铁货 IRC

IRC Limited

HONG KONG STOCK CODE: 1029

2020

ANNUAL REPORT

* When Amur River Bridge is operational, new delivery point can be used.

ABOUT US

IRC is the largest iron ore mining operator in the Russian Far East. Our world-class operations focus on producing high-quality iron ore concentrate, with long-term relationships with customers in China and Russia.

WHY IRC

IRC is unique in the iron ore market due to its competitive advantages, namely superior geology and direct access to China, the world's largest iron ore market, through established world-class infrastructure.

2021 AND BEYOND

K&S mine, our flagship 3.2 million tonnes per annum project, produces high quality 65% iron ore concentrate and is ramping up to its full capacity. In the long term, we have the options to boost the Group's production capacity by adding processing equipment to K&S ("Phase II"), and also by developing other exploration projects.

CONTENTS

KEY HIGHLIGHTS FOR FY2020

GROUP

PROFITABILITY AND CASHFLOW

Revenue (before hedging): US$**236.4** million
17.9%

Underlying EBITDA – excluding NRI and FX: US$**79.7** million
>100%

Net cash generated from operations: US$**62.9** million
93.9%

OPERATIONS

Iron ore concentrate sales: **2.6** million tonnes
4.6%

Iron ore concentrate production: **2.7** million tonnes
10.1%

ENVIRONMENTAL & SOCIAL RESPONSIBILITIES

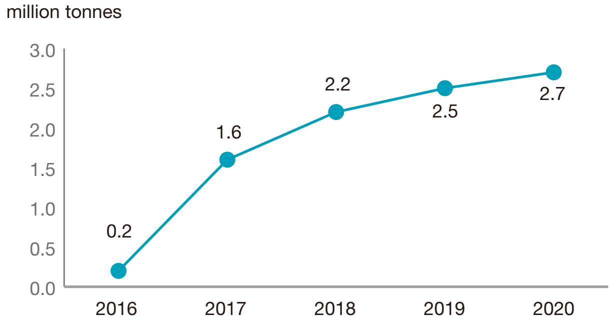
LTIFR: **0.35**
66.3%

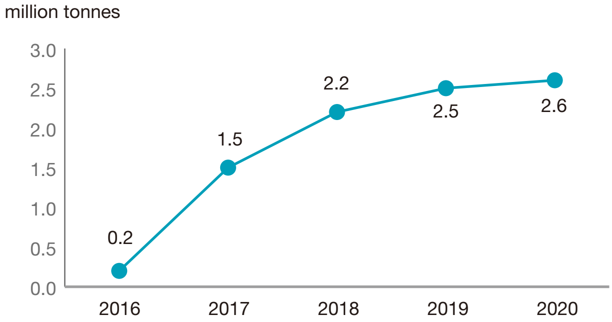
Green house gas emission: **65.7** thousand tonnes
5.4%

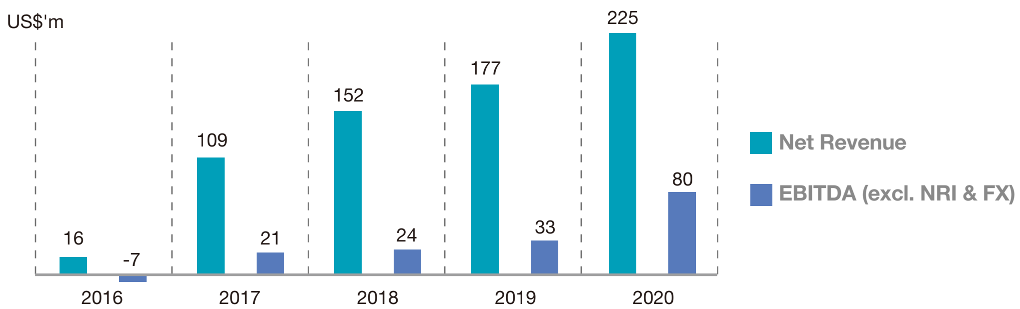
CASH COST PER TONNE

US$**51** 2.8%

ACHIEVED SELLING PRICE BEFORE HEDGING (PER DMT) US$**100** 14.9%







BALANCE SHEET

Cash and deposit: US$**20.4** million
>100%

Gross borrowings: US$**203.9** million
9.2%

Net asset value per share: HK$**0.42**
35.5%

* All production volume, sales volume and cash cost figures on this page refer to wet metric tonnes unless specified. Assume that the exchange rate between the US dollar and Hong Kong dollar is 7.8.

CHAIRMAN AND CEO REPORT

Peter Hambro, Chairman of IRC

"It is IRC's underlying results that will make the year 2020 go down in the history of the Company as a milestone year...."

Dear Shareholders and Stakeholders,

Maiden Underlying Profit

It is indeed most gratifying to be able to report a net profit for the year of US$100.6 million, a significant improvement over the results in 2019.

But it is IRC's underlying results that will make the year 2020 go down in the history of the Company as a milestone year, because it is the year when the Company achieved its first ever profit from mining, processing and selling 65% iron ore concentrate. This positive result of trading, which is what our company is all about, is known as an Underlying Profit, since the rest of the net profit is mainly derived from being required to write back previous, non-cash impairment provisions. It also presages the substantial EBITDA result which is described below.

Though buffeted by headwinds in the past, these have been managed to allow IRC to achieve its maiden underlying profit of US$24.2 million, a turnaround from last year's loss of US$21.0 million. 2020 is a year of which we can be justifiably proud and points to the great potential inherent in our business in the future. Our cash flow generation and improved profitability have enabled us to reduce debt, thanks to our significant progress made in increasing our production capacity. This is enabling us to continue the development of our business and consolidating our position as a leading iron ore concentrate producer in the Russian Far East region, both now and in the years to come.

" Underlying profit amounted to US$24.2 million, a turnaround from last year's loss of $21.0 million."

Outstanding Financial Performance

Despite the numerous challenges that the Group faced during the year, IRC delivered revenue of US$224.6 million, up 26.8% from last year. Strong revenue growth coupled with good cost control gave IRC a record EBITDA (excluding non-recurring items and foreign exchange) of US$79.7 million, more than double of what the Company achieved in 2019. Underlying profit amounted to US$24.2 million, a turnaround from last year's loss of US$21.0 million. With the successful operation of K&S and the increase in the international iron ore price, IRC recorded a reversal of previous asset impairment losses of US$75.8 million, bringing the 2020 net profit figure to US$100.6 million.

It should be noted that the 2020 net profit figure is struck after including a non-cash negative provision of US$7.1 million which has been made for expenses related to deferred contract payments. This is related to a Group company that is currently involved in legal proceedings against a contract counterparty. Although IRC believes that these expenses will ultimately not be payable, being prudent and to comply with the accounting requirements, this provision has been made.

We continue to strengthen our balance sheet by reducing our debt level and building up more cash. The outstanding loan balance decreased from US$224.6 million to US$203.9 million while we improved our cash position from US$4.3 million at the end of last year to US$20.4 million at the 2020 year end. Our net asset value per share has also increased by 35.5% from HK$0.31 to HK$0.42.

" With these advantages, IRC is well placed fully to unlock its potential."

Key Competitive Advantages

IRC has a number of distinct advantages, giving the Company an edge over its industry peers. With these advantages, IRC is well placed fully to unlock its potential.

High production rate – In 2020, significant progress was made in improving K&S's production capacity. The mine achieved a solid production rate of 87% to produce 2.7 million tonnes of iron ore concentrate, a production record in the history of the Company. We believe that our performance could have been further improved if not for the unexpected challenges we faced, including the exceptional rainy conditions in the summer, mining issues of our third party mining contractors, as well as railway logistical issues towards the end of the year due to COVID-19. These issues were beyond our control and were not helpful in our quest to achieve full capacity operation, but it is comforting to note that they are non-recurring individual incidents and do not bear long term impacts to the operation of K&S.

Strong iron ore price – Iron ore is one of the best performing commodities in 2020. The Platt's 65% iron ore price index dipped to its lowest point of 2020 in February on the back of the COVID-19 outbreak, which brought the global economy almost to a standstill. Fortunately, China embraced resilience in its battle against the virus and proved its capability to cope with the pandemic, as the country took the lead in economic recovery. China's solid demand for iron ore in the second half of the year was a catalyst for a price rebound. At the same time, supply concerns also contributed to the price surge, with lower supply estimates from Vale, the world's second-largest iron ore producer. By the end of 2020, the 65% iron ore price had risen to its highest level in the last four years with an annual gain of approximately 67% when compared to the level at the 2019 year end. The strong pricing environment continues into the first quarter of 2021.

In the longer term, we are cautiously optimistic that the demand for iron ore will remain stable, since we believe that iron ore will continue to be needed for infrastructure projects and other investments, as China and the rest of the world regain momentum to rebuild the economy post-COVID.

Devaluation of Russian Rouble – One of the other key positive factors this year has been Russian Rouble depreciation, which has helped to reduce our cost levels. The COVID-19 pandemic, declining crude oil prices and a slew of geopolitical issues weighed heavily on the Russian Rouble and its exchange rate weakened to RUB81 to the US dollar at one point, and closed the year at RUB74. Russian Rouble depreciated by about 16% in 2020. Since our operating costs are mostly denominated in Russian Rouble while our revenue is in US Dollar, the weak Rouble has a positive impact on IRC's operating margin.

Amur River Bridge – Logistics are the key to success in any bulk commodity business and IRC's assets are well placed in this connection. Transportation is a significant component in our cost structure as about one-third of our cash cost is transport-related. The majority of K&S's production is transported to its China-based customers by rail and currently the routing is relatively circuitous and has no back-haul. This will change when the Amur River Bridge comes into play in 2022. Being the first rail bridge between Russia and China across the Amur River and located some 240 kilometres from the K&S operations, the opening of this transport link will be very helpful, since it will significantly reduce the freight distance to our major customers and improve logistics efficiency.

" IRC strives to provide cleaner, greener, and more sustainable resources for the world's needs…"

Progress Towards our ESG Responsibilities

Environmental, Social and Governance (ESG) is now a major component in today's mining business. Our world-class mining and processing operations produce a high-grade iron ore concentrate, which is a preferred raw material for blast furnaces for steel mills increasing productivity and keeping pollution in check. IRC strives to provide cleaner, greener, and more sustainable resources for the world's needs and at the same time to meet the fast-growing demands for iron ore.

Yury Makarov, Chief Executive Officer of IRC

Apart from assuming our ESG responsibilities, the health and safety of our employees are on the top of our agenda. We have put in place a wide range of measures to help safeguard our people and host communities from the spread of COVID-19, as well as other social and economic effects of the pandemic. Our overwhelming priority is the safety and health of our staff and their families. We are continuing to operate only when we can do so safely and by having all appropriate health measures in place. We have a number of COVID-19 cases but most of the patients are asymptomatic or have fully recovered, and the pandemic has no material impact on IRC so far. Our ability to continue operating while demonstrating that we can do so safely, is not only a vital factor in sustaining the much-needed economic activity up and down our value chain, but also enables us to provide essential community services to the region where K&S operates. In 2020, the Group reported a Lost Time Injury Frequency Rate (LTIFR) of 0.35, an improvement of 0.69 from the previous year.

" IRC will endeavour to seize the market opportunities and to strive for even better results in 2021."

Outlook

"K&S" comprises two open pits, "Kimkan" and "Sutara". So far, we have been mining ore from Kimkan, but we are already starting to develop Sutara to ensure supply of feedstock for the rest of the mine life. The development of Sutara has always been in our mining plan and it is expected to come on-line by the end of 2022 or early 2023.

Being one of the world's leading economies, China has experienced a sustained and robust recovery from a pandemic-driven slump last year, with infrastructure investment a key pillar of growth. This is boosting demand for steel and good prices for iron ore concentrate. On the supply side, major suppliers of iron ore appear to remain conservative in terms of expected production and shipments in 2021. Against this backdrop, IRC will endeavour to seize the market opportunities and to strive for even better results in 2021.

IRC's philosophy is to achieve long-term value for the best interests of all shareholders, customers, employees, government and society. We would like to thank our fellow Board members and everyone in the IRC family for their loyalty and hard work. But above it all, we wish to express our sincere gratitude to our shareholders for the trust and faith they have put in IRC. We can say with confidence that the Company will continue to improve its performance in the coming years. However, this is only possible through tireless efforts and the dedication and commitment of our team that helped us reach where we are now, and we look forward to their continued commitments on the journey ahead.

Peter Hambro	**Yury Makarov**
Chairman	*Chief Executive Officer*

RESULTS OF OPERATIONS

The table below shows the results of the Group for the years ended 31 December 2020 and 2019:

	For the year ended 31 December		
	2020	2019	Variance
Key Operating Data			
Iron Ore Concentrate			
— Production volume (tonnes)	**2,747,767**	2,496,600	10.1%
— Sales volume (tonnes)	**2,576,722**	2,464,401	4.6%
Achieved Selling Price (US$/tonne)			
— based on wet metric tonne	**87**	71	22.5%
— based on dry metric tonne	**95**	77	23.4%
— based on dry metric tonne before hedging	**100**	87	14.9%
Platts 65% iron ore average price	**122**	104	17.3%
Cash Cost (US$/tonne)*	**51**	53	(2.8%)
Consolidated Income Statement (US$'000)			
Revenue before hedging losses	**236,442**	200,460	17.9%
Hedging losses	**(11,851)**	(23,296)	(49.1%)
Revenue	**224,591**	177,164	26.8%
Site operating expenses and service costs before depreciation and amortisation	**(139,810)**	(135,126)	3.5%
General administration expenses before depreciation and amortisation	**(9,217)**	(10,667)	(13.6%)
Other income, gains and losses, and other allowances	**4,132**	1,908	>100%
EBITDA excluding non-recurring items and foreign exchange	**79,696**	33,279	>100%
Depreciation and amortisation	**(28,818)**	(28,504)	1.1%
Financial costs	**(25,157)**	(28,956)	(13.1%)
Income tax (expense)/credit & non-controlling interests	**(1,561)**	3,158	N/A
Underlying gains/(losses) – excluding non-recurring items and foreign exchange	**24,160**	(21,023)	N/A
Reversal of impairment losses	**75,832**	–	N/A
Net foreign exchange gains/(losses)	**7,674**	(6,181)	N/A
Other provision	**(7,115)**	–	N/A
Finance expense on early repayment of bank loan	**–**	(11,465)	N/A
Profit/(loss) attributable to the owners of the Company	**100,551**	(38,669)	N/A

* Per wet metric tonne sold

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the operation of K&S. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. The "EBITDA" and "Underlying results", both of which exclude non-recurring items and foreign exchange, are the key performance indicators for IRC.

EBITDA – excluding non-recurring items and foreign exchange

The Group's EBITDA, excluding non-recurring items and foreign exchange, increased significantly to US$79.7 million (31 December 2019: US$33.3 million) in the year ended 31 December 2020. The growth was primarily driven by higher production volume and strong iron ore prices.

During the reporting period, K&S improved its production capacity to operate at an average production rate of 87% (2019: 79%), resulting in increase in production and sales volumes by 10.1% and 4.6% respectively. The operating performance would have been further improved if not for the adverse weather conditions in summer, mining contractors' issues, and logistic difficulties caused by COVID-19. With the robust growth of the Platts 65% iron ore price index, IRC's 2020 achieved selling price before hedging reached US$100 per dry metric tonne, an increase of 14.9% compared to last year. Taking advantage of the weak Rouble and, coupled with our strict cost control, cash cost reduced by 2.8% to US$51.2 per tonne despite the rising level of mining cost and general inflation in Russia. The good production rate, strong iron ore price environment, and decreasing cost level translated to a significant growth in EBITDA by 139.5% to US$79.7 million:

	For the year ended 31 December		
US$'000	**2020**	2019	Variance
EBITDA excluding non-recurring items and foreign exchange	**79,696**	33,279	>100%

Underlying results – excluding non-recurring items and foreign exchange

The Group's income statement sometimes includes certain material non-recurring and non-operating items which should be considered separately:

In 2020:

- the strong operating performance of K&S and the healthy iron ore price environment supported a reversal of asset impairment in relation to the K&S mine of US$75.8 million;
- IRC reported a foreign exchange gain of US$7.7 million in 2020, mainly due to the depreciation of Russian Rouble, while a loss of US$6.2 million was recorded in the same period last year. This US$13.9 million swing in foreign exchange plays a significant part to the profitability of the Group;
- The Group's results are affected by a non-cash provision of US$7.1 million which has been made for expenses relating to deferred contract payments. The Group is currently initiating legal proceedings against the said contract counter-party and IRC believes that these expenses will not be payable. However, being prudent and to comply with the accounting requirements, this provision has been made.

In 2019, the Group had an unamortised borrowing cost of US$11.5 million relating to the ICBC loan which was to be amortised. As the Group refinanced the ICBC loan facility in 2019, this necessitated an accounting adjustment to fully write off this unamortised cost in the statement of profit or loss in 2019, instead of amortising the cost over the remaining loan term. The write-off did not have any cash impact on the Group.

The underlying results, being a good indicator of IRC's true performance, improved from last year's loss of US$21.0 million to this year's profit of US$24.2 million, a testimony of the progress the Company has made during the year 2020:

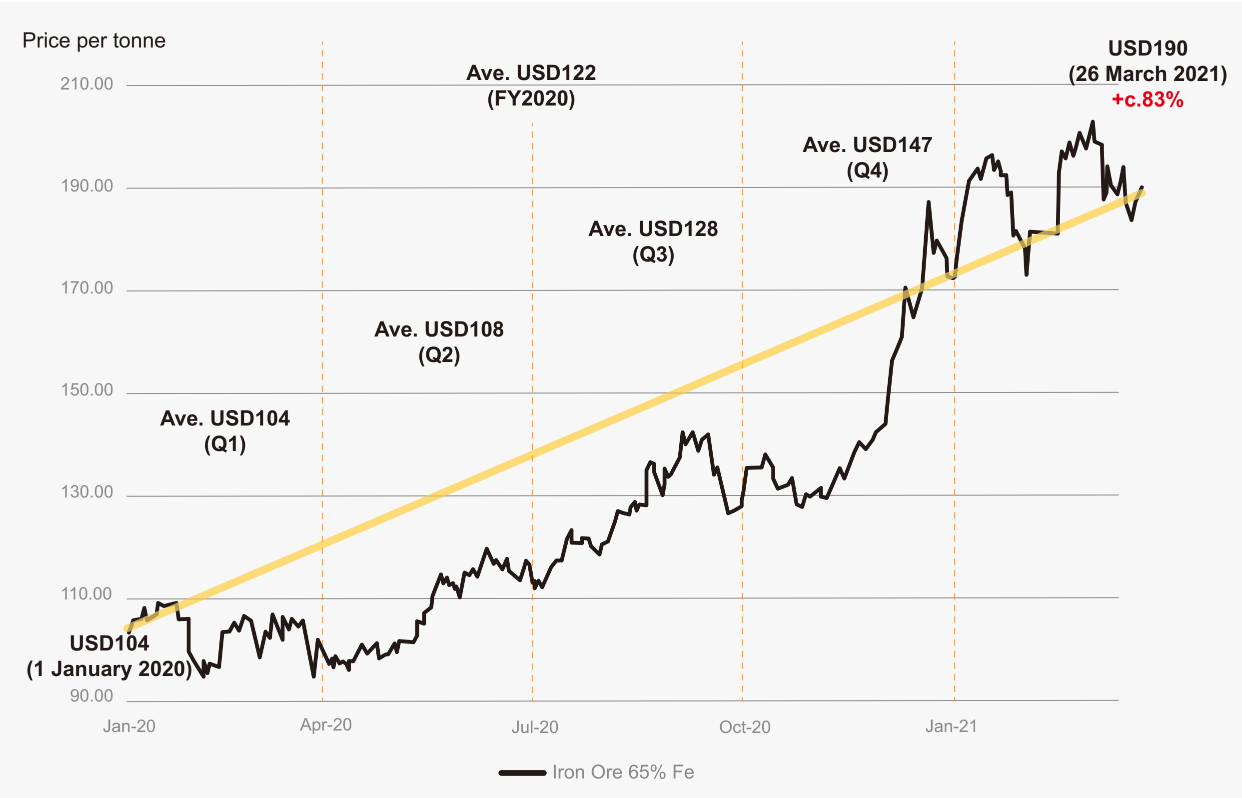
US$'000	For the year ended 31 December 2020	2019	Variance
Underlying gains/(losses) excluding non-recurring items and foreign exchange	**24,160**	(21,023)	N/A

REVENUE

Iron ore concentrate

IRC's main revenue source comes from the sales of 65% iron ore concentrate produced by the K&S mine. Generally, most of K&S's product is shipped to its Chinese customers by rail. Unfortunately, the mine faced logistic problems in December 2020 when the Russian Railways experienced traffic congestion, mainly due to the outbreak of COVID-19 at the Suifenhe border. As a result, K&S needed to stockpile the excess production. In 2020, K&S's sales volume increased by 4.6% to 2,576,722 tonnes, but the growth in volume could have been higher if not of this logistic issue.

The selling price of K&S's iron ore concentrate was determined by reference to the international spot price of Platts' iron ore benchmark. Iron ore was one of the best performing commodities in 2020 with the average Platts 65% iron ore benchmark rose by 17.3% year-on-year, thanks to increased demand for iron ore in China and restricted supply from major iron ore producers.



* Source: Platts (as of 26 March 2021)

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 its sales and the Group has 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. To address this issue, IRC has been diversifying its customer base by selling to customers in the southern part of China and delivering by sea-borne routes. Here the Group has found that the delivered price that it can achieve in these locations is much closer to the benchmark price. However, the transportation costs and handling costs are higher and thus the margin IRC achieves at present is still similar to or lower than that in the traditional market place. Possibly, though, if the southern market becomes more significant, the supply of concentrate in the north-east will be reduced and the discounts that IRC is 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.

In 2020, the average selling price of iron ore concentrate achieved by IRC before hedging was US$100 per dry metric tonne (2019: US$87), an increase of 14.9% over 2019.

Iron ore hedging is entered into to manage the downside risks of iron ore price movements and is not speculative in nature. Losses on iron ore hedging in 2020 were lower than in the same period last year. During the reporting period, hedging reduced IRC's revenue, and therefore its profitability, by US$11.9 million (31 December 2019: US$23.3 million). The net revenue for 2020, after taking into account the effect of iron ore hedging, was US$224.6 million, 26.8% higher than that of the 2019.

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.

Engineering Services

Revenue from Giproruda, the Group's small-scale engineering services division, was not material to the Group but diversifies the Group's revenue. Revenue from the segment was US$0.2 million in the year (31 December 2019: US$1.4 million).

SITE OPERATING EXPENSES AND SERVICE COSTS BEFORE DEPRECIATION AND AMORTISATION

Site operating expenses and service costs primarily reflect the mining and operating expenses incurred by K&S, the Group's sole operating mine, in relation to the sales of iron ore concentrate. K&S began commercial production in 2017 and gradually ramped up to close to full production capacity. With the increasing operating scale, the total cost also increased accordingly. While sales volume raised by 4.6%, site operating expenses and service costs before depreciation and amortisation only increased by 3.5% to US$139.8 million in 2020 (31 December 2019: US$135.1 million). The cost increase also compares favourably with the 26.8% growth in sales revenue.

The table below illustrates the details of the key cash cost components of iron ore concentrate sold on a per wet metric tonne basis:

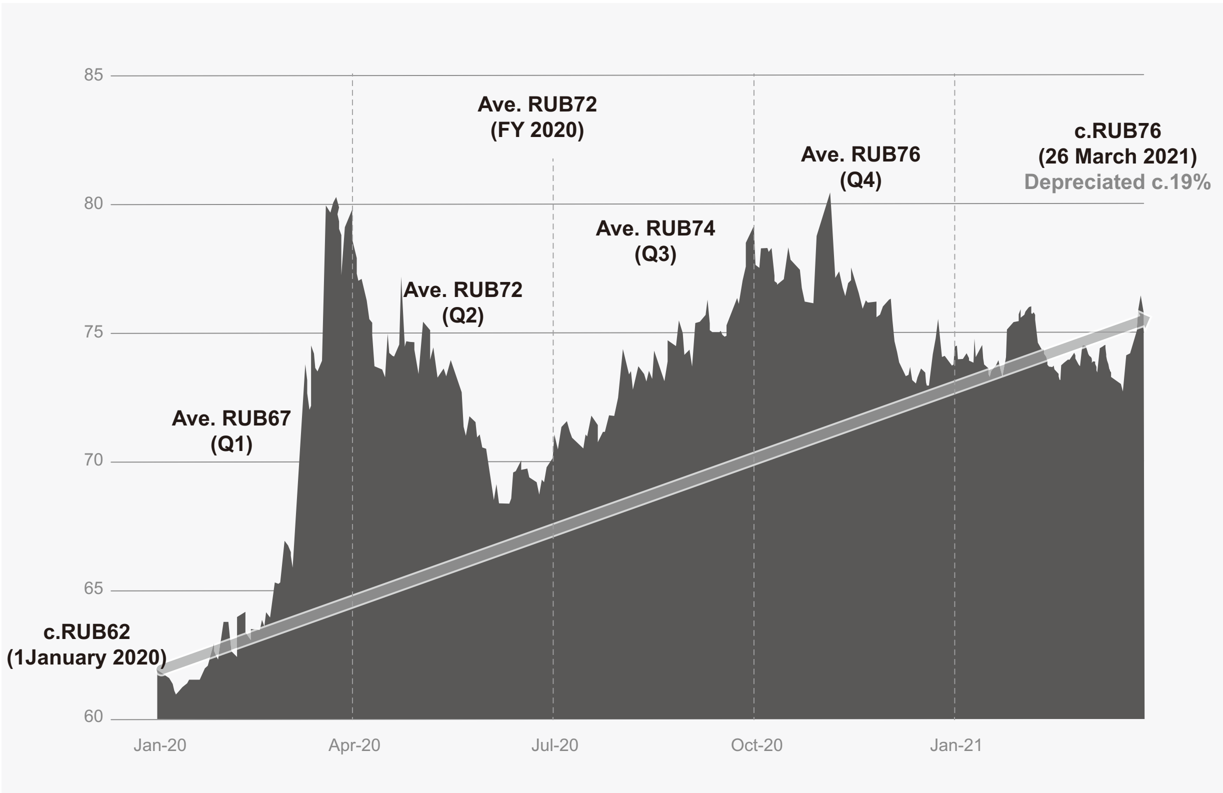
	For the year ended 31 December	
	2020 Cash cost per tonne US$/t	2019 Cash cost per tonne US$/t
Mining	**17.3**	14.6
Processing and drying	**10.8**	10.9
Production overheads, site administration and related costs	**10.0**	11.6
Transportation to customers	**15.2**	15.9
Movements in inventories and finished goods	**(1.8)**	(0.3)
Currency hedge results	**(0.3)**	–
Net cash cost*	**51.2**	52.7

* Per wet metric tonne sold

K&S continued to implement effective cost control policies and, together with the Russian Rouble depreciation, the overall cash cost has decreased by 2.8% to US$51.2 per tonne. It is expected that the railway transportation cost to customers in China will be further reduced once the Amur River Bridge is in operation in 2022.

Russian Rouble devalued significantly in March 2020 and fell to its lowest level in more than four years. According to the media, the depreciation was mainly due to the crash of oil prices following the breakdown of the Russia-Saudi Arabia pact to limit production at that time. Falling oil prices put the currency under pressure, as Russia relies relatively heavily on energy exports for a large portion of its budget. For the remainder of 2020, the Russian Rouble remained weak and closed to the US dollar at RUB74. While the Group's revenues are mainly US dollars denominated and therefore unaffected by Rouble's weakness, the Group's operating costs, which are mostly denominated in Rouble, would be reduced in US dollar terms as Rouble depreciates.

The chart below shows the depreciation of the Rouble since January 2020:



* Source: Bloomberg (as of 26 March 2021)

GENERAL ADMINISTRATION EXPENSES BEFORE DEPRECIATION AND AMORTISATION

Special attention continues to be paid to the control of administrative costs. Efficient implementation of cost controls continued to deliver benefits, with the Group's 2020 general administration expenses before depreciation and amortisation decreased by 13.6% to US$9.2 million when comparing with the year 2019. Due to COVID-19, certain administrative and travelling activities have been deferred.

OTHER INCOME, GAINS AND LOSSES, AND OTHER ALLOWANCES

Other income, gains and losses, and other allowances were mainly the rental income derived from the sub-letting part of the floor space of buildings owned by the Group and sub-leased machineries and wagons.

Contents
Chairman and CEO Report
Results of Operations
Key Performance Indicators
Project Review

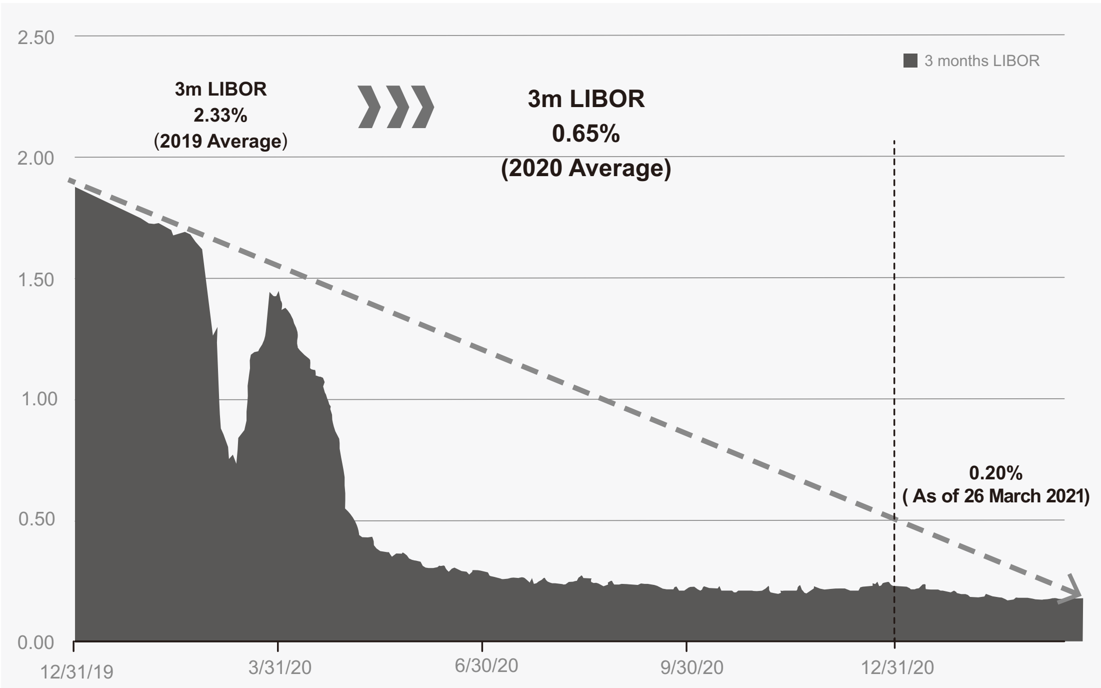
DEPRECIATION AND AMORTISATION

Depreciation and amortisation charges in 2020 of US$28.8 million was comparable to that of last year (2019: US$ 28.5 million).

FINANCIAL COSTS

Financial costs reflect primarily the interest expenditure on loans from Gazprombank and guarantee fee accrued for Petropavlovsk PLC. In 2020, financial costs reduced by 13.1% to US$25.2 million, mainly due to the decrease in LIBOR during the year.

The chart below shows a sharp decrease in LIBOR in 2020:



* Source: Bloomberg (as of 26 March 2021)

INCOME TAX (EXPENSE)/CREDIT AND NON-CONTROLLING INTERESTS

Income tax expense of US$1.6 million (31 December 2019 income tax credit: US$3.2 million) mainly represents an under-provision of withholding tax in previous year as well as the deferred tax charges.

NET FOREIGN EXCHANGE GAINS/(LOSSES)

The foreign exchange gains of US$7.7 million in 2020 was mainly attributable to the depreciation of Russian Rouble.

PROFIT/(LOSS) ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Improving EBITDA has resulted in positive operating results for the Group. Taking into account reversal of impairment losses of US$75.8 million, net foreign exchange gains of US$7.7 million and the reduction in finance costs, the Group reported a profit of US$100.6 million in 2020 (31 December 2019: loss of US$38.7 million).

SEGMENT INFORMATION

The mines in production segment, which represents the K&S mine's production and sales, generated an EBITDA of US$86.8 million (31 December 2019: US$44.1 million), reflecting a 96.8% increase. In 2020, this segment posted a profit of US$58.3 million, after taking into account the depreciation and amortisation costs. Mines in development, engineering and other segments were not material to the total revenue, and recorded a total losses of US$2.2 million in the reporting period.

CASH FLOW STATEMENT

The following table summarises the key cash flow items of the Group for the years ended 31 December 2020 and 31 December 2019:

	For the year ended 31 December	
US$'000	**2020**	2019
Net cash generated from operations	**62,871**	32,427
Repayments of borrowings, net	**(20,658)**	(1,340)
Interest paid	**(15,978)**	(20,756)
Capital expenditure	**(5,812)**	(5,047)
Loan guarantee and debt arrangement fees paid	**(5,000)**	(9,450)
Repayment of lease liabilities	**(3,832)**	(2,953)
Proceeds on disposal of property, plant and equipment	**4,023**	1,950
Income tax paid, interest received and other adjustments, net	**465**	847
Net movement during the year	**16,079**	(4,322)
Cash and bank balances (including time deposits)		
– At 1 January	**4,292**	8,614
– At 31 December	**20,371**	4,292

Net cash generated from operations amounted to US$62.9 million for the year ended 31 December 2020, compared to US$32.4 million in 2019, an increase of 93.9%. The increase in the net cash inflow in 2020 was mainly due to the improvement in revenue from the K&S mine. Due to the timing of cashflows, the receivable balance rose along with an increase in the scope of operation and an increase in the selling price of iron ore. With lower financing costs, interest payment decreased from US$20.8 million to US$16.0 million in 2020. The capital expenditure of US$5.8 million was incurred mainly by the K&S mine for the development of the Sutara pit. During the year of 2020, the Group made principal repayments totalling US$20.7 million to the Gazprombank in accordance with the loan repayment schedule, and settled loan guarantee fee of US$5.0 million to Petropavlovsk PLC.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

There was no change in the share capital of the Company in 2020.

Cash Position and Capital Expenditure

As at 31 December 2020, the carrying amount of the Group's cash, deposits and bank balances amounted to approximately US$20.4 million (31 December 2019: US$4.3 million). The cash balance increased significantly in 2020 as a result of the Group's improved profitability for the year.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2020, US$145.6 million (31 December 2019: US$140.1 million) was incurred on development and mining production activities. No material exploration activity was carried out in 2020 and 2019. The following table details the capital and operating expenditures in 2020 and 2019:

	For the year ended 31 December					
	2020			2019		
US$'m	Operating expenses	Capital expenditure	Total	Operating expenses	Capital expenditure	Total
K&S development	**137.6**	**5.6**	**143.2**	131.7	4.6	136.3
Exploration projects and others	**2.2**	**0.2**	**2.4**	3.4	0.4	3.8
	139.8	**5.8**	**145.6**	135.1	5.0	140.1

The table below sets out the details of material new contracts and commitments entered into during 2020 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to ramping up to full capacity.

