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

**FOURTH QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 31 DECEMBER 2020
6.7% INCREASE IN FY 2020 PRODUCTION**

CONFERENCE CALL

A conference call will be held today at 14h00 Hong Kong time to discuss the fourth quarter trading update. The number is +852 3018 3000 and the participant pin is 325479#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 1 February 2021 at http://www.ircgroup.com.hk/en/ir_presentations.php

Friday, 29 January 2021: The Board of Directors (“**the Board**”) of IRC Limited (“**IRC**” or the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to provide the Fourth Quarter Trading Update for the three months ended 31 December 2020.

HIGHLIGHTS – Q4 2020

K&S

- 6.7% increase in FY 2020 production and 4.6% increase in sales;
- Production rate improved 3% to 87% capacity in Q4 2020 (Q3 2020: 84%), after third-party mining contractors partly alleviated previous mining issues;
- Current production rate at c.85% capacity;
- Successful diversion of sales to new Chinese customers via new seaborne routes and to Russian customers eased temporary logistic issues at the Sino-Russian border.

Corporate & Industry

- Platts 65% Fe index increased by 67% in FY 2020 to close at US\$174 per tonne;
- Russian Rouble depreciated 16% in FY 2020, closed at 74 to the US dollar;
- Year-end cash balance increased to US\$20.4 million, after payments of US\$5 million to Petropavlovsk as guarantee fee and US\$8.6 million to Gazprombank as loan principal repayment and interest.

FOURTH QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 DECEMBER 2020

	Q4 2020	Q3 2020	Change	Q4 2019	Change	FY 2020	FY 2019	Change
Iron Ore concentrate								
– Production (tonnes)	686,842	665,514	+3.2%	664,620	+3.3%	2,747,767	2,576,325	+6.7%
– Sales (tonnes)	544,403	651,803	-16.5%	623,335	-12.7%	2,576,722	2,464,401	+4.6%

SUMMARY OF PERFORMANCE

In the fourth quarter of 2020, K&S operated at an average capacity of 87% to produce 686,842 tonnes of iron ore concentrate, an increase of 3.2% over the previous quarter. This was achieved thanks to improvements in the operation of the Drying Unit. With some of the capacity issues addressed last summer, the Drying Unit is currently performing satisfactorily and, coupled with other mitigating measures, is allowing K&S to operate normally during winter.

As previously announced, the third-party mining contractors had encountered certain capacity and equipment availability issues. The situation has improved, but the mining volume lag continues to be a limiting factor in the production of K&S.

544,403 tonnes of iron ore were sold in Q4 2020, representing a decrease of 16.5% over the previous quarter, mainly due to railway logistic issues at the Suifenhe border crossing. This decrease was the result of COVID-19 issues which affected rail transportation to K&S's major customers. Towards the end of December 2020, the railway service to the Suifenhe border was partially resumed. At present, K&S is able to deliver about half its daily production capacity by train to its Chinese customers with the rest of its production being shipped by sea to more distant Chinese customers and also to Russian customers.

The benchmark price of the Platts 65% Fe increased by 67% in FY2020 to close at US\$174 per tonne, making the steelmaking raw material one of the top-performing commodities of the year. Iron ore benefitted from China's high demand for the commodity and the uncertainties around supply volumes. China's steel production and consumption remained elevated in 2020 as infrastructure-led stimulus aided demand of iron ore. On the supply side, due to supply disruptions caused by the outbreak of COVID-19 in Brazil, Vale, the world's second-largest producer of iron ore, lowered its production guidance for 2020 and 2021. In addition, the potential short-term disruption caused by the storms in Western Australia is causing the market to raise concerns about the supply of iron ore.

Commenting on the performance of the fourth quarter, Yury Makarov, Chief Executive Officer of IRC said, "I am pleased with K&S's solid operating performance in Q4 2020 which was achieved despite a number of challenges, including shipments disruptions and performance issues of the third-party mining contractors. For the full year 2020, K&S increased its production rate to operate at an average capacity of 87%, a historical record of the mine. We believe that our performance could have been further improved if not for the mining issues encountered by the mining contractors.

