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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 2016

CONFERENCE CALL

A conference call will be held today at 09h00 Hong Kong time to discuss the first quarter trading update. The number is +852 2112 1700 and the passcode is 1541021#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 22 April 2016 at www.ircgroup.com.hk/html/ir_call.php.

Thursday, 21 April 2016: 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 2016.

HIGHLIGHTS

- Waivers obtained from ICBC regarding obligations for IRC to comply with certain financial covenants and maintain cash deposit in the DSRA account, upon fulfilment of the conditions precedent.
- Good progress for the remaining steps of hot commissioning at K&S. As confirmed by CNEEC, the Processing Plant will be handed over to IRC by 30 June 2016 and the Drying Unit by 31 August 2016.
- Agreed payment terms with CNEEC to alleviate cash flow, allowing outstanding construction payments to be deferred.
- As announced before Kuranakh has moved to care and maintenance status. Last shipment of products was completed in March 2016.

FIRST QUARTER TRADING UPDATE

FOR THE THREE MONTHS ENDED 31 MARCH 2016

As announced previously, Kuranakh will be moved to care and maintenance in the first quarter of 2016. As a result, the remaining stockpile allowed a production of 188,111 tonnes of iron ore concentrate; and 34,043 tonnes of ilmenite at Kuranakh during the first quarter of 2016, which rendered sales of 212,585 tonnes iron ore concentrate and 41,480 tonnes of ilmenite. The last shipment of product was completed at the end of March.

		Q1 2016	Q1 2015	Change
Iron Ore (62.5% Fe)	Production (tonnes)	188,111	283,128	-34%
	Sales (tonnes)	212,585	253,988	-16%
	Average Price (US\$/t)	43	59	-27%
Ilmenite (48% TiO ₂)	Production (tonnes)	34,043	46,657	-27%
	Sales (tonnes)	41,480	45,288	-8%
	Average Price (US\$/t)	N/A*	N/A*	N/A*

* Quarterly Ilmenite ASP not disclosed for commercial reasons

Commenting on the quarter, Yury Makarov, Chief Executive Officer of IRC said, “In the first quarter, we are pleased to have reached a solid agreement with CNEEC regarding K&S commissioning timeline and a payment solution to alleviate the Group’s cash flow. We are also very excited about our recent announcement of the hot commissioning of the final crushing and screening facilities, which means we are now just one step away from the maiden production of K&S. We are focusing every effort on the remaining step – the Processing Plant, and working closely with CNEEC to ensure prompt handing over of the Plant to IRC by the end of June this year.

While waiting for our K&S mine to be fully operational, we are continuing our tactics of streamlining operation and strengthening balance sheet. Following the care and maintenance programme and last shipment of Kuranakh, we are expecting minimal maintenance cost going forward. We are also expecting a further 30% cut in corporate expenses to around US\$7 million this year with the help of depreciation of Rouble and more stringent cost cutting measures. In terms of protecting our balance sheet, we are pleased to have obtained waivers from ICBC for IRC to comply with certain financial covenants and maintain cash deposit in the DSRA account. The waivers obtained will help alleviate our cash flow and improve our financial position.

Turning to the market, in the first quarter, we are seeing some recovery of the iron ore market, closing the quarter with a price above US\$50/t. Although the general market view is that the rally will be short-lived, we hope to see the market picks up as long-term demand growth brought by China’s One-Belt-One-Road initiatives materialise. We should also note that even in troubled times like now, K&S is still an attractive project. It is expected to make an operational margin as the all-in unit cash cost can be as low as US\$28/t when the Amur River Bridge is in use in 2017. We look forward to its maiden production and revenue in a few months time.”

MARKETING, SALES AND PRICES

Iron Ore

Sales for iron ore concentrate from the Kuranakh Mine are secured under a long-term offtake agreement and prices are calculated on the INCOTERM “DAP” (Delivered at Place) basis. During the quarter, IRC’s average achieved selling price for iron ore was US\$43 per tonne, a 7% decrease compared to US\$46 per tonne in the previous quarter and a 27% decrease compared to the US\$59 per tonne in the first quarter 2015.