		For the year ended 31 December	
US$'m	Nature	2020	2019
K&S	Purchase of property, plant and equipment	**0.1**	–
	Sub-contracting for mining works	**0.1**	0.9
	Sub-contracting for railway and related works	**1.0**	0.2
Others	Other contracts and commitments	**1.2**	0.7
		2.4	1.8

Borrowings and Charges

As at 31 December 2020, the Group had gross borrowings of US$203.9 million (31 December 2019: US$224.6 million), mainly represents the long-term borrowing drawn from the Gazprombank loan facility which is guaranteed by Petropavlovsk PLC. The interest of the Gazprombank facility is determined with reference to LIBOR. The three-month LIBOR fell from an average of 2.33% in 2019 to 0.65% in 2020. The lower LIBOR allowed Group's weighted average interest rate to decrease to approximately 7.6% (31 December 2019: 9.2%) per annum.

Risk of Exchange Rate Fluctuation

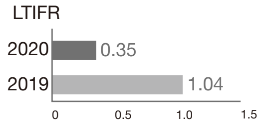
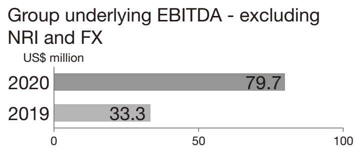
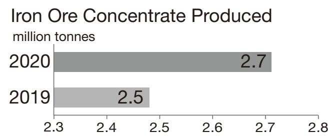
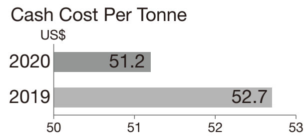
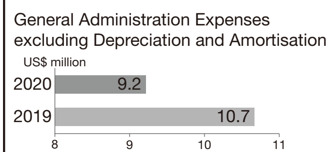
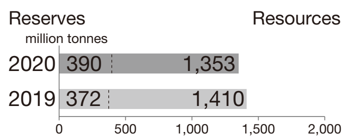
The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble, and is therefore exposed to exchange rate risk associated with fluctuations in relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily by holding the relevant currencies. The Group has hedged about one quarter of the expected Rouble expenditure in 2020 from April onwards using zero-cost collars with puts' strike varying in the mid-70s and calls' strike in the mid-90s to protect against currency appreciation. In 2021, about 10% of the Group's expected Rouble expenditure is hedged by zero-cost collars at similar pricing levels to those of the 2020 hedges. If deemed appropriate, the Group may consider entering into further foreign exchange hedging contracts. The Group's hedging is not of a speculative nature and is for purposes of risk management.

Employees and Emolument Policies

As of 31 December 2020, the Group employed approximately 1,665 people (31 December 2019: 1,760 people). Total staff costs excluding share-based payments amounted to US$25.7 million during the reporting period. (31 December 2019: US$26.0 million). The emolument policy of the Group is set up by the Remuneration Committee and the remuneration is determined on the basis of the merits, qualifications and competence of the employees with regard to market conditions and trends.

KEY PERFORMANCE INDICATORS

A Key Performance Indicator ("KPI") is a measurable value that demonstrates how effective a company is achieving its key business objectives. IRC uses KPIs at multiple levels to evaluate its success at reaching targets. The following indicators enable management to evaluate IRC's performance against its strategic and operating plans.

KPI	CONTEXT	2020 DEVELOPMENT	2020 PERFORMANCE
Safety	Our aim is to create a culture of zero-harm and to adhere to strict safety policies and standards for the safety and well-being of the employees.	Operational employees and contractors regularly receive safety training. All operating companies of the Group are required to have health and safety management systems in place. The Group has setup an Emergency Response Office to prevent the spread of COVID-19.	**Safety - Outstanding Level** 
Profitability	Profitability focuses on financial performance over medium to long term; EBITDA is a primary and accurate measure of IRC's success.	K&S took advantage of high iron ore price, depreciation of Russian Rouble, and good production rate.	**Profitability - Significant improvement** 
Production	IRC primarily produces iron ore concentrate, and K&S's production capacity is critical to the Group's success.	Despite certain challenges encountered during the year, K&S was able to achieve an average of 87% production capacity to produce 2.7 Mt of iron ore concentrate.	**Production - Closed to full capacity** 
Efficiencies & Cash Cost	"Cash Cost" shows the cost of running a mine to produce a given amount of product. It is a benchmark for operating performance. Cash cost disregards general administration expenses, depreciation and amortisation.	K&S gradually ramped up to closed to full production capacity and continued to implement effective cost control policies. Further improvement on cash cost in 2020.	**Cash Cost - Improvement** 
Administrative Overheads	Administrative overheads measure the costs of supporting units for the business to carry out profit making activities.	Special attention continues to be paid to the control of administrative costs. Efficient implementation of cost control measures, together with delay in spending due to COVID-19, continued to deliver benefits.	**Administrative Overheads - Stringent control** 
Exploration & Development	Our exploration programmes aim to add value through the discovery of new resources, and to increase and confirm the mineable reserves.	The Group has been focusing on ramping up of K&S and no significant exploration activity was carried out during 2020.	**Exploration & Development - Abundance Resources and Reserves base** 
ESG & Community	ESG is measured by adhering to the legislation and best practices in the jurisdictions and the community in which IRC operates.	The integrated Environmental Management System ("EMS") allows IRC to reduce its environmental impact.	**Extensive ESG statistics are given in the Environmental, Social and Governance section.**

	2019 PERFORMANCE	FUTURE OPPORTUNITIES
Compared to 2019, LTIFR dropped to 0.35, a decrease of 66%, which is a significant improvement.	Good safety performance: LTIFR in 2019 was better than the industry average. The overall number of reported injuries was 3 in 2019, although the Group's LTIFR increased from 0 in 2018 to 1.04 in 2019.	IRC will endeavour to maintain high safety standards and adopt a zero-harm policy throughout its operations. Educational programmes for employees and contractors will continue to be conducted in order to provide them with the industrial safety knowledge.
The underlying EBITDA of the Group, excluding non-recurring items and foreign exchange, increased to US$79.7 million. Maiden underlying profit of US$24.2 million.	The Group's EBITDA (excluding foreign exchange) improved significantly from US$23.9 million in 2018 to US$33.3 million in 2019. The EBITDA of K&S increased by 25.5% to US$44.1 million.	The Sino-Russian railway bridge, Amur River Bridge, is expected to be operational in 2022, allowing K&S to reduce transportation cost. There are options for the expansion of K&S to increase production volume for economies of scales.
The production performance of K&S was encouraging, achieving an average production capacity of 87% in 2020. In the reporting period, the plant produced 2.7 million tonnes of high-grade 65% iron ore concentrate, a rise of 10.1% over the previous year.	K&S enhanced its production capabilities in a successful ramp-up programme in which the plant achieved an annual production record by operating at an average capacity of 79% to produce 2.5 million tonnes of iron ore concentrate.	K&S has the option to develop Phase 1.5 or Phase 2 projects after ramping up to full production capacity, bringing the total designed capacity to 4.6 million tonnes or 6.3 million tonnes per annum, respectively.
Due to the further depreciation of Russian Rouble, economies of scale and the strict cost management, cash cost per tonne was further reduced to US$51 per tonne in 2020.	The cash cost per tonne in 2019 increased by 0.8% when comparing with the previous year, despite a general inflation of 3.1% in Russia, thanks to the economies of scale and tight cost control.	Unit cash cost is expected to further decrease when K&S has reached full capacity due to economies of scale. The weakness of Rouble can benefit IRC's production cash cost, as its operating costs are mainly denominated in Rouble. The Amur River Bridge, expected to be operational in 2022, could further reduce the transportation cost to customers in China.
The Group's 2020 general administration expenses before depreciation and amortisation decreased by 13.6% compared to 2019. Due to COVID-19, certain administrative and travelling activities have been deferred.	Successful implementation of the cost control measures kept the expenses level in check with only 2.3% increase in 2019 when comparing to 2018.	The Group will continue to carry out tight cost saving measures to minimise the administrative overheads.
As a result of some resources being converted to reserves in 2020, including the commercial production activities and minor oxidation at K&S, the Group reported a total of 1,353 million tonnes of resources and 390 million tonnes of reserves by the end of the year.	The changes in resources and reserves were mainly due to commercial production activities and normal minor oxidation at K&S. Group resources and reserves amounted to 1,410 million tonnes and 372 million tonnes respectively at the end of 2019.	Exploration and development activities will resume as the market conditions and cash flow of the Group improve.
In response to COVID-19, the Group has set up an Emergency Response Office and formulated a contingency plan. In addition, necessary organisational and administrative measures have been taken and the Group has issued an order on preventive measures to prevent the spread of coronavirus.	All employees trained for environmental protection practices in the workplace. The EMS also applied to all contract organisations which carry out works for the Company.	The Group will continue its efforts to reduce energy consumption and water usage, control air pollution and apply waste management measures.

PROJECT REVIEW

K&S

100% owned

Key facts:

65%
Fe grade (concentrate)

3.2Mtpa
Production capacity

10Mtpa
Ore process capacity

240km
To Chinese border

784Mt
Total resources

364Mt
Total reserves

30 years +
Mine life

OVERVIEW

K&S, 100% owned by IRC, is located in the Jewish Autonomous Region (EAO) of the Russian Far East. It is the second full-scale mining and processing operation that the Group has developed. The project consists of two principal deposits, Kimkan and Sutara. The K&S Phase I is to produce 3.2 million tonnes of iron ore concentrate per annum with a grade of 65% Fe. According to the development timeline for K&S Phase I project, Sutara deposit will begin to be mined in parallel with Kimkan deposit by 2023, and Sutara's mine life will be more than 30 years. There is an option for a Phase II expansion to produce a total of 6.3 million tonnes of 65% iron ore concentrate per annum. As an interim development between the two phases, IRC is assessing an option to upgrade the Phase I production facility to increase the production capacity to approximately 4.6 million tonnes per annum.

The Phase I Processing Plant was built by CNEEC and funded through a project finance facility provided by ICBC. In 2018, IRC successfully entered into a refinancing facility agreement with the leading Russian bank, Gazprombank, to fully replace the ICBC's finance facility and the refinancing was completed in 2019. The principal repayment of the Gazprombank facility is weighted towards the latter part of the loan term, so that the repayment pattern will better align with the ramp-up programme of K&S.

K&S enjoys tremendous geographical advantage. The Trans-Siberian Railway is directly linked to the mine site, making it easy to deliver its product to customers. With the use of the Amur River Bridge, which is expected to be operational in 2022, the transportation cost and distance can be further reduced. K&S is located in the Obluchenskoye District of the Jewish Autonomous Region (EAO) in the Russian Far East. The operation is situated 4 km from the Izvestkovaya town and railway station, through which the Trans-Siberian Railway passes. It is also on a federal highway 130 km away from the regional capital Birobidzhan and 300 km from Khabarovsk, the principal city of the Russian Far East.

PRODUCTION OF K&S RAMPED UP CLOSE TO FULL CAPACITY

The ramp-up programme of K&S went well and the mine has operated at an average capacity of 87% through the year of 2020. Although K&S has ramped up close to its full capacity with the potential to run at a higher level, the K&S site team still encountered certain challenges, including heavy rains, third-party mining contractors' performance and logistical issue at the Grodekovo-Suifenhe border crossing caused by COVID-19, which limited the plant's capacity during the year. In order to ease the logistical issue at the Sino-Russian railway border crossing, IRC has begun to diversify its customer base by selling and delivering its products by sea to customers in the southern part of China.

The drying unit plays an important role in the production process of K&S during cold weather, as it removes excessive moisture from the iron ore concentrate to prevent the product from freezing. As a result of maintenance and improvement works performed by the site team during 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 the third-party mining contractors had encountered certain capacity and equipment availability issues. Although the main mining contractor is gradually increasing the work rate and a new contractor has started to work on site, the mining volume lag currently remains a limiting factor in the production of K&S. With the well experienced site team, IRC is confident that the remaining issues will be resolved timely, allowing K&S to maintain a stable high production level. The current focus is on capacity development and catching up on past deficits.

COVID-19

Due to COVID-19, the Russian Railways experienced traffic congestion, mainly due to logistic and efficiency issues at the Sino-Russian railway border crossing, and K&S's railway shipments to Chinese customers were briefly suspended in mid-December 2020. The railway service to the Sino-Russian railway border was partially resumed toward the end of December 2020. The volumes are gradually returning to the normal level.

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 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.

PRODUCTION

During the year of 2020, 9,256,500 tonnes of ore was fed to primary processing and 6,220,210 tonnes of pre-concentrate was produced. These were 17.3% and 14.7% respectively higher than those of the same period last year. 2,747,767 tonnes of iron ore concentrate was produced, a growth of 10.1% over the year of 2019.

SALES & MARKETING

When compared to the year of 2019, sales volume increased by 4.6% to 2,576,722 tonnes during the reporting period. As K&S is producing more iron ore concentrate, it has also successfully diversified its customer base by selling to customers in various countries and regions, including Russia and China. During 2020, China has experienced a sustained and robust recovery from a pandemic-driven slump, with infrastructure investment being a key pillar of growth. This is boosting the demand and buoying prices for iron ore concentrate. The Group supplied about 88% of its iron ore concentrate to customers in China and the rest was supplied to a customer in Russia during the period. As part of the sales and marketing programme, K&S is also starting sales to new seaborne customers in China. Customer diversification allows the Group to better manage transportation, marketing and pricing risks, as well as enhance its negotiating power for better sales terms.

Contents
Chairman and CEO Report
Results of Operations
Key Performance Indicators
Project Review

UNIT CASH COST

In view of the fact that K&S has not yet achieved its full production capacity, the unit cash cost per tonne of US$51 in 2020 has not yet reached its optimum level. Taking into account the possible further depreciation of Rouble, and the opening of the Amur River Bridge to minimise transportation costs, potentially, there is room for K&S to further control its cost level when the mine is operating at full capacity.

SAFETY

LTIFR is a calculation of the number of lost-time injuries per one million hours man-worked. During the reporting period, K&S further improved the safety level with 1 injury (2019 injuries: 3), 0 fatalities (2019 fatalities: 0) and the LTIFR was only 0.35 (2019 LTIFR: 1.04).

MINING

The Kimkan operation covers an area of approximately 50 km^2 and comprises two key ore zones – Central and West. Open pit mining is currently carried out at both zones. By the year 2023, mining will begin at Sutara deposit, while the amount mined at Kimkan deposit will be gradually reduced. The Group has initiated the design and construction works for Sutara deposit. Sutara deposit is located approximately 15 km away from Kimkan operation with the deposit covering an area of 27 km^2. Sutara deposit has a total resource of about 492 Mt and the mining life of over 30 years.

During the reporting period, the third-party mining contractors experienced certain issues, including the shortage of explosives and mining equipment availability, which caused the decline in the volume of material moved. The situation with the mining contractors started to improve in the last quarter of the year. The volumes of mining, drilling and blasting are improving. In 2020, 13,549,786 cubic metres of rock mass were blasted at K&S, 447,034 metres drilled, and 9,886,900 tonnes of ore mined.

AMUR RIVER BRIDGE/TONGJIANG 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 for shipment to the Chinese customers, but also alleviate congestion at the Grodekovo-Suifenhe. Shipping time to customers in China will be reduced from 3-5 days to 1-3 days.

Kuranakh

100% owned

Key facts:

62.5%
Fe grade

48%
TiO_2 grade

900Ktpa
Fe production capacity

160Ktpa
TiO_2 production capacity

85km^2
Total iron ore licence area

17Mt
Total resources

20 years +
Mine life

OVERVIEW

As of 31 December 2020, Kuranakh was 100% owned by IRC, and is the Group's first mining operation and the first vertically integrated titanomagnetite operation in Russia, designed, built and managed by IRC. The mine was initiated in 2010 and was moved to care and maintenance since the beginning of 2016 due to the challenging operating environment on the commodity market at that time. The mine is currently under administration.

The Kuranakh mine is located in the Amur Region of the Russian Far East, near the town of Olekma, a principal stop on the BAM Railway. The operation covers an area of approximately 85 km^2 and comprises the Kuranakh and Saikta open-pit mines, the on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The mine can produce iron ore concentrate with a quality content of 62.5% Fe and an ilmenite concentrate with a quality content of 48% TiO_2. Concentrate can be directly loaded onto rail wagons for shipment via the BAM and Trans-Siberian Railways to customers in Russia and China and abroad via the Russian Pacific Sea ports.

SAFETY

As the mine is now under administration, there was no injuries and the LTIFR was zero during 2020 (2019 LTIFR: 0).

UNDER ADMINISTRATION

Kuranakh is currently under administration and no production or sales were generated in 2020. The subsidiary holding Kuranakh has applied for liquidation in order to save on-going costs.

Garinskoye

99.6% owned

Key facts:

68%
Fe grade

>3,500km^2
Total iron ore licence area

4.6Mtpa
Fe production capacity

260Mt
Total resources

26Mt
Total reserves

20 years +
Mine life

OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration project. The project provides an opportunity for a low cost DSO-style operation that can be transformed into a large-scale and long-life open pit mining operation.

The project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans-Siberian Railways. With exploration licences for ground covering an area of over 3,500 km^2, the project is the largest in the IRC portfolio in terms of area.

CURRENT DEVELOPMENT

There are two possibilities to develop Garinskoye. The first option is to develop a large-scale 4.6 million tonnes per annum open-pit operation with a life-of-mine of 20 plus years, which requires the construction of a rail connection. The second option is an intermediate DSO style operation that does not require a rail connection and can be started in advance of a larger conventional operation. The DSO-style plan comprises a pit with a reserve of 26.2 million tonnes, a grade of 47% Fe, and a stripping ratio of 1.7:1 m^3 per tonne. The DSO-style plan would then be able to produce 1.9 million tonnes per annum, with 55% grade iron ore fines and a life of operation of 8 years. There is an option to further increase the project value at very little additional capital expenditure by adding a further wet magnetic separation stage to produce a high-grade “super-concentrate” with a 68% iron ore content.

In 2013, IRC conducted an internal Bankable Feasibility Study. A third-party verification and a fatal flaws analysis for the DSO-style operation was carried out in 2014.

The Company is currently reviewing the options on how to move the project forward.

Other Projects

EXPLORATION PROJECTS & OTHERS

IRC's other exploration projects comprise an extensive portfolio that is diversified by geography, commodity and development stages. This seeks to add value through the discovery of new resources and the increase and confirmation of mineable reserves. Currently, IRC retains these valuable licenses for later development until the market conditions improve. Apart from exploration projects, IRC is also active in the complementary business of the Steel Slag Reprocessing Plant (SRP) and a mining consultancy services agency (Giproruda). SRP project, a joint venture with Jianlong Steel, originally sourced the feedstock from Kuranakh, and as Kuranakh was moved to care in maintenance in 2016, the plant successfully switched to the local Chinese feedstock. Due to the relatively small scale of the project, SRP's contribution to the Group results is not material. Below is a summary of the current portfolio of exploration projects for the Group:

Project	Products/Service	Location
Kostenginskoye* (100% owned)	Iron ore concentrate	Jewish Autonomous Region, Russian Far East
Bolshoi Seym (100% owned)	Ilmenite	Amur Region, Russian Far East
SRP (46% owned)	Vanadium Pentoxide	Heilongjiang, China
Giproruda (70% owned)	Technical mining research and consultancy services	St. Peterburg, Russia

* Resource base for K&S

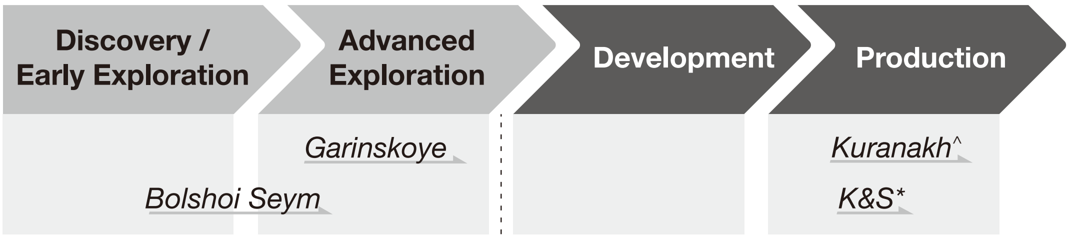
MINERAL RESOURCES AND ORE RESERVES STATEMENT

EXPLORATION OVERVIEW

IRC geologists explore prospective areas, confirming historical exploration results and existing mineable reserves. This mitigates risks during mining operations and reduces mining and processing costs. Data collected during exploration helps to develop strategies, business concepts and optimise mine models.

IRC has established one of the largest geological portfolios of high-quality ferrous ores in the Russian Far East, comprising a wide range of deposits by geography, geology, commodity, extraction and processing style and, most importantly, at different stages of development, thus providing unrivaled options.

The portfolio is divided into production and exploration projects.



* Including Kostenginskoye
^ Under administration

OPERATIONS

Over 2020, although no material exploration activities were carried out, changes in resources and reserves were mainly due to commercial production activities, normal minor oxidation and conversion from resources to reserves at K&S. In the light of these changes, the Group's resources and reserves as at 31 December 2020 are as follows:

31 December 2020		
IRON ORE	RESOURCES	1,353.2 million tonnes
		29.0% Fe
	RESERVES	389.8 million tonnes
		31.2% Fe

What is a Mineral Resource?

"Mineral Resource" is a concentration or occurrence of solid material of economic interest in or on the earth's crust in such a form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted on the basis of specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order to increase geological confidence, into Inferred, Indicated and Measured categories.

What is an Ore Reserve?

Ore Reserves are those portions of Mineral Resources which, following the application of all Modifying Factors, result in an estimated tonnage and grade which, in the opinion of the Competent Person making the estimates, can be the basis of a technically and economically viable project, after taking into account of material relevant Modifying Factors. Ore Reserves are reported as inclusive of marginally economic material and diluting material delivered for treatment or shipped from the mine without treatment.

The table below details the Group's Mineral Resources and Ore Reserves as at 31 December 2020 (after application of geological losses). All figures are prepared in accordance with the guidelines of the JORC Code (2012) for a consistent basis of presentation. On the following pages, a further breakdown by project is available detailing cut-off grades and changes during 2020. Rounding-off of numbers may result in minor computational discrepancies. Where this occurs, such discrepancies are deemed to be insignificant.

Resources Summary

Project	Category	Tonnage Mt	Fe Grade %	Fe Mt	TiO_2 Grade %	TiO_2 Mt
RESOURCES						
Kuranakh	Measured	—	—	—	—	—
	Indicated	8.8	30.7%	2.7	9.8%	0.9
	Inferred	8.4	31.0%	2.6	9.6%	0.8
	Total	17.2	30.8%	5.3	9.7%	1.7
K&S*	Measured	17.2	31.4%	5.4	—	—
	Indicated	332.0	32.7%	108.5	—	—
	Inferred	434.5	30.1%	131.0	—	—
	Total	783.7	31.2%	244.9	—	—
Garinskoye	Measured	—	—	—	—	—
	Indicated	210.9	35.5%	74.9	—	—
	Inferred	48.6	30.9%	15.0	—	—
	Total	259.5	34.6%	89.9	—	—
Bolshoi Seym	Measured	—	—	—	—	—
	Indicated	270.8	17.8%	48.1	7.7%	20.8
	Inferred	22.0	16.8%	3.7	7.7%	1.7
	Total	292.8	17.7%	51.8	7.7%	22.5
Group	**Total Measured**	**17.2**	**31.4%**	**5.4**	**—**	**—**
	Total Indicated	**822.5**	**28.5%**	**234.2**	**7.7%**	**21.7**
	Total Inferred	**513.5**	**29.7%**	**152.3**	**8.2%**	**2.5**
	Total	**1,353.2**	**29.0%**	**391.9**	**7.8%**	**24.2**

* Including Kostenginskoye

Reserves Summary

Project	Category	Tonnage Mt	Fe Grade %	Fe Mt
RESERVES				
K&S	Proven	17.9	30.2%	5.4
	Probable	345.7	30.1%	104.0
	Total	363.6	30.1%	109.4
Garinskoye	Proven	—	—	—
	Probable	26.2	46.9%	12.3
	Total	26.2	46.9%	12.3
Group	**Total Proven**	**17.9**	**30.2%**	**5.4**
	Total Probable	**371.9**	**31.3%**	**116.3**
	Total	**389.8**	**31.2%**	**121.7**

Kuranakh

Kuranakh is a medium-sized titanomagnetite and ilmenite deposit located in the Tynda District of the Amur Region in the Russian Far East. Geological exploration and confirmation works were conducted at the deposit between 2004 and 2006. Two ore zones have been assigned to mining: Kuranakh and Saikta

Three ore types have been identified within the Kuranakh and Saikta deposits:

1. Ilmenite-titanomagnetite type in massive ores (massive lenticular and streaky congregations)
2. Titanomagnetite-ilmenite type
3. Titanomagnetite-hemoilmenite types (as disseminations, impregnations and pockets) in the gabbroid.

The main useful components are titanium and iron; other components include vanadium, chromium, nickel, and cobalt. Of these, only vanadium is considered to be a useful by-product and is taken into account in the assessment of resources and reserves.

Due to the unsatisfactory iron ore priced environment in previous years, Kuranakh had been in care and maintenance since 2016. The mine is currently under administration. As a result, no mining activities have been carried out over the period. Based on the unsatisfactory iron ore priced environment in previous years, Kuranakh's reserves have been proven to be uneconomic and continue assumed to be nil.

The full resources of Kuranakh are stated below:

Kuranakh and Saikta Mineral Resources & Ore Reserves

	Tonnage Mt	Fe Grade %	Fe Mt	TiO_2 Grade %	TiO_2 Mt
Resources					
Kuranakh Pit					
Measured	—	—	—	—	—
Indicated	4.4	31.8%	1.4	10.2%	0.5
Inferred	3.3	30.3%	1.0	9.9%	0.3
Total	7.7	31.2%	2.4	10.1%	0.8
Saikta Pit					
Measured	—	—	—	—	—
Indicated	4.4	29.5%	1.3	9.3%	0.4
Inferred	5.1	31.4%	1.6	9.3%	0.5
Total	9.5	30.5%	2.9	9.3%	0.9
Total Measured	**—**	**—**	**—**	**—**	**—**
Total Indicated	**8.8**	**30.7%**	**2.7**	**9.8%**	**0.9**
Total Inferred	**8.4**	**31.0%**	**2.6**	**9.6%**	**0.8**
Total	**17.2**	**30.8%**	**5.3**	**9.7%**	**1.7**

Assumed average cut-off grades: Kuranakh Fe cut-off grade:17%

Kimkan and Sutara

Kimkan and Sutara (K&S) is a large magnetite project located in the Obluchenskoye District of the EAO in the Russian Far East. The project consists of two principal deposits – Kimkan and Sutara. In the calculation of K&S resources and reserves, Kostenginskoye Deposit, which is located at 18 km south of Sutara Deposit and is believed to have a similar structure to Sutara Deposit, has been included in K&S. The Kostenginskoye Deposit represents a potential ore feed extension for K&S to extend the life of the mine. The resources of the Kostenginskoye Deposit were included in the inferred category as part of the total resources of K&S.

To date, all of the necessary exploration activities as well as confirmation drilling have been completed in all areas except for the Kostenginskoye Deposit.

The current mining plan of K&S was based on a feasibility study completed in 2015. The geological model assumes a steep deepening of the tabular ore body. Mining activities begin with the Kimkan deposit first, then the Sutara deposit at a later stage. K&S total resources decreased while total reserves increased in 2020, due to the conversion of certain resources into reserves, but part of this was offset by mining activities at the mine and normal minor oxidation.

The breakdown of mineral resources and ore reserves for K&S is described in the table below:

K&S Mineral Resources & Ore Reserves

	Tonnage Mt	Fe Grade %	Fe Mt
Resources			
Kimkan & Sutara			
Measured	17.2	31.4%	5.4
Indicated	332.0	32.7%	108.5
Inferred	255.1	31.9%	81.5
Total	604.3	32.3%	195.4
Kostenginskoye			
Measured	—	—	—
Indicated	—	—	—
Inferred	179.4	27.6%	49.5
Total	179.4	27.6%	49.5
Total Measured	**17.2**	**31.4%**	**5.4**
Total Indicated	**332.0**	**32.7%**	**108.5**
Total Inferred	**434.5**	**30.1%**	**131.0**
Total	**783.7**	**31.2%**	**244.9**
Reserves			
Kimkan & Sutara			
Total Proven	**17.9**	**30.2%**	**5.4**
Total Probable	**345.7**	**30.1%**	**104.0**
Total	**363.6**	**30.1%**	**109.4**

Assumed average cut-off grades: Kimkan & Sutara Pit Fe magnetite cut-off grade: 15%; Kostenginskoye Pit Fe magnetite cut-off grade: 10%.

Garinskoye

Garinskoye Deposit is one of the few large iron ore deposits in the Russian Far East that was explored and studied extensively during the Soviet era. It is located in the Mazanovsky Administrative District, in the Amur Region and situated approximately 300 km from the regional capital of Blagoveschensk.

The deposit was first discovered in 1949 through an aeromagnetic anomaly. Detailed exploration, including pits, trenches, shafts and underground development, together with drill holes were carried out between 1950 and 1958. The dominant form of mineralisation is magnetite, which sees a shift to martite within the oxidation zone. Magnetite ores can be classified into three types of iron grade:

1. High grade at above >50% Fe – sub-divided into low and high phosphorus
2. Average grade from 20% to 50% Fe
3. Low grade from 15% to 20% Fe

Current geological exploration works has been conducted at Garinskoye since 2007, and the works has focused on the prospect for a DSO-style operation since 2011. No new exploration was carried out in 2020. The resources and reserves of Garinskoye have been prepared on the basis of a new set of estimates based on revised geological surveys and a feasibility study in 2015. As no exploration has been carried out and based on last year's iron ore prices as assumptions, the resources and reserves of Garinskoye remained the same in 2020 compared to 2019.

The following table details the resources and reserves of Garinskoye:

Garinskoye Mineral Resources & Ore Reserves

	Tonnage Mt	Fe Grade %	Fe Mt
Resources			
Measured	—	—	—
Indicated	210.9	35.5%	74.9
Inferred	48.6	30.9%	15.0
Total	**259.5**	**34.6%**	**89.9**
Reserves			
Proven	—	—	—
Probable	26.2	46.9%	12.3
Total	**26.2**	**46.9%**	**12.3**

Assumed average cut-off grades: Garinskoye Fe cut-off grade: 16.5% and Fe magnetite cut-off grade: 9%.

Bolshoi Seym

Bolshoi Seym is located in the Tynda district of Amur region, 40 km from the Kuranakh Deposit. At Bolshoi Seym, the license covers an area of 26 km^2. Potentially economic mineralisation at Bolshoi Seym comprises massive ilmenite and magnetite. Massive mineralisation comprises between 90% to 99% (by volume) of ilmenomagnetite, magnetite and ilmenite. The Bolshoi Seym mineralisation was initially discovered during the apatite-ilmenite ore exploration programme conducted in 1979–1982 by Kalarskaya GRP, a subsidiary of the state-owned company Dalgeologiya.

Systematic exploration of the Bolshoi Seym Deposit was conducted by Vostokgeologia between 2007 and 2009. A total of 170 diamond drill holes were drilled in all zones totaling 39,277 metres, of which 158 were exploration holes, 3 were grade control holes, 5 were technological holes, and 4 were hydrogeological holes. In addition to the drilling, 17 trenches were excavated over a linear distance of 7,893 metres.

A mineral resource estimate of the Bolshoi Seym Deposit was prepared by Micon in compliance with the CIM (Canadian Institute of Mining, Metallurgy and Petroleum) valuation standards. The estimate utilised geological and assay data from diamond drilling and trenching completed by Vostokgeologia in 2007–2009. In 2015, resources were assessed using a 5% TiO_2 cut-off grade and prepared in compliance with the JORC Code (2012).

In 2012, IRC increased its ownership of the Bolshoi Seym Deposit from 49% to 100%.

The following table details the resources of Bolshoi Seym.

Bolshoi Seym Ore Resources

	Tonnage Mt	Fe Grade %	Fe Mt	TiO_2 Grade %	TiO_2 Mt
Resources					
Measured	—	—	—	—	—
Indicated	270.8	17.8%	48.1	7.7%	20.8
Inferred	22.0	16.8%	3.7	7.7%	1.7
Total	**292.8**	**17.7%**	**51.8**	**7.7%**	**22.5**

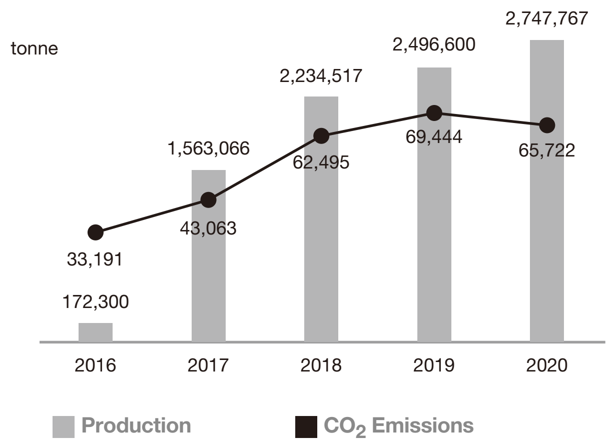
Assumed average cut-off grades: Bolshoi Seym TiO_2 cut-off grade: 8%

ACT RESPONSIBLE, THINK SUSTAINABLE

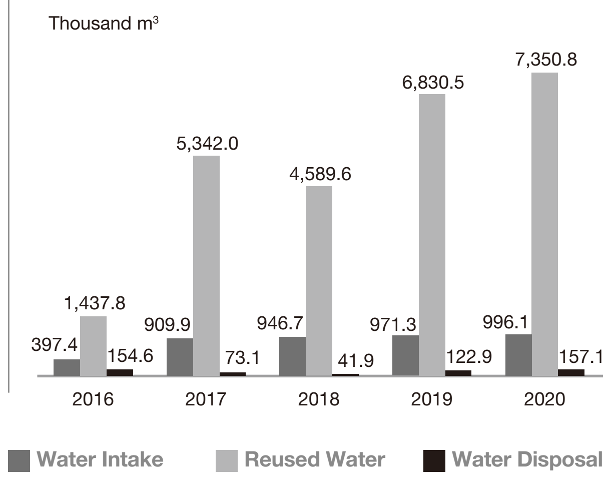
FY2020 HIGHLIGHTS

Environment

CO_2 Emissions Vs Production

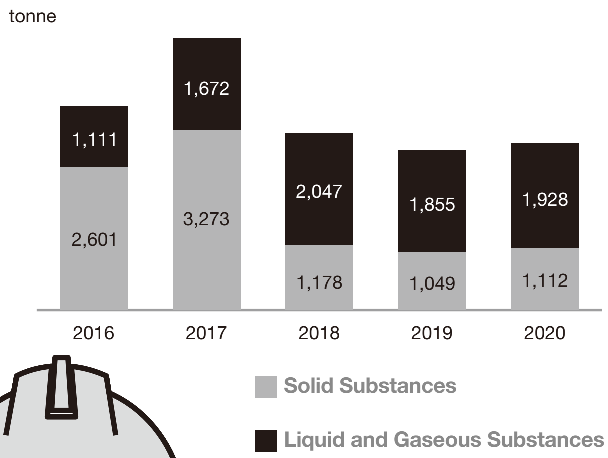


More Water Reused; Water Intake and Disposal Remain at Low Level

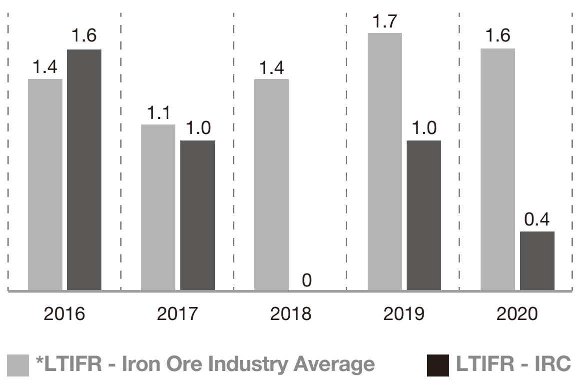


Health and Safety

Low Pollutant Emissions



Lost Time Injury Frequency Rate



* Sources: Department of Mines, Industry Regulation and Safety - Government of Western Australia

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

INTRODUCTION

IRC is conscious of its Environmental, Social and Governance ("ESG") responsibilities. They are a core consideration at every stage of our business, not just in the day-to-day mining and processing operations, but also through all our functions from exploration to logistics and administration. This also includes the communities where we operate, as well as the wider communities of the Amur and Jewish Autonomous regions of the Russian Far East.

