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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 2021
PRODUCTION AFFECTED BY MINING ISSUES
RAIL TRANSPORT CONGESTION EASED BUT YET TO BE FULLY RESOLVED**

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 7838029#. Presentation slides to accompany the call are available at www.ircgroupp.com.hk. A replay call will be available from 30 April 2021 at http://www.ircgroupp.com.hk/en/ir_presentations.php

Thursday, 29 April 2021: 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 2021.

HIGHLIGHTS – Q1 2021

K&S

- Production volume decreased 6.1% due to operational constraints;
- Current bottlenecks: accumulated lag in the mining works due to the third-party mining contractors’ performance and declining Russian railways’ throughput due to congestion;
- Average production rate of 83% (Q4 2020: 87%), current production rate at c.88%;
- Sales volume increased 22.3%, compared with relatively low sales volume in Q4 2020 owing to railway issues;
- Drying Unit worked satisfactorily in winter, and is no longer required since the end of March due to the warmer weather;
- The development of Sutara deposit is ongoing to ensure a steady supply of feedstock for the rest of the mine life.

Corporate & Industry

- Platts’ 65% iron ore price increased by 29.3% QoQ;
- Price premium for 65% iron ore over 62% iron ore widened;
- Russian Rouble remained weak, trading at about RUB74 per US Dollar on average (Q4 2020 RUB76);
- Average three-month LIBOR decreased to 0.20% (Q4 2020 0.22%).

FIRST QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 MARCH 2021

	Q1 2021	Q1 2020	Change	Q4 2020	Change
Iron Ore concentrate					
– Production (tonnes)	644,744	670,477	–3.8%	686,842	–6.1%
– Sales (tonnes)	665,664	663,440	0.3%	544,403	22.3%

SUMMARY OF PERFORMANCE

During the quarter, K&S produced 644,744 tonnes of iron ore concentrate, a decrease of 6.1% from the previous quarter. Similar to the Q4 2020, due to the equipment availability issues and the underperformance of the main mining contractor, there has been an accumulated lag in mining volumes and K&S continued to encounter operational constraints related to the poor selection of ore. To mitigate these problems, a new mining contractor has been engaged and has begun working on site since the end of March. K&S is expected to increase mining volumes and to catch up with the accumulated lag soon. The Drying Unit that removes excessive moisture from the iron ore concentrate worked satisfactorily and is no longer required to be used in Q2 2021 due to the warmer weather.

Traffic congestion at the Russian railways due to the increased export volumes of coal was exacerbated by the efficiency issues at the Sino-Russian border crossings caused by COVID-19. After a brief suspension in December 2020, K&S has been able to ship to the Chinese customers by rail in Q1 2021, however due to the decreased capacity of the railway, on average only one train per day could be shipped, equivalent to about half of K&S's daily production capacity. In order to mitigate the constraints of the Grodekovo-Suifenhe crossing, K&S has been diverting more product to customers in Southern China delivered by sea as well as to customers in Russia. In Q1 2021, K&S sold 665,664 tonnes of iron ore concentrate, representing an increase of 22.3% over the previous quarter.

The Platt's 65% Fe benchmark was on the rise, with the average price in the first quarter being US\$190 per tonne, an increase 29.3% from the average price in the previous quarter. The high iron ore prices were mainly attributable to the strong demand for iron ore in China, the expectation of the launch of infrastructure projects in United States and the reduced global iron ore supply by the major iron ore producers due to the seasonal weather factors in Australia and Brazil.

As China pledged to reduce emissions to carbon-neutral future by 2060, the price premium for iron ore with content of between 65% Fe and 62% Fe has been widening, and reached US\$26 per tonne in March 2021.

Commenting on the performance of the first quarter, Yury Makarov, Chief Executive Officer of IRC said, “This has been a challenging quarter in light of the mining and railway congestion issues. While we are pushing our main mining contractor to improve its work rate, we have appointed a new contractor to increase mining volume and introduce competition. The railway congestion issues are still hindering our sales. This is disappointing, especially due to the fact that this problem is beyond our control. To mitigate this issue, we are diverting our sales to other customers although the net contribution margin might be lower. We understand, and fully expect that, operating a sizeable mine like K&S would never be plain sailing and there will be ups and downs. In these difficult times, we are encouraged by the work ethic and resilience of the K&S site team in dealing with the adversities.

While we are dealing with the aforesaid short-term issues, we have not lost sight on the long-term development of the mine. According to the development timeline of K&S, the Sutara pit will start supplying ore by 2023, while the volume of ore mined at Kimkan deposit will be gradually reduced. Our team has started developing the Sutara pit to ensure a steady supply of feedstock to the processing plant for the rest of the K&S mine life.”