COVID-19 is creating havoc across the globe, but we are fortunate to be operating in the iron ore market which is one of the best performing commodities in 2020. With K&S's good production rate and the strong iron ore price, IRC enters 2021 with a positive operating environment and is looking forward to delivering another year of good performance."

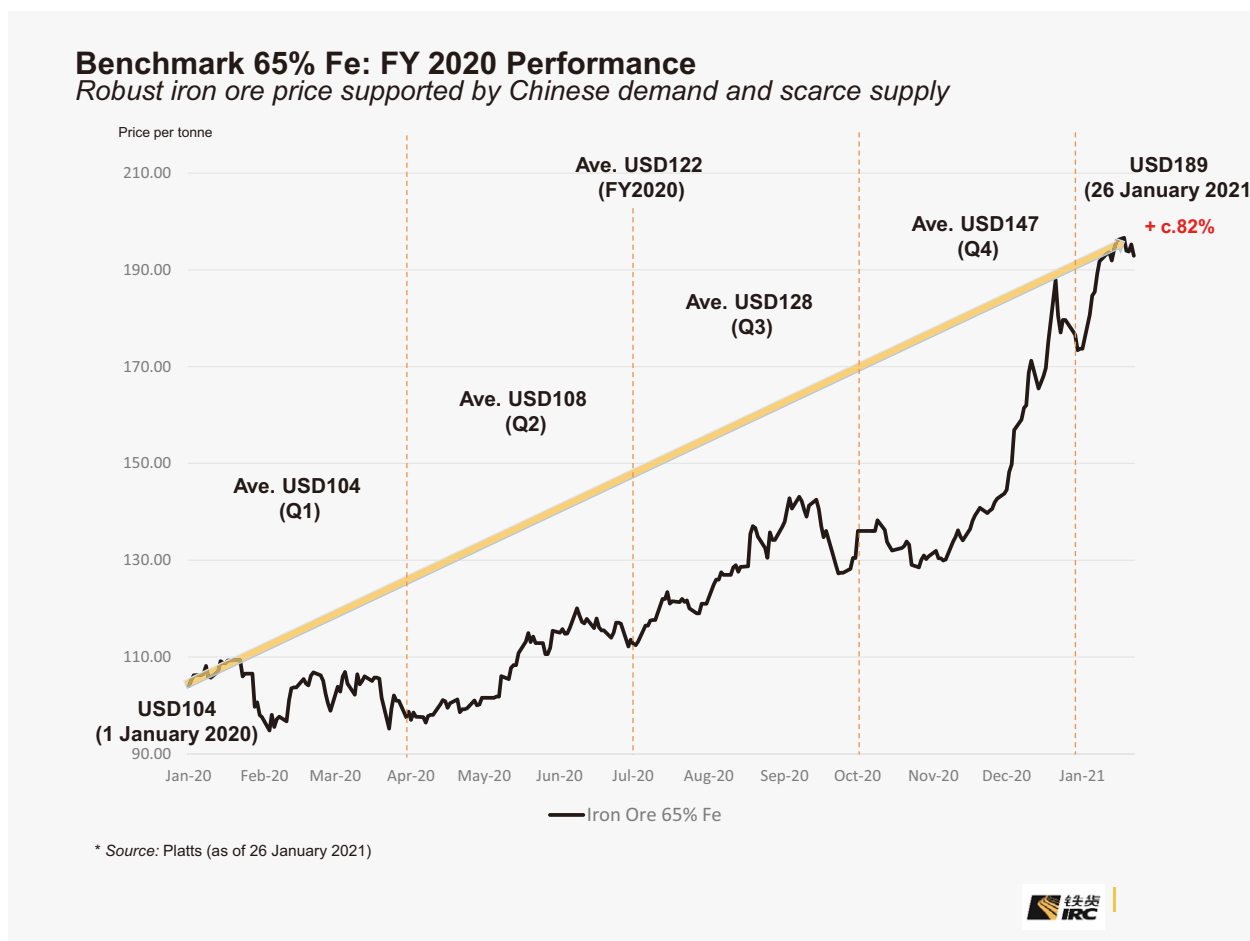
MARKETING, SALES AND PRICES

Iron Ore

During Q4 2020, K&S sold 544,403 tonnes of iron ore concentrate, 16.5% lower than the previous quarter, mainly due to the railway logistic issues at the Suifenhe border for which K&S was unable to ship the volume it has produced by train. As a result, excess production was stockpiled. Towards the end of December 2020, the railway service to the border was partially resumed and this, together with increasing shipments to seaborne and Russian customers, allows K&S to gradually reduce the stockpile.