In recognition of these, IRC is the first and the only pure-play iron ore company in the Russian Far East, as well as the first iron ore mining company in the Amur and Jewish Autonomous regions to be certified for compliance with international standard ISO 14001:2004. Since 2011, policies and strategies have been derived from the Health, Safety and Environment Committee of the Board of Directors. The Executive Committee designated HSE teams to Moscow, Birobidzhan and the operating site and overseen the implementation.

IRC is one of the largest financial contributors to the local economy in the Jewish Autonomous Region.

SUSTAINABLE DEVELOPMENT POLICY

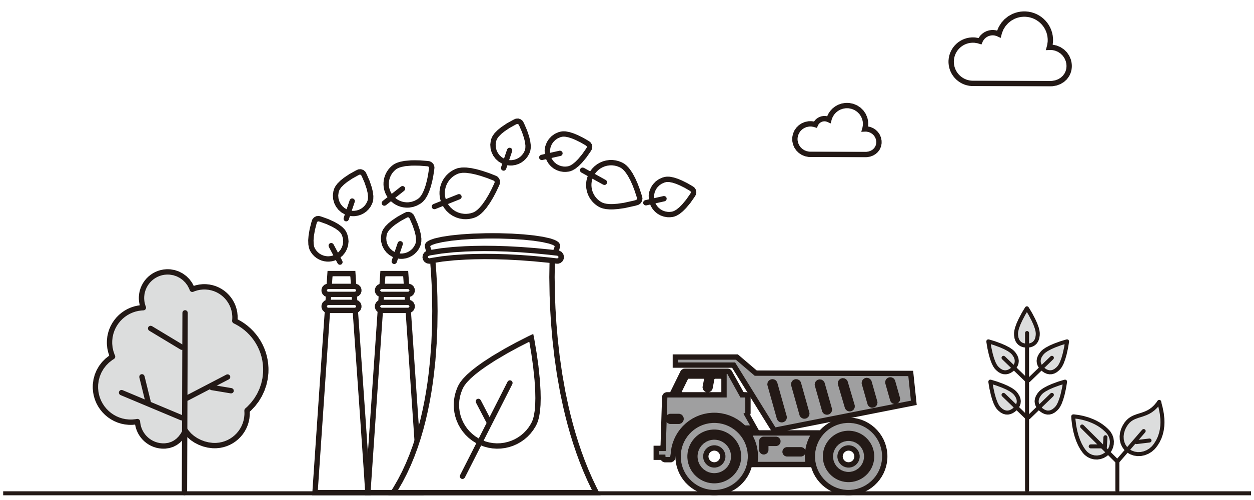
IRC's operations provide thousands of people with jobs and business opportunities. The Company's operations stimulate the Russian Far East's economic growth and have thus become an important part of the local economic fabric.

The core constituents of IRC's sustainable development policy are:

1. The provision of safe and healthy working conditions;

2. The rational use of natural resources; and

3. The preservation of a favourable environment for future generations.



HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Health, Safety and Environment Committee consists of three Independent Non-Executive Directors – Daniel Rochfort Bradshaw (Chairman), Jonathan Eric Martin Smith and Chuang-fei Li, and is responsible for evaluating the effectiveness of the Group's policies and systems in identifying and managing health, safety and environmental risks within the Group's operations and ensuring compliance with health, safety and environmental regulatory requirements. The Committee also assesses the performance of the Group with regards to the impact of health, safety, environmental and community relations, decisions and actions. For details of the committee, please refer to page 91 of this report.

Daniel Rochfort Bradshaw
Chairman of HSE committee

Jonathan Eric Martin Smith
Member of HSE committee

Chuang-fei Li
Member of HSE committee

EMPLOYEES – HEALTH & SAFETY

IRC projects include mines and processing plants in some harsh climatic conditions in the Russian Far East. Our K&S mine is open-pit and highly mechanised.

In 2020, the Group employed a total of 1,700 employees on average, with a male to female ratio of 70.6% to 29.4%. Aside from these 1,700 employees, the Group also engaged an average of 437 people from external contractors.

The Group recruits people for work not only from the Russian Far East, but also from other regions of Russia and the Commonwealth of Independent States ("CIS"), and participates in the state programme of compatriots resettlement. The programme provides preferential conditions for gaining citizenship as well as the reimbursement of relocation costs. During the reporting period, 67 employees of the plant came from the neighboring countries.

	2020	2019	2018	2017
Part-Time	**12**	21	15	18
Temporary Contractors	**24**	58	61	541
Female – Ratio%	**29.4**	28.0	28.0	41.7

The table shows the average annual headcount

The majority of employees have permanent employment contracts and work full-time. Discrimination on gender is not tolerated in the Group. When it comes to hiring, equal opportunities for men and women are prioritised.

Personnel characteristics

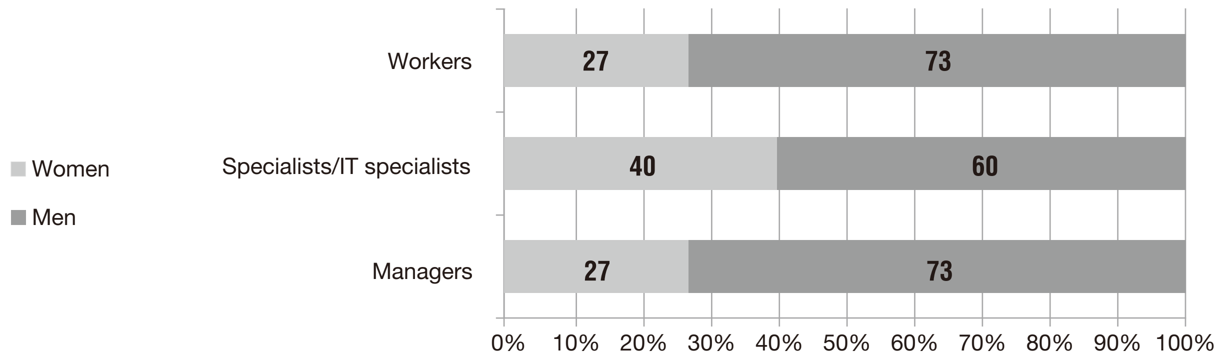
The total average number of employees in the Group was 1,700 in 2020, down 3.4% from the previous year, including 1,298 workers (76.4%), 332 specialists (19.5%), and 70 management staff (4.1%).

The following table shows the gender distribution of IRC employees by job type and age in 2020:

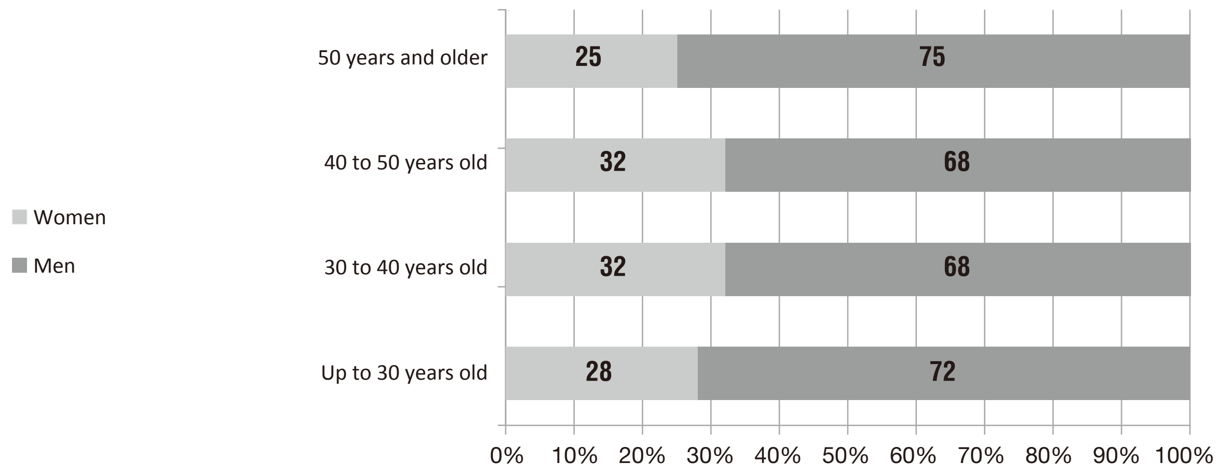
1,200	Men	1,700	Women	500
51	Managers	70	Managers	19
198	Specialists/IT specialists	332	Specialists/IT specialists	134
951	Workers	1,298	Workers	347

1,200	Men	1,700	Women	500
221	Up to 30 years old	306	Up to 30 years old	85
337	30 to 40 years old	495	30 to 40 years old	158
326	40 to 50 years old	479	40 to 50 years old	153
316	50 years and older	420	50 years and older	104

Distribution of IRC employees by gender and category in 2020:

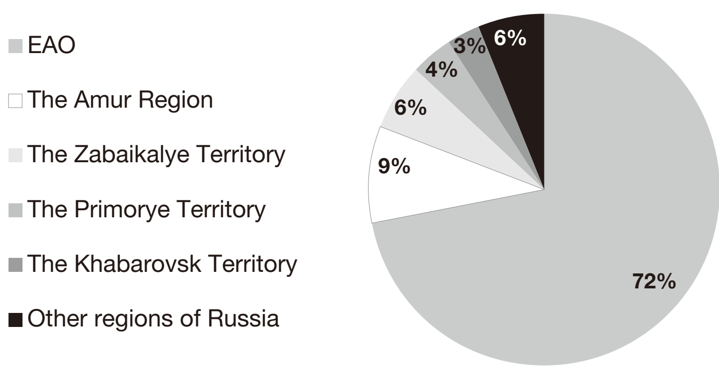


Distribution of IRC employees by gender and age in 2020:



Distribution of IRC employees by region in 2020:

Region	Number of employees
Jewish Autonomous Region (EAO)	1,229
– Birobidzhan,	406
– Obluchensky district	774
– Other districts of EAO	49
The Amur Region	153
The Zabaikalye Territory	106
The Primorye Territory	71
The Khabarovsk Territory	41
Other regions of Russia	100
Total	1,700



In 2020, IRC had a relatively high employee turnover rate. The number of employees left the Group reached 346 (20% of the total employees) by the end of 2020, which is higher than the mining industry's average. However, considering that K&S is a relatively new project and still ramping up, this number can be assessed as corresponding to the norm. In addition, competition with the other enterprises engaged in the mining and processing of minerals in the Obluchensky district has played part in increasing the workforce turnover.

Analysis of the labour productivity

The volume of output (iron ore concentrate) in 2020 increased by 10.1% compared to 2019 and amounted to 2,747,767 tonnes of concentrate.

Indicator	Unit	2020	2019	Efficiency, %
The volume of production	t	**2,747,767**	2,496,600	+10.1
Average number of workers	person	**1,700**	1,760	(3.4)
Labour productivity	t/person	**1,616**	1,419	+13.9

According to the results of the analysis, despite the decrease of the number of employees, the labour productivity per tonne of iron ore concentrate increased by almost 13.9% in 2020 compared to 2019. The increase is attributable to the motivation of the employees (average salaries has been increased in 2020 compared to 2019), and the reduced downtime of the production equipment for repair and maintenance.

Employment Mission and Vision

People are the decisive factor for the Group's success. Attracting and developing talented and motivated employees who share the corporate values of the Group is the most important factor for the Group's success. IRC creates jobs in the region in which it operates, provides competitive wages, safe work environment, and pursues a balanced social policy. The principle of equality and non-discrimination is applied to recruitment and remuneration of staff.

Our Group's main principles in the field of labour relations are:

- Creation of opportunities for the professional and personal growth of employees;
- Encourage all employees to reach their full potential;
- High productivity of labour with full compliance with safety requirements;
- Substantive reward system to encourage high-productivity work;
- Relations between employer and employees are based on the principles of social partnership and mutual responsibility;
- Creating a culture in the workplace that stimulates a high level of achievement.

Training & Development

Efficiency in production largely depends on the qualifications of workers, their professional and personal skills. The corporate training system focuses on the Group's strategic plans and needs for staff with certain qualifications and necessary competencies. Training programmes are a tool for improving productivity, quality and safety, as well as minimising the risks associated with the activities of unskilled employees.

The Group uses a variety of methods to train specialists and workers, including full-time training in state educational institutions and private centres, corporate training programmes, internships and on-site training.

The Group has established a training centre to provide professional training to its employees. The Centre holds a vocational training license issued by the Education Committee of the EAO.

In 2020, 377 people received training, including:

– 251 people were sent to study in educational institutions of the Khabarovsk Territory, Birobidzhan, Moscow, Krasnoyarsk, Tyumen;

– 126 people received training at the training centre of the Group.

Employees received training in 2020 by gender and qualifications:

	Number of people	Average number of training hours per employee	Average number of training hours for all employees
Women	**50**		
Technical and engineering	6	46.6 hours	280 hours
Specialists	32	28.7 hours	920 hours
Workers	12	65.0 hours	780 hours
Men	**327**		
Technical and engineering	161	5.6 hours	908 hours
Specialists	3	24.0 hours	72 hours
Workers	163	19.0 hours	3,102 hours

In addition, a new "Mineral Processing" specialty was opened in 2017 on the initiative of K&S, based on the Faculty of Information Technologies of the Sholom – Aleichem Priamursky State University, Birobidzhan, ("PSU"). Graduates are guaranteed to be employed at the K&S processing plant after graduation. The educational process is carried out at the university campus and directly at the Group's educational and production facilities.

In 2020, 6 young specialists successfully obtained their diplomas and were employed by IRC. As of the end of 2020, 53 students were studying at the university, with their expenses reimbursed by the Group.

Number of employees received training in "Mineral Processing" specialty at the expenses of IRC between 2018 and 2020:

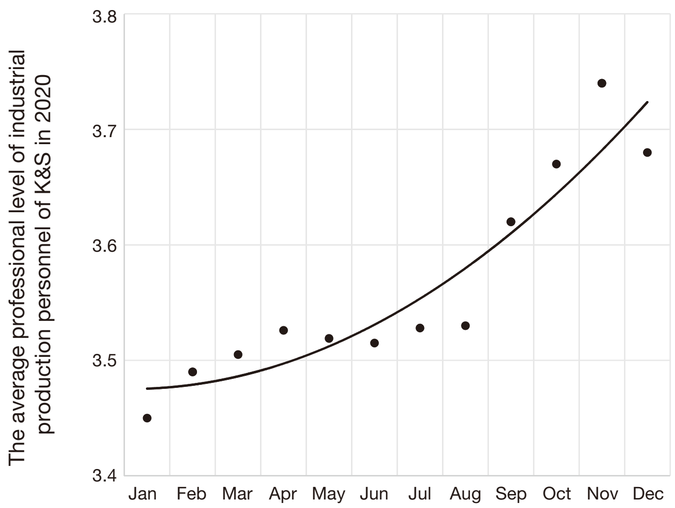
Location	2020	2019	2018
K&S Training Centre	**377**	521	829
Priamursky State University (full-time education)	**10**	10	10
Priamursky State University (correspondence course)	**5**	12	14

To support the programme, a strong team of teachers was created, composed of the Company's leading experts, who give lectures and conduct training sessions for full-time and part-time first to third year students of the "Mineral Processing" specialty within the Priamursky State University.

Professional level of industrial production personnel

The Group pays constant attention to the professional development of its industrial production personnel, works on improvement of their professional level and creates conditions for them to acquire useful skills. The efficiency of K&S mine depends to a large extent on the performance of the processing plant. K&S uses the Unified Rating and Skills Guide for Jobs and Occupations of Manual Workers, which is mandatory for use in the Russian Federation, to determine the average professional level of the industrial production personnel of the plant. In 2020, the average professional level increased by 7.6%.

Figure: 1. Change in the average professional level of industrial production personnel:



Labour Standards

Employment and organisation of labour in IRC complies with the Constitution of the Russian Federation, the Labour Code of the Russian Federation and other regulatory acts of the Russian Federation containing labour law norms, the Company Charter and internal documents of the Group.

The following corporate documents are designed to improve human resources management in the Group:

- Employee's Code of Professional Ethics;
- Internal Labour Regulations;
- Regulations on Personal Data of the Employees;
- Remuneration and Bonus Scheme for the Employees;
- Regulations on Disciplinary Sanctions;
- Dormitory Rules;
- Regulations on the Training Centre which provides professional training of the Group's employees and other persons;
- Regulations on Structural Divisions.

The employment contracts are normally permanent in accordance with general regulations. However, in some cases, because of the nature of the duties or requirements to perform those duties, it may not be possible to establish a working relationship permanently. In those cases, a fixed-term employment contract of up to five years may therefore be signed. Russian Labour legislation imposes clear restrictions on the implementation of fixed-term employment contracts.

An employer may terminate an employment contract only on the basis of the specific grounds set out in the Labour Code. An employee made redundant or dismissed from the Company on account of its liquidation shall have the right to receive, for a period of time, compensation, including severance and salary payments, depending on the circumstances.

The Labour Code also provides for additional protection or favorable treatment for certain categories of employees, such as pregnant women, workers under the age of 18, workers engaged in hazardous working conditions or those working in hostile climatic conditions. According to the Labour Code, it is prohibited to employ, engage in or use any forced or juvenile labour, and the Federal Authorities regularly carry out field inspections to ensure compliance with the law.

The Labour Code also sets the standard weekly working time at 40 hours. Working beyond 40 hours a week, as well as working on public holidays and weekends, shall be compensated by double payment of labour remuneration, or be paid as an extra day off.

The Group should not discriminate on the basis of gender, nationality, religion or other grounds not related to the level of competence in the field of labour relations. The selection of candidates for vacant positions depends on the availability of the necessary skills and excludes the preferences of gender, nationality, religion and age. Human Resource's decisions are based solely on the assessment of the applicant's professional qualities.

The Group complies with all federal legislation regarding working hours and conditions, worker protection, remuneration, social security and paid leave. Social benefits are provided to all employees of the Company and certain categories in accordance with the legislation of the Russian Federation.

To protect the interests of employees of the Group, employees may contact the Human Resources department if they suspect discriminatory behaviour.

During the reporting period, the Group complied with all applicable employment laws and regulations, including the labour Code. There were no cases of discrimination, child labour, or other forms of forced labour within the scope of the Group.

HEALTH AND SAFETY

The Group is responsible for maintaining a safe working environment that complies with the applicable industrial safety requirements. Health and safety are managed at the operational level, with support from the Group to ensure compliance with Russian regulations. All projects are required to have health and safety management systems in place and to reflect good international practice. The principal law regulating industrial safety is the Russian Health and Safety Law, which applies, in particular, to industrial facilities and sites where certain activities are carried out, including sites where mineral processing is carried out and certain hazardous substances are used. The Health and Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations and extends to the facilities and sites where these substances are used. Regulations adopted under the Health and Safety Law further address the safety rules for mining and production operations carried out by the Group.

Any construction, reconstruction, liquidation or other activities relating to regulated industrial sites shall be subject to a state industrial safety review. Any deviation from the project documentation in the process of construction, reconstruction or liquidation of regulated industrial sites shall be prohibited unless it is reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision or other relevant regulatory authority. Legal entities operating such regulated industrial facilities and sites have a wide range of obligations under Russian law, in particular under the Health and Safety Law and the Labour Code.

In order to comply with Federal Law No. 426–F, the Health and Safety Department of the Group shall, each year, identify harmful and/or hazardous factors in the production environment and working process, and assesses the level of the impact on employees, taking into account deviations in their actual value. On the basis of the results of the assessment of working conditions, reports on the classification of working conditions and lists of measures to improve working conditions are drawn up.

In addition to the legal obligation to protect the health of all employees, the Group recognises that its employees also have the right to work in a safe working environment. Health and safety training is provided to all employees during the initial on-boarding process. The Group organises annual conferences to bring key members of staff to share their experience and discuss good practice. In addition, all employees receive annual health and safety “refresher” training courses to introduce them to the latest health and safety techniques and procedures put in place by the Group. Health and safety monitoring and internal inspections of working environments are undertaken to ensure compliance with Russian regulatory requirements as well as with international best practice.

Our goal is to ensure the health and safety of our employees, contractors, and visitors of the Group.

The Group’s health and safety policy includes:

– Adherence to all labour legislation-mandated procedures and requirements;

– The need to enforce standards that embody best practices, and to ensure that working conditions are still favourable;

– Conducting required briefings, training, and employee monitoring;

– Advising and educating employees about developments in labour protection;

– Conducting routine risk assessments and operational safety audits to track and enhance the Group’s operations.

As mentioned, all of the Group’s operating entities must have health and safety management systems, as recorded in comprehensive health and safety manuals. The Group employs health and safety experts and provides rigorous training programmes. The Group investigates every accident and prepares accident reports in accordance with existing procedures. The Group also prioritises new employees’ safety induction and conducts bi-monthly health and safety training for all employees. As part of the Group’s fire prevention programme, firefighting exercises are held on a regular basis, and employees are provided with necessary safety equipment.

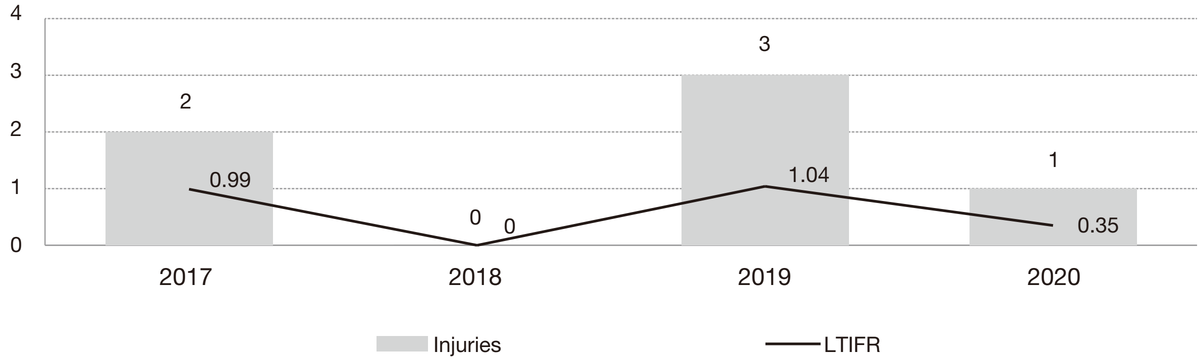
The Group has developed and is implementing “Industrial safety and labour protection management system”, “Permit-to-work system” and “Procedure for training (pre-certification) and verification (certification) of the knowledge of industrial safety, labour protection and fire safety requirements” standards. These standards lay foundation for the Group’s compliance with labour protection, and industrial and fire safety regulations.

The Federal authorities inspect explosives storage, industrial facilities, labour and environmental aspects, as well as health and safety procedures and documents at each of the Group’s operations on a regular basis, ranging from once a year to once every three years.

In 2020, the lost time due to injuries recorded on site was only 0.35 per 1,000,000 man-hours. The Group will continue to make efforts in this area in order to achieve a zero injury rate and safe working conditions.

Safety Statistics 2017–2020 (Russian Standard Scale)

	2020		2019		2018		2017	
	Injuries	**LTIFR**	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR
K&S	**1**	**0.36**	3	1.07	0	0.00	2	1.50
Other projects	**0**	**0.00**	0	0.00	0	0.00	0	0.00
Group	**1**	**0.35**	3	1.04	0	0.00	2	0.99



In the last three years, 307 man-days have been lost due to work-related injuries.

According to the requirements of the Russian Federation's Labour Code, each industrial accident must be reported in the prescribed manner and logged in the prescribed form in the industrial accident register.

Health and safety performance is a key indicator that reflect how IRC fulfills its responsibility to provide a good working condition to its employees. Low rates of occupational injuries and diseases, and lost working days are related to the high morale and productivity of employees.

The safety and well-being of our employees and the communities near the K&S mine are of paramount importance to IRC. The Group has had no fatal accidents in the past three years. IRC is committed to further improve safety standards in the coming years.

ENVIRONMENTAL MANAGEMENT SYSTEM & ENVIRONMENTAL POLICY

Environmental Management System (EMS) is an instrument for implementing environmental policies. It aims to set and achieve environmental goals, manage environmental matters, and fulfill its obligations.

One of the key aspects of IRC's sustainability policy is to minimise the impact of our operations on the environment. This task is seen as critical by our management team.

Since 2011, the Group has implemented an integral Environmental Management System ("EMS"), which is used for the development, implementation and review of Group's environmental policy. It has been certified by the French certification body AFNOR. Currently, the EMS used by IRC is able to meet all the requirements of ISO 14001, although it has not been formally certified due to cost-saving reasons. However, in order to further confirm the effectiveness of the environmental management system, and in accordance with the latest requirements of the international standard ISO 14001, the Group conducts a self-assessment of the system every year.

Atmospheric, groundwater and surface water, soil and plant, geological topography, animal life in the water ecosystem and the surrounding areas of the Group's projects will be affected during its operations. In order to minimise the environmental impact, the Group has taken a number of important measures, including compliance with the following environmental policies:

1. Compliance with the environmental laws of the Russian Federation and international agreements;

2. Minimisation of the impact on the environment and biodiversity through measures to improve and optimise the environmental management system;

3. Minimisation of the impact of operations on indigenous populations, in addition to providing support to indigenous communities to preserve their lifestyle and contribute to sustainable development;

4. Utilisation of scientific research and developments to eliminate or reduce the impact of operations on the environment and to reduce the consumption of materials and energy;

5. Preparation of contingency plans in the event of a health and safety, environmental or natural disaster or emergency;

6. Promotion of environmental awareness to employees and stakeholders where the Group operates;

7. Encouraging vendors and contractors to comply with the environmental and safety policies of the Group;

8. Disclosure of the Group's environmental strategy, research and data to the public, as well as to conduct public consultations and hearings;

9. Commitment of the Board and senior management to comply with the safety and environmental policies, and environmental management system in all decisions; and

10. Involvement of all employees in the environmental management system through training and incentive programmes.

The main objectives of the Group's environmental policy are achieved through the implementation of the following activities:

1. Compliance with the requirements of local environmental law and international standards of best practice;

2. Environmental monitoring of:

   – air pollutants and emissions (including greenhouse gasses);

   – land use and reclamation;

   – waste management (including hazardous substances);

   – water management; and

   – energy consumption and conservation

3. Biodiversity conservation;

4. Community engagement through:

   – stakeholders engagement;

   – public hearings and discussions; and

   – environmental education

In accordance with the requirements of the international standard ISO 14001, all employees of the Group receive training to understand the importance of environmental protection activities at their workplaces. EMS also applies to all contractors that works on our sites. The proper functioning of the environmental management system reduces the impact of our operations on the environment, and promotes a healthy and ecological culture among our employees.

CORPORATE ENVIRONMENTAL GOALS, OBJECTIVES, AND MEASURES FOR THE ACHIEVEMENT

In order to implement measures aimed at achieving the environmental goals and objectives set by the Group in 2020 (the environmental goals and objectives are set once a year), the Environmental Protection Action Plan was designed and approved. The Plan is a document that sets out a list of all measures aimed at improving environmental management efficiency, ensuring environmental safety, rational use of natural resources, and saving energy.

At the end of each period, the company reports the results of the implementation of environmental protection measures and the achievement of key environmental indicators to the supervising authorities.

REQUIREMENTS OF ENVIRONMENTAL LEGISLATION

In its environmental policies, IRC meets and often exceeds the standards of Russian legislation and international best practice. The main Russian Federation Environmental Legislation and Standards applicable to the Group's activities include:

– No. 7, 2002 "On Environmental Protection";

– No. 2395–1, 1992 "On Subsoil Law";

– No. 136, 2001 "Land Code";

– No. 33, 1995 "On Specially Protected Natural Territories";

– No. 52, 1995 "On Wild Animals";

– No. 116, 1997 "On Industrial Safety of the Dangerous Industrial Objects";

– No. 89, 1998 "On Production and Consumption of Waste";

– No. 52, 1999 "On Sanitary – Epidemiological Welfare of the Population";

– No. 96, 1999 "On Ain Protection";

– No. 190, 2004 "Urban Development Code of the Russian Federation";

– No. 166, 2004 "On Fisheries and Conservation of Aquatic Biological Resources";

– No. 74, 2006 "On Water Code";

– No. 416, 2011 "On Water Supply and Water Disposal";

– No. 174, 1995 "On Ecological Expertise";

– No. 99, 2011 "On Licensing Certain Types of Activities";

– No. 442, 2003 "On the Transboundary Movement of Waste";

– No. 200, 2006 "Forest Code of the Russian Federation";

– No. 1458, 2014 "On the Procedure for Determining Technology as the Best Available Technique, as well as the Development, Updating and Publishing of Informational Technical Guides on the Best Available Technique";

– No. 219, 2014 "On Amendments to the Federal Law 'On Environment Protection' and Certain Acts of the Russian Federation";

– GN 2.1.5.1315–03 "Maximum Allowable Concentration (MACs) of Chemicals in the Water of Water Objects Used for Drinking and Domestic Recreation Purpose";

- GN 2.1.6.3492–17 “Maximum Permissible Concentrations (MPC) Pollutions in the Atmosphere Air of Urban and Rural Settlements”;

- GN 2.2.5.3532–18 “Maximum Permissible Concentrations (MPC) of Harmful Substances in the Air of the Working Area”;

- GN 2.1.6.2309–07 “Tentative Safe Exposure Levels (TSELs) of Pollutants in the Air of Residential Areas”;

- GOST R 56062–2014 “Industrial Ecology Control. General Principles”;

- GOST R 56061–2014 “Industrial Ecology Control. Requirements for Programme Industrial Ecology Control”;

- GOST R 56059–2014 “Industrial Environmental Monitoring. General Principles”;

- GOST R 56060–2014 “Industrial Environmental Monitoring. Monitoring of the State and Pollution of the Environment on the Territories of Wastes Disposal facilities”;

- GOST R 56063–2014 “Industrial Environmental Monitoring. Requirements to Programmes of Industrial Environmental Monitoring”;

- GOST R 56828.24–2017 “Best Available Techniques. Energy Saving. Guidance on the Application of the Best Available Techniques for Increasing the Energy Efficiency Energy Saving”;

- GOST R 56828.27–2017 “Best Available Techniques. Resources Saving. The Methodology for the Treatment of Waste to Produce Material Resources”;

- GOST R 55100–2012 “Resources Saving. Best Available Techniques for the Management of Tailings and Waste-rock in Mining Activities. Aspects of Good Practice”;

- GOST R 54298–2010 “Environmental Management System. Certification of Environmental Management System for Compliance GOST P 14001–2007”;

- GN 2.1.7.2041–06 “Maximum Permissible Concentrations (MPC) of Chemical Substances in Soil”;

- GN 2.1.5.2307–07 “Tentative Permissible Levels (TPLs) of Chemicals in Water of Water Objects of Drinking and Cultural-domestic Water Use”; and

- RD 52.08.18-84 “Conservation of Nature. Hydrosphere. Methodical Instructions. Rules for Keeping Records of Surface Waters. General Provisions”

ENVIRONMENTAL MONITORING, CONTROL AND MEASURING

A comprehensive assessment of the environmental impact of K&S activities is carried out in accordance with Russian legislation and international regulations during the process of industrial environmental control and monitoring. To this end, we cooperate with accredited laboratories and research organisations with appropriate licenses and permits.

IRC has a comprehensive environmental monitoring system, including monitoring environmental conditions, evaluating and predicting changes in environmental conditions under the influence of natural and anthropogenic factors. Monitoring covers the following areas:

– Atmospheric air;

– Natural waters (surface and underground);

– Bottom sediments and top soil in stream flow;

– Flora and fauna;

– Aquatic ecosystems; and

– Radiation.

IRC regularly monitors air emissions, sources of solid waste, process control parameters, fuel and energy resources, and uses these data to better manage its operations.

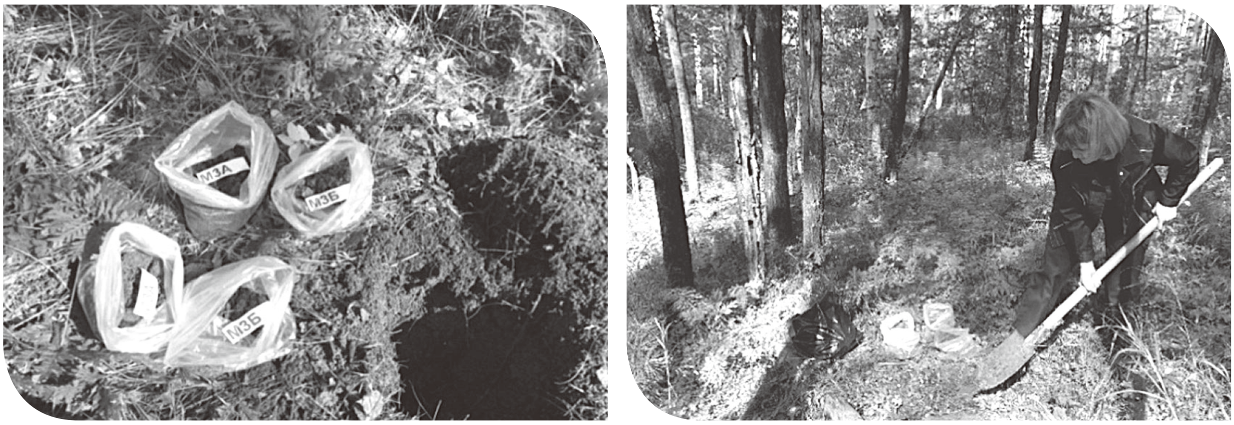
The objectives of industrial environmental control are:

– Check the conformity of the technological process to the design;

– Control of hazardous waste management;

– Control of environmental protection measures of atmospheric air, land and water bodies; and

– Control of physical environmental factors (noise and vibration).



Monitoring the quality of topsoil

Water sampling

Analysis of water samples

Since 2016, more than 14,000 analyses of various environmental components have been carried out as part of the monitoring programmes and more than 2,000 wastewater and industrial discharge tests have been made.

According to instrumental measurements carried out in 2020, the level of sound pressure and vibration at the Group's sanitary protection zone (SPZ) border did not exceed the established standard and had no negative impact on the residents of the surrounding residential areas. In 2020, 18 measurements of the sound pressure level and 7 measurements of the degree of vibration were carried out.

To ensure compliance with the requirements of environmental legislation, reports on the results of industrial environmental control are prepared annually separately for K&S industrial site and accommodation camp.

As part of the updating of engineering and environmental surveys, more than 2,500 analyses of various environmental components and 1,200 measurements of radiation level were carried out in 2020.