MARKETING, SALES AND PRICES

Iron Ore

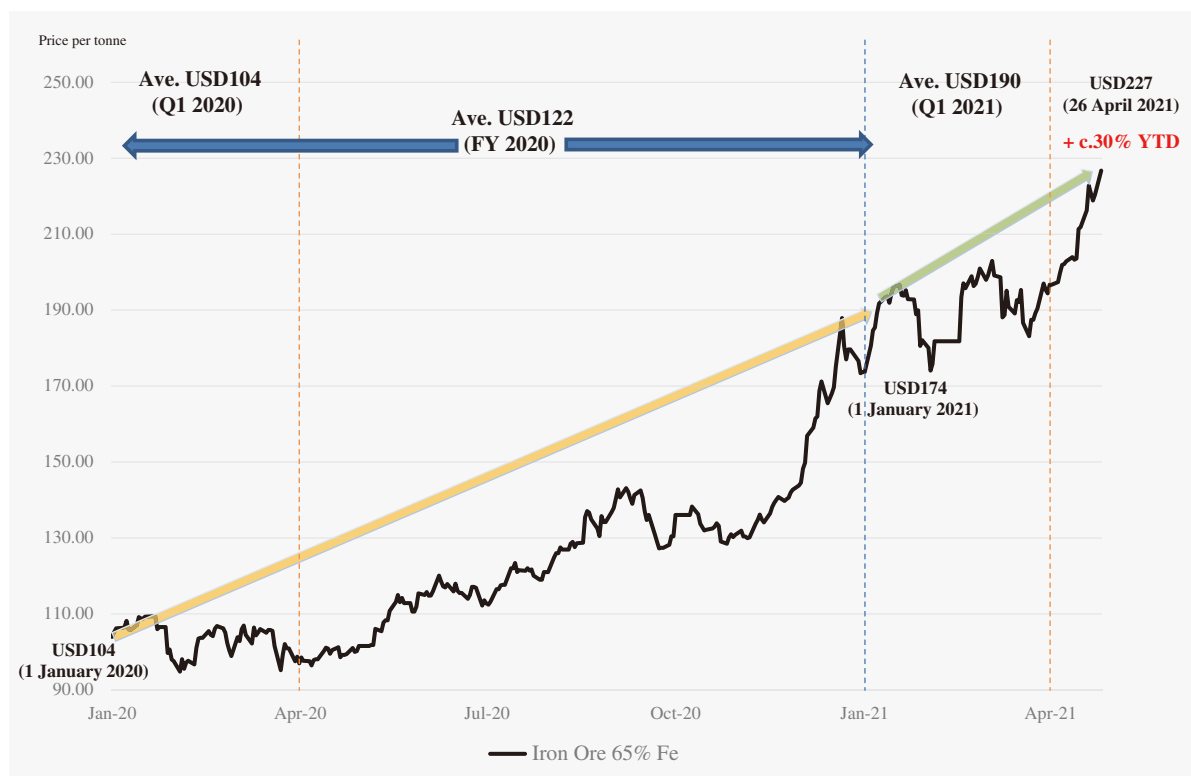
K&S had a good start in terms of iron ore concentrate sales in 2021, with the sales volume being 665,664 tonnes of high-grade iron ore concentrate, representing an increase of 22.3% compared to the previous quarter. It should however be noted that the increase is mainly due to the low sales volume in Q4 2020 due to the railway congestion issues. Despite operational constraints caused by low performance of the main mining contractor and the Russian Railways' congestion issue, K&S's iron ore concentrate production volume remained in line with the same period last year, but was down 6.1% compared to the previous quarter. While reducing its finished goods stockpiles, K&S continued to divert production shipments to seaborne customers in southern China and to the local markets in Russia.

The Platts' 65% benchmark average spot price of iron ore increased 29.3% from the previous quarter to US\$190 per tonne. The high iron ore price was mainly due to the continuous strong iron ore demand in China, the expectation of the launch of infrastructure projects in United States and seasonal weather factors in Australia and Brazil which have led to the reduction of iron ore supply from major iron ore producers.

Chinese economic stimulus policies boosted real estate and infrastructure construction. The crude steel output in China was a high level of approximately 94 million tonnes in March, an increase of c.19% compared to the same period last year. Due to the rapid progress of vaccination and government policy support in the United States, the expectation of the launch of infrastructure projects improved the prospects of the iron ore market.

