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

**SECOND QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 30 JUNE 2020
FAVOURABLE PRODUCTION RATE, IRON ORE PRICE & ROUBLE FX
IRC TO REPORT PROFIT IN 1H2020**

CONFERENCE CALL

A conference call will be held today at 15h00 Hong Kong time to discuss the second quarter trading update. The number is +852 2112 1888 and the passcode is 6027531#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 3 August 2020 at http://www.ircgroup.com.hk/en/ir_presentations.php

Friday, 31 July 2020: The Board of Directors of IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) is pleased to provide the Second Quarter Trading Update for the three months ended 30 June 2020.

HIGHLIGHTS – 2Q2020

K&S

- 8.1% and 8.5% improvement in production and sales respectively over the previous quarter, despite issues with mining works
- Average production rate of 91.8% in 2Q2020 (1Q2020: 85.5%)
- Current production and shipment rates of c.90%

Kuranakh

- Care and maintenance process satisfactory
- In administration, but available for re-opening

Corporate & Industry

- Profit of not less than US\$5 million in 1H2020 (1H2019: Loss of US\$25.2 million)
- Good production rate, strong iron ore price and weak Russian Rouble contributed to IRC’s profitability
- Impact of COVID-19 not as yet significant

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2020

	2Q2020	1Q2020	Change	2Q2019	Change	1H2020	1H2019	Change
Iron Ore concentrate								
– Production (tonnes)	724,934	670,477	+8.1%	698,374	+3.8%	1,395,411	1,221,249	+14.3%
– Sales (tonnes)	719,910	663,440	+8.5%	705,669	+2.0%	1,383,350	1,239,397	+11.6%

During the second quarter of 2020, K&S operated at an average capacity of 92% to produce 724,934 tonnes of iron ore concentrate, an increase of 8.1% over the previous quarter. 719,910 tonnes of iron ore concentrate were sold, 8.5% higher than that of 1Q2020. The operating performance would have been further improved if production were not hindered by limitations of the third-party mining contractors. During the quarter, the mining volume was lower than expected, mainly due to short-term mining issues. The mining contractors are now pushing to try to catch up with the mining volume lag.

The outbreak COVID-19 is spreading through various countries including Russia, and the Company is pleased to inform that the virus has no material impact on IRC's operations to date.

For the first half of 2020, K&S operated at an average capacity of 88%. 1,395,411 tonnes of 65% iron ore concentrate were produced and 1,383,350 tonnes were sold, an improvement of 14.3% and 11.6% respectively over the same period last year.

Benefitting from the increased demand of iron ore in China and the restrained supply of major iron ore producers, the market prices of iron ore continued to rise. The price of 65% Fe Platts benchmark as of 30 June 2020 of US\$114 per tonne was 9% higher than that as of the 2019 year end. On the other hand, during 1H2020, the Russian Rouble depreciated by 13% and the 3-month LIBOR lost 160 basis points, both helped control the cost level of IRC. In light of the above, it is expected that IRC will report a net profit of no less than US\$5 million for 1H2020, a turnaround from a loss of US\$25.2 million recorded in 1H2019. Full details of the 1H2020 results will be presented in the 2020 interim results announcement to be published by the end of August 2020.

Commenting on the performance of the second quarter, Yury Makarov, Chief Executive Officer of IRC said, “I am pleased of K&S managed to operate at close to full capacity in 2Q2020 despite issues with the mining works. We are pushing our mining contractors to increase the work rates to allow K&S to continue operating at high capacity.

Although the first half of 2020 was full of challenges and uncertainties for most businesses, the iron ore market was one of the few that performed well. Due to supply disruptions and the pledge of the Chinese government to increase infrastructure spending, iron ore was one of the best performing commodities in 1H2020. Apart from enjoying good iron ore prices, IRC also benefitted from the weak Russian Rouble and lower interest rates. These favourable factors, coupled with our strong production rate, have allowed IRC to deliver profit to our shareholders in the first half of 2020, a significant milestone in the development of the Company.