According to the results of industrial environmental control and environmental monitoring conducted by IRC, all data did not exceed the limits and met the standards.

STATE ENVIRONMENTAL SUPERVISION (CONTROL)

In 2020, five unscheduled inspections were carried out at K&S for compliance with legislation in the field of production and consumption waste management, water legislation and legislation in the field of atmospheric air protection. No violations have been noted as a result of inspections.

CLIMATE CHANGE

The corporate objectives in the area of climate change

The management of greenhouse gas emissions is part of the IRC's ongoing corporate strategy for environmental protection and climate conservation. Reducing specific greenhouse gas emissions is a key factor in improving the environmental friendliness of production processes.

When implementing the projects of IRC, environmental protection measures must be enforced to reduce emissions of pollutants into the air (use of gas treatment plants with a cleaning efficiency of up to 99%), using a recycled water supply system, reducing the area of land affected by the project, using industrial waste as raw materials and other materials of construction sources.

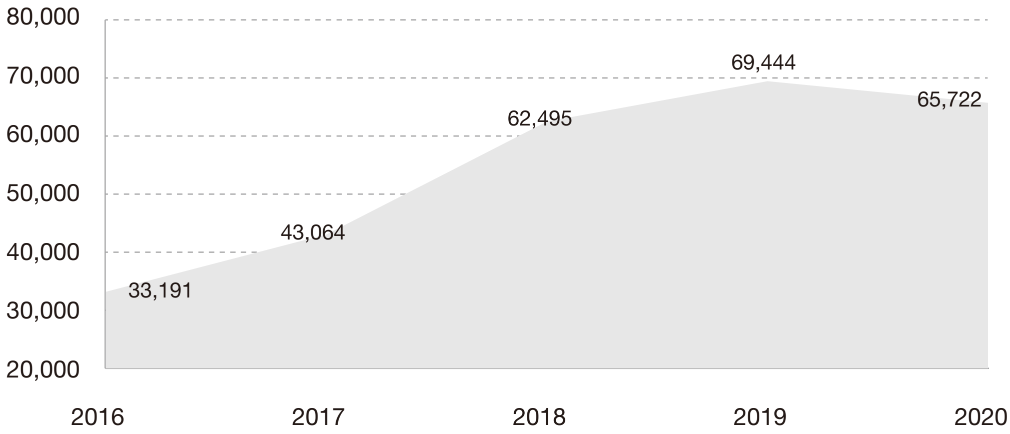
Management of greenhouse gas emissions

In order to comply with the requirements of the environmental legislation of the Russian Federation with regard to the disclosure of greenhouse gas emission, monitoring and calculation of greenhouse gas emissions has been carried out since 2016, using the procedure as stated in the Methodology Guidelines on the quantification of greenhouse gas emissions (order of the Ministry of Russia dated June 30, 2015, No. 300).

Total greenhouse gas emissions are calculated in terms of its global warming potential and are expressed in CO_2 equivalent. The calculation is made on the basis of all types of products used: gasoline, diesel, and coal.

Based on the 2020 results, the actual carbon footprint of the IRC's production activity was 5.4% lower than in 2019 and amounted to 65,722 tonnes of CO_2 equivalent.

Dynamics of greenhouse gas emissions by the Group in 2016-2020, tonnes of CO_2 equivalent.



During the reporting year, greenhouse gas emissions decreased as a result of the measures to improve energy efficiency and reduce coal consumption in the drying unit of the processing plant.

The following measures were implemented:

1. Upgrade of the drying unit in the summer of 2020, including the following items:

   – Replacement of bag filters of the drying equipment;

   – Increase of the air supply to the fluidised bed furnaces;

   – Improvement of the performance of the induced draft fans;

   – Replacement of the flight conveyors with the belt conveyors;

   – Installation of screw conveyors at the discharge of the rotary drum dryers.

2. Transition from using Brown coal (grade 3BR) to long flame coal (grade D) starting from November 2020.

		Actual consumption		
Indicator	Unit	2020	2019	Achievements in 2020
Coal used	t	**33,670**	35,670	2,000 (-5.6%)
– drying unit	t	**10,710**	12,580	1,870 (-14.9%)
– heating plant	t	**22,960**	23,090	130 (-0.6%)

As a result of the transition to the long flame hard coal, which has a higher calorific value than the brown coal (5188-7684 kCal/kg vs 4100-7100 kCal/kg), coal consumption per tonne of dry concentrate produced decreased from 16 kg to 13 kg, which reduces greenhouse gas emissions.

In 2020, coal consumption per Gcal was 419 kg, while it was 422 kg in 2019.

Energy saving and energy efficiency

To cope with the global climate change, the Company increases its energy efficiency in order to improve the energy content of its products. Reasonable energy use help reduce greenhouse gas emissions.

OUR GOALS:

– Ensure the efficiency of the technological processes and operation of the Group's technological equipment;

– Ensure the efficient use of the Group's fuel and energy resources.

According to the energy consumption analysis in 2020, the consumption of coal (per tonne of dried iron ore concentrate produced) was 13 kg/t (2019: 16 kg/t).

Unit power consumption per tonne of concentrate produced was 94.5 kWh in 2020, slightly lower than the 97.2 kWh per tonne of concentrate in 2019.

The improved power efficiency of production is due to the successful implementation of following measures:

– Installation of the "Termanik Boiler-250" induction heating complex at the 10 MW heating plant, which allows heating water for the hot water supply without the use of coal boilers in summer. That allows reducing the amount of coal use for heating and minimising greenhouse gas emissions;

– When incandescent and fluorescent lamps require replacement, they are replaced with LED lamps;

– Installation of automatic relays for street lightings;

– Replacement of broken unadjustable electrical heaters equipped with thermal sensors;

– Thermal insulation of premises in winter.

Summary of Air Pollutant & Emission Statistics in 2016–2020

Performance Indices	Unit	2020	2019	2018	2017	2016
Energy Consumption & Conservation						
Coal	t	**33,670**	35,670	32,300	22,379	13,863
Diesel fuel	l	**1,640,915**	1,686,477	1,376,983	1,121,079	2,883,972
Gasoline	l	**287,406**	263,567	250,818	233,004	242,854
Kerosene	l	**610**	240	234	231	50

Risks and opportunities related to climate change

IRC has taken a complex of measures to minimise the negative impact of climate change on production activities. These include: assessing the impact of climate change on the Group's operations; monitoring of machinery and equipment on a regular basis; identifying emission sources and developing Maximum Allowable Emission Targets; and drawing up measures to reduce emissions into the atmosphere under severe weather conditions.

In 2020, K&S engaged a specialised organisation to identity and compile a list of emission sources and to develop Maximum Allowable Emission Targets. Measures to reduce the emission of pollutants into the air under adverse weather conditions have also been formulated in accordance with the corresponding Russian Legislation. The measures will be forwarded for approval to the Department of Natural Resources of the Government of the Jewish Autonomous Region in 2021.

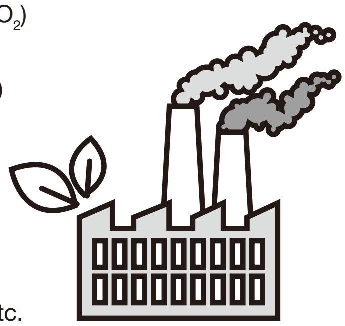
ENVIRONMENTAL PROTECTION

The main activities of IRC in the area of sustainable development are the protection of atmospheric air, land, water, forest resources, conservation of biodiversity in the regions of the Group and the optimisation of waste management.

AIR POLLUTANTS AND EMISSIONS

The following are the key air pollutants generated by the Group's operations, which are primarily produced by mining and processing operations.

Liquid and gaseous substances:	Solid substances:
Carbon monoxide	Inorganic dust (>70% SiO_2)
Nitrogen dioxide	Inorganic dust (20–70% SiO_2)
Sulfur dioxide	Inorganic dust (<20% SiO_2)
Nitrogen oxides	PM10
Saturates	PM2.5
Benzopyrene, ethanol and etc.	Dialuminium trioxide and etc.



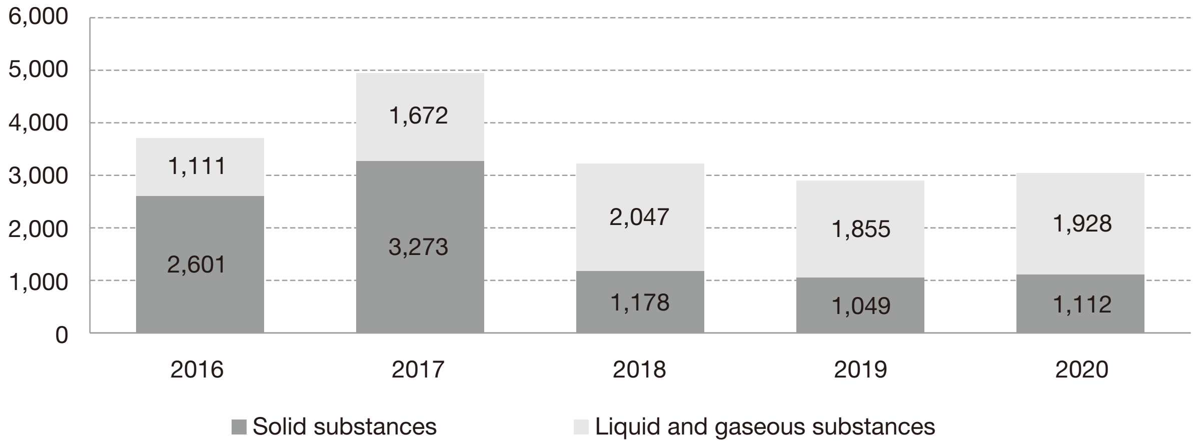
The gross emissions of pollutants into the atmosphere from stationary sources increased by 4.7% to 3,040 tonnes in 2020, although the values for the reporting year did not exceed the permitted values. The start of mining operations at the Kimkan West pit caused an increase in emissions compared to the previous year.

Thanks to the following measures, the values remain within the permitted limits:

– Implementation of measures to reduce the amount of fuel (coal) burned in the drying unit of the processing plant (upgrade of the drying unit, transition to the use of long flame hard coal);

– Energy-saving measures at the 10 MW heating plant at the accommodation camp (installation of the "Termanik Boiler-250" induction heating unit, which allows heating water for hot water supply without the use of coal boilers in summer, reducing the use of coal in summer and minimise greenhouse gas emissions);

Emissions of Air Pollutants from Stationary Sources, 2016–2020 (tonnes)



Stationary emission sources within the licensed areas are installed and operated under the approved draft code provisions for maximum permissible emissions. In addition, the operating companies obtained atmospheric pollutant emission permits.

According to the new requirements of the environmental protection laws of the Russian Federation, the ecologists of the Group submitted an application to register the existing sites that have a negative impact on the environment, with the proposed assignment of categories and levels of ecological inspection. The following measures were taken in order to improve air quality and take steps to avoid air pollution and reduce emissions:

- Establishing watering schedules for dust suppression. This schedule is being closely monitored in order to maximise performance;

- At the heating plants, the efficiency of dust and gas catchers is systematically controlled in accordance with the approved manuals to prevent overflow of the bunker collecting dust and ash particles. Industrial emissions treatment efficiency at the heating plant was 90.2%.

- At the processing plant, industrial emission sampling sites were installed at the inlets and outlets of dust and gas catchers in 2020. A certified laboratory was used to track the efficiency of the dust and gas catchers. The cleaning efficiency of industrial waste at the processing plant was more than 97%, according to measurements;

- In order to secure obtaining of the required permit for emission of pollutants in a timely manner, work on identification and systematisation of sources of hazardous (polluting) substances started at the end of 2020, in compliance with new requirements of environmental legislation in the field of air protection;

- The Group actively tracks vehicle movement and regulate fuel consumption. According to the established standards, no excessive fuel consumption was reported;

- The Group has implemented the AutoGRAPH system, which allows real-time monitoring of speed, movement/idle time, vehicle location, and deviation from the assigned route. Furthermore, by using the sensors mounted on the vehicles, this multifunctional system is able to track the vehicle’s fuel level (refueling, consumption, and possible drains), as well as control the efficiency of its use and any deviations from existing standards. If the consumption is excessive, necessary measures will be taken;

– Continuous testing of motor vehicles' exhaust emissions during the technical inspections – 114 vehicles passed technical inspection test in 2020 and the emissions were found to be within acceptable limits;

– Close monitoring of energy and fuel consumption to ensure they remain within acceptable limits.

The actual emissions volume did not exceed the limits set in the current permits, according to the results of environmental studies performed at the K&S project site and in the sanitary protection zone in 2020.

Given that no chemical reagents were used in the process cycle – from mining operations to concentrate production – the degree of air pollution at the project site, as measured by the integrated index of air pollution in 2020, is "low."

Summary of Air Pollutant & Emission Statistics 2016–2020

Performance Indices	Unit	2020	2019	2018	2017	2016
Air Pollutants & Emissions						
Mass of emitted hazardous pollutants:						
Total	t	**3,040**	2,904	3,225	4,945	3,712
Solid substances	t	**1,112**	1,049	1,178	3,273	2,601
Liquid and gaseous substances	t	**1,928**	1,855	2,047	1,672	1,111
Greenhouse gases emissions (CO_2):						
Total	t	**65,722**	69,444	62,495	43,064	33,191
Gasoline combustion	t	**664**	616	580	539	569
Diesel fuel combustion	t	**4,304**	4,467	3,634	2,939	7,609
Kerosene combustion	t	**1.55**	0.60	0.60	0.59	0.13
Coal combustion	t	**60,752**	64,360	58,280	39,585	25,013
Percentage of maximum permitted emission:						
Solids	%	**94**	89	100	97	69
Liquid and gases	%	**94**	91	100	87	69
Pollutants removed by gas treatment:						
Total removed, of which,	t	**45,866**	46,565	46,565	25,470	4,089
Solid substance	t	**45,866**	46,565	46,565	24,617	3,246
Liquid and gaseous substances	t	**0.01**	0.11	0.11	853.00	843.00

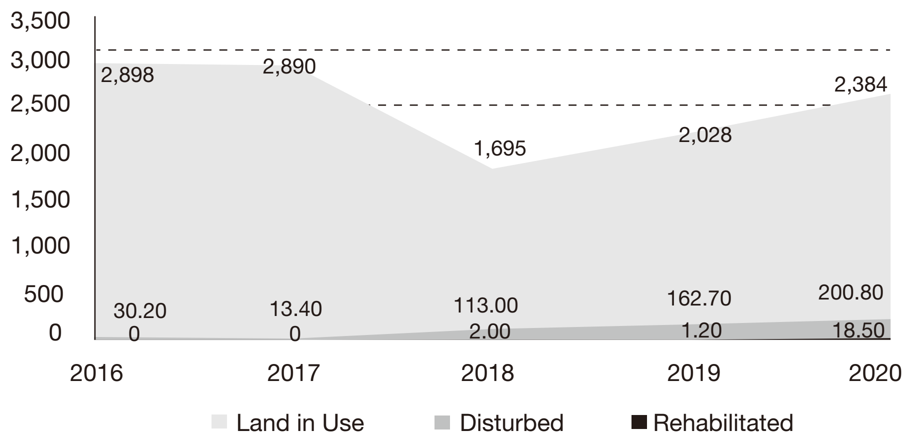
LAND USE AND REHABILITATION

By the end of 2020, the total area of land used by the IRC group was 2,384 hectares, an increase of 356 hectares (17.6%) over the previous year. The increase in land used, was attributable to the signing of new land lease agreements at Kimkan and Sutara, for overburden dumps, development of Kimkan West pit, tailings storage facilities, power supply facilities, Sutara River diversion channel and drainage dam of the Sotnikovsky creek.

Any disturbed land will be restored to its former state by means of various engineering and biological solutions. Land rehabilitation is carried out in accordance with the environmental regulations and shall respect the natural environment of the site. One of the main components of the reclamation work is removal and preservation of the fertile topsoil, which will eventually be restored to the site.

The summary of land used, disturbed and rehabilitated by IRC is shown in the chart below.

Land Use and Rehabilitation, 2016–2020 (hectares)



Land Use & Rehabilitation Statistics 2016–2020

Performance Indices	Unit	2020	2019	2018	2017	2016
Total area of Land in use	ha	**2,384**	2,028	1,695	2,890	2,898
New surfaces disturbed in the reporting period	ha	**200.80**	162.70	113.00	13.40	30.20
Rehabilitated land						
Area of rehabilitated land	ha	**18.50**	1.20	2.00	–	–
Topsoil used	m^3	**–**	–	13,876	5,280	–
Preservation of topsoil						
Moved to stockpiles	m^3	**–**	–	–	–	–
Total topsoil stored at 31 December	m^3	**1,287,700**	1,287,700	1,287,700	1,301,576	1,306,856
Forest plantation						
Total	ha	**–**	–	–	–	–

WASTE MANAGEMENT

IRC uses five internationally recognised categories to classify hazardous waste:

Class I (extremely hazardous wastes) – approximately **0.02**% of all wastes, e.g. mercury-filled lamps.
Class II (highly hazardous wastes) – **0%** of all waste. This includes used sulphuric battery acid and waste batteries. During the year, waste of this class was not generated.
Class III (moderately hazardous wastes) – approximately **0.90**% of all waste. This includes oil contaminated wastes.
Class IV (low-hazard wastes) – approximately **7.58**% of all waste. This class of waste includes both solid and liquid domestic wastes.
Class V (practically non-hazardous wastes) – more than **91.50**% of all waste. This class of waste includes inert construction wastes, ferrous metal, scrap paper, plastic and other types of inert waste.

The total volume of industrial and consumer wastes of all classes of hazard generated in 2020 decreased by 21.39% and amounted to 2,650 tonnes.

The reduction in waste generation was due to:

– Class I – increased the service life of lighting fixtures (implementation of energy-saving measures);

– Class III – reduced fuel consumption, vehicle mileage and repairs;

– Class V – reduced generation of liquid household waste due to the launch of sewage treatment facilities at K&S.

Staff training in hazardous waste management and labelling is conducted on a regular basis. Efforts are made to ensure that the universal labelling of hazardous materials is carried out according with the international standards.

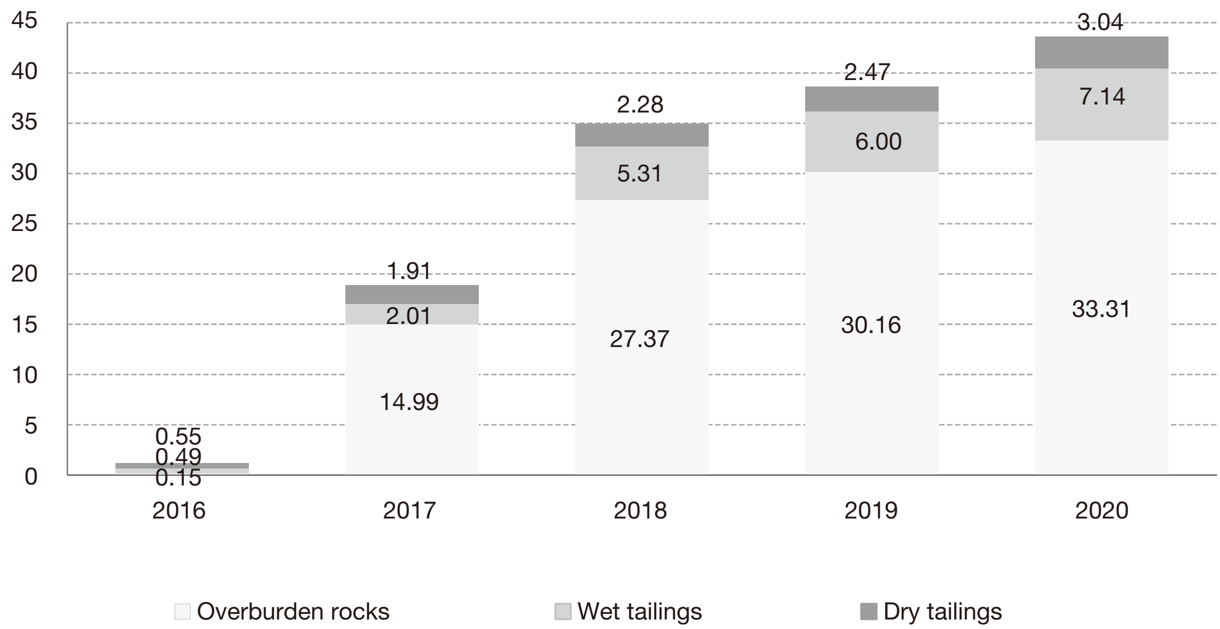
Pursuant to the State Standard 30772-2001 “International Standard: Efficiency of resources, Waste Management”, “Inert waste” is defined as waste that has no negative impact on humans and the environment. Overburden rock and processing waste (the tailings of dry and wet magnetic separation) belong to inert waste.

Overburden and dry magnetic separation tailings should be stored in the allocated area, in particular until the pits are depleted, and then may be used for rehabilitation of disturbed land and soil covering.

Wet magnetic separation tailings are used in the ways specified in the working documentation to develop the deposit.

The total amount of inert (non-hazardous) waste generated in 2020 increased by 12.6% to 43,485,474 tonnes, including: overburden of 33,310,440 tonnes, dry tailings of 3,036,310 tonnes and wet tailings of 7,138,724 tonnes, accounting for approximately 76.6%, 7.0% and 16.4% of total inert waste respectively.

Inert Waste Volume, 2016–2020, million tonnes



The increase of inert waste is directly related to the increase in the mining and processing volume of iron ore as a result of the increase in the production of iron ore concentrate.

Treatment & Recycling of Waste

IRC continuously works on the optimisation of waste treatment and actively re-uses waste in the production process in order to minimise the amount of waste being disposed of, thereby reducing its environmental impact.

In 2020, the Group recycled 7,311,666 tonnes of waste, 99.5% of which was tailings waste. The wet magnetic separation waste generated in 2020 was completely used for the formation of tailings bed and the extension of tailings dam embankments. Dry magnetic separation waste and bottom ash waste were used for road maintenance and construction, namely for filling, and preparation of anti-slip mix. In addition, sawdust was used as an absorbent for oil products.

The amount of waste transported to licensed waste treatment facilities for further treatment was 47,875 tonnes. The increase is attributed to the increase of production of the K&S mine.

The Group continues to adhere to the "Green Office" principle. The Group has developed and implemented the following measures:

- Reduction of the use of plain paper in the office; used paper is collected and counted centrally;
- Use of paper certified by the Forest Stewardship Council (FSC);
- Use of office and electronic equipment complying with the latest version of the Energy Star Standard (energy efficiency requirement);
- Cleaning products must meet the following conditions: the content of anionic and/or nonionic surfactants is restricted, the products have to be classified as class 4 (low-hazard substances), and contain no non-pathogenic microorganisms;
- Use of reusable containers for the storage of materials; use of recyclable materials for packaging; reduction of the amount of packaging;
- Providing drinking water in reusable containers or installing drinking water treatment systems to save the number of containers.

The Group placed collection boxes in specific locations to collect waste aluminum, glass, plastic, paper, used batteries, office equipment and other materials generated by our employees, and then transfer it to specialised organisations for disposal, recycling or re-use.

In 2020, the following amount of waste was collected and transferred for disposal/recycling:

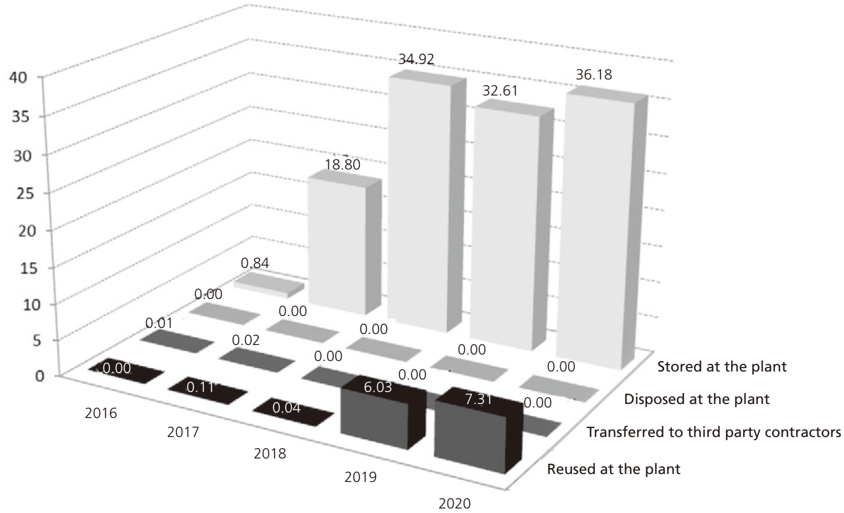
- 11.0 tonnes of waste paper and cardboard, which is equivalent to prevention of 110 trees from being felled, reduction of 18.7 tonnes of carbon dioxide emission, saving of 220,000 liters of water and 11,000 kilowatt-hours of electricity;
- 4.9 tonnes of plastic waste, which saved 24,500 liters of water, 2,940 kilowatt-hours of electricity, and reduced emission of 9,800 kilogram of carbon dioxide.

Mineral Resources & Ore Reserves Statement
Environmental, Social and Governance
Corporate Governance Report
Directors' Report

In 2021, waste collection and recycling will continue.

Transferring plastic, waste paper and cardboard for recycling

Waste Management, 2016–2020, million tonnes



Waste Management Statistics 2016–2020

Performance Indices	Unit	2020	2019	2018	2017	2016
Generated waste:						
Total	t	**43,488,123**	38,637,978	34,962,037	18,932,593	1,220,067
Wastes (excluding waste from operations):	t	**2,650**	3,371	3,140	24,823	25,493
Class I	t	**0.65**	0.75	0.39	0.36	0.23
Class II	t	**0**	0.24	0.04	1.59	0.26
Class III	t	**24.01**	47.66	18.48	68.52	27.39
Class IV	t	**200.89**	182.45	196.57	2,582.74	9,970.11
Class V	t	**2,424**	3,140	2,925	22,170	15,495
Waste from operations (inert waste):	t	**43,485,474**	38,634,607	34,958,897	18,907,770	1,194,574
Overburden rocks	t	**33,310,440**	30,162,780	27,370,170	14,989,050	150,161
Wet tailings	t	**7,138,724**	6,001,495	5,306,664	2,007,880	489,588
Tailings	t	**3,036,310**	2,470,332	2,282,063	1,910,840	554,825
Waste management:						
Disposed at the plant	t	**–**	–	–	–	9,809
Reused at the plant	t	**7,311,666**	6,029,906	40,453	111,721	1,589
Stored at the plant	t	**36,176,410**	32,608,000	34,921,456	18,797,987	838,885
Transferred to contractors	t	**47.88**	73.96	26.77	20,032	14,074

WATER MANAGEMENT

In 2020, the Group's water intake increased by 24,779 cubic meters compared to 2019, reaching 996,114 cubic meters, of which 993,961 cubic meters were drawn from natural water bodies and 2,153 cubic meters of water were drawn from the existing municipal water supply system. A total of 68,410 cubic meters of drinking water were used.

The increase in the amount of water taken from the existing "Snarsky" underground water intake was related to the increase in the output of the commercial product and to the increase in the number of people living in the accommodation camp compared to 2019. In the production process, fresh water is used only where recycled water cannot be used.

As a result of anti-epidemic measures to combat the new coronavirus infection – COVID-19, including the transfer of some workers to remote work, drinking water consumption has been reduced by 34,800 cubic metres.

A total of 925,550 cubic meters of clean water from the "Snarsky" water intake was supplied to the technical system of the processing plant. In 2020, fresh water consumption per tonne of iron ore concentrate produced amounted to 0.328 cubic metres, down by 0.019 cubic metres, compared to 2019. Although the production of iron ore concentrate increased, there was a total saving of 53,580 cubic meters of fresh water compared to 2019.

The water disposal volume in 2020 was 157,144 cubic meters. Of this, 94,190 cubic meters were discharged into natural water bodies, and 62,954 cubic meters were discharged into the existing sewer system of the settlement and other accumulation reservoirs.

The increase in the quantity of treated water discharged into natural water bodies was mainly due to the development of mining operations and the increase in the depth of the open pit. Incoming underground and surface water (rainwater and melt water) is pumped out of the boundary of the open pit and then discharged into a catchment reservoir, where it is cleaned to meet the quality standards for fisheries and then discharged into the water body.

Given that the permissible wastewater discharge volume into natural water bodies in 2020 was 347,030 cubic meters, the actual wastewater discharge volume of the Group was only 27.14% of the permissible discharge volume, which meant that the risk of exceeding the permissible discharge volume was very low.

Risks and opportunities associated with the water supply of the Group's facilities

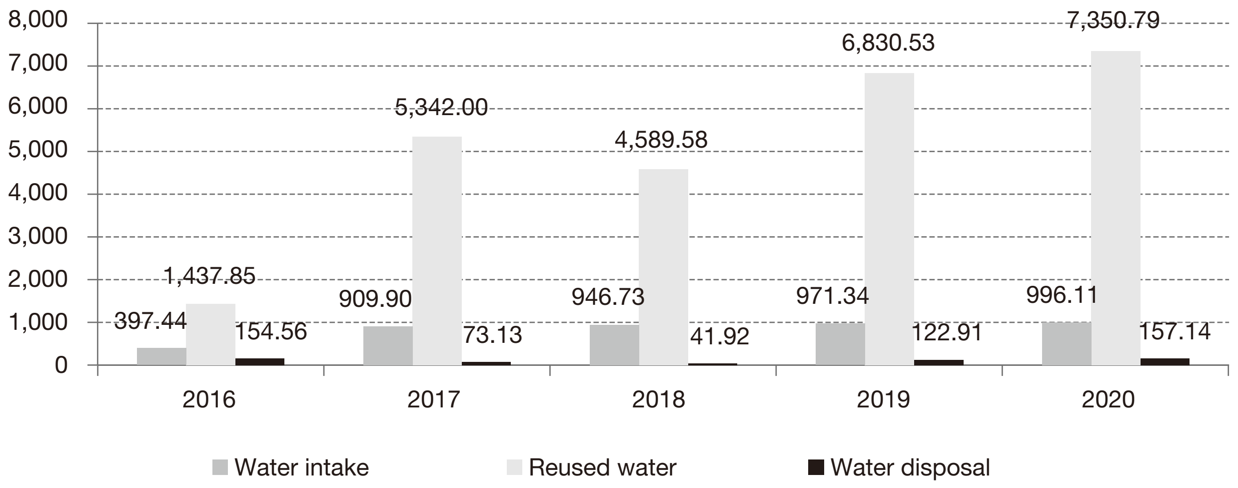
In 2020, K&S's water supply was normal, and the mine's industrial and accommodation facilities were all supplied from the "Snarsky" water intake under license BIR 00331BR. The permitted annual water intake was 2.04 million cubic meters (5,600 cubic meters per day), whereas the actual water intake was 993,961 cubic meters (2,723 cubic meters per day), accounting for 48.63% of the permitted water intake.

As the processing and production volume of iron ore concentrate will continue to increase, the intake of water is also expected to further increase by 10-20% (1,100–1,200 thousand cubic meters per year). There will be no shortage of fresh water, and no need to find and build up backup sources of water.

The pit sump of Kimkan Central open pit can be used as an alternative source of technical water supply, as permitted by environmental laws. The use of this water source will reduce the amount of waste water discharge into the natural water bodies and thus reduce the negative impact on the environment.

The needs of the processing plant in technical water are satisfied by the supply of recycled water from the tailings storage facility. The water volume in the tailings storage facility is maintained at 2.4 million cubic meters.

Water Consumption and Disposal, 2016–2020 (thousand m^3)



Surface water intake at the Group's operations is carried out on the basis of permits to use the natural water body, and the intake of underground water is carried under a license. Water discharge is carried out on the basis of permits to discharge treated water into water bodies or an agreement on water treatment signed with a specialised organisation. Water intake from existing water supply systems is carried out based on the water supply agreement or under office tenancy agreements.

Water Management Statistics 2016–2020

Performance Indices	Unit	2020	2019	2018	2017	2016
Water Management						
Water intake:						
total	m^3	**996,114**	971,335	946,734	909,902	397,440
from natural water bodies (surface and underground)	m^3	**993,961**	967,457	943,873	900,737	356,659
from existing municipal water supply systems of the settlements	m^3	**2,153**	3,878	2,861	9,165	40,781
Water disposal:						
total	m^3	**157,144**	122,914	41,916	73,128	154,563
into natural water bodies	m^3	**94,190**	50,814	13,856	44,223	101,814
into the existing municipal sewerage systems of the settlement	m^3	**12,472**	16,396	28,060	23,791	17,725
other accumulation reservoirs	m^3	**50,482**	55,704	–	5,114	35,024
The volume of recycled water:						
total	m^3	**7,350,790**	6,830,525	4,589,575	5,342,000	1,437,849

BIODIVERSITY CONSERVATION

As part of the implementation of measures aimed at preserving and maintaining the biodiversity of the regions in which the Group operates (including measures aimed at protecting key habitats and improving the natural habitats of animals and plants), the following measures for prevention of forest fire were taken in 2020:

- 18.7 km of forest firebreak were serviced;
- 6 information boards installed;
- 6 warning notices updated.

In order to improve the microclimate on site, reduce noise pollution and improve the ventilation and insulation of the premises, K&S conducts general improvement and landscaping works every year.

In 2020, landscaping works were carried near the office and accommodation buildings at K&S. 166 larches were planted and flower beds were set up.

The landscaping of conifers and broad-leaved trees, a total 189 trees (birch, larch, cedar, spruce, lilac, and sea-buckthorn):

– 118 trees were planted in the administration and accommodation complex area of the plant;

– 65 trees were planted in the administration complex area of the processing plant;

– 6 trees were planted within the area of the central laboratory.

The expenses on landscaping were US$3,630 in 2020.

Landscaping of the territory of K&S

STAKEHOLDERS ENGAGEMENT

In the Russian Far East, IRC increased activities with stakeholders in 2020, mainly under the “Corporate Framework Programme of Stakeholders’ Engagement and Corporate Standards” and the “Communication in the Environmental Management System” programmes. The Group’s activities aim to engage constructively with all stakeholders in the region; to work closely with stakeholders, to ensure timely disclosure and communication of information at all stages of the project; and to provide a grievance mechanism and file grievance, and report and monitor all procedures.

In 2020, there were no new complaints or suggestions on environmental issues.

PUBLIC HEARINGS AND DISCUSSIONS

Public hearings and other forms of public consultation are part of a direct dialogue with the Group, so that all stakeholders (community, technical specialists and representatives of state regulatory bodies) can ask their questions about the implementation of the project and get responses to their concerns. These public hearings and discussions are regularly attended by IRC managers and dedicated specialists. Public participation meetings are held on a regular basis.

ENVIRONMENTAL EDUCATION

One of the main principles of the Group's environmental policy is to educate IRC employees and people living in and around the Group's operation area. IRC regularly organises environmental education for employees of the Group, contractors and local residents.

Since 2009, IRC has provided financial support to STS, an educational television programme in the Jewish Autonomous Region (EAO). These programmes highlight the unique ecological and environmental nature of the region and the challenges it faces.

With the financial support of the Group, four episodes of "Ecological Bulletin" were broadcast in 2020 covering the following topics:

– 2019 environmental monitoring and control results;

– The efficiency of purifying industrial emissions with electrostatic filters;

– Collect waste paper and used batteries separately;

– Purify and treat underground water for the Group's future water supply.

The total funding for environmental education in 2020 was US$3,095.