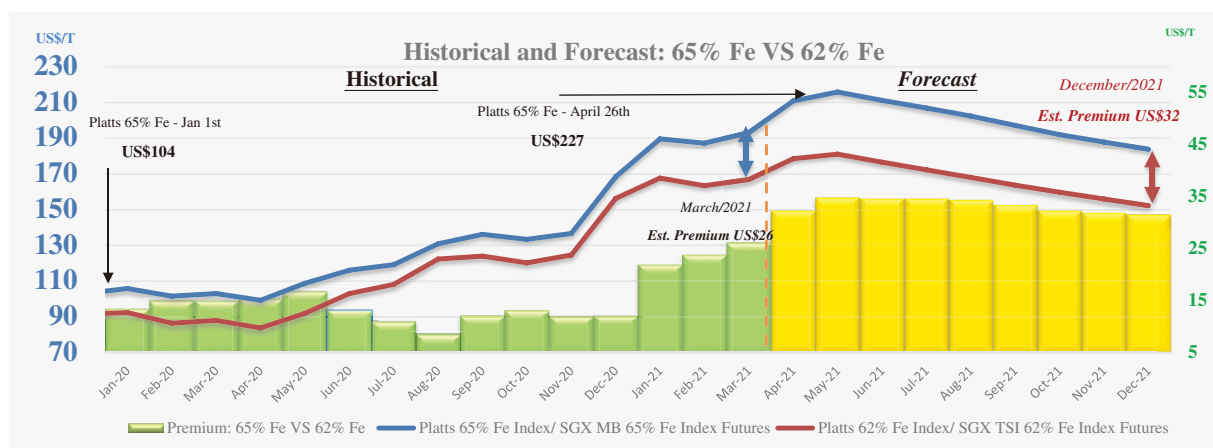
Iron ore imports to China totalled 283 million tonnes in the first quarter, a 9% increase year-on-year. However, it represented a 6.2% decrease from the previous quarter because in February, shipments by the major producers have been lower, owing primarily to seasonal weather factors in Australia and Brazil.

In April, the Platts 65% iron ore broke through the level of US\$200 per tonne.



Source: Platts (as of 26 April 2021)

As part of China’s commitment to a carbon-neutral future by 2060, Chinese steel mills are expected to reduce emissions by upgrading facilities and using higher quality iron ore feedstock. The price premium of the high-grade 65% Fe over the low-grade 62% Fe has already exceeded US\$30 in April 2021, and it is encouraging to note that the forward curves of iron ore prices suggest that the price premium is expected to widen further to more than US\$34 per tonne in May-August.



Source: Bloomberg (as of 26 April 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.

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 understand 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, minimal shipments were made to Russia in Q1 2021 in favour of diverting more sales to the Chinese seaborne market, which offered better sales terms. K&S monitors the situation and adjusts its sales and marketing strategy accordingly.

To address railway border crossings capacity issue, IRC has been diversifying its customer base by selling to customers in the southern part of China and delivering by sea. 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 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, would open the door to renegotiate sales terms and potentially improve the pricing.

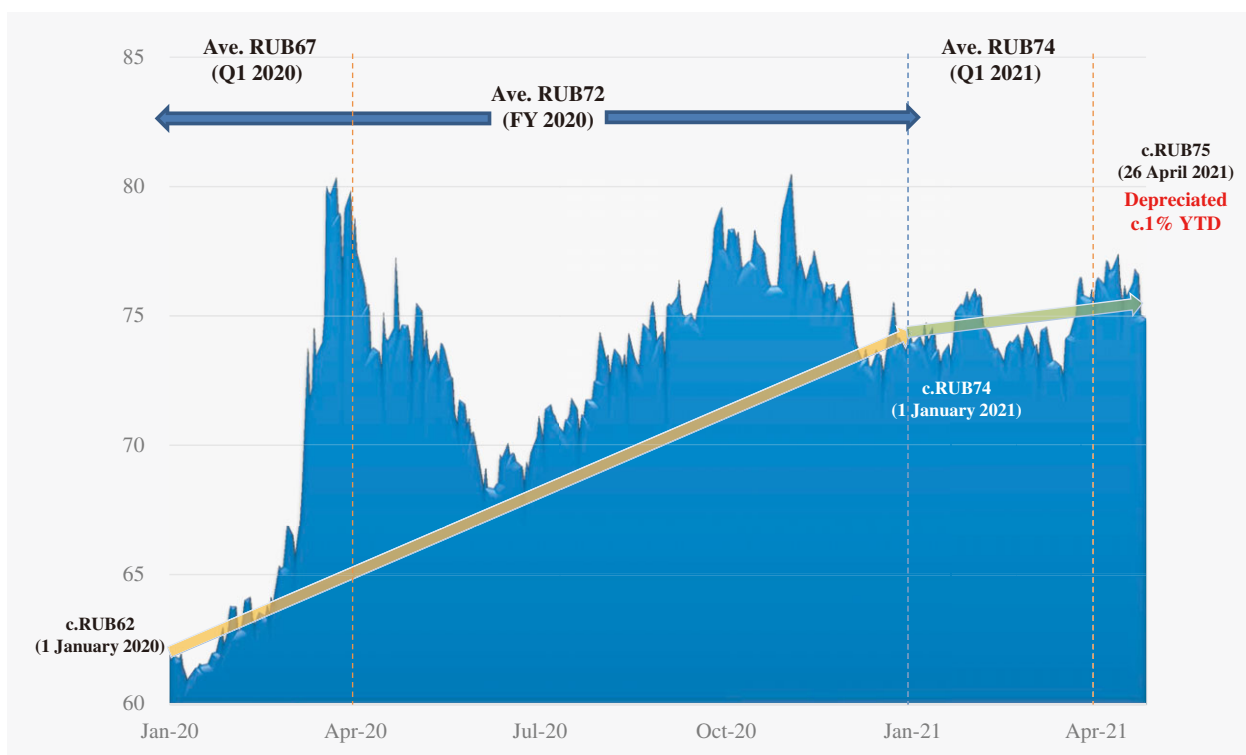
The achieved selling price of K&S in the first quarter of 2021 is not published in this trading update for commercial reasons.