The iron ore price in the first quarter of 2016 showed some rebounds. The spot price of benchmark 62% iron content delivered to the Chinese port of Qingdao recovered slightly from the multi-year low in December 2015 (averaged below US\$40/t in December), achieving an average of US\$47.7 per tonne in the first quarter. The benchmark prices rallied around US\$50/t during February, and spiked rapidly over US\$60/t in early March. While industry analysts explained the quarterly price improvement was primarily a result of strengthened steel prices and signs of China property revival, most generally believe that the rally will not last in the longer term. However, forecast could be upwardly revised if a material demand increase from China is experienced, for instance, materialisation of One-Belt-One Road initiatives.

Ilmenite

During the first quarter, ilmenite sales totalled 41,480 tonnes, an 8% decrease compared to same period last year. The ilmenite market is less transparent than other commodities but generally ilmenite prices remain more stable over time than iron ore. For commercial reasons IRC does not publish quarterly prices.

Foreign Exchange

The Rouble continued to remain weak against the US dollar in the first quarter 2016 as decline in oil prices and economic sanctions against Russia prevails. The Rouble against US dollar average exchange rate was 74.8 in the first quarter, although some improvements in commodities prices closer to first quarter end have pushed both iron ore and oil prices up, leading to a slight appreciation of Rouble to 67.6. The weakness in the Rouble renders a positive impact on the Group’s operating margins as it partly offsets the effects of falling iron ore prices, with the Group’s operating costs mainly in Roubles and revenues mainly in US Dollars.

Benchmark Fe 62% CFR China VS. FX rates (USD:RUB)



OPERATIONS

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. The Kuranakh Mine is the largest regional employer, bringing a much needed boost to the local economy through fiscal contributions and stakeholder and biodiversity conservation programmes.

Production and Financials

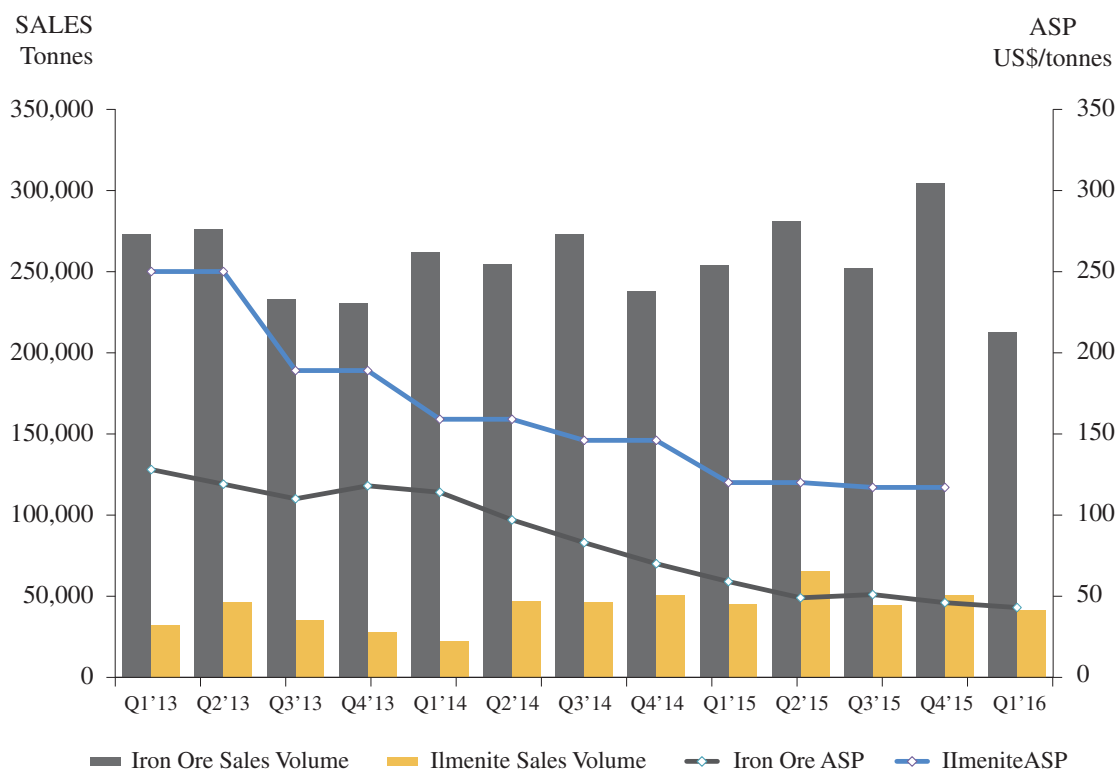
The Company announced on 14 December 2015 commencing a programme of moving the Kuranakh operation to care and maintenance. The remaining stockpile allows a production of 188,111 tonnes of iron ore concentrate and 34,043 tonnes of ilmenite at Kuranakh during the first quarter of 2016, which rendered a sale of 212,585 tonnes iron ore concentrate and 41,480 tonnes of ilmenite. The last shipment of product was completed at the end of March.

