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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 2019
10.5% INCREASE IN YEAR-TO-DATE PRODUCTION VOLUME**

CONFERENCE CALL

A conference call will be held today at 09h00 Hong Kong time to discuss the third quarter trading update. The number is +852 2112 1888 and the passcode is 5600023#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 23 October 2019 at www.ircgroup.com.hk/html/ir_call.php.

Tuesday, 22 October 2019: 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 2019.

HIGHLIGHTS – 3Q2019

K&S

- Production and sales volumes for the first nine months of 2019 increased by 10.5% and 9.7% respectively
- Production at 95% capacity in September; average capacity in 3Q2019 was 77% due to adverse weather conditions
- Current production rate at c.98%
- Resolving remaining production bottlenecks and preparing the use of Drying Unit for winter production

Kuranakh

- Care and maintenance process satisfactory

Corporate & Industry

- Stable iron ore price environment
- Amur River Bridge connected, construction of related infrastructure works under way

THIRD QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2019

	<u>3Q 2019</u>	<u>3Q 2018</u>	<u>Change</u>	<u>2Q 2019</u>	<u>Change</u>	<u>YTD2019</u>	<u>YTD2018</u>	<u>Change</u>
Iron Ore concentrate								
– Production (tonnes)	617,956	616,907	+0.2%	701,474	–11.9%	1,880,894	1,701,509	+10.5%
– Sales (tonnes)	601,668	631,636	–4.7%	712,033	–15.5%	1,841,066	1,678,285	+9.7%

In the first nine months of 2019, K&S produced 1,880,894 tonnes of iron ore concentrate, 10.5% higher than that of the same period last year and represents an annualised production rate of 78%. During the third quarter, K&S operated at high production rates in the month of July and September, achieving monthly production capacities of 85% and 95% respectively. However, as previously announced production in August was affected by exceptionally heavy rain and this unusual weather condition was severe enough for the local government to declare a state of emergency. This resulted in a lower quarterly production rate of 77%. The rainstorms have passed and K&S's operations are now back to normal.

Due to the increase of global iron ore supply, the 65% iron ore Platts benchmark price was relatively volatile during the quarter and decreased from US\$136 per tonne to stabilise at US\$89 per tonne. The demand of iron ore from China recovered in September and this supported the price to rebound to about US\$100 per tonne at the end of the quarter. The spread between 65% Fe and 62% Fe narrowed to about US\$6 per tonne in September due to the slowdown of Chinese economy and the relaxation of Chinese government environmental protection policies.

Commenting on the performance of the third quarter, Yury Makarov, Chief Executive Officer of IRC said, “The quarter started well with K&S achieving 85% capacity in July. However, our ramping up program was interrupted by the bad weather in August and we needed to lower our production rate. During the downtime, we took the opportunity to carry out various repairs and maintenance works, paving the way for higher rate of production later this year. After the rainstorms, our operating team swiftly resumed normal operation to lift the production capacity to 95% in September. K&S is now operating at close to full capacity and the ramping up program is on its last legs. It is this final phase of the program that requires more time, patience and skillset. The site team is now resolving the remaining bottlenecks and preparing the Drying Unit for production in winter.

The trade tension between the US and China has been affecting the global economy and the iron ore market is a “lead indicator” in this regard. Thankfully, the iron ore price has stabilised at a healthy level. The initiative of Belt and Road is expected to bring new opportunities for the iron ore industry with new infrastructure projects set to be launched. IRC will seize on the opportunities with an aim of maximising the value of our stakeholders.”

MARKETING, SALES AND PRICES

Iron Ore

Sales volume for the nine months ended 30 September 2019 of 1,841,066 was 9.7% higher than the same period last year as K&S continues to ramp up its production. In the third quarter of 2019, with a lower production volume in August due to adverse weather conditions, K&S only sold 601,668 tonnes of iron ore concentrate, 15.5% lower than that of the previous quarter. Sales volume has returned to the normal level in September after the rainstorms have passed.