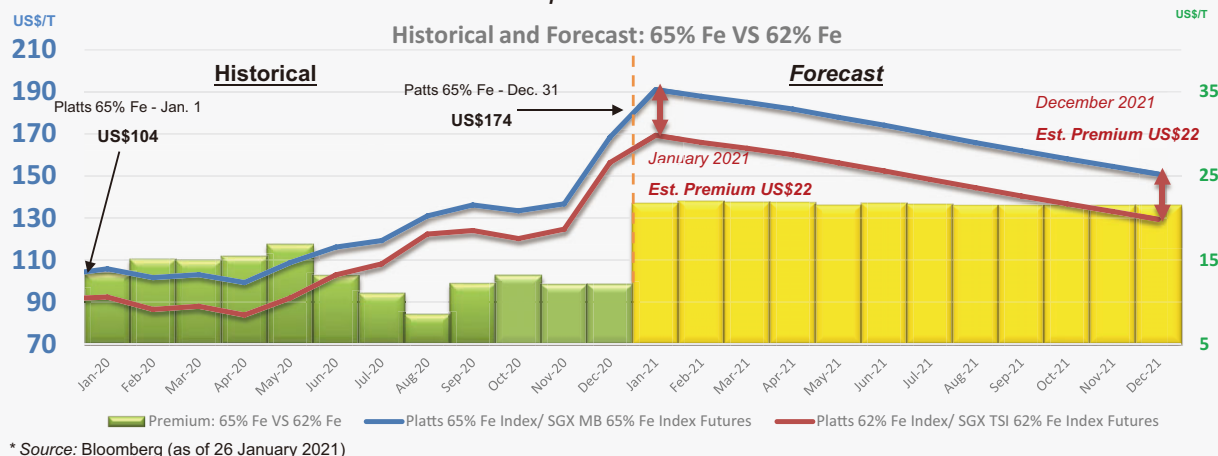
Looking back at 2020, iron ore was one of the most outstanding performers in the commodity market, largely due to supply disruptions caused by the outbreak of COVID-19 in Brazil, cyclone activities in Australia and robust demand from China. In the middle of 2020, Vale, the world's second-largest producer of iron ore, was ordered to suspend production in three of its high-grade Brazilian mines for two weeks due to COVID-19. Supply shortage continued into the fourth quarter of 2020. Lower production estimates from Vale fuelled fears, with the Brazilian company recently curbing its 2020 and 2021 production guidance. Shipments from Brazil to the rest of the world in November fell to a six-month low. In addition, the potential short-term disruption caused by storms hitting in Western Australia has led the market to raise concerns about the supply of iron ore. Meanwhile, on the demand side, China's appetite for imported iron ore remains strong. The total amount of iron ore imported in China in 2020 amounted to 1.2 billion tonnes, up by c.10% year over year. As China's economy takes the lead in recovering from the global COVID-19 pandemic, large-scale infrastructure projects continue to be launched and the real estate industry continues to grow steadily. Moreover, the impact of the environmental protection policy restrictions in China was much lower than expected in the second half of the year, resulting in continued high demand for iron ore during the winter.

With the aforesaid strong demand and supply disruptions, the 65% Fe Platts price closed at US\$174 per tonne at the end of 2020, 67% higher than the price at the 2019 year end. The current market price (as of 26 January 2021) is approximately US\$189 per tonne.



K&S produces 65% Fe high grade iron ore and it is encouraging to note that the forward curves of iron ore prices suggest that the price premium between high-grade 65% Fe iron ore and low-grade 62% Fe ones is expected to be widened. The price premium is forecasted to rise to US\$22 per tonne in December 2021, c.US\$9 per tonne higher than the same period in 2020.