A limited number of personnel will be relocated to K&S where production will soon commence. Also, it is expected that the processing and sale of inventories, with the sale of equipment, could generate sufficient funds to pay down the majority of the working capital facilities of Kuranakh.

The care and maintenance programme will involve a limited cost going forward. It is intended initially to reduce the staff at Kuranakh to minimum levels in order to maintain equipment and security and then wind down the operations further. The only major non-operating cost that the site will bear is domestic property taxes however relief will be sought for these.

Kuranakh Sales and Average Selling Prices (ASP)

Q1 2013 to Q1 2016



As the Company was in the process of moving Kuranakh to care and maintenance, the RoM tonnage for the quarter was 568,900 tonnes, 15% less than the previous quarter in 2015.

The Crushing and Screening Plant processed 578,277 tonnes of iron ore with a grade of 26.58% Fe and 7.95% TiO₂, producing 290,394 tonnes of pre-concentrate. There are no remaining stockpiles at the quarter end since Kuranakh has been moved to care and maintenance.

During the first quarter, Olekma Processing Plant processed a total of 363,792 tonnes of pre-concentrate, resulting in production of 188,111 tonnes of iron ore, and 34,043 tonnes of ilmenite concentrate.

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 130 kilometres from 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 Hot Commissioning Progress

K&S hot commission programme has progressed well. The Group has signed a settlement agreement with CNEEC on 14 March 2016 regarding the timeline of the project and payment terms to alleviate the Group's cash flow. As confirmed by CNEEC, the Processing Plant will be handed over to IRC by 30 June 2016 and the Drying Unit by 31 August 2016. While the hot commissioning of the Processing Plant will allow production of final product, the Drying Unit is only essential during winter time, therefore the completion of it in a later time will not affect K&S's timeline of first production and shipment of product. Detailed information of the relevant announcement can be found at our website.

In addition, in April 2016, the Group announced the successful hot commissioning of the Second and Final Stage of Crushing and Screening Plant, allowing the production of pre-concentrate. Also, the commissioning of the Processing Plant is going on schedule with water supply from tailings started, allowing for cold commissioning tests to begin. The Group is keeping a close scrutiny on the hot commissioning progress.

After a short but efficient ramp up process, the plant is expected to operate at its full capacity during the third quarter of 2016, allowing nearly a half-year of full capacity production of 3.2 million tonnes of high grade 65.8% iron ore concentrate. The plant is capable to be further expanded to produce 6.3 million tonnes per annum when markets allow. Production guidance of 2016 will be provided when K&S is closer to full commissioning.