During the quarter, due to various macroeconomic factors, including the US-China trade dispute and the increase in global iron ore supply, iron ore prices were relatively volatile. According to reports from the media, the price of 65% Fe Platts reached US\$136 per tonne in early July to reflect the shortage of global iron ore supplies. The price then fell to about US\$90 per tonne at the end of August as the iron ore supply-demand gap narrowed. In September, the total iron ore stockpile in the Chinese ports amounted to about 120,340,000 tonnes, 980,000 tonnes lower than the level at the end of August. The reduction in stockpile was mainly due to the Chinese steel mills replenishing the inventory level and this supported the iron ore price to slightly rebound to the US\$100 per tonne level at the end of the quarter.

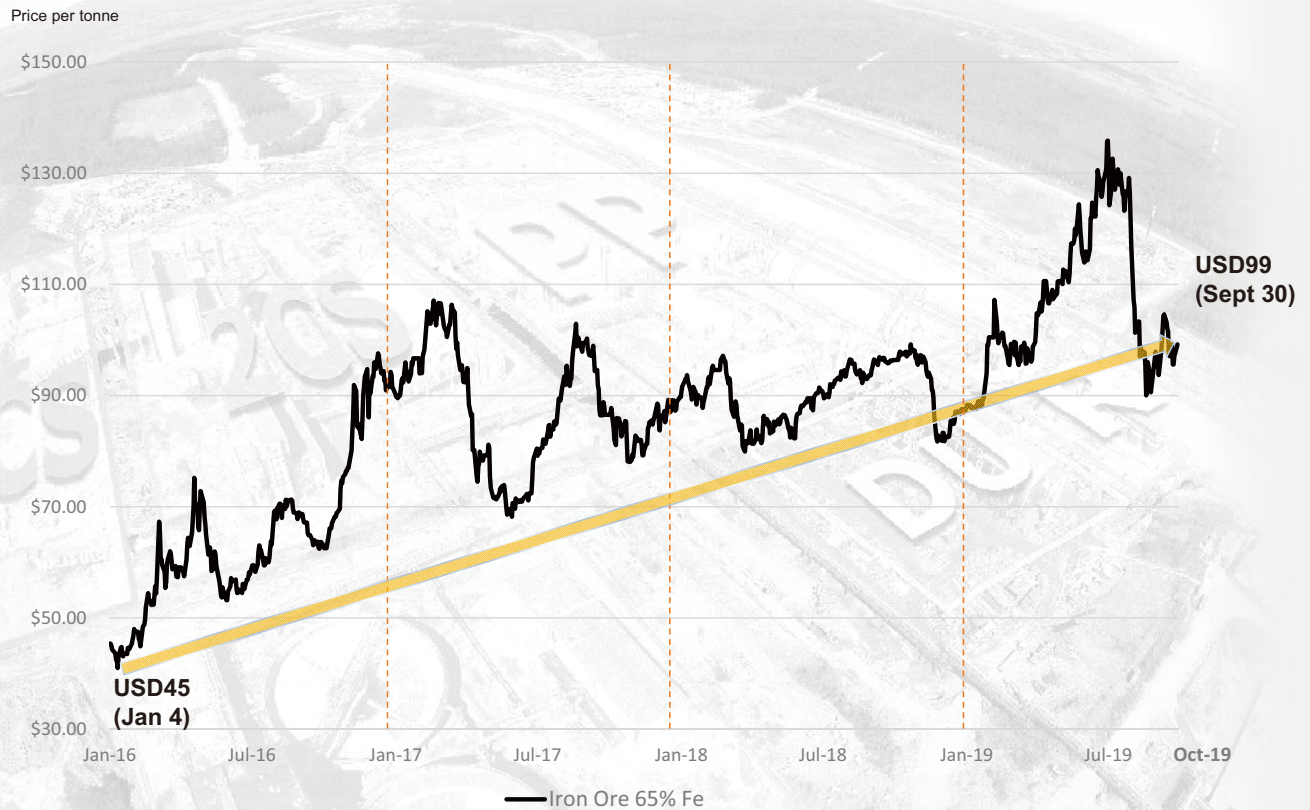
In terms of the market outlook, on one hand, some analysts forecast that there will be a reasonable level of demand for iron ore as the market looks to replenish the stock level, and the production of steel will rise after the end of the Chinese National Day as production restrictions relax. On the other hand, there are reports suggesting that there will be production restrictions in China in the coming winter and will restrain the demand for iron ore. In terms of the price premium, the price spread between the high-grade iron ore and the low-grade ones continues to narrow. In September, the average spread between 65% Fe and 62% Fe indices narrowed to about US\$6 per tonne while it was about US\$14 per tonne at the end of the last quarter.

