$19 million which would be fully applied to prepay (i) the entire principal amount of the upcoming instalment of the loan due to MIC pursuant to the assigned GPB Facilities that will fall due and become payable by the Group in the fourth quarter of 2022; and (ii) part of the principals of each of the 12 quarterly instalments of the GPB Facilities that will fall due and become payable by the Group to MIC in each of the year ending 31 December 2023, 2024 and 2025, subject to adjustment.

The subscription was completed on 12 October 2022. For further details of the subscription, please refer to the announcements of the Company dated 14 September 2022 and 12 October 2022.

After applying the subscription proceeds against the loan due to MIC pursuant to the assigned GPB Facilities as intended, the outstanding loan principal amounted to approximately US\$78.4 million and the loan repayment profile is as follows:

IRC’s Loan Facilities Repayment Profile



Source: IRC Limited (as of 31 October 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 by the end 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.

The 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 approximately 3,155 thousand wet metric tonne.

In this announcement, the exchange rate of US\$1 to HK\$7.80 has been used for conversion into the relevant currencies for illustrative purposes only.

By Order of the Board
IRC Limited
Denis Cherednichenko
Chief Executive Officer

Hong Kong, People's Republic of China
Tuesday, 8 November 2022

As at the date of this announcement, the executive Director is Mr. Denis Cherednichenko. The Chairman and non-executive Director is Mr. Nikolai Levitskii. The independent non-executive Directors are Mr. Dmitry Dobryak, Ms. Natalia Ozhegina, Mr. Alexey Romanenko and Mr. Vitaly Sheremet.

IRC Limited

6H, 9 Queen's Road Central, Hong Kong
Telephone: +852 2772 0007
Email: ir@ircgroup.com.hk
Website: www.ircgroup.com.hk

For further information, please visit www.ircgroup.com.hk or contact:

Johnny Yuen

Finance Director (HK) & Company Secretary
Telephone: +852 2772 0007
Email: jy@ircgroup.com.hk