Despite volatile commodities environment, K&S is still one of the lowest operating cost iron ore projects in the world. In view of the previously announced cost optimisation analysis on K&S (based on market assumptions as previously guided), it is estimated that in full capacity operation and transporting to the Chinese border, if restating the cost per global benchmark for 62% material the operating cash cost can be as low as US\$34 per tonne; and if including the impact of forecast cost savings from the Amur/Heilongjiang River Bridge, the operating cash costs can be further lowered to US\$28 per tonne.

Successful testing of Second & Final Stage Crushing & Screening Plant – upgrading the 33% Fe ROM ore to a 40% Fe product, defined as a Pre-Concentrate



Mining

Stripping and mining activities were suspended as the stockpile necessary to commence operations has already been built up. When full commissioning approaches, the mining contractor will start preparations for mining works commencement, firstly with drilling and blasting operations to prepare ore volumes in the open pit, and later with excavation and hauling operations to replenish ore stockpile that will be used for plant feeding.

CORPORATE UPDATE

Discussion with ICBC and Sinosure on Loan Waivers

IRC has been in discussions with ICBC and Sinosure regarding waivers in respect of its project finance facility with ICBC, including obligations to maintain certain cash deposit with ICBC, and the obligations of IRC and its guarantor Petropavlovsk plc to comply with certain financial covenants.

On 19 April 2016, ICBC has informed the Company that the waivers have been granted, subject to the fulfilment of certain conditions precedent. Effective immediately upon fulfilment of the conditions precedent, ICBC has granted the Company a waiver from the obligation to maintain cash deposits of US\$26 million with ICBC during the period from 20 June 2016 to 30 June 2018 (both dates inclusive). The waiver from the obligations of IRC and Petropavlovsk plc to comply with certain financial covenants will be effective immediately upon fulfilment of the conditions precedent and up to and including 31 December 2017.

The waivers obtained will alleviate the Company's cash flow and improve its financial position. IRC is now working with all parties involved to ensure that all conditions precedents can be fulfilled. Further announcement will be made in due course.

IRC remains well funded to complete K&S. The unaudited cash balance at the end of the first quarter of 2016 was US\$53.9 million. This figure includes US\$28.3 million in the debt service reserve account, and does not include the US\$30.0 million of fully funded bond payments that ICBC hold on IRC's behalf as down payments on construction work at K&S. Total debt outstanding was US\$281 million made up of US\$276.3 million of the ICBC credit facility for K&S, and US\$4.7 million of working capital facility for the Kuranakh project.

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, and later sold to Russian and Chinese development Funds in November 2014. Currently, the bridge construction is progressing, with the Chinese side of the bridge finishing soon. According to the media, the construction of Amur River Bridge is expected to be completed in 2017.

IRC's 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 could halve the transport costs of K&S and further confirming IRC as one of the lowest cost iron ore projects in the world.

General Nice and Minmetal Cheerglory Strategic Investment

In January 2013, IRC announced a two-stage transaction for a US\$238 million subscription for new shares by strategic Chinese investors General Nice and Minmetals Cheerglory.

To date, our strategic partner and second largest shareholder, General Nice has invested approximately US\$170 million under the subscription agreement. This represents more than 80% of their total subscription obligation under the strategic investment agreement entered into in 2013. Although full completion of the investment from General Nice and Minmetals has been delayed, General Nice has agreed to commence paying interest on the outstanding investment amount of US\$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 31 March 2016.

IRC continues to be in discussions with General Nice, Mr Cai Sui Xin (Chairman of General Nice) and Minmetals Cheerglory about completion of General Nice's subscription obligations and the settlement of the interest due to date and other potential alternative options.

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

Hong Kong, People's Republic of China
Thursday, 21 April 2016

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 George Jay Hambro, Mr Cai Sui Xin, Mr Liu Qingchun and Mr Raymond Kar Tung Woo. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr Chuang-Fei Li and Mr Jonathan Martin Smith.

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

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

Shirly Chan
Manager – Communications & Investor Relations
Telephone: +852 2772 0007
Mobile: +852 9688 8293
Email: sc@ircgroup.com.hk