As part of the "Batteries 2.0" project in 2020, the Group has been working in partnership with two environmental campaigns committed to the separation and collection of waste:

– Jointly with the Sholom Aleichem Priamursky State University, the Group launched the "Save Nature" campaign to collect used batteries for recycling;

– Jointly with the Administration of Birobidzhan, the Group organised an eco-festival called "The banks of Bira and Bijan" to collect used batteries and waste paper.

Participants could not only place waste in special containers when engaging in environment protection activities, but also learn about waste separation and collection policies. It generated approximately 112 kg of used batteries for disposal/recycling, thereby avoiding heavy metals from polluting 11,200 square meters of soil and 2,240,000 liters of water.

In 2020, there were no complaints or suggestions on environmental issues from internal and external stakeholders.

CONTROL BY THE AUTHORITIES

In order to comply with the laws and regulations and the requirements of the state supervision and municipal control agencies, the Group conducted on-site and document inspections on a regular basis. A planned on-site inspection of K&S was carried out by the office of the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing ("Rospotrebnadzor") for the Jewish Autonomous Region in 2020 and no violation of the law was found.

In addition, an desktop inspection of K&S (inspection of documents) was carried out in 2020:

- 22 inspections were carried out by the Federal Tax Service of the Jewish Autonomous Region. A violation has been identified and the violation has been eliminated within the time specified;

- The Russian Pension Fund of the Jewish Autonomous Region and the Federal State Institution "Military Commissariat of the Jewish Autonomous Region" carried out 30 inspections. No concerns were identified;

- 5 inspections were carried out by the Birobidzhan Interdistrict Environmental Prosecutor's Office to ensure the safe management of waste production and consumption, water regulations, soil protection and the legislative requirements of the atmospheric protection. As a result of the inspection, no concerns were identified.

OPERATING PRACTICES

Supply chain management

IRC's supply chain management system reflects the movement of materials and products in the Group's production process, including the purchase of materials, material used in production, product development, sales and logistics.

The supply chain management system was established in accordance with the Group's current policies, management systems, standards, procedures and processes for managing and controlling the flow of materials and technical resources (MTR).

The Group effectively manages business processes and environmental protection issues, social development and human rights, industrial safety and labour protection, and implements the principles of responsible business conduct in the system of relations with suppliers, contractors and product consumers.

Interaction with suppliers and contractors

Procurement is an important part of IRC's supply chain management system. The procurement activities of the company are managed by the procurement department and the materials and technical supply department of the Group.

IRC's procurement process is subject to internal regulations and current rules. According to the principles of competition, fairness and effective selection of suppliers of goods, works and services, the selection of suppliers of goods, works and services are carried out in accordance with the provisions of the public bidding procedures.

The notice of the public request for proposals, as well as the information on the conditions and procedures required by the applicant, the requirements of the applicant and the list of documents to be submitted are all published on the Group Russian website's "Suppliers" section.

Upon receipt of the proposals, they are compared in terms of cost, product or service delivery time, payment terms, availability of environmental document licenses, and etc. On the basis of these factors, the best proposal and supplier are selected accordingly. The winning supplier shall comply best with the requirements set out for the goods, works and services according to the criteria set out in the public notice of tender. An agreement with the bid-winning supplier will be concluded to further regulate the relationship between the two parties on this basis. When all conditions are the same, priority should be given to domestic suppliers when selecting. The exception is made if the supplier (or its distributor) manufactures exclusive products which cannot be replaced.

Our Group is very concerned about health, safety and environmental issues and expects our contractors and suppliers of materials and technical resources to adopt similar approaches.

In accordance with the terms of the goods/works/services' supply contracts, all suppliers and contractors are committed to complying with the requirements of the current legislation and regulations, as well as the policies of the Group in the field of labour protection, industrial safety or environmental protection.

The following mandatory requirements are an integral part of the contracts:

For product suppliers:

– IRC has the right to require suppliers to provide information about the potential negative impact of their products on the environment, as well as to assess the legality of the documents (licenses, conclusions, and certificates) provided by suppliers;

– Set additional conditions, such as ensuring that the products meet sanitary and environmental standards, as shown by a certificate or declaration of compliance, a sanitary epidemiology conclusion, or the opinion of environmental experts;

– Materials and semi-finished products supplied must have storage and operating manuals, as well as instructions for proper disposal, to ensure environmental protection.

For service providers:

– When a contractor starts to work/provide services in the Group facility it shall put information notice at the workplace before the contractor begins working in the Group's facilities, provide personal protective equipment suitable to the nature of the job, and confirm first aid skills;

– Notify the Group of all incidents that happened during the execution of work;

– Collection and disposal of waste without permission, discharge of waste water (liquid waste) and chemical substances, discharge of pollutants into the air, and pollution of soil during work at the Group facilities are prohibited.

The Group shall continue to monitor the activities of the contractors to ensure their compliance with these requirements.

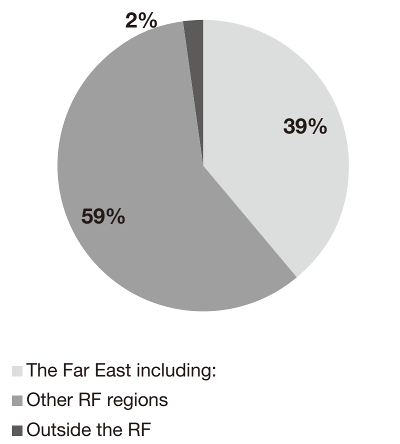
Local Supplier Support

The Group has increased the revenue of more than 400 suppliers of goods and services in the Far Eastern area. The number of EAO counterparties in 2020 was 171 organisations and individual entities. Over 100 individual entities and farms in the Jewish Autonomous Region supply food (vegetables, meat and dairy products) and other goods to K&S and its subsidiaries through long-term contracts.

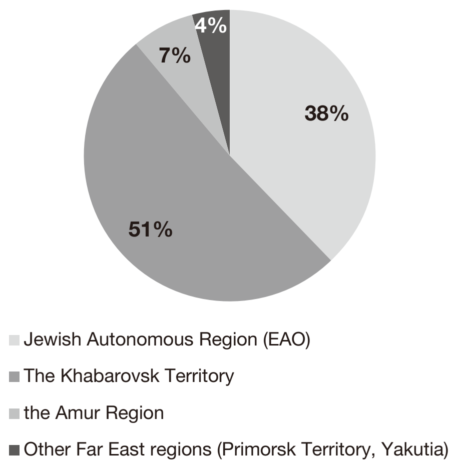
Information about product and service providers in 2020

Suppliers	Quantity
The Far East including:	453
Jewish Autonomous Region (EAO)	171
The Khabarovsk Territory	230
Amur Region	31
Other Far East regions (Primorsk Territory, Yakutia)	21
Other Russian Federation regions	678
Outside the Russian Federation	18

Distribution of suppliers by regions of the Russian Federation in 2020:



Distribution of suppliers in the Far East in 2020:



On the initiative of our Group, the Birobidzhan shoe factory “Rostok” had developed and certified industrial footwear models with built-in personal protective function in 2019. Over the last two years, IRC has purchased shoes in more than US$116,700 from the factory for its employees.

PRODUCT RESPONSIBILITY

Product quality management is one of the most important factors for improving the competitiveness of the Group's products on the market. The quality control of IRC's product is carried out at all stages of production: from ore mining to product transport.

In order to ensure and maintain the high quality of the finished product, the Technical Control Department conducts on-site product sample tests. Employees regularly monitor the quality of raw materials and finished products according to the process test card of the processing plant. They will check whether the quality of the product meets the technical requirements.

The plant's central laboratory performs quality control of the finished product. During its operations, the central laboratory must adhere to the related regulations. The scope of the central laboratory's activities, organisational structure, duties, roles, and other activities are all specified in this regulation.

Sampling, preparation of sample, testing, issuance of results, and quality control are all done in accordance with the Technical Specification, the Process Testing Card of the Process Plant, the Quality Manual of the Central Laboratory, the Production Instructions, GOSTs, Federal State Unitary Enterprise VIMS, and other regulatory technical documentation.

If deviations from the product quality parameters specified in the technical conditions are identified, the plant's technicians will take immediate action to find and remove all weaknesses in the process chain.

In order to provide customers with accurate information about the safety of industrial use, storage, transportation and disposal of chemicals, the Group has issued and registered a safety passport for chemical products used in the production of concentrate, which make indispensable part of the technical documents. Any hazardous products must include warning labels.

According to the current "Safety Passport", since iron ore concentrates are non-radioactive, non-toxic, non-combustible, and fire and explosion resistant, finished products are transported in bulk by rail on open-top wagons, without the use of special labels or packaging materials.

Iron ore concentrate must comply with the technical specification TU 07.10.10-001-73844898-2018. In the laboratory control process, any concentrate that does not meet the technical conditions will be stored separately, and then blended with other concentrate until it meets the declared conditions.

The contract specifies all procedures for interacting with the buyer.

The relevant provisions of the supply contract shall ensure that trade secrets relating to prices and consumer data are maintained. This provision stipulates that the parties are obliged to observe the confidentiality laid down in the contract.

Generally, a separate confidentiality agreement should be signed before reaching a final agreement with the buyer, which is the procedure and conditions for protecting the information transmitted between the two parties during the product supply negotiation process.

There were no product recalls or complaints during the reporting year.

Observing and protecting intellectual property rights

IRC has introduced the Automatic Process Control System (APCS) to meet the requirements for productivity, product features and energy consumption through effective management to ensure reliable and safe operation of the Group.

In order to avoid any leakage or distortion of information, the requirements for the protection of confidential data must be strictly followed when establishing an automated process control system. When managing the access keys of the automated process control system during the production process, the Group was introduced access restriction. The employment contracts provided for the relevant provisions on the disclosure obligation. The Group also provides licensed software to its employees. Any contract for the development of design documentation should contain requirements for the transfer of intellectual property rights from the designer to the customer.

ETHICS AND INTEGRITY

IRC is committed to complying with all applicable laws, regulations and Group policies for the conduct of business and operations with high ethical, honest and integrity standards. This requires that all Group members must comply with a uniform standard of conduct which exceeds statutory mandates. These policies apply to our directors, officers and any employees in order to ensure responsible behaviour and protect the rights of stakeholders in the event of a conflict of interest.

Areas covered include but are not limited to:

- bribes, gifts and entertainment;
- conflict of interest;
- fair competition;
- insider information;
- discrimination, harassment and misconduct;
- equal opportunities;
- privacy and information protection;
- health and safety at the workplace;
- considerateness and civic responsibility; and
- reporting improper conduct

COMMUNITY INVESTMENT

Giving back to the society is one of the most important principles of the Group. IRC has fully demonstrated its role as a socially responsible company. The Group sponsored sports and cultural facilities in the regions in which it operates and promotes the development of sports, science and arts.

The Group carried out the following tasks in 2020:

- The Group provided financial support to children's educational institutions and orphanages – allocated funds for the purchase of furniture, equipment, clothing, textbooks and stationery;
- Gifts were given to children to celebrate the New Year;
- Emergency assistance was provided to the convent be a list administrative district of Leninsky Municipal District in the Jewish Autonomous Region for the aftermath of the flood in Leninskoe village.

In 2020, the total amount of funding for charitable activities was US$162,845.

ANTI-CORRUPTION

In accordance with the requirements of Russian law (No. 273, 2008 "Anti-Corruption"), IRC has actively pursued anti-corruption policies on a voluntary basis to prevent and combat corruption. These policies include not only activities within the Group, but also cover the government and business partners. The Group's anti-corruption policy is guided by the principle of transparency. Although the Group engages in charitable and sponsorship activities, it complies with relevant laws and regulations.

The Group's internal documents must comply with the anti-corruption policy and the Group is continually improving its system of public procurement procedures to reduce the risk of corruption, reviewing contractors' background to prevent undisclosed related parties and other potential conflicts of interest, and conducting internal investigations in the event of damage to the product or equipment. The Group has also set up "Corporate Whistleblower Mailbox," which is an important part of the anti-corruption policy of the Group because it allows employees to provide information and feedback that can be used to investigate and resolve potential cases of corruption.

Accordance to Article 13.3 of the Anti-Corruption Law, the Group is obliged to develop and adopt measures to prevent and combat corruption. To ensure this work, the Group approved the following corporate documents:

– Code of professional ethics for employees;

– Anti-corruption policy.

As part of complying with the requirements of the anti-corruption legislation, each employee's employment contract has provisions to ensure that the employer is able to control the use of trade secrets and the protection of technology. The Group may use confidential information, anti-corruption and counter-terrorism measures, including the use of polygraphs, to obtain information from employees regarding violations of confidentiality.

In order to avoid the personal interests of employees affecting their works and businesses, the Labour Agreement also has provisions to ensure that employers take measures to identify, prevent and resolve conflicts of interest. In addition, the contract with a contractor must disclose the information on the final beneficiary in order to reduce the possibility of a conflict of interest with the contractor.

There were no court cases regarding conflicts of interest in 2020.

IRC provides anti-corruption training to directors and staff. Starting from the second half of 2020, the Group provides newly-hired managers and specialists with advanced training courses in the field of prevention and the fight against corruption, while employees will participate in the training course on anti-corruption activities.

WHISTLEBLOWING

IRC's misconduct notification policy encourages all internal and external stakeholders to confidentially report actual or suspected misconduct to the Group. Employees can make written reports by mail or e-mail. After receiving the report, an independent senior staff member will conduct the investigation on behalf of the audit committee, supplemented by relevant internal audit, human resources and legal functions. The results (including final disposition, impact, implications, and disciplinary or corrective actions) will be reported to the Chairman of the Executive Committee and the Board of Directors and/or regulatory agencies (if applicable).

MEASURES TAKEN DURING THE PANDEMIC

The Group has set up an Emergency Response Office to prevent the spread of coronavirus infection (COVID-19), has taken necessary organisational and administrative measures, and has issued an order on measures to prevent the spread of coronavirus infection.

A Contingency plan to prevent the spread of coronavirus (COVID-19) at the Group's facilities has been approved. To prevent infection on site, the following measures are being taken:

– daily disinfection of public facilities and areas (every 2 hours) in the accommodation area;

– regularly ventilation of the work and living areas (every 2 hours);

– installation of disinfecting lamps and air circulators;

– as part of the pre-shift physical examination, employees' body temperature is measured at least once per shift;

– minimising the number of face-to-face meetings, and prohibit group gatherings;

– distribute personal protective equipment to those responsible for cleaning offices and accommodations;

– provide employees with hand sanitisers, personal safety equipment (medical masks, respirators, and etc.);

– recommend employees to avoid unnecessary travel;

– disinfect vehicles used to transport employees;

The Group has set up quarantine rooms in the accommodation area for people with clinical symptoms of acute respiratory infection to stay temporarily. If acute respiratory infection (cough, runny nose, fever, chest pain, shortness of breath) occurs, the employee will be immediately sent to the Group's medical centre and all necessary measures will be taken.

The Group has passed an administrative order that imposes restrictions on movement of personnel, and encourages to work remotely when possible. Since May 2020, employees have been regularly tested for COVID-19. Medical service agreements have been signed with 5 medical diagnostic centers. Every employee who enters the Group's production premises and employees with symptoms of respiratory diseases are tested.

The table below summarises information on the number of tests done, and the number of people diagnosed with COVID-19 at K&S, as of the end of 2020:

Total tests	Tested positive	With a fatal outcome	On medical leave	Recovered
8,512	268	2	47	219

In June 2020, the Rospotrebnadzor Office in the Jewish Autonomous Region carried out an unplanned inspection at K&S to check the compliance with the law on prevention of the spread of COVID-19. As a result of the inspection, no concerns were identified.

List of actual costs of sanitary and epidemiological measures in 2020.

Name of products	Amount incl. VAT, US$
Tests for coronavirus infection and the presence of antibodies	251,219
Masks, gloves, safety glasses and respirators	124,221
Disinfectants and antiseptic solutions	14,796
Laptops and modems for organising remote work of employees	6,364
Ultraviolet air purifiers, radiation sources	6,311
Infrared thermometers	4,977
Protective screens	3,052
Protective overalls and dressing robes	1,962
Related products and services (sprayers, batteries for thermometers, unwoven stitched fabric)	1,834
TOTAL	414,736

Summary of IRC Environmental Statistics 2016–2020

Performance Indices	Unit	2020	2019	2018	2017	2016
1. AIR POLLUTANTS & EMISSIONS						
Mass of emitted hazardous pollutants:						
Total	t	**3,040**	2,904	3,225	4,945	3,712
Solid substances	t	**1,112**	1,049	1,178	3,273	2,601
Liquid and gaseous substances	t	**1,928**	1,855	2,047	1,672	1,111
Greenhouse gases emissions (CO_2):						
Total	t	**65,722**	69,444	62,495	43,064	33,191
Gasoline combustion	t	**664**	616	580	539	569
Diesel fuel combustion	t	**4,304**	4,467	3,634	2,939	7,609
Kerosene combustion	t	**1.55**	0.60	0.60	0.59	0.13
Coal combustion	t	**60,752**	64,360	58,280	39,585	25,013
Percentage of maximum permitted emission:						
Solids	%	**94**	89	100	97	69
Liquid and gases	%	**94**	91	100	87	69
Pollutants removed by gas treatment:						
Total removed, of which,	t	**45,866**	46,565	46,565	25,470	4,089
Solid substance	t	**45,866**	46,565	46,565	24,617	3,246
Liquid and gaseous substances	t	**0.01**	0.11	0.11	853.00	843.00
2. LAND USE & REHABILITATION						
Total area of land in use	ha	**2,384**	2,028	1,695	2,890	2,898
New surfaces disturbed in the reporting period	ha	**200.80**	162.70	113.00	13.40	30.20
Rehabilitated land						
Area of rehabilitated land	ha	**18.50**	1.20	2.00	–	–
Topsoil used	m^3	**–**	–	13,876	5,280	–
Preservation of topsoil						
Moved to stockpiles	m^3	**–**	–	–	–	–
Total topsoil stored at 31 December	m^3	**1,287,700**	1,287,700	1,287,700	1,301,576	1,306,856
Forest plantation						
Total	ha	**–**	–	–	–	–

Performance Indices	Unit	2020	2019	2018	2017	2016
3. WASTE MANAGEMENT						
Generated waste:						
Total	t	**43,488,124**	38,637,978	34,962,037	18,932,593	1,220,067
Wastes (excluding waste from operations):	t	**2,650**	3,371	3,140	24,823	25,493
Class I	t	**0.65**	0.75	0.39	0.36	0.23
Class II	t	**0**	0.24	0.04	1.59	0.26
Class III	t	**24.01**	47.66	18.48	68.52	27.39
Class IV	t	**200.89**	182.45	196.57	2,582.74	9,970.11
Class V	t	**2,424**	3,140	2,925	22,170	15,495
Waste from operations (inert waste):	t	**43,485,474**	38,634,607	34,958,897	18,907,770	1,194,574
Overburden rocks	t	**33,310,440**	30,162,780	27,370,170	14,989,050	150,161
Wet tailings	t	**7,138,724**	6,001,495	5,306,664	2,007,880	489,588
Tailings	t	**3,036,310**	2,470,332	2,282,063	1,910,840	554,825
Waste management:						
Disposed at the plant	t	**–**	–	–	–	9,809
Reused at the plant	t	**7,311,666**	6,029,906	40,453	111,721	1,589
Stored at the plant	t	**36,176,410**	32,608,000	34,921,456	18,797,987	838,885
Transferred to contractors	t	**47.88**	73.96	26.77	20,032	14,074
4. WATER MANAGEMENT						
Water intake:						
total	m^3	**996,114**	971,335	946,734	909,902	397,440
from natural water bodies (surface and underground)	m^3	**993,961**	967,457	943,873	900,737	356,659
from existing municipal water supply systems of the settlements	m^3	**2,153**	3,878	2,861	9,165	40,781
Water disposal:						
total	m^3	**157,144**	122,914	41,916	73,128	154,563
into natural water bodies	m^3	**94,190**	50,814	13,856	44,223	101,814
into the existing municipal sewerage systems of the settlement	m^3	**12,472**	16,396	28,060	23,791	17,725
other accumulation reservoirs	m^3	**50,482**	55,704	–	5,114	35,024
The volume of recycled water:						
total	m^3	**7,350,790**	6,830,525	4,589,575	5,342,000	1,437,849
5. ENERGY CONSUMPTION & CONSERVATION						
Coal	t	**33,670**	35,670	32,300	22,379	13,863
Diesel fuel	l	**1,640,915**	1,686,477	1,376,983	1,121,079	2,883,972
Gasoline	l	**287,406**	263,567	250,818	233,004	242,854
Kerosene	l	**610**	240	234	231	50

HKEX ESG REPORTING GUIDE CONTENT INDEX

HKEx ESG Index Ref.	Description	Page
A. ENVIRONMENTAL		
A1 General disclosure	**Emissions** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	49
1.1	The types of emissions and respective emissions data	53
1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity	49
1.3	Total hazardous waste produced (in tonnes), and, where appropriate, intensity	57
1.4	Total non-hazardous waste produced (in tonnes), and, where appropriate, intensity	58
1.5	Description of emission target(s) set and steps taken to achieve them	53
1.6	Description of how hazardous and nonhazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	58
A2 General disclosure	**Use of Resources** Policies on the efficient use of resources, including energy, water and other raw materials	52, 61
2.1	Direct and/or indirect energy consumption by type in total and intensity	52
2.2	Water consumption in total and intensity	61
2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	50
2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	62
2.5	Total packaging material used for finished products (in tonnes)	N/A*
A3 General disclosure	**The Environment and Natural Resources** Policies on minimising the issuer's significant impacts on the environment and natural resources	43
3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	47
A4 General disclosure	**Climate Change** Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer	49
4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	52
B. SOCIAL		
B1 General disclosure	**Employment** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	36
1.1	Total workforce by gender, employment type, age group and geographical region	35
1.2	Employee turnover rate by gender, age group and geographical region	36
B2 General disclosure	**Health and Safety** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	40
2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	42

* Shipment of finished products – iron ore concentrate to consumers is made by rail in gondola cars without additional packaging.

HKEx ESG Index Ref.	Description	Page
2.2	Lost days due to work injury	42
2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	41
B3 General disclosure	**Development and Training** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	37
3.1	Percentage of employees trained by gender and employee category	37
3.2	Average training hours completed per employee by gender and employee category	37
B4 General disclosure	**Labour Standards** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	39
4.1	Description of measures to review employment practices to avoid child and forced labour	39
4.2	Description of steps taken to eliminate such practices when discovered	39
B5 General disclosure	**Supply Chain Management** Policies on managing environmental and social risks of the supply chain	66
5.1	Number of suppliers by geographical region	68
5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	66
5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	67
5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	67
B6 General disclosure	**Product Responsibility** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	69
6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	69
6.2	Number of products and service related complaints received and how they are dealt with	69
6.3	Description of practices relating to observing and protecting intellectual property rights	70
6.4	Description of quality assurance process and recall procedures	69
6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	69
B7 General disclosure	**Anti-Corruption** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	72
7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	72
7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored	72
7.3	Description of anti-corruption training provided to directors and staff	72
B8 General disclosure	**Community Investment** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	71
8.1	Focus areas of contribution	71
8.2	Resources contributed	71

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Board of Directors (the "Board") of IRC is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. The Group believes that conducting its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders.

The Board as a whole is responsible for performing the corporate governance duties and ensuring compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company has applied the principles of the Corporate Governance Code (the "CG Code") as stated in Appendix 14 to the Listing Rules to its corporate governance structure and practices as described in this report. The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the CG Code and make appropriate changes if considered necessary. The Board also oversaw the work of the Audit Committee, Remuneration Committee, Nomination Committee and Health, Safety and Environment Committee and reviewed the effectiveness of the Group's risk management and internal control systems.

BOARD OF DIRECTORS

The Board provides leadership and supervises the overall direction of the Group's businesses. The Board plays a critical role in ensuring that the Company's corporate governance best serves the Company's interest in building a sustainable business. Under the leadership of the Chairman, the Board cultivates good governance as the cornerstone of the Company's corporate culture.

Board Size, Composition and Appointments

As at 31 December 2020, the Board comprised eight Directors with one Executive Director and seven Non-Executive Directors, of which five of them – representing more than half of the Board – are Independent Non-Executive Directors. The names of the directors, by category, are set out in the Directors' Report. The number of Independent Non-Executive Directors meets the requirements under Rules 3.10(1) and 3.10A of the Listing Rules. Two of the Independent Non-Executive Directors possess the appropriate professional qualifications or related financial management expertise, meeting the requirement under Rule 3.10(2) of the Listing Rules. Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Each Member of the Board ensures that he can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments. Each Member of the Board is required to confirm his other directorships, major appointments and interests to the Company. None of the Members of the Board holds seven (or more) directorships in listed companies (including the Company) or holds any cross directorships or has significant links with other Members of the Board through involvements in other companies or bodies.

The Board selects Independent Non-Executive Directors based on their qualification and experience and hence their ability to contribute to the affairs of the Group, and of overriding importance is their possession of a mindset that is independent and constructively challenges management's views. The Non-Executive Directors (including the Independent Non-Executive Directors) are appointed for a specific term not exceeding three years and are subject to retirement by rotation. Daniel Rochfort Bradshaw, Jonathan Eric Martin Smith and Chuang-fei Li have served as Independent Non-Executive Directors of the Company for more than 9 years. Consideration was given to the independence of these directors. During the years of appointment, they have demonstrated their abilities to provide an independent view to the Company's matters and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively. Their familiarity with the business and the industry over the years has enabled them to contribute to the management of the risks involved as well as add to the diversity of the skills and perspectives of the Board. The Board believes that the long tenure of those Independent Non-Executive Directors does not compromise their independence but instead brings significant positive qualities.

The Board considers that the Independent Non-Executive Directors who have served for more than 9 years are capable of bringing fresh perspectives and independent judgment to the Board for various reasons, including their respective industry expertise, commitment to training and other continuous professional development activities and because none of these Independent Non-Executive Directors have ever been involved in the management of the Group nor do they have any relationship which could interfere with their independence. Nonetheless, the Board and the Nomination Committee recognise the necessity for Board refreshment and succession planning. Accordingly, when considering the re-appointment of Independent Non-Executive Directors, the Nomination Committee also identifies new potential candidates to be appointed as Independent Non-Executive Directors. The Nomination Committee went through this process in connection with the re-appointment of Jonathan Eric Martin Smith as an Independent Non-Executive Director at the Company's 2020 AGM. However, taking into account Mr Martin Smith's industry expertise, familiarity with the Group's business and operations and specific skills and perspectives, the Nomination Committee ultimately recommended Mr Martin Smith for re-appointment.

Notwithstanding their years of service as Independent Non-Executive Directors of the Company, the Nomination Committee and the Board, having regard to the criteria under Rule 3.13 of the Listing Rules, are of the view that they are able to continue to fulfill their role as required. Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of the directors identifying the Independent Non-Executive Directors and the roles and functions of the directors is maintained on the websites of the Company and the Stock Exchange. The roles of the chairman and the chief executive officer are separate and are performed by Peter Hambro and Yury Makarov, respectively.

As of 31 December 2020, a total of five Independent Non-Executive Directors have been appointed. The Board has been seeking and will continue to periodically seek new Independent Non-Executive Directors to join the Board, so as to sustain its source of independent views.

There is no relationship (including financial, business, family or other material/relevant relationships) between board members and in particular, between the chairman and the chief executive.

Balance, Diversity and Skills

The Company recognises the importance of diversity among its Board members, which not only contributes to the effectiveness of the Board but also to the success of the Group's business. Our Non-Executive Directors (including 5 Independent Non-Executive Directors) have diverse backgrounds in areas such as economics, finance, business management, professional practices, and mining management. The Board remains committed to ensure that the selection of candidates for Board appointments is based on a range of diverse perspectives, including nationality, age, professional background, skills, knowledge and experience.

The Board believes that the balance between Executive and Non-Executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Non-Executive Directors provide the Group with diverse expertise and experience. Their views and participation in Board and committee meetings bring independent judgement and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, ensuring that the interests of all shareholders are taken into account. One Non-Executive Director and two of the Independent Non-Executive Directors possess the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

Training and Continuous Professional Development

The Group provides briefings and other training to develop and refresh the directors' knowledge and skills. The Group, together with its legal counsel and external auditors, continuously update directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year, the Company organised a formal training session for the directors of the Company. The training session covered topics including updates on Listing Rules and the corporate governance environment.

A summary of training received by the directors for the year ended 31 December 2020 is as follows:

Directors	Type of training
Executive Director	
Yury Makarov *(Chief Executive Officer)*	A,B
Non-Executive Directors	
Peter Hambro *(Chairman)*	A,B
Danila Kotlyarov *(re-designated as Non-Executive Director on 1 February 2020)*	A,B
Patrick Chi Kin Cheng *(retired on 20 March 2020)*	B
Independent Non-Executive Directors	
Daniel Rochfort Bradshaw	A,B
Jonathan Eric Martin Smith	A,B
Martin Joseph Davison *(appointed on 20 March 2020)*	A,B
Chuang-fei Li	A,B
Raymond Woo	A,B
Simon Murray, *CBE, Chevalier de la Légion d'honneur (retired on 20 March 2020)*	B

Notes:

A: Attending briefing sessions and/or seminars

B: Reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

Regular Meetings

The Board meets regularly to review the Group's operational performance, financial statements, any material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All directors have access to board papers and related materials which are provided in a timely manner, and are able to include matters in the agenda for board meetings. For the year ended 31 December 2020, the Chairman of the Company held a number of meetings with the Non-Executive Directors (including the Independent Non-Executive Directors) without the presence of the Executive Director.

The Board held five meetings in 2020. The attendance of individual directors at board meetings (as well as committee meetings and the annual general meeting) is set out in the table on page 92.

Company Secretary

The Company Secretary supports the Chairman, the Board and the Board Committees by ensuring good information flow and that the policies and procedures of the Board are followed. The Company Secretary advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. All Directors may call upon the Company Secretary for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the Listing Rules. The Company Secretary has taken no less than 15 hours of relevant professional training in the year ended 31 December 2020 in accordance with the requirement under Rule 3.29 of the Listing Rules.

BOARD COMMITTEES

The day-to-day management and operation of the Group are delegated to the Executive Committee ("EC"), which comprises the Executive Director, the Company Secretary and other senior management members of the Group. The EC is the principal management decision making body on all day-to-day operations and business affairs of the Group. The EC operates under guidelines and delegated authorities from the Board and meets on a regular basis.

Audit Committee

The Audit Committee consists of three Independent Non-Executive Directors – Chuang-fei Li (Chairman), Daniel Rochfort Bradshaw and Jonathan Eric Martin Smith. The principal duties of the Committee include the following:

– to review the accounting principles and practices adopted by the Group;

– to review and supervise the Group's financial reporting system, risk management and internal control procedures; and

– to review the independence and objectivity of the external auditor, the scope of audit services and related audit fees payable to the external auditor.

The terms of reference for the Audit Committee are maintained on the websites of the Company and the Stock Exchange.

Summary of work in 2020

During 2020, the Audit Committee:

- reviewed the independence and objectivity of the external auditor;
- reviewed the Group's interim and annual results;
- reviewed the Group's risk management and internal control systems;
- reviewed the effectiveness of the Group's internal audit function;
- held discussions with the external auditor regarding financial reporting, compliance, scope of audit and related audit fees;
- reviewed policies for maintaining independence; and
- reported findings to the Board.

Review of financial results

The Audit Committee reviewed the Company's 2020 Consolidated Financial Statements in conjunction with the external auditor. Based on its review and discussions with the senior management of the Company, the Audit Committee was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2020. The Audit Committee therefore recommended the Consolidated Financial Statements for the year ended 31 December 2020 be approved by the Board.

During 2020, the Audit Committee also reviewed the Company's 2020 interim results in conjunction with the external auditor. Based on its review and discussions with the senior management of the Company, the Audit Committee was satisfied that the Group's 2020 interim results were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2020.

Review of the risk management and internal control systems

The Audit Committee reviewed the effectiveness of the Group's risk management and internal controls system by reviewing the work of the internal audit function and the Group's external auditor, and considering reports from management on risk management and internal controls. The Audit Committee is satisfied that the Group has proper risk management and internal control systems in place.

Review of the effectiveness of the Group's internal audit function

The Company has an internal audit function which reports directly to the Audit Committee. The Audit Committee also reviewed the effectiveness of the Group's internal audit function, in particular the adequacy of the resources, staff qualifications and experience, training and budget of the Group's accounting, financial reporting and internal audit functions. The Audit Committee is satisfied that the Group has proper internal audit function in place.

The Committee met twice in 2020 and the attendance of Committee members is set out in the table on page 92.

Remuneration Committee

The Remuneration Committee is chaired by Jonathan Eric Martin Smith and its other members are Chuang-fei Li and Daniel Rochfort Bradshaw, all of whom are Independent Non-Executive Directors. The principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management.

The Remuneration Committee reviews the structure of remuneration for the board of directors on an ongoing basis and has the responsibility for the determination, within agreed terms of reference, of specific remuneration packages for all directors and other members of the Executive Committee, including salaries, retirement benefits, bonuses, long-term incentives, benefits in kind and other compensation payments. The Remuneration Committee is committed to bringing independent thought and scrutiny to the development and review process of the Group with regards to remuneration.

Summary of work in 2020

During 2020, the Remuneration Committee:

- reviewed the remuneration policy and practices for 2020;
- reviewed the structure of remuneration for the board of directors;
- determined specific remuneration packages and performance bonuses of individual directors and members of the Executive Committee; and
- reviewed vesting conditions of employee share options.

The Company's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and to maximise shareholder value. Consistent with previous years, the policy for 2020 and so far as practicable, for subsequent years, is framed around the following principles:

- remuneration arrangements will be designed to support the Company's business strategy and to align it with the interests of the Company's shareholders;
- total reward levels will be set at appropriate levels to reflect the competitive global market in which the Company operates, with the intention of positioning such levels within a peer group of global mining companies;
- a high proportion of the remuneration should be "at risk", with performance-related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and
- performance-related payments will be subject to the satisfaction of demanding and stretching performance targets over the short and long term, which are designed to promote the long-term success of the Group. These performance targets will be set in the context of the prospects of the Group, the prevailing economic environment in which it operates and the relative performance against that of competitor companies.

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take into account future changes in the business environment and in remuneration practices. Consequently, the remuneration policy and the Remuneration Committee's terms of reference are reviewed annually to reflect matters such as changes to corporate governance best practice or changes to accounting standards or business practices among peer group mining companies. This will help ensure that the policy continues to provide the Company with a competitive rewards strategy. In doing so, the Remuneration Committee will take into account the relevant Listing Rules, the guidance of independent consultants and best-practice on the design of performance-related remuneration.

The terms of reference for the Remuneration Committee are maintained on the websites of the Company and the Stock Exchange. The Remuneration Committee adopts the model described in B.1.2(c)(i) of the CG Code, where it has delegated responsibility to determine the remuneration packages of individual executive director and senior management.

The Remuneration Committee is satisfied that the Company's pay and employment conditions for both directors and non-Board employees around the world are appropriate to the various markets in which the Group operates. Further details of the Group's remuneration policy and practices in 2020 are set out in a letter from the Remuneration Committee Chairman below.

The Remuneration Committee held one meeting in 2020 and the attendance of Committee members is set out in the table on page 92.

A letter from the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board and the Remuneration Committee, I present the IRC 2020 Remuneration Report.