Iron Ore Hedging

In the first quarter of 2021, IRC took 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. 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 continued to remain weak in the first quarter, as higher oil prices offset geopolitical tensions and because of the new US sanctions imposed by the Biden administration. In the first quarter, the Russian Rouble was trading at about RUB74 per US Dollar on average. The currency has depreciated by c.9% compared to the first quarter of 2020.



Source: Bloomberg (as of 26 April 2021)

The weakness in Russian Rouble has a positive impact on the Group's operating margin, as the operating costs of the Group are mainly denominated in Russian Rouble 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 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 Production

K&S produced 644,744 tonnes of 65% Fe iron ore concentrate during the quarter, a decrease of 6.1% from the previous quarter. The mining volumes of K&S were lower than planned, owing to the unsatisfactory performance of the main mining contractor. To mitigate this issue, another mining contractor has already begun working on site since the end of March, and K&S is expected to increase mining volumes and to catch up with the accumulated lag soon.

Russian Railways continued to experience traffic congestion in this quarter due to ongoing efficiency issues at the Suifenhe border crossing caused by COVID-19 and the increased demand from the coal exporters. After a brief suspension in December 2020, K&S has been able to ship to the Chinese customers by rail in Q1 2021, however due to the decreased capacity of the railway, on average only one train per day was shipped, equivalent to about half of K&S's daily production. To alleviate the railway congestion issue, K&S diverted more product to the customers in southern China by sea and to customers in Russia.

K&S is currently producing at a capacity of c.88%.

The Drying Unit, which extracts excessive moisture from the iron ore concentrate to prevent the product from freezing in winter, is a vital part of K&S's production process during cold weather. The Drying Unit has been performing satisfactorily in winter. In Q2 2021, K&S's production process no longer requires the use of the Drying Unit due to the warmer weather.

According to the K&S Phase I project's development timeline, Sutara deposit will start to be mined in parallel with Kimkan deposit by the year of 2023, and the volume mined at Kimkan deposit will be gradually reduced. The development of Sutara has already started to ensure a steady supply of feedstock for the rest of the mine life.

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 small 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 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

As mentioned above, the performance issue of the third-party mining contractor is getting eased as a new mining contractor has started to work on site. Jointly, the mining contractors continue to make up for the previous lag to provide the necessary amount of feedstock and meet the production needs of the plant. K&S will continue to engage with mining contractors with excellent track record to diversify our mining service providers.

During the period, the mining contractors mined 2,334,000 tonnes (Q4 2020: 3,164,800 tonnes) of ore, drilled 138,911 metres (Q4 2020: 133,046 metres), and blasted 4,046,176 cubic metres (Q4 2020: 4,046,300 cubic metres) of rock mass at the Kimkan Centre and Kimakn West pits. Concurrently, there were 2,407,500 tonnes (Q4 2020: 2,362,500 tonnes) of ore fed to the primary processing plant and 1,552,329 tonnes (Q4 2020: 1,583,615 tonnes) of pre-concentrate produced. Finally, 644,744 tonnes of commercial iron ore concentrate were produced, a 6.1% decrease from the previous quarter.