65% Fe Price More Resilient Greater Price Premium Over 62% Fe Expected

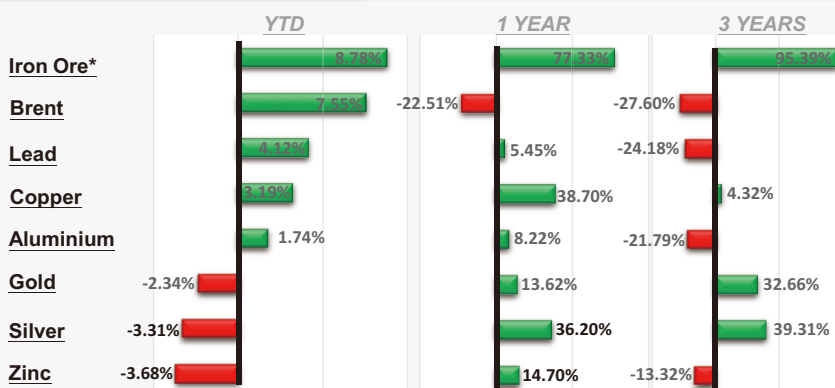


Commodities Indices

Iron Ore Outperforms Other Non-Precious Metals & Oil

Source: S&P GSCI Indices (as of 26 January 2021)

* Platts 65% Fe Index



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

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 its bargaining power in sales is negatively affected. This means that IRC's Chinese customers expect a discount to the benchmark Platts price for our sales 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 and the present state of the Russian economy. As the purchase prices offered by the Russian customers of K&S were not attractive, minimal shipments were made to Russia in Q4 2020 in favour of diverting more sales to the Chinese market, which offered better sales terms. In Q1 2021, a small quantity of iron ore will be sold to a Russian customer. K&S is monitoring the situation and will adjust its sales and marketing strategy accordingly.

Further to address this issue, IRC have been diversifying its customer base by selling to customers in the more southern part of China and delivering by sea. Here it is noted that 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 present is still similar to or lower than that in our original market. Possibly, though, if the southern market becomes more significant, the supply of concentrate in the north-east will be decreased and the discounts that IRC are forced to offer may shrink. In addition, the Amur River Bridge, which would improve the logistic efficiency and transport costs of both IRC and its Chinese customers, would open the door to renegotiate sales terms and to reduce the discounts.

The achieved selling price of K&S in the year of 2020 is not published in this trading update for commercial reasons. The relevant information will be analysed and disclosed in the 2020 annual results announcement due for release in March 2021.