Hedging

The selling price of K&S's iron ore product is determined with reference to the international Platts spot price of iron ore concentrates. As announced previously, IRC has entered into hedging contracts to implement a partial hedge against adverse changes in the iron ore price. IRC's strategy is to hedge no more than half of K&S's production, with the remaining volume left unhedged. The hedging instruments, mostly in the form of protective collars, protect IRC from a significant reduction in the iron ore price. Although IRC may not be able to fully capture the upside of the market price, hedging secures a healthy margin of cashflow for IRC which is important from a risk management perspective, especially in light of the need to service to loan from Gazprombank. The achieved selling price of IRC is not published in this trading update for commercial reasons. The actual selling price in the first half of 2019 was disclosed in the 2019 interim results announcement and the full year achieved selling price will be published in the 2019 annual results announcement.

Benchmark 65% Fe: (January 2016 – September 2019) Performance

High Grade Iron Ore Price Steadily Increases



There were no sales of iron ore concentrate from Kuranakh since the mine has been moved to care and maintenance.

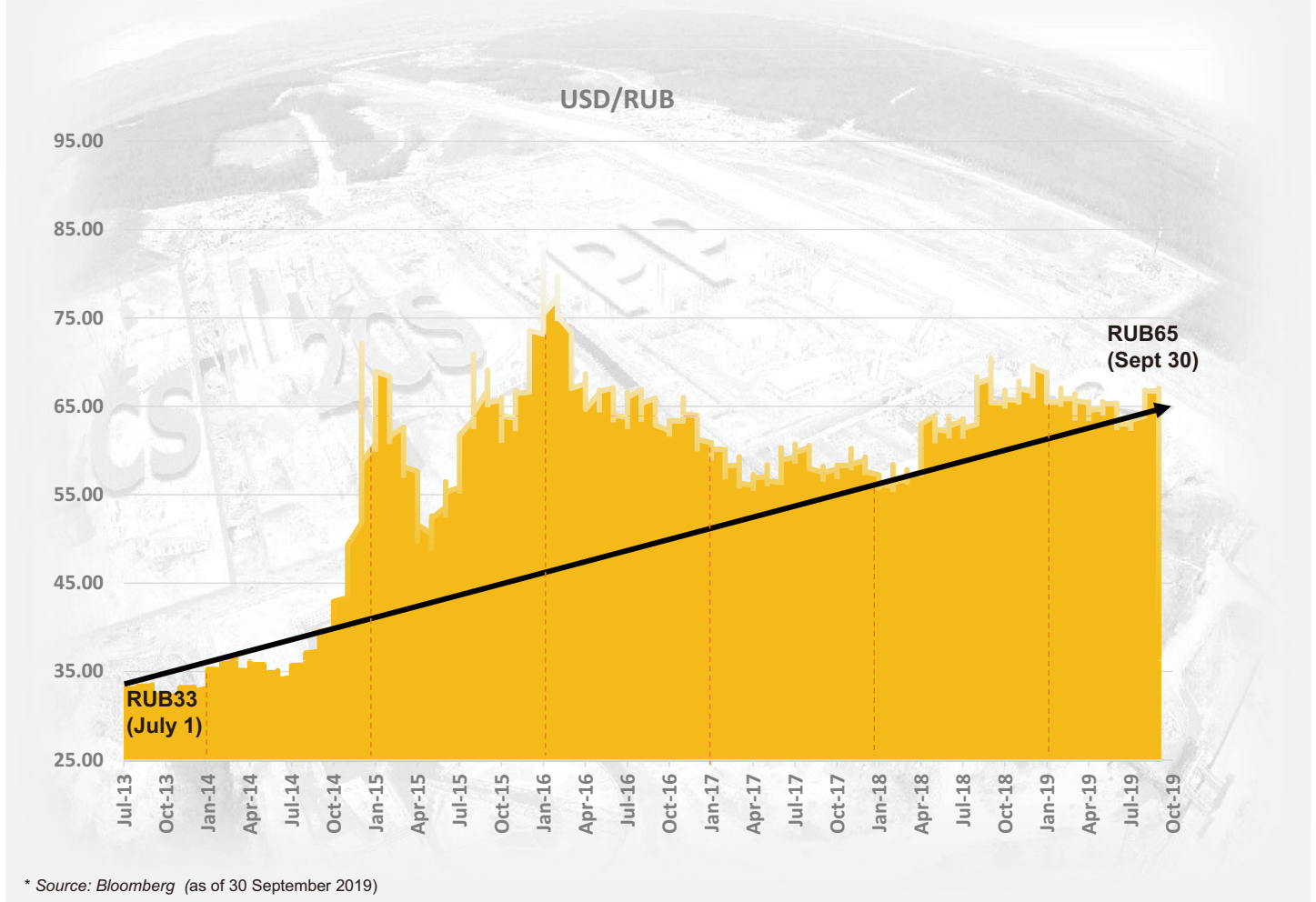
Ilmenite

As Kuranakh has been moved to care and maintenance, there were no sales of ilmenite product during the quarter.

Foreign Exchange

During the third quarter of 2019, Russian Rouble continued to be weak against the US dollar and remained at an average of RUB65 to the dollar (2Q2019: RUB65). Currently, the currency has slightly appreciated to about RUB63.8. The weakness in Russian Rouble has a positive impact on the Group's operating margins as the operating costs of the Group are mainly denominated in Russian Rouble and revenue mainly in US Dollar.

USD/RUB Currency Chart (from July 2013 to September 2019)