Production and Marketing

	<u>Q1 2021</u>	<u>Q4 2020</u>	<u>Changes</u>
K&S			
Production (tonnes)	644,744	686,842	-6.1%
Sales (tonnes)	665,664	544,403	+22.3%

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability. 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 first half year of 2021 will be analysed and disclosed in the 2021 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. As such, K&S has not been subject to any direct negative impact from the sanctions against Russia.

SLAG REPROCESSING PROJECT (46% owned)

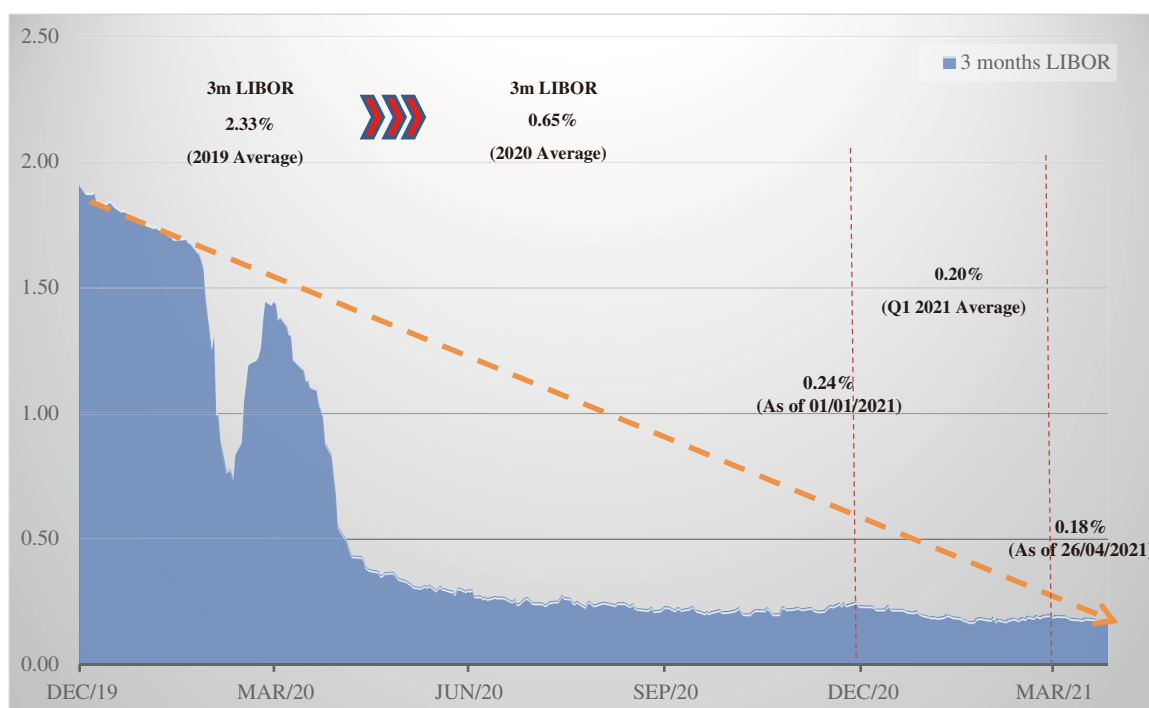
Having successfully sourced feedstock from China, IRC's slag reprocessing project, a joint venture with Jianlong Steel, has recommenced operation and this diversifies the product mix of the Company. Due to the relatively small scale of the project, contribution from the joint venture is not material.

CORPORATE AND INDUSTRY UPDATE

Group's Cashflow Position and Gazprombank Facility

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 PLC. The repayment schedule is more closely aligned with the production plans of K&S and improves the cash flow position of IRC. During the first quarter of 2021, c.US\$8.5 million was paid to Gazprombank as loan principal repayment and interest in accordance with the repayment schedule. US\$5 million was paid in Q1 2021 to Petropavlovsk PLC as guarantee payment.

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. In the first quarter of this year, the three-month LIBOR decreased from an average of 2.33% in 2019 to 0.20%. The lower LIBOR rate allows IRC to reduce its financial costs.



Source: Bloomberg (as of 26 April 2021)

As of 31 March 2021, the Group's unaudited cash and deposits balance was c.US\$41.5 million. The payment of US\$8.5 million to Gazprombank as principal repayment and interest was made in accordance with the repayment schedule. The total debt outstanding as of 31 March 2021 amounted to c.US\$198.7 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 the reduced transportation distance and shipment time. The railway bridge can not only save the transportation cost of K&S 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 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
Thursday, 29 April 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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