We have maintained the 2019 format and content of the Remuneration Report to provide a clear explanation of our rationale for determining remuneration policy, annual awards and longer-term incentives, a format that we believe is:

– clear and transparent;

– conforms to Hong Kong requirements; and

– in line with best practice in the international markets.

Consistent with previous years, the Remuneration Committee has considered and determined all elements of remuneration solely in the context of assessing the Group's achievements and, where relevant, individual performance on a standalone basis during 2020.

Our remuneration policy continues to aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value. We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance. As a result, performance-related pay represents a significant portion of total pay for directors and senior management.

For the executive director, "at risk" performance-related pay typically represents more than 50% of total available remuneration. We measure performance against a broad range of health and safety, sustainability, financial and operational criteria. We benchmark our remuneration against the global mining industry and our primary peer group, as well as global companies. Further details regarding our remuneration policy are set out in the following pages. It is the Remuneration Committee's intention to continue to apply this remuneration policy in the future for as long as IRC remains an independent, listed company.

In 2015 an aggressive cost saving approach was taken by reducing salaries and directors' fees (as applicable) for all Board members by 15%, which also applied to most members of senior management of the Group. A further 10% reduction in salaries and directors' fees (as applicable) for Board members and most members of senior management was implemented in January 2016. In light of K&S commencing commercial production and the recovery in the commodities market, in September 2017, the reduced salaries and directors' fees were partially restored. The 2020 remuneration level was about 10% to 15% below the original level in 2015. Starting from March 2021, in light of the improved financial performance of the Group, the remuneration level was restored to the 2015 level. In 2020, apart from a performance bonus paid to the Executive Director, no bonuses were paid to other directors.

The Remuneration Committee reviewed the vesting conditions of the employee share options that were granted in 2017 and had decided to vest 86,400,000 options to the grantees, of which 12,400,000 options were vested to each of Yury Makarov and Danila Kotlyarov. No share options were written off or forfeited in 2020.

Full details regarding the above activities are set out below.

Members

The Remuneration Committee is chaired by Jonathan Eric Martin Smith and its other members are Chuang-fei Li and Daniel Rochfort Bradshaw, all of whom are Independent Non-Executive Directors. Details of the Remuneration Committee's role, meetings and activities can be found on page 83 under the heading "Remuneration Committee".

The Remuneration Committee receives advice on pay and conditions across the Group from the Chairman and Chief Executive Officer of IRC although they do not attend all meetings of the Remuneration Committee. An independent certified public accountant firm provided independent advice to the Remuneration Committee on certain areas of executive remuneration, if required. Norton Rose Fulbright provided legal advice on incentive plan rules (as well as providing legal advice to the Group).

Remuneration policy

Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value. We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance. As a result, for 2020, the remuneration of individuals within the Group have been determined on the following basis:

1. Over 50% of the potential executive pay package is performance-related and therefore “at risk” (i.e. the contractual obligation to pay is dependent on satisfaction of performance criteria).

2. For exceptional performance, potential pay levels are positioned in the upper quartile in comparison to the global mining industry.

3. Performance is assessed on a holistic basis, taking into account a wide variety of factors that are aligned to the delivery of superior long-term returns to IRC’s shareholders and continuous and sustainable improvements in the underlying operating and financial performance of IRC.

   – Individual performance criteria for annual bonus awards reflect health and safety, environment and sustainability performance; financial performance in both absolute and relative terms; and the effective delivery of strategic priorities including the project pipeline, and various lead performance indicators. The use of multiple factors ensures that bonuses cannot be earned on the basis of inappropriate or risky behaviour and avoids rewarding achievements against one or narrow objectives that come at the expense of performance in other areas.

   – The value of long-term incentives is dependent upon the performance of the Group and vesting is subject to the satisfaction of stretching performance conditions. In the event that performance is below the relevant threshold, participants will receive no benefit from long-term incentives.

4. Pay arrangements are intended to remain in place, so far as is practicable, throughout the business cycle. We have therefore avoided making frequent changes to incentive arrangements or performance metrics. In determining policy and practice, the key factors we take into account include:

   – the Listing Rules;

   – the code provisions set out in the CG Code;

   – the competitive environment for experienced personnel in the global extractive industries sector;

   – the guidance provided by a number of institutional investor representative bodies; and

   – feedback received from shareholders.

We also take into account pay and employment conditions across IRC when setting the remuneration of the Chairman and the Executive Director. We do not believe a ratio comparison between the Executive Director and non-Board employees is appropriate. A ratio comparison does not provide a useful measure of fairness or balance due to the vastly different costs of living in the countries where we have operations and fluctuations in exchange rates. However, we regularly assess the fairness and balance of our remuneration policies and practices internally and also benchmark them against our competitors in the various regions in which we operate.

Base salary

Purpose – Attract and retain talented and experienced executives from an industry in which there is competition for talent;

– Reflect the individual's capabilities and experience;

– Reward leadership and direction of IRC on behalf of shareholders.

Policy – Reviewed annually;

– Set at a competitive level benchmarked against other global mining and major Hong Kong companies using independent external data;

– Consider the individual's skills, experience and influence over, and responsibility for, the success of the business;

– The impact of any salary increase awarded on the value of the total package is considered carefully prior to any change being made;

– Ensure that our approach to pay is consistent across the levels of management.

Link to strategy – Protect and generate shareholder value through the retention and attraction of high-calibre individuals.

Risk management – Enhance retention of key personnel to ensure business continuity;

– Structured and policy-driven approach to conducting salary reviews.

Salary review for 2020

A reduction in salary or directors' fees (as applicable) of 15% was implemented for all Directors in March 2015. A further 10% reduction was introduced in January 2016. In light of K&S commencing commercial production and the recovery in the commodities market, in September 2017, the reduced salaries and directors' fees were partially restored. The 2020 remuneration level was about 10% to 15% lower than the original level in 2015. Starting from March 2021, in light of the improved financial performance of the Group, the remuneration level was restored to the original level in 2015.

	For the year ended 31 December					
	2020			2019		
US$'000	Directors' fees	Salaries and other benefits	Total	Directors' fees	Salaries and other benefits	Total
Executive Director						
Yury Makarov	-	788	788	–	708	708
Danila Kotlyarov (b)	-	51	51	–	752	752
Non-Executive Directors						
Peter Hambro (a)	166	-	166	175	–	175
Danila Kotlyarov (b)	82	-	82	–	–	–
Cheng Chi Kin (c)	20	-	20	90	–	90
Independent Non-Executive Directors						
Daniel Rochfort Bradshaw (d)	140	-	140	140	–	140
Simon Murray (e)	20	-	20	90	–	90
Jonathan Eric Martin Smith	126	-	126	126	–	126
Chuang-fei Li	126	-	126	126	–	126
Raymond Woo	90	-	90	90	–	90
Martin Joseph Davison (f)	70	-	70	–	–	–
	840	839	1,679	837	1,460	2,297

(a) Retired and re-appointed as Chairman on 1 July 2020 and 11 August 2020 respectively. Director's fee was paid to an independent service company which is classed as an affiliated company of the director.

(b) Relinquished as Executive Director, Chief Financial Officer and Authorised Representative of the Company to accept an invitation from Petropavlovsk to be their Chief Financial Officer and re-designated as Non-Executive Director on 1 February 2020.

(c) Retired as Non-Executive Director on 20 March 2020.

(d) Re-designated as the Chairman of the Company on 1 July 2020 and Deputy Chairman on 11 August 2020.

(e) Retired as Independent Non-Executive Director on 20 March 2020.

(f) Appointed as Independent Non-Executive Director on 20 March 2020.

Executive Committee Bonus Plan

Purpose
- Align executives' interests with the short-term goals of IRC and the drivers of the Group's long-term success;
- Reward the delivery of shareholder value through the effective execution of strategy, the profits delivered to shareholders and lead indicators of future success including safety and environmental sustainability.

Policy
- Maximum bonus awarded for truly exceptional performance is 100% of salary;
- The overall bonus pool is determined according to budgeting analysis;
- Individual payments are determined with respect to a range of key financial and non-financial metrics. These metrics include health and safety, employee development, environment and sustainability, profit and cash generation, volume and project execution.

Link to strategy
- Provides alignment among the executives' interests, the short-term financial success of IRC and the creation of shareholder value;
- The Remuneration Committee takes a comprehensive view of an appropriate level of award for each individual to ensure that bonus awards truly reflect IRC's performance and management's impact on this (rather than purely resultant from external market and cyclical factors).

Risk management
- Bonus pool analysis alongside budgeting ensures affordability;
- Focus on a wide range of financial and non-financial metrics ensures that bonus rewards sustainable, holistic performance;
- Bonus analysis alongside entire remuneration package, with particular reference to the long-term incentive arrangements (further details below), ensures a focus on long-term sustainable performance and aligns management interest with shareholders;
- Determination process takes account of the extent to which performance has been driven by management activity and planning as opposed to external market and cyclical factors and response to events that were not anticipated at the start of the year.

Bonus review for 2020

Apart from a performance bonus paid to the Executive Director, no bonuses were paid to other directors in 2020.

Long-term incentive arrangements

Purpose	–	Align the financial interests of executives with those of shareholders;
	–	Incentivise the creation of shareholder value through the absolute performance of the Company and its assets as well as the recognition of such value creation in the public markets;
	–	Provide a focus on long-term, sustainable performance.
Policy	–	Share options are granted to high-performing/high potential individuals;
	–	Vesting is dependent upon pre-determined targets that focus on "Operations", "Development", "Profitability" and "Health, Safety and Environment", normally over a three-year period, as set out below.
Link to strategy	–	Vesting conditions are aligned with strategic direction of shareholder value creation.
Risk management	–	Share based incentives ensure a focus on long-term sustainable performance and align management interests with shareholders.

The Company adopted a share option scheme pursuant to Chapter 17 of the Listing Rules on 20 November 2015 (the "Share Option Scheme") which is valid and effective for a period of 10 years from the date of adoption. Any employee, director and any person or entity acting in their capacities as consultants of the Group ("Eligible Persons") may be granted share options under the Share Option Scheme.

The Share Option Scheme is designed to incentivise, reward and retain key Eligible Persons in the Group by providing a reward for long term performance of the Eligible Persons and of the Group, and which aligns the interests of the Eligible Persons with those of the Company's long-term shareholders. The Eligible Persons will only benefit from the Share Option Scheme if they satisfy certain conditions, including remaining with the Group for a minimum number of years.

Under the Share Option Scheme, the Remuneration Committee will from time to time propose to the Board for approval the grant of share options and the number of share options to be granted to the relevant Eligible Persons. The subscription price shall be determined by the Board and notified to an Eligible Person. Performance targets, if any, will be determined by the Board and be stated in the offer. Whether such targets have been successfully achieved will be decided by the Board. The Board may also determine a minimum period of time for which an option must be held before it can be exercised (the "vesting period"). Further details of the Share Option Scheme are set out in note 31 to the Consolidated Financial Statements.

A batch of share options was granted in 2017, and the vesting of these options is conditional upon the achievement of certain performance targets during the vesting period. The exercise price of the share options is HK$0.2728, which is higher than the closing share price of the Company as of 31 December 2020 of HK$0.14. 12,400,000 options were due to vest to each of Yury Makarov and Danila Kotlyarov in 2020. After assessing the level of achievement of the performance targets, the Board has decided to vest 12,400,000 options to each of the aforesaid two directors.

The share options vested to the directors in 2020 are summarised in the table below.

	Number of share options									Exercise price HK$
	Granted	Vested in		Written off in		Unvested as of 31 Dec		Exercised in		
		2019 or before	2020	2019 or before	2020	2019	2020	2019	2020	
Share options granted in 2017										
Yury Makarov	37,200,000	17,050,000	12,400,000	7,750,000	–	12,400,000	–	–	–	0.2728
Danila Kotlyarov	37,200,000	17,050,000	12,400,000	7,750,000	–	12,400,000	–	–	–	0.2728

When implementing the share options scheme, the Remuneration Committee commissioned one of the leading firms of certified public accountants to conduct an independent review of the Share Option Scheme. It is considered that the Share Option Scheme motivates grantees to achieve challenging yet realistic targets, which are crucial in adding significant value to the Company and are in the best interest of IRC shareholders. The certified public accountants firm concluded that the Share Option Scheme is well designed to attract, retain and incentivise grantees.

Retirement benefits

The Executive Director participates in plans which provide retirement benefits. IRC makes contributions to the plans on behalf of the Executive Director which are assessed annually by the Remuneration Committee.

	For the year ended 31 December	
US$'000	**2020**	2019
Yury Makarov	**89**	89
Danila Kotlyarov *(re-designated as non-executive director on 1 February 2020)*	**2**	10
	91	99

Approved by the Board and issued on its behalf by

Jonathan Eric Martin Smith
Remuneration Committee Chairman

30 March 2021

NOMINATION COMMITTEE

The Nomination Committee is chaired by the Non-Executive Chairman of IRC, Peter Hambro. Its other members are Daniel Rochfort Bradshaw and Jonathan Eric Martin Smith, both are Independent Non-Executive Directors. The Committee meets at least once a year.

The Nomination Committee is responsible for formulating policy and making recommendations to the Board on nominations and appointment of Directors as well as on the diversity and succession of the Board. The Committee develops a policy for the nomination of directors, including the nomination procedures for candidates and criteria adopted by the Committee to select and recommend candidates for directorship. When assessing the suitability of a proposed candidate, the Nomination Committee will consider different criteria, including the individual's reputation for integrity, appropriate professional knowledge and industry experience, commitment in respect of available time and relevant interest and diversity. Suitable candidates will be recommended by the Nomination Committee to the Board for consideration. The Board, having considered the recommendation from the Nomination Committee, will decide whether to approve the proposed appointment. The Nomination Committee may consult external recruitment professionals when required.

The Board considers that its composition, size and structure are appropriate to the Group's business needs, reflecting a diversity of perspectives and a desirable combination of skills and experience. Succession planning continues to receive close monitoring and the Board will undertake appropriate recruitments having regard to the retirement plan of individual directors.

The Board, through the Nomination Committee, has also adopted a board diversity policy which sets out the approach taken to diversify the members of the Board. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Committee reviewed the appropriateness of an express diversity quota or measurable objective and concluded that it was unnecessary. Ultimately, all board appointments are based on merit and candidates are considered against objective criteria, but due regard is given for the benefits of a diverse Board.

The Committee also reviews the size, structure and composition of the Board and assesses the independence of the Independent Non-Executive Directors. The Committee is provided with sufficient resources enabling it to perform its duties and it can seek independent professional advice at the Company's expense if necessary. The terms of reference for the Nomination Committee are maintained on the websites of the Company and the Stock Exchange.

Summary of work in 2020

During 2020, the Nomination Committee:

- reviewed the nomination policy;
- reviewed the board diversity policy and considered measurable objectives;
- reviewed the size, structure and composition of the Board;
- considered candidates for directorship;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed succession planning of the Board and senior executives.

During 2020, the Committee met once and the attendance of Committee members is set out in the table on the page of 92.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Health, Safety and Environment Committee consists of three Independent Non-Executive Directors – Daniel Rochfort Bradshaw (Chairman), Jonathan Eric Martin Smith and Chuang-fei Li, and is responsible for evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations and for ensuring compliance with health, safety and environmental regulatory requirements. The Committee also assesses the performance of the Group with regards to the impact of health, safety, environmental and community relations, decisions and actions.

The Committee provides the Board with regular updates to assist in overseeing matters relating to enhancing the Company's global reputation of responsible corporate stewardship, conscientious corporate social responsibility and product sustainability. In doing so, professional advice may be sought if considered necessary. The Committee also has the authority to invite key members of operational management to meetings to discuss the performance of the Group.

Summary of work in 2020

During 2020, the Health, Safety and Environment Committee:

- reviewed the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations;
- reviewed the Group's performance with regards to the impact of health, safety, and environment matters; and
- provided updates to the Board with respect to health, safety and environmental matters.

For the year ended 31 December 2020, the Committee met once and the attendance of Committee members is set out in the table below.

BOARD AND COMMITTEE MEETINGS AND ATTENDANCE

The number of meetings the Board and other Committees held during 2020 is shown below together with attendance details:

	Meeting Attended/Held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety and Environment Committee	2020 AGM
Chairman and Non-Executive Director						
Peter Hambro (a)	5/5	-	-	1/1	-	1/1
Deputy Chairman and Senior Independent Non-Executive Director						
Daniel Rochfort Bradshaw (d)	5/5	2/2	1/1	1/1	1/1	1/1
Executive Director						
Yury Makarov	5/5	-	-	-	-	1/1
Non-Executive Directors						
Danila Kotlyarov (b)	5/5	-	-	-	-	1/1
Cheng Chi Kin (e)	1/1	-	-	-	-	-
Independent Non-Executive Directors						
Simon Murray (c)	0/1	-	-	-	-	-
Jonathan Eric Martin Smith	5/5	2/2	1/1	1/1	1/1	1/1
Chuang-fei Li	4/5	2/2	1/1	-	1/1	1/1
Raymond Woo	5/5	-	-	-	-	1/1
Martin Joseph Davison (f)	5/5	-	-	-	-	1/1

(a) Retired and re-appointed as Chairman on 1 July 2020 and 11 August 2020 respectively.

(b) Relinquished as Executive Director, Chief Financial Officer and Authorised Representative of the Company to accept an invitation from Petropavlovsk to be their Chief Financial Officer and re-designated as Non-Executive Director on 1 February 2020.

(c) Retired as Non-Executive Director on 20 March 2020.

(d) Re-designated as the Chairman of the Company on 1 July 2020 and Deputy Chairman on 11 August 2020.

(e) Retired as Independent Non-Executive Director on 20 March 2020.

(f) Appointed as Independent Non-Executive Director on 20 March 2020.

DIVIDEND POLICY

When considering whether to pay any dividend, the Board looks at a range of factors, including the macro environment, the current balance sheet, future investment plans and capital requirements. The Company typically considers paying annual dividends on the basis of its results for the previous year. The dividend policy of the Company aims to provide for a regular and sizeable dividend flow to its shareholders whilst allowing the Company to maintain the financial flexibility to take advantage of attractive investment opportunities in the future.

AUDITORS' INDEPENDENCE AND REMUNERATION

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write semi-annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence and objectivity of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work) at a meeting of the Committee.

The Auditors' Report to the shareholders states the auditors' reporting responsibilities.

Fees for services rendered by the auditors to the Group for the year ended 31 December 2020 and the comparative figures for the year ended 31 December 2019 are set out below:

	For the year ended 31 December	
US$'000	**2020**	2019
Audit	**527**	516
Non-audit	**18**	–
Total	**545**	516

SHAREHOLDER RELATIONS

The Board has established a shareholders' communication policy which sets out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communications with the shareholders are timely, transparent, accurate and open. Information is communicated to the shareholders mainly through the Company's corporate communications (such as quarterly trading updates, interim and annual reports, announcements and circulars), at the annual general meetings ("AGM") and other general meetings, as well as disclosure on the website of the Company.

Interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are also available on the website of the Company. The Company's website provides shareholders with corporate information, such as its principal business activities and major projects, the corporate governance practices of the Group and the corporate social responsibilities of the Group. For efficient communication with shareholders and in the interest of environmental protection, arrangements are in place which allow shareholders to elect to receive corporate communications of the Company by electronic means through the Company's website.

Shareholders are provided with contact details of the Company, such as telephone, fax number, email address and postal address, in all communications to shareholders and on the Company's website which enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means, ensuring that shareholders' views are communicated to the Board. The Company's AGM also allows the Directors to meet and communicate directly with shareholders.

In addition, shareholders can contact Tricor Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. For each separate issue to be considered at the AGM, separate resolutions are proposed by the chairman of the AGM. The chairman of the AGM exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website the next business day after the day of the AGM.

The most recent AGM was held on 26 June 2020 and the attendance of the directors is set out in the table on page 92. At the AGM, separate resolutions were proposed for each issue and were voted on by poll. All resolutions proposed at the AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters being voted upon	Votes
To receive and consider the reports of the Directors and the Auditor together with the Statement of Accounts for the year ended 31 December 2019.	98.66%
To re-appoint Messrs Deloitte Touche Tohmatsu as Auditor and authorise the Board of Directors to fix their remuneration.	98.66%
To elect Mr Martin Joseph Davison as Independent Non-Executive Director.	95.25%
To re-elect Mr Yury Makarov as Executive Director.	95.23%
To re-elect Mr Jonathan Eric Martin Smith as Independent Non-Executive Director.	95.23%
To give a general mandate to the Directors to repurchase shares in the Company not exceeding 10% of the number of Shares of the Company in issue.	95.31%
To give a general mandate to the Directors to allot, issue and deal with additional shares in the Company not exceeding, except in certain specific circumstances, the sum of 20% of the number of Shares of the Company in issue.	94.21%
To add shares repurchased to the general mandate to issue new shares.	94.24%

SHAREHOLDERS' RIGHTS

Procedures for convening a general meeting

Shareholder(s) holding at least 5% of the total voting right of the Company of all the shareholders having a right to vote at general meetings may, in accordance with the requirements and procedures set out in Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), request the Board to convene a general meeting by requisition, by stating the general nature of the business to be dealt at a general meeting and sending the requisition to the Company in hard copy or electronic form.

Procedures for putting forward proposals at an annual general meeting

(i) Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders of the Company who have a right to vote on the resolution at the annual general meeting; or (ii) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting may request the Company to circulate a notice of a resolution for consideration at the annual general meeting. The request must identify the resolution to be moved at the annual general meeting and must be authenticated by the relevant shareholder(s) and sent to the Company in hardcopy form or in electronic form not later than six weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

The detailed procedures for shareholders to convene and put forward proposals at an AGM or other general meeting, including proposing a person other than a retiring director for election as a director, are set out on the Company's website. Shareholders may send their enquiries requiring the Board's attention to the Company at the registered address of the Company.

Constitutional document

Rights of the shareholders are also provided under the Articles of Association. There have been no changes to the company's constitutional document during the year.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE AND MODEL CODE

Throughout the year, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the year and they have confirmed their full compliance with the required standard set out in the Model Code.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and holding companies, who are considered to be likely in possession of inside information in relation to the Company or its securities. The Company has internal controls for handling and dissemination of inside information whereby the Chairman of the Board, the Executive Director and the Company Secretary work closely, seeking advice from legal advisors from time to time, if needed, with proper reporting of and approval from the Board, for proper handling and dissemination of inside information in accordance with relevant laws and regulations.

DIRECTORS' RESPONSIBILITY STATEMENT, INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interests of shareholders. The Company improves its business and operational activities by identifying the areas of significant business risks via a regular review and taking appropriate measures to control and mitigate these risks. The management identifies the risk areas and reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee annually. The Company also has an internal audit function. The Board and the Audit Committee review the effectiveness of the Group's risk management and internal control systems annually by reviewing the work of the internal audit function and the Group's external auditor, and considering reports from management on risk management and internal control. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss. Where necessary, independent consultants are hired to assist the Board to perform a high-level risk assessment of the Group, which entails identifying, analysing and assessing key risks faced by the Group. The Board has reviewed the effectiveness of the risk management and internal control systems and considers the risk management and internal control systems effective and adequate.

Aimed at providing reasonable assurance against material errors, losses or fraud, the Company's risk management procedures comprised the following steps:

- Identify risks: Identify major and significant risks that could affect the achievement of goals of the Group;
- Risk assessment: Assess and evaluate the identified risk according to its likely impact and the likelihood of occurrence;
- Risk mitigation: Develop effective control measures to mitigate the risks.

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. The Group's annual results and interim results are announced in a timely manner, and the consolidated financial statements of the Group and the Independent Auditor's Report is set out at page 110.

Last but not least, IRC believes that good corporate governance is the driving force for long-term value creation. We are committed to regularly reviewing and developing our governance policies and practices to ensure that they continue to provide us with good services in a constantly changing environment.

On behalf of the Board

Peter Hambro
Chairman

30 March 2021

DIRECTORS' REPORT

The Directors present their Report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in Hong Kong on 4 June 2010 under the then Hong Kong Companies Ordinance. The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates and jointly controlled entity are the production and development of industrial commodities products.

The analysis of the principal activities and geographical locations of the operation of the Group for the year ended 31 December 2020 is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company is provided in the Chairman and CEO Report & Results of Operations on pages 3 and 6 respectively. Discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position and particulars of important events affecting the Group that have occurred since the end of the financial year are provided throughout this Annual Report, particularly in the Chairman and CEO Report & Results of Operations sections on pages 3 to 15. Descriptions of the principal risks and uncertainties facing the Group can be found throughout this Annual Report, particularly in the Risk Factors section on pages 206 to 209. The future development of the Company's business is discussed throughout this Annual Report including in the Chairman and CEO Report on pages 3 to 5. An analysis of the Group's business and operations using financial key performance indicators can be found in the Key Performance Indicators section on pages 16 to 17 while an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company and on which the Company's success depends is provided throughout this Annual Report, particularly in the Remuneration Committee section of the Corporate Governance Report on pages 79 to 96 and the Directors' Report on pages 97 to 106. In addition, details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact to the Group, are provided in the Environmental, Social and Governance section on pages 32 to 78.

DIVIDEND

The Board does not recommend the distribution of a dividend for the year ended 31 December 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year ended 31 December 2020 are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

There were no changes in the share capital of the Company in 2020.

RESERVES

Details of reserves available for distribution and movements in reserves during the year are set out in the section "Consolidated Statement of Changes in Equity" of the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Chairman and Non-Executive Director:

Peter Hambro

Deputy Chairman and Independent Non-Executive Director:

Daniel Rochfort Bradshaw

Executive Director:

Yury Makarov

Non-Executive Director:

Danila Kotlyarov*
Denis Alexandrov**
Aleksei Kharitontsev**
Patrick Chi Kin Cheng^

Independent Non-Executive Directors:

Simon Murray, *CBE, Chevalier de la Légion d'honneur*^
Jonathan Eric Martin Smith
Chuang-fei Li
Raymond Woo
Martin Joseph Davison ***

* Danila Kotlyarov was re-designated as Non-Executive Director on 1 February 2020.

** Denis Alexandrov and Aleksei Kharitontsev were appointed as Non-Executive Directors on 19 January 2021.

*** Martin Joseph Davison was appointed as Independent Non-Executive Director on 20 March 2020.

^ Patrick Chi Kin Cheng and Simon Murray, CBE, Chevalier de la Légion d'honneur retired as Non-Executive Director and Independent Non-Executive Director respectively on 20 March 2020.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into letters of appointment with each of its Directors, pursuant to which each Director is appointed for a term of three years and is subject to termination in accordance with their respective terms.

No Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS OF SUBSIDIARIES

The list of directors who have served on the board(s) of the subsidiaries of the Company during the year and up to the date of this report are shown on the Company's website.

PERMITTED INDEMNITY PROVISIONS

During the financial year and up to the date of this Report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors of the Company or its associated companies. The permitted indemnity provisions are provided for in the Company's Articles of Association and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

DIRECTORS' INTERESTS

As at 31 December 2020, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company at 31 December 2020
Peter Hambro	Beneficial interest	15,330,000	0.22%
Yury Makarov	Beneficial interest	30,911,505	0.44%
	Contingent beneficial interest*	53,851,086	0.76%^
Raymond Kar Tung Woo	Beneficial interest	7,435,360	0.10%
Danila Kotlyarov	Contingent beneficial interest*	53,851,086	0.76%^

* The interest relates to the share options granted by the Company on 20 November 2015 and on 29 September 2017. Details of the share option scheme are set out on page 181 of the 2020 Annual Report of the Company under the heading "SHARE-BASED PAYMENTS TRANSACTIONS".

^ These percentages are calculated on the basis of 7,093,386,381 Shares in issue as at 31 December 2020

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Except as described below, none of the Directors of the Company or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Petropavlovsk, a substantial shareholder of the Company, and its subsidiaries (the "Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No Director or an entity connected with a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 31 December 2020, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares in the Company	Percentage of issued shares in the Company as at 31 December 2020
Petropavlovsk PLC	Interest of a controlled corporation	2,205,900,000	31.10%
Cayiron Limited*	Beneficial interest	2,205,900,000*	31.10%

* Cayiron Limited is a wholly owned subsidiary of Petropavlovsk PLC.

Save as disclosed above and those disclosed under "Directors' Interests", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 December 2020. As at 31 December 2020, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following non-exempt continuing connected transactions require disclosure in the annual report of the Company:

	US$'000 Continuing connected transactions	Connected Persons	Cap for 2020	Actual amount for 2020
A	Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	49
B	Technical Services Agreement	Petropavlovsk and/or its subsidiaries	4,500	–
C	Helicopter Lease Agreement*	Petropavlovsk and/or its subsidiaries	1,000	–
D	Helicopter Services Agreement	Petropavlovsk and/or its subsidiaries	2,000	–
			9,535	49

* Helicopter Lease Agreement is terminated on 27 February 2020 upon the completion of disposal of helicopter to JSC Pokrovskiy mine, a connected person of the Company.

The actual amount of these transactions did not exceed the respective caps.

The connected transactions described in items A to D concern transactions between the Group and Petropavlovsk. Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company and therefore a connected person pursuant to Listing Rule 14A.07(1). Furthermore, Petropavlovsk's subsidiaries are also connected persons of the Company as they are associates of Petropavlovsk. Accordingly, transactions between the Group and Petropavlovsk, and between the Group and Petropavlovsk's subsidiaries, are connected transactions for the purpose of Chapter 14A of the Listing Rules.

A. Shared Services Agreement

The Group procures certain services from Petropavlovsk, and provides certain services to Petropavlovsk ("Shared Services"). On 29 September 2010, the Company and Petropavlovsk entered into an agreement in respect of Shared Services (the "Shared Services Agreement") for a term of three years. The Shared Services Agreement is intended to provide an overarching framework for provision of the shared services. The Shared Services comprise: (i) shared office space; (ii) legal services; (iii) management and information technology services; (iv) administrative services and (v) an equipment lease. Except for (v) an equipment lease, which is charged on arm's length terms, all other services are recharged on a "cost plus a markup of 10%" basis.

On 21 December 2012, the Shared Services Agreement was first renewed for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "First Renewed Shared Services Agreement"). On 5 February 2016, the Shared Services Agreement was again renewed for a term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Second Renewed Shared Services Agreement"). On 26 March 2019, the Shared Services Agreement was renewed for a further term of three years commencing from 1 January 2019 and ending on 31 December 2021 (the "Third Renewed Shared Services Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Shared Services Agreement remain the same.

The annual cap under the Third Renewed Shared Services Agreement for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 is US$2,035,000 respectively, which is the same annual cap as for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 under the Second Renewed Shared Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's planned operations over the next three years, with a buffer to provide flexibility for any increase in shared services required by the Group or any increase in the base cost of providing such services.

B. Technical Services Agreement

On 29 September 2010, the Group and Petropavlovsk entered into a technical services agreement (the "Technical Services Agreement") for a term of three years. The Technical Services Agreement provides an overarching agreement which governs Petropavlovsk's provision of technical services to the Group. The technical services comprise: (i) construction services; (ii) engineering & design services and (iii) exploration & geological services. The technical services were recharged on a "cost plus 10% markup" basis.

On 21 December 2012, the Technical Services Agreement was first renewed for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "First Renewed Technical Services Agreement"). On 5 February 2016, the Technical Services Agreement was again renewed for a term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Second Renewed Technical Services Agreement"). On 26 March 2019, the Technical Services Agreement was renewed for a further term of three years commencing from 1 January 2019 and ending on 31 December 2021 (the "Third Renewed Technical Services Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Technical Services Agreement remain the same.

The annual cap under the Third Renewed Technical Services Agreement for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 is US$4,500,000 respectively, which is the same annual cap as for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 under the Second Renewed Technical Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's planned operations over the three year period, with a buffer to provide flexibility for any increase in technical service required by the Group or any increase in the base cost of providing such services.

C. Helicopter Lease Agreement

LLC GMMC, a subsidiary of the Company, provides JSC Management Company Petropavlovsk ("MC Petropavlovsk") with helicopter services pursuant to a helicopter lease agreement ("Helicopter Lease Agreement") dated 29 September 2010. Under the Helicopter Lease Agreement, LLC GMMC leases its helicopter to MC Petropavlovsk for use in Petropavlovsk's operations. MC Petropavlovsk is a subsidiary of Petropavlovsk and therefore is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Although the Petropavlovsk Group has its own helicopters, it is still necessary to lease helicopter from the Group because at various times its helicopters may be under repair and maintenance. This arrangement provides the Petropavlovsk Group with continuous access to a helicopter service. The terms and conditions of the Helicopter Lease Agreement are no more favourable to MC Petropavlovsk than those that would be offered to independent third parties. The Helicopter Lease Agreement has been amended and varied pursuant to a deed of variation to ensure compliance with Chapter 14A of the Listing Rules and, under the terms of the amended agreement, the amount charged to MC Petropavlovsk is calculated on the total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

Before the expiry of the Helicopter Lease Agreement on 8 October 2013, the Helicopter Lease Agreement was first renewed on 16 January 2013 for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "First Renewed Helicopter Lease Agreement"). On 5 February 2016, the Helicopter Lease Agreement was again renewed for a term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Second Renewed Helicopter Lease Agreement"). On 26 March 2019, the Helicopter Lease Agreement was renewed for a further term of three years commencing from 1 January 2019 and ending on 31 December 2021 (the "Third Renewed Helicopter Lease Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Helicopter Lease Agreement remain the same.

The annual cap under the Third Renewed Helicopter Lease Agreement for the years ended 31 December 2019, 31 December 2020, and 31 December 2021 is US$1,000,000 respectively, which is the same annual cap for the three years ended 31 December 2016, 31 December 2017, and 31 December 2018 under the Second Renewed Helicopter Lease Agreement. The annual cap amounts have been determined based on historical transaction figures and MC Petropavlovsk's expected demand for helicopter services for the next three years, as advised to the Company by MC Petropavlovsk.

LLC GMMC, a subsidiary of the Company, sold the helicopter which was leased by MC Petropavlovsk pursuant to this agreement, to a subsidiary of Petropavlovsk, JSC Pokrovskiy mine on 13 December 2019. Please refer to the section "One-off Connected Transaction" on page 105 for details. The Third Renewed Helicopter Agreement was terminated on 27 February 2020 upon the completion of the disposal of the helicopter to JSC Pokrovskiy mine, a connected person of the Company.

D. Helicopter Services Agreement

On 29 September 2010, the Group and MC Petropavlovsk entered into an agreement relating to the provision of helicopter services ("Helicopter Services Agreement"). Under the agreement, MC Petropavlovsk provides the Group with the use of its helicopter, which is critical for the Group's business due to the distances between the Group's assets and offices. The reason the Group procures a helicopter service from MC Petropavlovsk is to ensure that it has continuous access to a helicopter service. This will be relevant where the Group's own helicopter is under repair and maintenance, or where the Group's personnel require an extended service. MC Petropavlovsk recharges the Group for total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

Before the expiry of the Helicopter Services Agreement on 8 October 2013, the Helicopter Services Agreement was first renewed on 16 January 2013 for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "First Renewed Helicopter Services Agreement"). On 5 February 2016, the Helicopter Services Agreement was again renewed for a term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Second Renewed Helicopter Services Agreement"). On 29 March 2019, the Helicopter Services Agreement was renewed for a further term of three years commencing from 1 January 2019 and ending on 31 December 2021 (the "Third Renewed Helicopter Services Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Helicopter Services Agreement remain the same.