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 near to the federal highway connecting to the regional capital of Birobidzhan and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S Ramp-Up Progress

K&S's production ramped up to 95% capacity in the month of September 2019. In the third quarter of 2019, the mine operated at an average capacity of 77% and this was 11% points lower than that of the last quarter (2Q2019: 88%). The decrease in production was mainly due to the severe rainstorms in August. The poor weather condition, which was unusual to the region, had led to the local government declaring a state of emergency. To mitigate the impact and to make use of the downtime, K&S carried out some of the preventative repairs and maintenance works. After the rainstorms, K&S swiftly returned to normal production and the plant operated at 95% capacity in September. The ramping up programme is on-track and the mine is currently operating at a capacity of c.98%. The site team is focusing on resolving the remaining production issues and is preparing the use of the Drying Unit for winter production.

Mining

The mining contractors have been maintaining the work rates to supply the necessary amount of feedstock to support the production of K&S. Due to the poor weather condition as mentioned above, the level of mining activities in the third quarter of 2019 decreased accordingly. A total of 1,846,600 tonnes of ore were mined, 111,348 metres were drilled and 2,909,000 cubic metres were blasted, representing a decrease of 21.9%, 22.8% and 22.4% respectively over those of the last quarter. 1,851,200 tonnes of ore were fed to the primary processing plant and 1,329,039 tonnes of pre-concentrate were produced. 617,956 tonnes of iron ore concentrate were produced and 601,668 tonnes were sold, representing a decrease of 11.9% and 15.5% respectively over the last quarter.

The rainstorms have now passed and the mining activities have restored to the normal level.