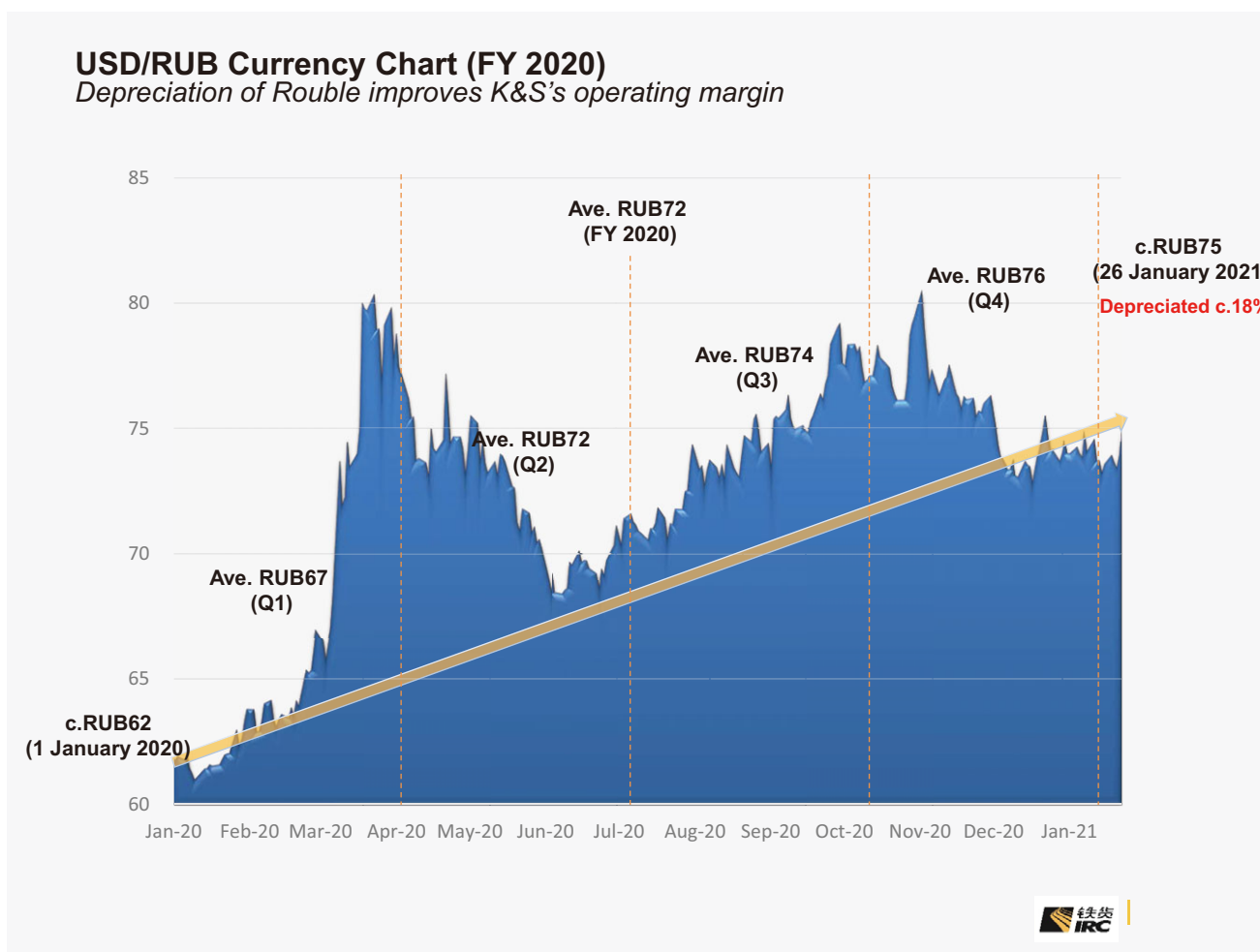
Iron Ore Hedging

IRC has previously entered into certain hedging contracts as protection against adverse changes in the iron ore price. Most of IRC's hedging contracts matured and were settled in 2019. The rest were entered into at higher pricing levels to provide better price protection, and should result in lower level of hedging losses in 2020 when comparing with 2019. In 2020, IRC did not engage in new iron ore hedging.

Given the current high iron ore price environment, IRC is contemplating to hedge the iron ore price in 2021 for risk management purposes.

Foreign Exchange Movements and Hedging

In the midst of the COVID-19 pandemic, falling oil prices, and concerns about possible new sanctions against Russia, the exchange rate of the Russian Rouble to the US Dollar fell by about 3% on average over the quarter. For the year 2020, the Russian Rouble has depreciated by about 16%. In general, according to Bloomberg's forecast, the market expects the Russian Rouble to remain above RUB70 in 2021.



Source: Bloomberg (as of 26 January 2021)

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 are mainly denominated in US Dollar. IRC has taken the opportunity to lock-in the current weak Rouble exchange rate by hedging about one-quarter of the Group's expected Rouble expenditure in 2020 from April to the end of 2020 using zero-cost collars with puts' strike varying in mid-70s and calls strike in the low-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 that IRC has entered into 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 Production

In the last quarter of 2020, K&S faced a number of challenges, including temporary logistic issues at the Sino-Russian border which limited the shipping volume of K&S. Generally, most of K&S's product is shipped to its Chinese customers by rail. In mid-December 2020, the Russian Railways experienced traffic congestion, mainly due to logistic and efficiency issues at the Suifenhe border crossing caused by COVID-19 and many trains were idle on the tracks. For this reason, Russian Railways were not accepting shipments to Suifenhe until the congestion situation improved, and thus K&S's railway shipments to the Chinese customers were suspended as a result. Towards the end of December 2020, the railway service to the Suifenhe border was partially resumed. Currently, on average, K&S can ship one train per day to the border, equivalent to about half of the mine's daily production capacity. K&S is diverting some of the production to seaborne and Russian customers. After the logistic issues were eased during the quarter, K&S is operating at a normal level. Currently, it is producing at c.85% of its capacity.