The annual cap under the Third Renewed Helicopter Services Agreement for the years ended 31 December 2019 and 31 December 2020 and 31 December 2021 is US$2,000,000 respectively, which is the same annual cap for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 under the Second Renewed Helicopter Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's expected requirements for helicopter services over the next three years, having regard to the Group's planned activities in areas that are only accessible by helicopter.

Each Continuing Connected Transaction has been reviewed by the Directors, including the Independent Non-executive Directors. The Directors confirm that the Continuing Connected Transactions set out above have been entered into:

– in the ordinary and usual course of business of the Group;

– on normal commercial terms or better; and

– according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ended 31 December 2020 the Continuing Connected Transactions (i) have received the approval of the board of directors of the Company; (ii) have been entered into in accordance with the relevant agreement governing the transactions and (iii) have not exceeded their respective annual caps.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Petropavlovsk is a connected person of the Group and transactions with these entities during the year ended 31 December 2020 are set out in note 38, Related Party Disclosures, to the consolidated financial statements.

ONE-OFF CONNECTED TRANSACTION

On 13 December 2019, LLC GMMC, a subsidiary of the Company, agreed to sell a helicopter to JSC Pokrovskiy mine, a subsidiary of Petropavlovsk and therefore a connected person of the Company for the purposes of Chapter 14A of the Listing Rules.

The net book value of the helicopter was approximately US$5.2 million. The market value of the helicopter excluding value added tax, as determined by an independent valuer, was RUB316.7 million (equivalent to approximately US$5.1 million) and this amount was adopted as the consideration for the sale of the helicopter after arm's length negotiations between LLC GMMC and JSC Pokrovskiy mine. It was agreed that the consideration shall be settled in two tranches, RUB83.3 million (equivalent to approximately US$1.3 million) was settled in December 2019 and the balance was settled upon the completion of the transaction in February 2020. Petropavlovsk is a connected person of the Group and the Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Group entered into the disposal agreement to effect the sale of the helicopter, an asset which the Board of IRC has determined is not required for the purpose of the Group's core mining business. The disposal enabled the Group to raise capital for the purpose of funding the general working capital needs of the Group, including for the purpose of paying interest and principal amounts on loans of the Group.

EMOLUMENT POLICY

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 13 to the consolidated financial statements. The emolument policy of the employees of the Group is set up by the Remuneration and/or Executive Committees on the basis of their merit, qualifications and competence.

The emoluments payable to Directors depend on their respective contractual terms under their employment contracts or service contracts as approved by the board of directors of the Company on the recommendation of the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Detailed information on the remuneration policy and practices of IRC in 2020 are set out in the Corporate Governance Report on page 85 under the heading "Remuneration Committee".

The key element of senior management remuneration is the Share Option Scheme, which is designed to align the interests of management with those of shareholders, and to incentivise performance. Please refer to the paragraph "Remuneration Committee" in the Corporate Governance Report on page 90 and Note 31 to the consolidated financial statements under "Share-Based Payments" for more details.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's three largest customers accounted for 98% of the total revenue for the year. The largest of them accounted for 81% of the total revenue. Also, the aggregate purchases attributable to the Group's three largest suppliers taken together represented 61% of the Group's total purchases for the year. The largest supplier represented 33% of the Group's total purchases for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's three largest suppliers or customers.

GUARANTEE

The Group obtained a banking facility of US$340 million from ICBC in 2010 which was guaranteed by Petropavlovsk, the substantial shareholder of the Company. In March 2019, the ICBC loan was fully repaid by utilising the proceeds from the two Gazprombank facilities for an aggregate amount of US$240 million (the "Gazprombank Facility"). The Gazprombank Facility is guaranteed by Petropavlovsk.

Petropavlovsk and IRC have entered into a New Recourse Agreement which sets out the terms on which Petropavlovsk has agreed to act as guarantor of the Gazprombank Facility. Under the New Recourse Agreement, IRC shall pay Petropavlovsk a monthly fee to be calculated by reference to a rate on the then maximum amount that may be payable by Petropavlovsk under the guarantee arrangement. IRC has agreed with Petropavlovsk that the rate of the annual monthly fee is 3.07% in respect of the guarantee arrangement for the Gazprombank Facility. IRC understands from Petropavlovsk that the rate of the monthly fee was determined by leading international financial advisers, acting as experts to Petropavlovsk to determine a rate of the monthly fee which is on normal commercial terms. An independent expert appointed by IRC has confirmed that applying such rate on Petropavlovsk's maximum potential exposure is not unreasonable.

Petropavlovsk is a connected person of the Group and guarantee fees payable to Petropavlovsk during the year ended 31 December 2020 are set out in note 38, Related Party Disclosures, to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 79 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules.

AUDITOR

During the year, Messrs. Deloitte Touche Tohmatsu was appointed as the auditor of the Company. A resolution to appoint the auditor of the Company will be proposed at the forthcoming Annual General Meeting. There has been no change in auditor in the preceding 3 years.

REVIEW BY THE AUDIT COMMITTEE

The audited financial statements have been reviewed by the Audit Committee of the Company, which comprises three Independent Non-executive Directors: Chuang-fei Li, Daniel Rochfort Bradshaw and Jonathan Eric Martin Smith. Chuang-fei Li is the Chairman of the Audit Committee.

On behalf of the Board

Peter Hambro
Chairman
30 March 2021

BOARD OF DIRECTORS AND COMPANY SECRETARY

As at 31 December 2020, the Board composes of the following directors with a collective expertise covering the resource sector and complementary industries, in addition to deep experience in the geographical regions where IRC operated. The Board formally meets at least four times a year. In addition, numerous sub-committee meetings, information events and director training sessions are held, including site visits to IRC's operations and regional offices. The strategic leadership of IRC is the responsibility of a unitary and balanced board, which comprises a healthy composition of Executive Director, Non-Executive Directors and Independent Non-Executive Directors.

NON-EXECUTIVE CHAIRMAN

Peter Charles Percival Hambro
Chairman

Mr Hambro, 76, is the Chairman, Non-Executive Director and Chairman of Nomination Committee of IRC. He was an Executive Director and the Chairman of Petropavlovsk PLC for 23 years until June 2017. Mr Hambro was a Director of a number of public companies listed on the London Stock Exchange from 1973 to 2017 and has spent 40 years in the metals business. He was the Deputy Managing Director of London-based bullion trader, Mocatta and Goldsmid Limited, and served on the Mocatta Group Executive Committee. He is the Chairman of Peter Hambro Limited and founded Peter Hambro Mining PLC, now renamed Petropavlovsk PLC, with Dr Pavel Maslovskiy. Mr Hambro is also a Director of a number of unlisted family companies.

NON-EXECUTIVE DEPUTY CHAIRMAN

Daniel Rochfort Bradshaw
Deputy Chairman

Mr Bradshaw, 74, is the Deputy Chairman, Senior Independent Non-Executive Director and Chairman of the Health, Safety and Environment Committee of IRC. He worked for most of his career as a solicitor and resigned from Mayer Brown in Hong Kong in March 2019. Mr Bradshaw holds an LLB and LLM in Law. He is a Director of the Kadoorie Farm & Botanic Garden Corporation, an Independent Non-Executive Director of GasLog MLP, and the Chairman of the World Wide Fund for Nature Hong Kong.

EXECUTIVE DIRECTOR

Mr Makarov, 46, is the Chief Executive Officer and Executive Director of IRC. He began his career at NT Computers as an engineer, and later Commercial Director, with responsibility for sales, service and support. In 2002, he joined Aricom as COO and subsequently Petropavlovsk as the Group Head of Industrial Commodity Operations, before taking up his current role at IRC in 2010. Mr Makarov is a qualified systems engineer with a degree in avionics design and production from the Moscow State Aircraft Technology Institute.

Yury Makarov
Chief Executive Officer

NON-EXECUTIVE DIRECTOR

Danila Kotlyarov

Mr Kotlyarov, 42, was re-designated as a Non-Executive Director of IRC on 1 February 2020. Before being re-designated as Non-Executive Director, he was the Chief Financial Officer and Executive Director of IRC. Mr Kotlyarov joined the Group in 2005 responsible over Russia and China operations, and was promoted to Deputy CEO in 2010 and re-designated as CFO in January 2016. Before joining IRC, he gained extensive financial management work experience in various international companies. He holds a BA in Management from Moscow State University and a MA in International Economics from the Moscow State Institute of International Relations (MGIMO). He is a fellow member of the Association of Chartered Certified Accountants (ACCA), Chartered Financial Analyst (CFA), member of Hong Kong and Russia Associations of Financial Analysts.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Martin Smith, 62, is an Independent Non-Executive Director and Chairman of the Remuneration Committee of IRC. He is also a Non-Executive Director of Mining Minerals and Metals PLC (MMMplc). He has stepped down as a partner of the specialist mining advisory firm Legacy Hill Capital to take up being Chief Executive Officer of Sumner Group Mining PLC (previously known as VI Mining PLC). He was the founder of London based Smith's Corporate Advisory, which sold to UK stockbroker Westhouse Holdings in 2010, where he subsequently headed the mining practice. Prior to establishing his own firm, he worked at UBS, Credit Suisse and Williams de Broe. He recently served as a Temporary Independent Non-Executive Director of Petropavlovsk PLC for the months of July and August 2020.

Jonathan Eric Martin Smith

Chuang-fei Li

Mr Li, 74, is an Independent Non-Executive Director and Chairman of the Audit Committee. Mr Li worked for Bank of China in London as the Deputy General Manager and the Chief Lending Officer with wide responsibilities, including investment and corporate banking, treasury and capital markets, financial institutions coverage, structured finance, aircraft and shipping finance, syndications, retail banking and auditing. Mr Li is a past Fellow of the Asia Centre at Harvard University.

Mr Woo, 51, was re-designated as an Independent Non-Executive Director of IRC on 5 January 2018. Mr Woo began his career at Arthur Andersen, then an investment banker at ING, CITIC Securities and Credit Suisse. He holds a Bachelor of Commerce from The University of New South Wales and is a member of the Australian Society of Certified Practising Accountants and a fellow of the HKICPA. He is an Independent Non-Executive Director of Yuanda China and SMIT Holdings. Before being re-designated as Non-Executive Director on 25 March 2015 and then as Independent Non-Executive Director on 5 January 2018, he was the Executive Director, CFO and Company Secretary of IRC.

Raymond Kar Tung Woo

Martin Joseph Davison

Mr Davison, 41, is an Independent Non-Executive Director of IRC. He qualified as a barrister before becoming a corporate financier focusing on natural resources. He has extensive experience in corporate finance, debt and equity fundraising, initial public offerings and merger and acquisition mandates. Mr Davison is an Independent Non-Executive Director of Sumner Group Mining PLC (previously known as VI Mining PLC) and a Director of HPD Software Limited. He was a Managing Director of Canaccord Genuity Limited, an investment banking and financial services company specialises in wealth management and brokerage in capital markets, from November 2015 to May 2019. Prior to joining Canaccord Genuity Limited, Mr Davison worked as a Corporate Finance Advisor at Westhouse Securities (now part of the Shore Capital Group) from April 2005 to October 2015.

EMERITUS DIRECTOR

Dr Pavel Maslovskiy, 64, a professional metallurgist, co-founded Petropavlovsk with Peter Hambro in 1994 with a single greenfield licence in the Amur region, organically expanding the business into one of Russia's largest gold mining companies. He was the CEO of Petropavlovsk. Prior to embarking on his business career, Dr Maslovskiy was a Professor of Metallurgy at the Moscow Aircraft Technology Institute. He is the author of more than 100 printed scientific papers, copyright certificates and co-author of various textbooks in the field of metallurgy. Dr Maslovskiy's achievements and contribution to the Russian mining industry and society has been recognised with awards from the Ministry of Education, the Administration of the President of the Russian Federation and the Administration of the Amur Region.

Dr Pavel Maslovskiy

COMPANY SECRETARY

Johnny Shiu Cheong Yuen

Mr Yuen, 48, is the Interim Chief Financial Officer, Company Secretary and Authorised Representative of the Company. Mr Yuen began his career in KPMG and has over 20 years of financial management, accounting, auditing and administration experiences, including working in various senior positions of listed companies in Hong Kong. He is a fellow member of the HKICPA and the ACCA. He holds a MBA from the Manchester Business School of University of Manchester.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF IRC LIMITED
鐵江現貨有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 116 to 200, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of liquidity	
We have identified the assessment of liquidity performed by the management of the Group as a key audit matter as it is dependent on the continued access to the credit facilities disclosed in note 27 to the consolidated financial statements and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months. The management of the Group has prepared a cash flow forecast which involves judgements and estimations of key input variables and market conditions including the expected production capacity of the Kimkan and Sutara Project ("K&S Project"), future iron ore prices and operating costs. The cash flow forecast has been determined using estimations of future cash flows based upon projected income and expenses of the Group and its working capital needs for the next twelve months. As at 31 December 2020, the Group had net current liabilities of approximately US$24.5 million. As disclosed in the assessment of liquidity risk in note 36 to the consolidated financial statements, the Group has financial liabilities and lease liabilities of US$75.8 million to be settled within one year from 31 December 2020.	Our procedures in relation to the Group's assessment of going concern included: • Obtaining an understanding of the process over the liquidity assessment including the Group's preparation of cash flow forecasts, setting of reasonable and supportable assumptions and inputs variables to the model used to estimate the future cash flows for the following twelve months; • Testing the reasonableness of the assumptions and inputs used to estimate the cash flow forecast against historical performance, economic and industry indicators, publicly available information such as iron ore pricing forecasts and the Group's strategic plans; • Performing the underlying calculations used in the Group's assessment of debt covenants compliance, the cash flow forecast and management's sensitivity testing of the inputs variables used; • Challenging the key assumptions including those pertaining to revenue of K&S Project and the timing of significant payments in management's forecast cash flows for the next 12 months;

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Assessment of liquidity (continued)	
The Group has bank balances and time deposits of US$20.4 million at 31 December 2020. As disclosed in note 3 to the consolidated financial statements, the Group believes it will have sufficient liquidity based upon the credit facilities as disclosed in note 27 to the consolidated financial statements and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months.	• Agreeing the details of the repayment of the Group's credit facilities to supporting documentation; and • Assessing appropriateness of the relevant disclosure in the consolidated financial statements.
Impairment of property, plant and equipment	
We identified the impairment assessment of property, plant and equipment as a key audit matter due to the inherent subjectivity within the estimation of the present value of the future cash flows over the life of the assets. Given the significance of the carrying amount, our focus has been on the impairment assessment of the carrying values of the non-current assets pertaining to the K&S Project. The recoverable amounts of the K&S Project have been determined based on a value-in-use calculations which includes judgements and estimations based upon management's input of key variables and market conditions including the expected production capacity of the K&S Project, ore reserve estimates, future iron ore prices and operating costs. These calculations require the use of estimates of future cash flows based on projected income and expenses of the K&S project and its working capital needs over the life of the mine.	Our procedures in relation to the impairment assessment of property, plant and equipment included: • Obtaining an understanding of the process over the annual impairment assessment including the Group's assessment of impairment indicators, preparation of the cash flow forecasts, setting of reasonable and supportable assumptions and inputs to the models used to estimate the recoverable amount over the life of the mine; • Testing the reasonableness of assumptions and the inputs used to determine the cash flow forecasts against historical performance, ore reserve estimate surveys, economic and industry indicators, publicly available information such as iron ore pricing forecasts and the Group's strategic plans;

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment (continued)	
Management is also required to determine an appropriate discount rates in order to calculate the present values of those cash flows. Changes in the key assumptions on which the recoverable amount of the assets are based could significantly affect the Group's assessment resulting in future impairment losses being recognised or previously recognised impairment losses being further reversed. As stated in note 8 to the consolidated financial statements, the Group has performed an impairment assessment of the property, plant and equipment including the K&S Project which resulted in a reversal of previously recognised impairment losses of US$75.8 million.	• Involving our internal valuation specialists to assess the appropriateness of the mining plan, ore reserves, revenue and expenditure assumptions, discount rate, the valuation methodology, technical information provided by the management and the key assumptions used in the valuation model; and • Checking the underlying calculations used in the Group's assessment and performing sensitivity testing of the inputs used.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Stephen David Smart.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	NOTES	2020 US$'000	2019 US$'000
Revenue	5	**224,591**	177,164
Operating expenses	7	**(149,027)**	(145,793)
Depreciation and amortisation	7	**(28,818)**	(28,504)
Reversal of impairment losses	8	**75,832**	–
Other income, gains and losses	9	**5,149**	(4,250)
Allowance for financial assets measured at amortised costs	36	**(458)**	(23)
Financial costs	10	**(25,157)**	(40,421)
Profit (loss) before taxation		**102,112**	(41,827)
Income tax (expense) credit	11	**(1,602)**	3,157
Profit (loss) for the year		**100,510**	(38,670)
Profit (loss) for the year attributable to:			
Owners of the Company		**100,551**	(38,669)
Non-controlling interests		**(41)**	(1)
		100,510	(38,670)
Earnings (loss) per share (US cents)	15		
Basic		**1.42**	(0.55)
Diluted		**1.42**	(0.55)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
Profit (loss) for the year	**100,510**	(38,670)
Other comprehensive (expense) income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(1,393)**	802
Fair value loss on hedging instruments designated in cash flow hedges	**(6,818)**	(27,581)
Release of fair value loss on hedging instruments in cash flow hedges	**11,112**	23,296
Total comprehensive income (expense) for the year	**103,411**	(42,153)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**103,668**	(42,291)
Non-controlling interests	**(257)**	138
	103,411	(42,153)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 US$'000	2019 US$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets	16	**20,165**	19,877
Property, plant and equipment	17	**566,016**	513,306
Right-of-use assets	19	**7,025**	9,334
Interest in a joint venture		**–**	–
Inventories	21	**14,470**	14,804
Other non-current assets		**11**	55
		607,687	557,376
CURRENT ASSETS			
Inventories	21	**30,130**	25,291
Trade and other receivables	20	**22,924**	14,301
Other financial assets	28	**9**	–
Income tax receivables		**–**	1,125
Time deposits	22	**–**	661
Bank balances	23	**20,371**	3,631
		73,434	45,009
Asset classified as held for sale	18	**–**	5,045
		73,434	50,054
TOTAL ASSETS		**681,121**	607,430
CURRENT LIABILITIES			
Trade and other payables	24	**(72,977)**	(72,328)
Lease liabilities	29	**(3,528)**	(3,331)
Income tax payable		**(1,393)**	–
Borrowings – due within one year	27	**(20,082)**	(20,703)
Other financial liabilities	28	**–**	(4,285)
		(97,980)	(100,647)
NET CURRENT LIABILITIES		**(24,546)**	(50,593)
TOTAL ASSETS LESS CURRENT LIABILITIES		**583,141**	506,783
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**(2,609)**	(2,522)
Provision for close down and restoration costs	30	**(12,554)**	(17,461)
Lease liabilities	29	**(3,694)**	(7,595)
Borrowings – due more than one year	27	**(181,998)**	(201,204)
		(200,855)	(228,782)
TOTAL LIABILITIES		**(298,835)**	(329,429)
NET ASSETS		**382,286**	278,001

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED...)

At 31 December 2020

	NOTE	2020 US$'000	2019 US$'000
CAPITAL AND RESERVES			
Share capital	25	**1,285,158**	1,285,158
Capital reserve		**17,984**	17,984
Reserves		**18,235**	14,244
Accumulated losses		**(938,670)**	(1,039,221)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**382,707**	278,165
NON-CONTROLLING INTERESTS		**(421)**	(164)
TOTAL EQUITY		**382,286**	278,001

The consolidated financial statements on pages 116 to 200 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

Peter Hambro
DIRECTOR

Yury Makarov
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Total attributable to owners of the Company									
	Share capital US$'000	Capital reserve[(a)] US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Hedging reserve US$'000	Other reserve[(b)] US$'000	Accumulated losses US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2019	1,285,158	17,984	16,156	(22,706)	–	23,766	(1,000,552)	319,806	(296)	319,510
Loss for the year	–	–	–	–	–	–	(38,669)	(38,669)	(1)	(38,670)
Exchange differences on translation of foreign operations	–	–	–	663	–	–	–	663	139	802
Fair value loss on hedging instruments designated in cash flow hedges	–	–	–	–	(27,581)	–	–	(27,581)	–	(27,581)
Release of fair value loss on hedging instruments in cash flow hedges	–	–	–	–	23,296	–	–	23,296	–	23,296
Total comprehensive income (expense) for the year	–	–	–	663	(4,285)	–	(38,669)	(42,291)	138	(42,153)
Share-based payment expense	–	–	650	–	–	–	–	650	–	650
Dividend declared to non-controlling interests	–	–	–	–	–	–	–	–	(6)	(6)
Balance at 31 December 2019	1,285,158	17,984	16,806	(22,043)	(4,285)	23,766	(1,039,221)	278,165	(164)	278,001
Profit (Loss) for the year	–	–	–	–	–	–	100,551	100,551	(41)	100,510
Exchange differences on translation of foreign operations	–	–	–	(1,177)	–	–	–	(1,177)	(216)	(1,393)
Fair value loss on hedging instruments designated in cash flow hedges	–	–	–	–	(6,818)	–	–	(6,818)	–	(6,818)
Release of fair value loss on hedging instruments in cash flow hedges	–	–	–	–	11,112	–	–	11,112	–	11,112
Total comprehensive (expense) income for the year	–	–	–	(1,177)	4,294	–	100,551	103,668	(257)	103,411
Share-based payment expense	–	–	874	–	–	–	–	874	–	874
Balance at 31 December 2020	1,285,158	17,984	17,680	(23,220)	9	23,766	(938,670)	382,707	(421)	382,286

(a) The amounts represent deemed contribution from the then ultimate holding company of the Company for 1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company of the Company in prior years and 2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of the then ultimate holding company of the Company.

(b) The amounts arose from 1) acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited "the Stock Exchange", 2) transfer of share-based payment reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares, 3) deemed contribution from General Nice Development Limited ("General Nice"), a shareholder of the Company, for accrued interests on outstanding capital contribution, and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund (as defined in note 25).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 US$'000	2019 US$'000
OPERATING ACTIVITIES			
Net cash generated from operations	33	**62,871**	32,427
Income tax paid		**1,096**	606
NET CASH FROM OPERATING ACTIVITIES		**63,967**	33,033
INVESTING ACTIVITIES			
Restricted bank deposits withdrawn		**–**	977
Purchase of property, plant and equipment and exploration and evaluation assets		**(5,812)**	(5,047)
Time deposits placed	22	**–**	(661)
Time deposits withdrawn	22	**661**	–
Proceeds on disposal of property, plant and equipment		**4,023**	1,950
Interest received		**44**	83
NET CASH USED IN INVESTING ACTIVITIES		**(1,084)**	(2,698)
FINANCING ACTIVITIES			
Repayment of lease liabilities		**(3,832)**	(2,953)
Proceeds from borrowings		**–**	240,000
Repayment of borrowings		**(20,658)**	(241,340)
Interest expenses paid		**(15,978)**	(20,756)
Loan guarantee and debt arrangement fees paid		**(5,000)**	(9,450)
NET CASH USED IN FINANCING ACTIVITIES		**(45,468)**	(34,499)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**17,415**	(4,164)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**3,631**	7,637
Effect of foreign exchange rate changes		**(675)**	158
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**20,371**	3,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

IRC Limited ("the Company") is a public limited company incorporated in Hong Kong and its shares have been listed on the Main Board of the Hong Kong Stock Exchange (the "Stock Exchange") since 21 October 2010. The Company together with its subsidiaries are hereinafter referred to as the "Group".

The address of the registered office and principal place of business of the Company is 6H, 9 Queen's Road Central, Hong Kong. The consolidated financial statements are presented in United States Dollars ("US$"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The Group is principally engaged in the production and development of industrial commodities products including iron ore that are used in industry across the world. The main activities of the Group are carried out in Russia and the Group predominantly serves the Russian and Chinese markets. The activities of the Company's principal subsidiaries are set out in note 39.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework* in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework* in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKFRSs that are mandatorily effective for the current year (continued)

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;

- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has a London Interbank Offered Rate ("LIBOR") bank loan which will or may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on a going concern basis. As at 31 December 2020, the Group had net current liabilities of approximately US$24.5 million (2019: US$50.6 million). The management of the Group has prepared a cash flow forecast which involves judgments and estimations based upon key input variables and market conditions including the expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and operating costs. The cash flow forecast has been determined using estimations of future cash flows based upon projected income and expenses of the Group and its working capital needs.

However, if the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including obtaining debt financing from its majority shareholder, entering into negotiations with banks or other investors for additional debt or equity financing.

The Group believes it will have sufficient liquidity based upon the credit facilities (see note 27) and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 *Impairment of Assets*.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of presentation of consolidated financial statements (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities including structured entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (for the sales of iron ore concentrate and shipping service), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Board of Directors & Company Secretary
Financial Review
Glossary
Corporate Structure

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease components and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of locomotives and office premises in Russia that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets include:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Floor space of buildings and other assets may be leased to contractors under an operating lease, for use in the construction of mining properties.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessor (continued)

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of the foreign operation attributable to the owners of the Company are reclassified to profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Employee benefits

Retirement benefit costs

The Group does not operate a pension scheme. However, payments are made to defined contribution retirement benefit arrangements for certain employees and these are charged as an expense as they rendered services entitling them to the contributions.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and other providing similar services are measured at fair value at the date of grant.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to accumulated losses.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Share-based payments (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to shareholders

Where share options are granted to shareholders as part of a share subscription of the Company's shares, the components amount is recognised in other reserve in the equity of the Company on a pro-rata basis based on the fair values of the components on the proceeds from the share subscription.

Taxation

Taxation expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

When a group entity's taxable profit or tax loss is determined in a currency other than its functional currency, and consequently, the tax base of its non-monetary assets and liabilities changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or asset subject to the general recognition criteria. The resulting deferred tax is recognised in profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Exploration and evaluation assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, is capitalised and recorded on the consolidated statement of financial position within exploration and evaluation assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Exploration and evaluation assets (continued)

Exploration and evaluation expenditure and mineral rights acquired (continued)

Mineral rights acquired through a business combination are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made. Exploration and evaluation expenditure capitalised and mining rights within exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

Non-mining assets

Non-mining assets are initially valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group, and are subsequently valued at cost less accumulated depreciation and impairment, if any.

Mine development costs and mining assets

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as “mine development costs”, this includes any property, plant and equipment acquired to undertake mining activities. Mine development costs are reclassified as “mining assets” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. Depreciation policy for mining assets are set out below under “*Depreciation*”. Mine development costs are tested for impairment as stated in “impairment losses on exploration and evaluation assets, property, plant and equipment and right-of-use assets” section.

Deferred stripping cost in development phase

In open pit operations the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Such costs when incurred during the development of the mine are deferred in the consolidated statement of financial position as part of mine development costs, and charged to the profit or loss over the life of the mine on a unit of production basis.

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Property, plant and equipment

Deferred stripping costs in production phase

During production phase, cost incurred in relation to stripping activity is capitalised and recorded on the consolidated statement of financial position to the extent the stripping activity improved access to ore, which is when the following conditions are satisfied:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the Group accounts for the costs of that stripping activity in accordance with the accounting policy of inventories (see accounting policy of inventories for details).

When the costs relating to improved access to ore (i.e. a stripping activity asset) and the costs of the inventory produced are not separately identifiable, production stripping costs are allocated between the stripping activity asset and inventory using a relevant production measure (i.e. actual vs. expected volume of waste extracted).

Production stripping costs capitalised as mine development costs and are subsequently carried at cost and depreciated on a unit of production basis over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, less any impairment losses.

Depreciation

Property, plant and equipment are depreciated using a units of production method or straight-line basis as set out below.

Mining assets which are plant and machineries acquired to undertake mining activities are depreciated on a straight-line basis based on estimated useful lives of 2 to 20 years. Other mining assets for which economic benefits from the asset are consumed in a pattern linked to the production level, are depreciated using a units of production method based on ore reserves, which in turn results in a depreciation charge proportional to the depletion of reserves.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation (continued)

Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Mine development costs and construction in progress are not depreciated, except for that property, plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Estimated useful lives of non-mining assets normally vary as set out below.

	Estimated useful life Number of years
Buildings	15–50
Plant and machinery	2–20
Vehicles	5–7
Leasehold improvements	2
Fixtures and equipment	2
Office equipment	2–10
Computer equipment	3–5

Impairment on exploration and evaluation assets, property, plant and equipment and right-of-use assets

At the end of each reporting period, the Group reviews the carrying amounts of its exploration and evaluation assets, property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of exploration and evaluation assets, property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Impairment on exploration and evaluation assets, property, plant and equipment and right-of-use assets (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials and consumables is determined on a first-in-first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventories include ore stockpiles and other partly processed material. Stockpiles represent ore that has been extracted and is available for further processing. If there is significant uncertainty as to if, and/or when the stockpiled ore will be processed, the ore is expensed as mined. If the ore will not be processed within 12 months after the reporting date, it is included within non-current assets and net realisable value is calculated on the discounted cash flow basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Provision for close down and restoration costs

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provision for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The unwinding of the discount applied in establishing the net present value of provision is charged to profit or loss for the year. The unwinding of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provision for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at the end of each reporting period. All costs of continuous rehabilitation are charged to profit or loss as incurred.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or if appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is achieved by both selling and to collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset and is included in the "Other income, gains and losses" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model (including other receivables, time deposits and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all financial assets except for trade receivables which are measured at fair value, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

(ii) Definition of default

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit – impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade and other payables and construction costs payable are subsequently measured at amortised cost, using the effective interest method.

Transaction costs on borrowings

Transaction costs that are directly attributable to the raising of borrowings are recognised on the statement of financial position on an accrual basis. Such costs will be deducted from the fair value of the borrowings on initial recognition (that is, when the relevant borrowings are drawn). They form part of the borrowings and will be accounted for using an effective interest method over the loan period.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other income, gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment and assessment of cash generating units

The Group reviews the carrying value of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU. The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs of disposal and value in use.

Management necessarily applies its judgement in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation.

Changes to the assumptions underlying the assessment of the recoverable value may result in changes to impairment charges, either through further impairment charges or reversal of previously recognised impairments, which could have a significant impact on the financial information in future periods. In addition, changes to iron ore prices, ore reserve estimates, operating costs, production capacity and increases in the total forecast cost of planned projects or negative outcomes to exploration and evaluation activities could lead to further impairment charges or reversals in the future. With the continued improvement in production at the K&S Project and increase in the spot iron ore price, management has revisited the assessment of the recoverable amount of the K&S Project resulting in a partial reversal of the impairment charge of US$75.8 million in the statement of profit or loss for the year ended 31 December 2020 (2019: reversal of impairment charge of US$nil million).

Ore reserve estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the "JORC Code") or Canadian Institute of Mining, Metallurgy and Petroleum valuation standards ("CIM"). The JORC Code and CIM require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Ore reserve estimates (continued)

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of closedown and restoration costs. Also, for the purpose of impairment review and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values due to changes in estimated future cash flows;

- Depreciation charged in the consolidated statement of profit or loss where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;

- Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and

- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in such expenditure being capitalised for those projects for which such expenditure is considered likely to be recoverable through future extraction activity or sale, or for which the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to profit or loss. Management is confident that the carrying amount of the assets will be recovered in full. As at 31 December 2020, the carrying amount of the exploration and evaluation is US$20.2 million (2019: US$19.9 million).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Deferred tax

Recognition of deferred tax assets requires management to assess the likelihood that future taxable profits will be available which the deferred tax asset can be utilised to offset. This requires management to assess future tax profits of the business and the likelihood and timing of these amounts. Details of deferred tax assets from unused tax losses are disclosed in note 26.

5. REVENUE

Disaggregation of revenue from contracts with customers

For the year ended 31 December 2020

Segments	Mines in production US$'000	Engineering US$'000	Total US$'000
Types of goods or services			
Sale of iron ore concentrate	216,666	–	216,666
Delivery services	7,716	–	7,716
Engineering services	–	209	209
	224,382	209	224,591
Geographical markets			
People's Republic of China ("PRC")	196,932	–	196,932
Russia	27,450	209	27,659
	224,382	209	224,591
Timing of revenue recognition			
A point of time	216,666	–	216,666
Over time	7,716	209	7,925
	224,382	209	224,591

5. REVENUE (CONTINUED)

Disaggregation of revenue from contracts with customers (continued)

For the year ended 31 December 2019

Segments	Mines in production US$'000	Engineering US$'000	Total US$'000
Types of goods or services			
Sale of iron ore concentrate	153,708	–	153,708
Delivery services	22,102	–	22,102
Engineering services	–	1,354	1,354
	175,810	1,354	177,164
Geographical markets			
PRC	76,901	–	76,901
Russia	98,909	1,354	100,263
	175,810	1,354	177,164
Timing of revenue recognition			
A point of time	153,708	–	153,708
Over time	22,102	1,354	23,456
	175,810	1,354	177,164

Sale of iron ore concentrate (revenue recognised at a point of time)

Revenue from the sale of iron ore concentrate is recognised at a point of time when the control of the goods has been transferred to the customers, being when the iron ore concentrate has been delivered to the agreed location. Customers have to make a deposit of 90% of the invoiced amount before the delivery and the remaining 10% is to be paid after delivery and on receipt of the final assay results based on the average market price of the month of shipment. Upon delivery of the goods, the customers have control over the usage of the products and bear the risk of loss in relation to the goods.

Sale of iron ore concentrate with delivery service (multiple performance obligation)

The Group provides a delivery service associated with the sale of iron ore concentrate as a performance obligation separate to the sale of goods. The Group allocates the price of the relevant sale transaction between the goods sold and the distinct performance obligations related to the delivery of the goods and recognises the corresponding revenue over the period of the performance obligation if the amount is significant. Allocation of transaction price to delivery services is based on the best estimate of a similar stand-alone service.

Engineering services

Revenue from provision of engineering services is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

All iron ore concentrate sales (including delivery service) and engineering services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

HKFRS 8 *Operating Segments* requires the Group to disclose reportable segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its Executive Committee to be the chief operating decision maker. For management purposes, the Group is organised into four operating segments: Mines in Production, Mines in Development, Engineering and Other. These operating segments form the basis on which the Group's Executive Committee makes decisions about resource allocation and performance assessment. No operating segments identified by the Group's Executive Committee have been aggregated in arriving at the reportable segments of the Group. The Group has four operating and reportable segments under HKFRS 8:

- Mines in production segment ("Mines in production"), comprises an iron ore project in production phase. This segment includes the K&S Project which is located in the Russia Far East Region started commercial production in January 2017.

- Mines in development segment ("Mines in development"), comprises iron ore projects in the exploration and development phase. This segment includes the Garinskoye project and the Bolshoi Seym project which are all located in the Russia Far East region.

- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.

- Other segment ("Other") primarily includes Kuranakh Project, which has been under care and maintenance and did not generate any income in 2020. For management purpose, the project is reclassified from the "Mine in Production" segment to "Other" segment. This segment also includes the Group's interests in a joint venture for the production of vanadium pentoxides and related products in the PRC.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the results generated by each segment without the allocation of general administration expenses, general depreciation, other income, gains and losses, allowance for financial assets measured at amortised cost and financial costs.

Segment results represent the results incurred by each segment for the purpose of monitoring segment performance and performance assessment.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than central cash and cash equivalents; and

- all liabilities are allocated to reportable segments other than deferred tax liabilities and borrowings.

The following is an analysis of the Group's revenue and results by separable and reportable segment.