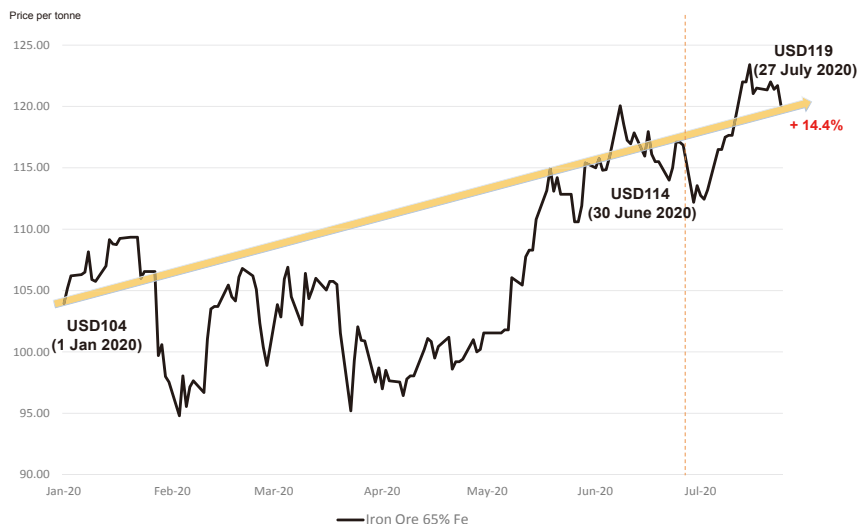
There are, however, a number of challenges which we should not overlook. The global economy has been rattled by the escalating political tension between the western countries and China. The global impact of the COVID-19 pandemic is an unprecedented challenge for individuals, governments and businesses alike. To date, disruptions to the Group have been manageable and our operations have not been materially affected, a credit to our people who have taken up the challenge of a changed working environment, particularly those who continue to carry out their work on site. IRC will continue to adopt a cautious approach in dealing with these challenges.”

MARKETING, SALES AND PRICES

Iron Ore

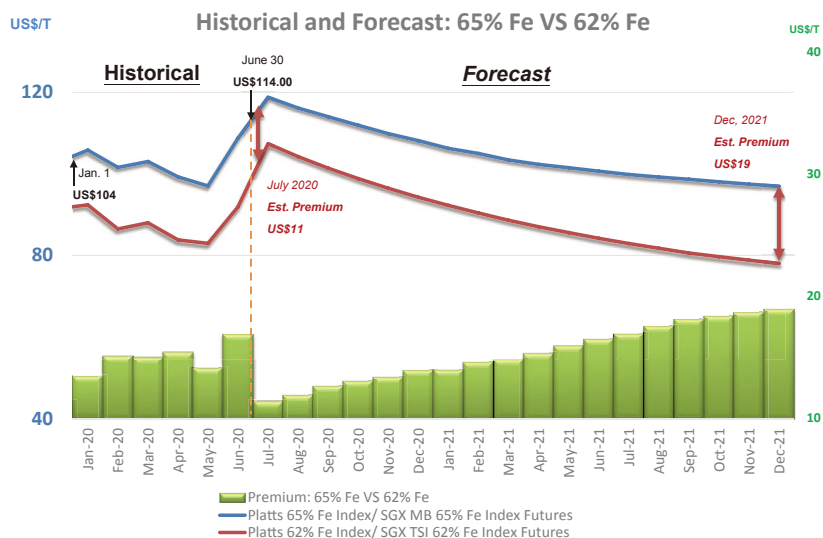
On the supply side, owing to the rain and shipping delays in March, iron ore exports from Vale, one of the largest iron ore producers, were down 13.4% in the first five months of 2020 compared to the same period last year. Moreover, in early June, three high-grade Brazilian mines of Vale were closed for about 2 weeks for COVID-19 reasons. On the demand side, the Chinese government has pledged to increase its expenditure on infrastructure to offset the impact of the pandemic, increasing its demand for iron ore to produce steel for infrastructure and other construction projects. According to the media, China has planned for c.US\$7.15 trillion in spending on infrastructure after the COVID-19 impacts and around US\$1.07 trillion is expected to be incurred in 2020.

Due to the strong demand and reduced supply, market prices for iron ore continued to grow in the second quarter with the average price of 65% Fe Platts being US\$108 per tonne, up 4.4% from the previous quarter.



Source: Platts (as of 28 July 2020)

With regard to the price premium, the price spread between the high-grade iron ore and the low-grade ones is expected to widen. The forward curves of Fe prices suggest that the price spread between 65% Fe and 62% Fe would further increase to US\$19 per tonne by the end of December 2021, US\$7 per tonne higher than that as of the end of 2Q2020. This will be beneficial to IRC, as K&S produces the premium 65% Fe.



Source: Bloomberg (as of 28 July 2020)

The selling price of K&S's product was determined with reference to the international Platts spot price of iron ore concentrate. It is a market practice that discounts are offered to customers. While the aforesaid price growth is beneficial to K&S, the customers of K&S are also negotiating for greater discounts. The achieved selling price of K&S in 1H2020 will be published in the 2020 interim results announcement.