Under the current cold weather, the Drying Unit plays an important role in the production process of K&S, as it removes excessive moisture from the iron ore concentrate to prevent the product from freezing. With some of the capacity issues addressed last summer, the Drying Unit is currently performing satisfactorily and, coupled with other mitigating measures, is allowing K&S to operate normally during winter. One of the current production bottlenecks lies in the mining works. As previously announced, the third-party mining contractors had encountered certain capacity and equipment availability issues. Although the contractors are gradually increasing their work rates, the mining volume lag currently remains a limiting factor in the production of 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 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. Currently, there is a small number of employees at K&S who were tested positive with COVID-19, but most of the patients have mild or no symptoms. Those diagnosed get quarantined or hospitalized, depending on their condition, and receive appropriate medical treatment.

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

In the fourth quarter, the mining issues encountered by the third-party mining contractors started to ease, and the mining contractors continued to make up for the previous lag to provide the necessary amount of feedstock to meet the production needs of K&S. The volumes of mining, drilling and blasting are improving.

During the quarter, a total of 3,164,800 tonnes (Q3 2020: 2,327,400 tonnes) of ore were mined, 133,046 metres (Q3 2020: 91,516 metres) were drilled and 4,046,300 cubic metres (Q3 2020: 2,964,200 cubic metres) were blasted by the mining contractors. Concurrently, 2,362,500 tonnes (Q3 2020: 2,216,000 tonnes) of ore were fed to the primary processing plant and 1,583,615 tonnes (Q3 2020: 1,494,108 tonnes) of preconcentrate were produced. Finally, 686,842 tonnes of iron ore concentrate were produced, representing an increase of 3.2%, over the previous quarter.

Production and Marketing

	Q4 2020	Q3 2020	Changes
K&S			
Production (tonnes)	686,842	665,514	+3.2%
Sales (tonnes)	544,403	651,803	-16.5%

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability. Due to the recent increase in hauling distance and the gradual recovery of oil prices, the costs of the third-party mining contractors are on the rise. IRC will continue to apply stringent cost control measures. It is expected that further saving on transportation cost could be achieved when the Amur River Bridge is in use.

The relevant cash cost information for the full year 2020 will be analysed and disclosed in the 2020 annual results announcement.

Impact on 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. The joint venture was moved to care and maintenance in 2017 as the operation of this slag reprocessing plant was suspended, due to a lack of feedstock. Currently, contribution from the joint venture is not material.