Production and Marketing

K&S	3Q 2019	2Q 2019	Changes
Production (tonnes)	617,956	701,474	-11.9%
Sales (tonnes)	601,668	712,033	-15.5%

Update of Estimated Unit Cash Cost

Cost control is an important factor in maintaining and growing profitability. In 2019, K&S is aiming to control cash cost per tonne to a level which is comparable to that of last year. It is expected that further saving on transportation cost could be achieved when the Amur River Bridge is in use.

As K&S has not yet reached full production capacity, the cash cost per tonne in 3Q 2019 has not yet reached an optimal level and therefore the figure may not truly represent the level of the operating cost at the time when the mine has fully ramped up. Although the increasing production volume will provide economies of scale, K&S is facing the challenges of the general inflation in Russia and the delay in the construction of the Amur River Bridge, both of which are beyond the control of IRC. Mining transportation cost is also rising naturally, as hauling distance increase while mining works progress. The relevant cash cost information for the full year 2019 will be analysed and disclosed in the 2019 annual results announcement.

Impact on U.S. Sanctions Against Russia

IRC is listed in Hong Kong Stock Exchange with operational mines in Russia 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.

Kuranakh (100% owned)

Kuranakh is located in the north-east Tynda District of the Amur Region of the Russian Far East and comprises both the original Saikta open pit and the later established Kuranakh open pit processing facilities and an onsite railway spur connecting to the BAM and Trans-Siberian Railways.

Continued to be in Care and Maintenance

As previously announced Kuranakh is under a care and maintenance programme which involves limited costs to keep the mine and plant available for re-opening if the markets permit the investment decision. The Company has reduced the number of staff at Kuranakh to minimum levels for equipment maintenance and security. During the quarter, there was no production or sales.

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 Group in the second quarter. The joint venture had been moved to care and maintenance in 2017 as the operation of this slag reprocessing plant was suspended, due to a lack of feedstock.

CORPORATE AND INDUSTRY UPDATE

Group's Cashflow Position and New Gazprombank Facility

IRC completed the drawdown of the Gazprombank facility in the first half of 2019 and the loan proceeds were applied in accordance with the intended use of proceeds. The Gazprombank facility is secured by charges over the assets of K&S and is guaranteed by Petropavlovsk. The repayment schedule is more closely aligned with the production plans of K&S than the ICBC loan was, and should improve the cash flow position of IRC. During the third quarter of 2019, c. US\$10.3 million has been paid to Gazprombank as principal repayment and interest in accordance with the repayment schedule.

As at 30 September 2019, the unaudited cash and deposit balance was c.US\$9.3 million and the total debt outstanding was c.US\$229.7 million.

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. A contractor agreement has been signed which stipulates the terms and timing of the construction of the Russian part of the Amur River Bridge.

According to the local media, in March 2019, the authorities of China's Heilongjiang province has confirmed that the last steel beam of the Russian-Chinese railway bridge over Amur River, which is known as Heilongjiang in China, has been installed. This means that Russia has fully completed its engineer work on its side of the bridge. With China having completed the construction of its part in October 2018, the main span of the bridge has been connected. The construction and installation of the related infrastructure works and border checkpoints are currently under way. The 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 reduced transportation distance and shipment time. The bridge can not only save the transportation cost of K&S by up to US\$5 per tonne for shipment to the Chinese customers but can also alleviate any railway congestion of the region. Apart from shortening the shipment time to customers from 7-10 days to 3-5 days, logistic efficiency should also be improved as the time needed to turnaround the wagons will be reduced.

* *Figures in this announcement may not add up due to rounding. All tonnes of the Group unless specify refer to wet metric tonnes. All dollars refer to United States Dollar unless otherwise stated.*

Production rate of K&S disclosed in this announcement is determined based on an annual production capacity of about 3.2 million wet metric tonne

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

Hong Kong, People's Republic of China
Tuesday, 22 October 2019

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 Chi Kin Cheng. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Chuang-Fei Li, Mr Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr Jonathan Martin Smith and Mr Raymond Kar Tung Woo.

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