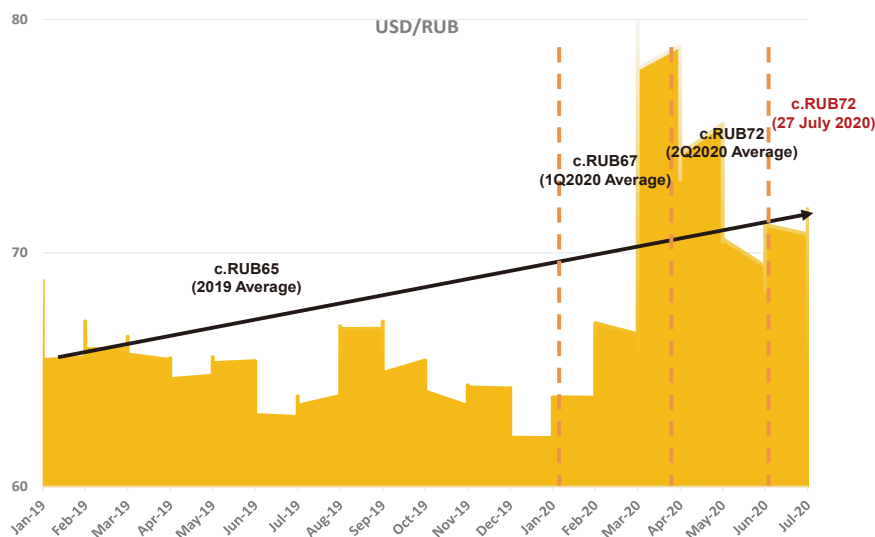
Iron Ore Hedging

As announced previously, IRC has entered into certain hedging contracts to hedge against adverse changes in the iron ore price. Most of IRC's hedging contracts have matured and have been settled in 2019. The rest were entered into at higher pricing levels to provide better price protection, and should give rise to lower level of hedging losses in 2020 when comparing with 2019.

At present, IRC has decided not to engage in further iron ore hedging while the market remains in backwardation.

Foreign Exchange Movements and Hedging

Given the depressed crude oil price, the ongoing COVID-19 pandemic in Russia and the political factors, the Russian Rouble continued to be under pressure in 2Q2020. On quarter to quarter basis, the currency depreciated by about 8% with an average rate of RUB72 to the US dollar. According to Bloomberg, the market generally expects that the Russian Rouble will remain weak and may further depreciate.



Source: Bloomberg (as of 28 July 2020)

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 onwards 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 is not speculative in nature and is for risk management purposes.

Ilmenite

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

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 2Q2020, K&S production facilities operated well and the ramp-up programme continued. During the period, K&S operated at an average production rate of 92% of its capacity, c.7% higher than the last quarter. As mentioned before, with the warmer weather conditions in the second quarter, the drying unit was not required in the production process, allowing the K&S site team to resolve its capacity issues.

COVID-19

Due to COVID-19, the land border crossing points between Russia and China were temporarily closed for passengers and cargo trucks. However, Grodekovo-Suifenhe rail border crossing, which K&S uses for its shipments to the Chinese customers, has been so far unaffected.

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 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 will continue uninterrupted, employees from head office and administrative staff are encouraged to work from home. Currently, there are a small number of employees at K&S testing positive to COVID-19 but most of the patients are asymptomatic. They have been quarantined and are under appropriate medical treatments.

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

During the quarter, the third-party mining contractors experienced certain mining issues, including the shortage of explosives which caused a decline in the volume of waste removal and led to slowing down of ore mining. To mitigate, K&S had to process lower grades ore from the stockpiles. The beneficiation properties of the feedstock were therefore affected, which in turn affected production volume. The mining contractors are now pushing to try to catch up with the mining volume lag.

During 2Q2020, a total of 1,660,600 tonnes (1Q2020: 2,734,100 tonnes) of ore were mined, 126,692 metres (1Q2020: 95,780 metres) were drilled and 4,073,031 cubic metres (1Q2020: 2,466,255 cubic metres) were blasted. 2,377,600 tonnes (1Q2020: 2,300,400 tonnes) of ore were fed to the primary processing plant and 1,616,607 tonnes (1Q2020: 1,525,880 tonnes) of pre-concentrate were produced. 724,934 tonnes of iron ore concentrate were produced and 719,910 tonnes were sold, representing an increase of 8.1% and 8.5%, respectively over the last quarter.