CORPORATE AND INDUSTRY UPDATE

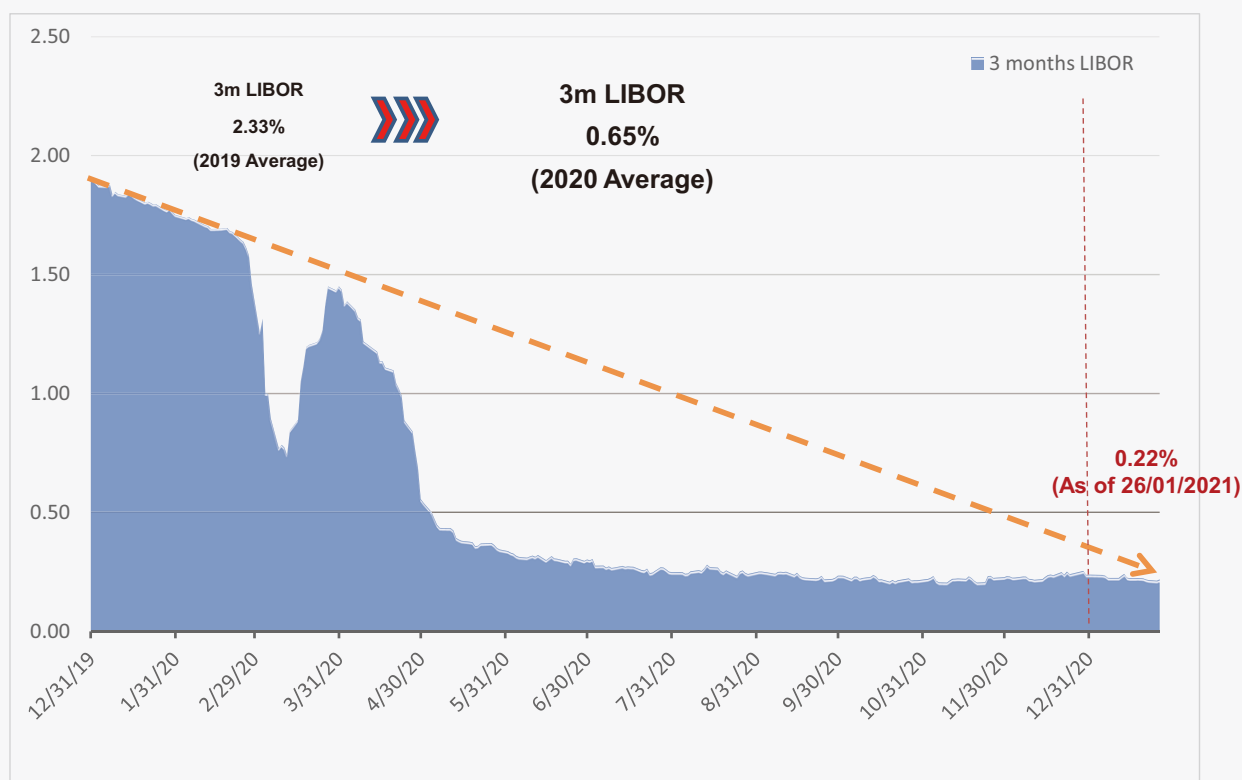
Group's Cashflow Position and New Gazprombank Facility

IRC completed the refinancing of the ICBC loan in 2019 with the Gazprombank facility. 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 and should improve the cash flow position of IRC. During the fourth quarter of 2020, c.US\$8.6 million was paid to Gazprombank as loan principal repayment and interest in accordance with the repayment schedule.

The interest 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 signaled 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 decreased from an average of 2.33% in 2019 to 0.65% in 2020. During the fourth quarter, LIBOR remained low at 0.22% on average. The lower LIBOR rate allows IRC to reduce its financial costs.

Three Months LIBOR: YTD

Lower LIBOR, reducing financing cost



Source: Bloomberg (as of 26 January 2021)

As of 31 December 2020, the unaudited cash and deposit balance of the Group amounted to c.US\$20.4 million. This is arrived at after the settlement of US\$5 million of guarantee fee to Petropavlovsk in December 2020 and the payment of US\$8.6 million to Gazprombank as principal repayment and interest in accordance with the repayment schedule. The total debt outstanding as of 31 December 2020 amounted to c.US\$203.9 million, all of which represents the loans from Gazprombank.

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 Russian media, citing the Presidential Envoy to the Far Eastern Federal District of Russia Mr. Yury Trutnev, the construction of the Bridge is expected to be completed by the end of 2021. 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 railway bridge. Thus, IRC will benefit from the project with reduced transportation distance and shipment time. The railway 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. 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 of 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, and comparative figures are adjusted accordingly to conform with the current period's presentation. Production rate of K&S is calculated based on an annual production capacity of c.3,155 thousand wet metric tonne, and achieved capacities for past periods are re-calculated as a percentage of this amount, where applicable, for comparison purposes.

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

Hong Kong, People's Republic of China
Friday, 29 January 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 Chuang-Fei Li, Mr Jonathan Martin Smith, Mr Raymond Kar Tung Woo and Mr Martin Davison.

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