Production and Marketing

	2Q 2020	1Q 2020	Changes
Production (tonnes)	724,934	670,477	+8.1%
Sales (tonnes)	719,910	663,440	+8.5%

Update of Estimated Unit Cash Cost

Cost control is an important element in improving profitability. Aided by the recent Rouble devaluation and interest rate reduction, 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 first half year of 2020 will be analysed and disclosed in the 2020 interim results which will be published by the end of August 2020.

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.

In Care and Maintenance and Administration

Kuranakh is currently in administration but the plant is available for re-opening if the markets permit the investment decision. 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 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

Positive profit alert for the six months ended 30 June 2020

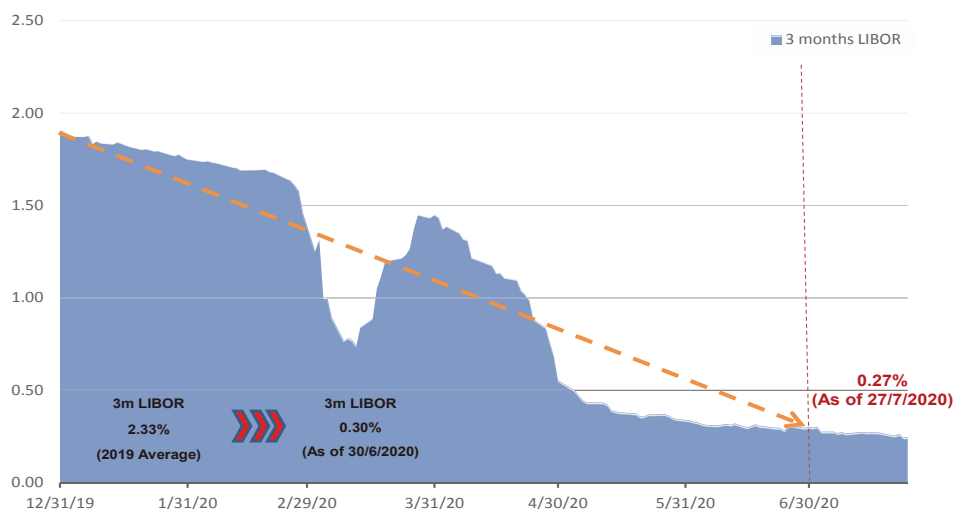
Based on the preliminary assessment of the unaudited consolidated management accounts of the Group and the information currently available, the Group is expected to record an unaudited profit attributable to Shareholders for the six months ended 30 June 2020 of not less than US\$5 million, as compared to the unaudited loss attributable to Shareholders for the corresponding period in 2019 of US\$25.2 million. Further details of the positive profit alert can be found in the announcement made by the Company on 7 July 2020.

Further details will be available in the Company's 2020 interim results announcement to be published by the end of August 2020.

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. 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 second quarter of 2020, c.US\$9.4 million was paid to Gazprombank as principal repayment and interest in accordance with the repayment schedule.

The interest of the Gazprombank facility is determined based on LIBOR. LIBOR posted its steepest one-day drop in a decade in June 2020, after the US Federal Reserve indicated that it was ready to lower borrowing costs in a bid to counter slowing economic growth. The three-month LIBOR declined from an average of 2.33% in 2019 to 0.30% on 30 June 2020. The lower LIBOR rate allows IRC to reduce its finance costs.



Source: Bloomberg (as of 28 July 2020)

Due to the timing of cash flows and movements in working capitals, the unaudited cash and deposit balances of the Group as of 30 June 2020 amounted to c.US\$5.0 million. It is expected that the cash and deposit balance will increase to more than US\$10 million by early August 2020. The total debt outstanding as of 30 June 2020 amounted to c.US\$214.2 million.

Re-designation of directors

On 30 June 2020, Petropavlovsk announced of certain changes to its board, including the nomination of Mr Peter Hambro and Mr Johnny Martin Smith, both are non-executive directors of IRC, into its board on a temporary basis. For the duration of Mr Hambro's appointment as a director of Petropavlovsk, he will relinquish his chairmanship in IRC and be re-designated from "Chairman and Non-Executive Director" to "Non-Executive Director" of the Company. Mr Daniel Bradshaw will become the chairman of the Company and be re-designated from "Deputy Chairman and Senior Independent Non-Executive Director" to "Chairman and Senior Independent Non-Executive Director" of the Company. Further details are set out in the announcement of the Company published on 2 July 2020.

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.

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 railway bridge. With China having completed the construction of its part in October 2018, the main span of the railway bridge has been connected. According to the local media, the Bridge will be completed in the summer 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 tonnes of the Group 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, 31 July 2020

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 and Mr Danila Kotlyarov. 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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