6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2020

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	224,382	–	209	–	224,591
Segment revenue	224,382	–	209	–	224,591
Site operating expenses and service costs	(166,074)	(81)	(1,102)	(1,178)	(168,435)
Site operating expenses and service costs include:					
Depreciation and amortisation	(28,518)	–	(107)	–	(28,625)
Segment profit (loss)	58,308	(81)	(893)	(1,178)	56,156
General administrative expenses					(9,217)
General depreciation					(193)
Reversal of impairment losses					75,832
Other income, gains and losses					5,149
Allowance for financial assets measured at amortised cost					(458)
Financial costs					(25,157)
Profit before taxation					102,112
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	5,583	–	–	72	5,655
Exploration and evaluation expenditure capitalised	–	288	–	–	288
Right-of-use assets capitalised	823	–	–	343	1,166
Segment assets	648,755	19,392	3,946	7,453	679,546
Central cash and cash equivalents					1,575
Consolidated assets					681,121
Segment liabilities	(60,174)	(603)	(191)	(33,178)	(94,146)
Borrowings					(202,080)
Deferred tax liabilities					(2,609)
Consolidated liabilities					(298,835)

6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2019

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	175,810	–	1,354	–	177,164
Segment revenue	175,810	–	1,354	–	177,164
Site operating expenses and service costs	(159,677)	(268)	(1,977)	(1,502)	(163,424)
Site operating expenses and service costs include:					
Depreciation and amortisation	(27,987)	(182)	(129)	–	(28,298)
Segment profit (loss)	16,133	(268)	(623)	(1,502)	13,740
General administrative expenses					(10,667)
General depreciation					(206)
Other income, gains and losses					(4,250)
Allowance for financial asset measured at amortised cost					(23)
Financial costs					(40,421)
Loss before taxation					(41,827)
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	7,526	2,287	1	126	9,940
Exploration and evaluation expenditure capitalised	–	380	–	–	380
Right-of-use assets capitalised	61	–	–	282	343
Segment assets	574,808	24,370	5,307	1,104	605,589
Central cash and cash equivalents					1,841
Consolidated assets					607,430
Segment liabilities	(65,970)	(5,126)	(428)	(33,476)	(105,000)
Borrowings					(221,907)
Deferred tax liabilities					(2,522)
Consolidated liabilities					(329,429)

For the year ended 31 December 2020

6. SEGMENT INFORMATION (CONTINUED)

Non-current assets by location of asset

The Group's non-current assets are substantially located in Russia.

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are as follows:

	2020 US$'000	2019 US$'000
EVRAZ Group	**27,450**	98,909
Heilongjiang Xianglong International Trading Corporation Limited	**180,816**	75,186

7. OPERATING EXPENSES

	2020 US$'000	2019 US$'000
Site operating expenses and service costs[(a)]	**168,435**	163,424
General administration expenses[(b)]	**9,410**	10,873
	177,845	174,297

For the year ended 31 December 2020

7. OPERATING EXPENSES (CONTINUED)

(a) Site operating expenses and service costs

	2020 US$'000	2019 US$'000
Subcontracted mining costs and engineering services	**49,219**	46,601
Railway tariffs	**38,657**	38,315
Depreciation and amortisation	**28,625**	28,298
Staff costs	**19,735**	20,200
Materials usage	**12,408**	13,570
Other expenses	**9,440**	6,731
Electricity	**7,009**	6,876
Property tax	**5,193**	5,795
Professional fees*	**2,376**	1,847
Fuel	**2,016**	1,992
Rental fee	**756**	1,056
Movement in finished goods and work in progress	**(2,531)**	(5,266)
Mine development costs capitalised in property, plant and equipment	**(4,468)**	(2,591)
	168,435	163,424

(b) General administration expenses

	2020 US$'000	2019 US$'000
Staff costs, other than share-based payments	**5,956**	5,816
Professional fees*	**1,378**	2,798
Share-based payments	**874**	650
Other expenses	**771**	1,134
Rental fee	**238**	269
Depreciation	**193**	206
	9,410	10,873

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees.

8. REVERSAL IMPAIRMENT LOSSES

The Group follows the requirements of HKAS 36 Impairment of Assets to consider whether there are impairment indicators and if so, to determine whether the non-financial assets are impaired. At the end of each reporting period, the management assesses whether there is any indication that the impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the management is required to estimate the recoverable amount of the asset which requires significant judgment. In making this judgment, management considers factors including improvements in production volumes, changes in the cash costs of production, available ore reserves, purity of the iron ore concentrate, forecasted iron and ilmenite prices and exchange rates.

With the continued improvements in the K&S Project's production and increases in the spot iron ore price during the year ended 31 December 2020, management has revisited the assessment of the recoverable amount of the K&S Project resulting in a reversal of the impairment charge of US$75.8 million in the consolidated statement of profit or loss. No impairment or reversal of impairment was made during the year ended 31 December 2019.

The recoverable amount of the K&S Project has been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows based on projected income and expenses of the business and working capital needs that have taking into consideration the future economic conditions, expected production capacity, ore reserve estimates, iron ore prices and cost of production over the expected life of the mine. Management is also required to choose appropriate discount rates in order to calculate the present values of the cash flows. The real discount rate used was 10.65% (2019: nominal 12.0%). Changes in the key assumptions on which the recoverable amounts of the assets are based could significantly affect management's assessment.

As at 31 December 2020, the recoverable amount of the property, plant and equipment and right-of-use assets of the K&S Project is approximately US$570.0 million (2019: recoverable amount of the property, plant and equipment and right-of-use assets of the K&S Project is approximately US$519.1 million).

9. OTHER INCOME, GAINS AND LOSSES

	2020 US$'000	2019 US$'000
Net foreign exchange gain (loss)	**7,674**	(6,181)
Rental income	**4,094**	1,539
Net gain on disposal of property, plant and equipment	**377**	451
Interest income on cash and cash equivalents	**44**	83
Impairment loss of asset classified as held for sale	**–**	(141)
Other provision	**(7,115)**	–
Others	**75**	(1)
	5,149	(4,250)

10. FINANCIAL COSTS

	2020 US$'000	2019 US$'000
Interest expense on borrowings	**16,673**	19,954
Guarantee fee	**6,654**	6,300
Finance expense on early repayment of bank loan	**–**	11,465
Interest expense on lease liabilities	**870**	1,200
Unwinding of discount on environmental obligation and long-term construction costs payable	**960**	1,502
	25,157	40,421

11. INCOME TAX EXPENSE (CREDIT)

	2020 US$'000	2019 US$'000
Current tax:		
Russia Corporate tax	**1,411**	59
United Kingdom Corporation tax	**–**	45
Cyprus Corporate tax	**–**	5
	1,411	109
Overprovision in prior years:		
Russia Corporate tax	**–**	(2,137)
Deferred tax expense (credit) (note 26)	**191**	(1,129)
	1,602	(3,157)

Russian Corporate tax is calculated at a rate of 20% of the estimated assessable profit for both years.

Based on the approved federal and regional laws in Russia, the K&S Project is considered to be an investment project and is eligible for income tax relief over 10 years starting from 2017. The K&S Project is exempted from Russian Corporate tax for the period from 2017 to 2021 and, will be taxed at a reduced rate of 10% for the following 5 years increasing to 20% thereafter.

United Kingdom Corporation tax is calculated at 19% of the estimated assessable profit for both years.

Cyprus Corporate tax is calculated at 12.5% of the estimated assessable profit for both years.

11. INCOME TAX EXPENSE (CREDIT) (CONTINUED)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No tax from other jurisdictions has been recognised as the Group had no assessable profit arising in or derived from any other jurisdictions during both years. The charge (credit) for the year can be reconciled to profit (loss) before taxation per the consolidated statement of profit or loss as follows.

	2020 US$'000	2019 US$'000
Profit (loss) before taxation	**102,112**	(41,827)
Tax at the Russian corporation tax rate of 20%[a]	**20,423**	(8,365)
Tax effect of expenses that are not deductible in determining taxable profit	**11,193**	10,657
Tax effect of income that is not taxable in determining taxable profit	**(16,465)**	(4,315)
Tax effect of utilisation of deductible temporary difference not recognised	**(68)**	(3,838)
Tax effect of tax losses not recognised	**–**	5,298
Tax effect of utilisation of tax losses previously not recognised	**(4,125)**	(1,292)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	**(1,270)**	(116)
Tax effect arising from exchange adjustments on non-monetary assets	**(8,086)**	951
Overprovision in respect of prior years	**–**	(2,137)
Income tax expense/(credit) for the year	**1,602**	(3,157)

(a) The Group's major operating subsidiaries are all located in Russia and subject to Russian Corporate tax. Accordingly, Russian Corporate tax rate is applied for tax reconciliation purposes.

12. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2020 US$'000	2019 US$'000
Audit fees		
Fees payable to Group's auditors for the annual audit of the Group's consolidated financial statements	**545**	516

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The aggregate remuneration of employees (including directors) comprised:

	2020 US$'000	2019 US$'000
Wages and salaries	**18,788**	19,065
Social security and other benefits	**6,570**	6,778
Retirement benefit contributions	**333**	172
Share-based payments	**874**	650
	26,565	26,665

	2020 US$'000	2019 US$'000
Directors' emoluments		
Emoluments for executive directors:		
– salaries and other benefits	**839**	1,460
– retirement benefit contributions	**91**	99
– share-based payments	**276**	186
Emoluments for non-executive directors:		
– directors' fees	**840**	837
	2,046	2,582

For the year ended 31 December 2020

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

	2020				
	Directors' fees US$'000	Salaries and other benefits US$'000	Retirement benefit contributions US$'000	Share-based payments[e] US$'000	Total US$'000
Executive directors:					
Yury Makarov	–	788[g]	89	138	1,015
Danila Kotlyarov[a]	–	51	2	138	191
Non-executive directors:					
Non-executive directors					
Peter Charles Percival Hambro[f]	166	–	–	–	166
Cheng Chi Kin[b]	20	–	–	–	20
Danila Kotlyarov[a]	82	–	–	–	82
Independent non-executive directors					
Daniel Rochfort Bradshaw	140	–	–	–	140
Jonathan Eric Martin Smith	126	–	–	–	126
Chuang-fei Li	126	–	–	–	126
Simon Murray[c]	20	–	–	–	20
Martin Joseph Davison[d]	70	–	–	–	70
Raymond Woo	90	–	–	–	90
	840	839	91	276	2,046

For the year ended 31 December 2020

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

	2019				
	Directors' fees US$'000	Salaries and other benefits US$'000	Retirement benefit contributions US$'000	Share-based payments[e] US$'000	Total US$'000
Executive directors:					
Yury Makarov	–	708[g]	89	93	890
Danila Kotlyarov[a]	–	752	10	93	855
Non-executive directors:					
Non-executive directors					
Peter Charles Percival Hambro[f]	175	–	–	–	175
Cheng Chi Kin[b]	90	–	–	–	90
Independent non-executive directors					
Daniel Rochfort Bradshaw	140	–	–	–	140
Jonathan Eric Martin Smith	126	–	–	–	126
Chuang-fei Li	126	–	–	–	126
Simon Murray[c]	90	–	–	–	90
Raymond Woo	90	–	–	–	90
	837	1,460	99	186	2,582

Notes:

(a) Relinquished as Executive Director, Chief Financial Officer and Authorised Representative of the Company to accept invitation from Petropavlovsk PLC to be their Chief Financial Officer and re-designated as a Non-executive Director of the Company on 1 February 2020.

(b) Retired as non-executive director on 20 March 2020.

(c) Retired as independent non-executive director on 20 March 2020.

(d) Appointed as independent non-executive director on 20 March 2020.

(e) The share-based payments were recognised in accordance with the accounting policies set out in note 3 and for further details, please refer to note 31.

(f) Director's fee was paid to an independent service company which is classed as an affiliated company to the director.

(g) Included in salaries was US$29,000 (2019: US$33,000) paid by subsidiaries.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Mr Yury Makarov is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Five highest paid individuals

For the year ended 31 December 2020, the five highest paid individuals included two directors of the Company (2019: three directors of the Company). The emoluments of the remaining three (2019: two) highest paid individuals for the years ended 31 December 2020 and 2019 are as follows:

	2020 US$'000	2019 US$'000
Employees		
– salaries and other benefits	**1,071**	557
– share-based payments	**85**	57
	1,156	614

	2020 US$'000	2019 US$'000
Their emoluments were within the following bands:		
HK$2,000,001 to HK$2,500,000 (equivalent to approximately US$256,411 to US$320,513)	**–**	2
HK$2,500,001 to HK$3,000,000 (equivalent to approximately US$320,514 to US$384,614)	**2**	–
HK$3,500,001 to HK$4,000,000 (equivalent to approximately US$448,719 to US$512,821)	**1**	–
	3	2

In both years, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group. None of the directors waived or agreed to waive any emoluments and no other amounts were paid by the Group to the directors, or the five highest paid individuals, as compensation for loss of office during the year.

During the year, certain directors and employees were granted share options, in respect of their services to the Group under share options scheme of the Company. Details of the share option scheme are set out in note 31 to the Group's consolidated financial statements.

14. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

15. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the following data:

Profit (loss) for the year

	2020 US$'000	2019 US$'000
Profit (loss) for the purposes of basic and diluted earnings (losses) per ordinary share being profit (loss) for the year attributable to owners of the Company	**100,551**	(38,669)

Number of shares

	2020 Number '000	2019 Number '000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**7,093,386**	7,093,386

The computation of diluted earnings (loss) per share for the year ended 31 December 2020 does not assume the exercise of share options granted by the Group. For the year ended 31 December 2019, the exercise of share options would result in a decrease in loss per share. The exercise price of those options was higher than the average market price for the Company's shares.

16. EXPLORATION AND EVALUATION ASSETS

	2020 US$'000	2019 US$'000
At the beginning of the year	**19,877**	19,497
Additions	**288**	380
At the end of the year	**20,165**	19,877

Garinskoye and Bolshoi Seym Deposit are classified as exploration and evaluation assets. Additions mainly related to capitalised costs incurred on exploration and evaluation activities.

17. PROPERTY, PLANT AND EQUIPMENT

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2019	384,445	959,927	63,448	14,452	1,422,272
Additions	2,287	7,526	127	–	9,940
Transfers	(3,919)	3,919	–	–	–
Disposals	–	(169)	(185)	–	(354)
Reclassified as asset held for sale	–	–	(8,299)	–	(8,299)
Exchange adjustments	–	–	566	–	566
At 31 December 2019	382,813	971,203	55,657	14,452	1,424,125
Additions	5,124	459	72	–	5,655
Transfers	(990)	990	–	–	–
Disposals	–	(2,915)	(8)	–	(2,923)
Exchange adjustments	–	–	(841)	–	(841)
At 31 December 2020	386,947	969,737	54,880	14,452	1,426,016
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2019	(357,252)	(481,404)	(35,718)	(14,452)	(888,826)
Depreciation charge for the year	–	(24,142)	(973)	–	(25,115)
Eliminated on disposals	–	52	133	–	185
Reclassified as asset held for sale	–	–	3,113	–	3,113
Exchange adjustments	–	–	(176)	–	(176)
At 31 December 2019	(357,252)	(505,494)	(33,621)	(14,452)	(910,819)
Depreciation charge for the year	–	(24,644)	(699)	–	(25,343)
Impairment loss reversed in profit or loss	–	75,832	–	–	75,832
Eliminated on disposals	–	47	8	–	55
Exchange adjustments	–	–	275	–	275
At 31 December 2020	(357,252)	(454,259)	(34,037)	(14,452)	(860,000)
CARRYING AMOUNTS					
At 31 December 2020	29,695	515,478	20,843	–	566,016
At 31 December 2019	25,561	465,709	22,036	–	513,306

At 31 December 2020 and 2019, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment.

18. ASSET CLASSIFIED AS HELD FOR SALE

On 13 December 2019, LLC GMMC, a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with a purchaser (the "Purchaser"), a related party of the Company. Pursuant to the sale and purchase agreement, LLC GMMC agreed to sell, and the Purchaser agreed to purchase, a helicopter for a consideration of RUB316,667,000 (equivalent to approximately US$5,045,000). The net proceeds of disposal were less than the carrying amount of the relevant asset and accordingly, an impairment loss of US$141,000 was recognised.

The major classes of assets classified as held for sale are as follows:

	At 31 December 2020 US$'000	At 31 December 2019 US$'000
Total assets classified as held for sale		
Property, plant and equipment	–	5,045

19. RIGHT-OF-USE ASSETS

	Mining assets US$'000	Non-mining assets US$'000	Total US$'000
COST			
At 1 January 2019	12,804	–	12,804
Additions	61	282	343
Modifications	(533)	–	(533)
At 31 December 2019	12,332	282	12,614
Modifications	823	343	1,166
At 31 December 2020	13,155	625	13,780
ACCUMULATED DEPRECIATION			
At 1 January 2019	–	–	–
Charge for the year	(3,190)	(199)	(3,389)
Eliminated on modifications	109	–	109
At 31 December 2019	(3,081)	(199)	(3,280)
Charge for the year	(3,293)	(182)	(3,475)
At 31 December 2020	(6,374)	(381)	(6,755)
CARRYING AMOUNTS			
At 31 December 2020	6,781	244	7,025
At 31 December 2019	9,251	83	9,334

19. RIGHT-OF-USE ASSETS (CONTINUED)

	2020 US$'000	2019 US$'000
Total cash outflows for leases	**4,826**	5,478

During both years, the Group leased an office, equipment and vehicles for its operations. Lease contracts are entered into for fixed term ranging from 1 year to 2 years, and do not have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

20. TRADE AND OTHER RECEIVABLES

	2020 US$'000	2019 US$'000
Trade receivables	**6,151**	3,190
Value-added tax recoverable	**9,739**	4,429
Prepayments to suppliers	**5,007**	4,094
Amounts due from customers under engineering contracts	**15**	36
Other receivables	**2,012**	2,552
	22,924	14,301

Trade receivables are amounts owed from iron ore concentrate sales and services performed under engineering contracts.

Amounts due from customers under long-term engineering contracts in progress are expected to be billed and settled within one year.

Below is an aged analysis of the Group's trade receivables based on invoice date at the end of the reporting period.

	2020 US$'000	2019 US$'000
Less than one month	**6,109**	3,156
One month to three months	**9**	34
Over six months	**33**	–
Total	**6,151**	3,190

The Group allows credit period of 7 to 30 days (2019: 5 to 30 days) to individual third party customers. The directors of the Company considered that the carrying value of trade and other receivables is approximately equal to their fair value.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2020 and 2019, 99% of the trade receivables that are neither past due nor impaired are considered to be of good credit quality based on their settlement history.

The Group has a concentration of credit risk at 31 December 2020 as 99.3% (31 December 2019: 86.1%) of the total trade receivables was due from the Group's largest customer. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties and minimising its risk by receiving substantial upfront payments. The Group's exposure and credit ratings of its counterparties are monitored closely by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

In determining recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Details of impairment assessment of other receivables for the year ended 31 December 2020 are set out in note 36.

21. INVENTORIES

	2020 US$'000	2019 US$'000
Current		
Stores and spares	**13,217**	11,222
Work in progress	**10,294**	11,916
Ore in stockpiles	**6,619**	2,153
	30,130	25,291

	2020 US$'000	2019 US$'000
Non-current		
Ore in stockpiles (note)	**14,470**	14,804

Note: Ore in stockpiles that is not planned to be processed within twelve months after the reporting period is shown as non-current.

No inventories had been pledged as security during the years ended 31 December 2020 and 2019.

No inventories were written down or recovered to its net realisable value during the years ended 31 December 2020 and 31 December 2019.

The cost of inventory, excluding iron ore concentrate, charged to the consolidated statement of profit or loss and included in site operating expenses and service costs was approximately US$9,509,000 for the year ended 31 December 2020 (2019: US$12,451,000).

22. TIME DEPOSITS

As at 31 December 2019, the Group had short-term US Dollars denominated bank deposits with an original maturity of three to twelve months and bore interest at prevailing market rates that ranged from 5.2% to 7.24% per annum. The Group did not have time deposits as at 31 December 2020.

23. BANK BALANCES

Bank balances comprised cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Cash at banks carry interest at prevailing market rates ranging from 0.01% to 5.93% (2019: 0.55% to 5.73%) per annum as at 31 December 2020.

As of 31 December 2020, the bank balances of US$20,371,000 (2019: US$3,631,000) include US$17,722,000 (2019: US$1,145,000) held by LLC KS GOK, a wholly owned subsidiary of the Group.

24. TRADE AND OTHER PAYABLES

	2020 US$'000	2019 US$'000
Trade payables	**7,508**	10,107
Advances from customers	**78**	682
Interest payables	**427**	576
Construction cost payables (Note)	**22,694**	22,694
Accruals and other payables	**42,270**	38,269
	72,977	72,328

The average credit period on purchases of goods and services for the year was 14 days (2019: 12 days).

The directors of the Company consider that the carrying amount of trade creditors and other payables approximates their fair value.

24. TRADE AND OTHER PAYABLES (CONTINUED)

Below is an aged analysis of the Group's trade creditors based on invoice date:

	2020 US$'000	2019 US$'000
Less than one month	**7,453**	6,722
One month to three months	**14**	3,159
Over three months to six months	**18**	125
Over six months	**23**	101
Total	**7,508**	10,107

Note:

Construction cost payables are amounts owed arising from the Engineering Procurement and Construction Contract (the "EPC Contract") entered into between the Group and China National Electric Engineering Corporation ("CNEEC") on 6 December 2010.

The EPC Contract was amended on 14 March 2016 such that LLC KS GOK shall issue a taking-over certificate for the process plant works ("Taking-Over Certificate") on 30 June 2016 to confirm the status of completion of the processing plant. However, the Group had to complete certain works itself, and the time for completion of the K&S Project had been extended from 30 June 2016 to 26 July 2016.

Under the EPC Contract, CNEEC is subject to delay penalties on demand basis for the period between the completion date of the infrastructure works and the date of the issuance of the Taking-Over Certificate for the process plant works at US$150,000 per day and the Group may recover the same from CNEEC as a debt. On this basis, a delay penalty amounting to US$3,900,000 has been charged to CNEEC (the "Delay Penalty") in respect of the delay of completion of the processing plant from 30 June 2016 to 26 July 2016.

On 27 December 2016, the Group and CNEEC entered into an additional agreement (the "Additional Agreement") to the EPC Contract that the Taking-Over Certificate would be issued on 31 December 2016.

The Group owes CNEEC a final payment for the construction costs of US$26,594,000 which CNEEC agreed to receive in tranches of US$8,396,000, US$9,099,000 and US$9,099,000 in 2018, 2019 and 2020 respectively. CNEEC agreed to partially offset this final payment with the Delay Penalty of US$3,900,000 and the remaining payment of US$22,694,000 has been measured at amortised cost determined using an effective interest method with an interest rate of 8.16% per annum.

As at 31 December 2020 and 2019, the Group has made a counter claim of approximately US$64,885,000 for i) delay penalties in respect of the period from 26 July 2016 until 31 December 2016; ii) performance penalties; and iii) reimbursement of the costs for remedial works against CNEEC which is currently going through the arbitration process.

25. SHARE CAPITAL

Details of the allotment and issuance of ordinary shares by the Company during the years ended 31 December 2020 and 2019 are as follows:

	Number of shares	Share capital US$'000
Issued and fully paid		
At 1 January 2019, 31 December 2019 and 2020	7,093,386,381	1,285,158

On 30 November 2016, the Company entered into a subscription agreement with an investor, Tiger Capital Fund SPC – Tiger Global SP ("Tiger Capital Fund"), pursuant to which Tiger Capital Fund agreed to subscribe for 937,500,000 new ordinary shares of the Company at the subscription price of HK$0.21 per share. As part of the consideration for the subscription, the Company has also agreed to grant to Tiger Capital Fund a right to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Share(s)") of the Company. The subscription and the grant of the Option Shares were subject to shareholders' approval by way of an ordinary resolution which was passed on 29 December 2016. Accordingly, 937,500,000 ordinary shares were allotted and issued, as well as 60,000,000 Option Shares were granted, to Tiger Capital Fund on 30 December 2016 (the "Completion Date") for a total net proceeds of approximately US$25.4 million.

The 60,000,000 Option Shares granted were assigned to a director of Tiger Capital Fund, pursuant to the nomination by Tiger Capital Fund. The first tranche of 30,000,000 Option Shares has an exercise price of HK$0.3575, representing a premium of 10% to the closing price of HK$0.325 on the Completion Date. Following the completion of the first tranche of the Option Shares subscription, the exercise price for the second tranche of the remaining 30,000,000 Option Shares was set at a price being 110% of the closing price for a share of the Company on the first anniversary of the Completion Date.

The Option Shares are valid for a period of 5 years from the date of grant and have been fully vested in 2017.

At 31 December 2020 and 2019, the rights granted to Tiger Capital Fund to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Shares") in December 2016 remained outstanding and expire in December 2021. No Option Shares granted were exercised or lapsed during the year ended 31 December 2020.

26. DEFERRED TAX LIABILITIES

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the year.

	Property, plant and equipment US$'000	Engineering contracts US$'000	Tax losses US$'000	Foreign exchange movements US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2019	(602)	47	48,166	(51,110)	(66)	(3,565)
Credit (charge) to profit or loss	23	(51)	161	951	45	1,129
Exchange adjustments	(72)	4	–	–	(18)	(86)
At 31 December 2019	(651)	–	48,327	(50,159)	(39)	(2,522)
Credit (charge) to profit or loss	19	–	(8,332)	8,086	36	(191)
Exchange adjustments	105	–	–	–	(1)	104
At 31 December 2020	(527)	–	39,995	(42,073)	(4)	(2,609)

At 31 December 2020 and 2019, the Group had unused tax losses of approximately US$315,916,000 and US$378,201,000 respectively.

On 30 November 2016, an amendment to the Russian Tax Code was enacted that, effective from 1 January 2017 (i) the limitation regarding the utilisation of loss carry forwards up to 50% of taxable profit in the tax period will expire beginning in 2021; and (ii) the current 10-year carry forward period for losses will be eliminated, hence, it will be possible to fully utilise loss carry forwards against the corporate tax base in a given year from 2021 onwards. Further losses incurred from 2007 can be carried forward for an indefinite period until fully utilised.

In relation to these unused tax losses, deferred tax assets of US$8,332,000 have been utilised in 2020 in respect of approximately US$199,974,000 of unused tax losses and US$161,000 have been credited in 2019 in respect of approximately US$241,638,000 of unused tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately US$115,942,000 (2019: US$136,563,000) due to the unpredictability of future taxable profit streams.

At 31 December 2020, the Group had deductible temporary difference of approximately US$1,741,000, in respect of temporary differences arising on the sale of iron ore concentrate and certain costs capitalised in "Mine development costs" under property, plant and equipment when they were under development in prior years (2019: approximately US$2,081,000). No deferred tax asset has been recognised in respect of these deductible temporary differences as they are insignificant.

The Group did not record a deferred tax liability in respect of withholding tax that would be payable on the unremitted earnings associated with investments in its subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and did not intend to reverse them in the foreseeable future. These subsidiaries are incorporated in Russia and subject to the Russian Corporate tax rate of 20%. Unremitted earnings that would be subject to withholding tax amount to approximately US$2,707,000 at 31 December 2020 (2019: approximately US$3,394,000).

Temporary differences arising from the Group's interests in a joint venture are insignificant.

For the year ended 31 December 2020

27. BORROWINGS

	2020 US$'000	2019 US$'000
Bank loans		
Gazprombank JSC	**202,045**	221,849
Other loans		
EPC – Finance LLC	**35**	58
Total	**202,080**	221,907
Secured	**202,045**	221,849
Unsecured	**35**	58
	202,080	221,907
Carrying amounts repayable		
Within one year	**20,082**	20,703
More than one year, but not exceeding two years	**20,538**	20,375
More than two years, but not exceeding five years	**61,509**	61,125
More than five years	**99,951**	119,704
Total	**202,080**	221,907
Presented as:		
Current liabilities	**20,082**	20,703
Non-current liabilities	**181,998**	201,204
	202,080	221,907

Loan from EPC-Finance LLC

LLC Petropavlovsk-Iron Ore, a subsidiary of the Group, obtained an unsecured loan facility of RUB4,580,000 (2019: RUB6,000,000) from EPC-Finance LLC, an independent third party. The loan carries interest of 11% per annum and is repayable on 27 April 2022 (2019: 27 April 2020). As at 31 December 2020, RUB2,580,000 (equivalent to US$35,000) had been drawn down.

27. BORROWINGS (CONTINUED)

Bank loan from Gazprombank JSC

On 18 December 2018, the Group entered into two facility agreements for a loan in aggregate of US$240,000,000 (the "Gazprombank Facility"). The Gazprombank Facility will mature in 2026 and consists of two tranches. The principal under the first tranche amounts to US$160,000,000 with interest being charged at the London Inter-bank Offer Rate ("LIBOR")+5.7% per annum and is repayable in equal quarterly payments during the term of the Gazprombank Facility, the final payment in December 2026. The principal under the second tranche amounts to US$80,000,000 with interest being charged at LIBOR+7.7% per annum and is repayable in full at the end of the term, in December 2026. Interest charged on the drawn down amounts under the two tranches is payable in quarterly payments during the term of the Gazprombank Facility.

On 19 March 2019, the Group drew down on the Gazprombank Facility to repay the bank loan from ICBC in full of approximately US$169,637,000 and to finance the K&S Project's working capital of approximately US$3,000,000.

On 21 March 2019, the Group further drew down on the Gazprombank Facility to repay the loans from CJSC Pokrovskiy Rudnik in full of approximately US$56,211,000.

The remaining amounts of the Gazprombank Facility were drawn down and used for the following purposes: (i) to finance the K&S Project's working capital of approximately US$5,000,000 and (ii) to repay part of the guarantee fee of approximately US$6,000,000 owed by the Group to Petropavlovsk PLC in respect of their guarantee of the ICBC Facility Arrangement.

As at 31 December 2020 and 31 December 2019, the full credit facility amount of US$240,000,000 has been fully drawn down.

The Gazprombank Facility is secured by i) a charge over the property, plant and equipment with net book value of US$52,334,000, ii) 100% equity share of Kapucius Services Limited in LLC KS GOK and iii) a guarantee from Petropavlovsk PLC.

The drawn down of the Gazprombank Facility is subject to the following requirements:

a) LLC KS GOK must maintain an authorised capital not less than RUB9.1 billion;

b) LLC KS GOK must provide quarterly reporting; and

c) LLC KS GOK must meet the following financial covenants:

   i) Net Debt/EBITDA ratio:

      - For the twelve months period ended on 30 June 2019 and 31 December 2019 of less than 6.5 times

      - For the twelve months period ending 30 June 2020 and 31 December 2020 of less than 5.0 times

      - For the twelve months period ending 30 June 2021 and 31 December 2021 of less than 3.5 times and,

      - Starting from the twelve months period ending on 30 June 2022, of less than 3.0 times

27. BORROWING (CONTINUED)

Loan from Gazprombank JSC (Continued)

c) LLC KS GOK must meet the following financial covenants: (Continued)

Where:

– Net Debt is defined as short-term borrowed funds add long-term borrowed funds add leasing obligations less cash or cash equivalents; and

– EBITDA is defined as profit before tax for the last twelve months add interest expenses for the last twelve months less interest incomes for the last twelve months add depreciation for the last twelve months add adjustments to exclude exchange rate revaluation and other non-monetary items for the last twelve months and add lease payments for the last twelve months.

ii) Debt Service Coverage Ratio (DSCR):

- For the twelve months period ended on 30 June 2019 or 31 December 2019 – not less than 1.1 times

- Starting from the twelve months period ending on 30 June 2020 – not less than 1.2 times

where DSCR is defined as:

– Incoming cash balance add free cash flow of LLC KS GOK to the share capital add cash payments for servicing the principal debt add cash payments for interest payments; divided by

– Cash payments for servicing the principal debt add cash payments for interest payments

For the twelve months period ended 30 June 2020, LLC KS GOK has complied with the Net Debt/EBITDA ratio covenant and obtained a waiver from Gazprombank JSC to comply with the DSCR covenant.

For the year ended 31 December 2020, LLC KS GOK has complied with the Net Debt/EBITDA ratio and the DSCR covenants.

As of 31 December 2020, the total borrowings of US$202,045,000 (31 December 2019: US$221,849,000) was borne by LLC KS GOK, a wholly owned subsidiary of the Group.

Details of the guarantee granted by Petropavlovsk PLC in relation to the Gazprombank Facility Agreement are set out in notes 10 and 38.

28. OTHER FINANCIAL ASSETS (LIABILITIES)

	Current	
	2020	2019
	US$'000	US$'000
Derivatives under hedge accounting		
Cash flow hedges – Currency Swap Contracts	**9**	–
Cash flow hedges – Commodity Swap Contracts	**–**	(4,285)

Cash flow hedges

At 31 December 2020, the Group had outstanding currency swap contracts designated as highly effective hedging instruments in order to minimise the exchange rate exposure in relation to operating costs.

The fair value of currency swap contracts as at 31 December 2020 are provided by counterparty financial institutions.

During the year ended 31 December 2020, the loss on change in fair value of the commodity and currency swap contracts and zero-cost collars contracts under cash flow hedges amounting to US$6,818,000 (31 December 2019: loss on change in fair value of the commodity swap contracts under cash flow hedges amounting to US$27,581,000) has been recognised in other comprehensive income. The fair value losses of the commodity swaps and zero-cost collar amounting to US$11,851,000 (31 December 2019: US$23,296,000) and the fair value gains of the currency swaps and zero-collars amounting to US$739,000 (31 December 2019: nil) were reclassified from hedging reserve to profit or loss in the same period when the hedged item affects profit or loss upon the settlement.

For the year ended 31 December 2020

29. LEASE LIABILITIES

	2020 US$'000	2019 US$'000
Lease liabilities payable:		
Within one year	**3,528**	3,331
Within a period of more than one year but not more than two years	**3,694**	3,608
Within a period of more than two years but not more than five years	**–**	3,987
	7,222	10,926
Less: Amount due for settlement within 12 months shown under current liabilities	**(3,528)**	(3,331)
Amount due for settlement after 12 months shown under non-current liabilities	**3,694**	7,595

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2020 US$'000	2019 US$'000
Russian Roubles	**6,978**	10,842
Hong Kong Dollars	**244**	84

For the year ended 31 December 2020

30. PROVISION FOR CLOSE DOWN AND RESTORATION COSTS

	2020 US$'000	2019 US$'000
At the beginning of year	**17,461**	10,026
Unwinding of discount	**960**	899
Exchange adjustments	**(2,870)**	1,263
Change in estimate	**(2,997)**	5,273
At the end of year	**12,554**	17,461

The provision represents amounts recognised in relation to mine closure, site and environmental restoration costs which are based on estimates provided by in-house engineers and geologists.

The amount represents the obligation recognised for the Kuranakh Project, which is located in the Amur Region of the Russian Federation, and the K&S Project,which is located in the Jewish Autonomous Region (EAO) of the Russian Federation. The Kuranakh Project had been put under a care and maintenance programme in March 2016. The related obligation for the Kuranakh Project has been recognised using an effective interest rate of 4.6% (2019: 6.8%) per annum with the expected timing of the cash outflows arising on the closure of mining operations to be incurred after 2021 and the K&S Project recognised at 7.0% (2019: 6.5%) per annum with the expected timing of cash outflows on the closure of mining operation currently estimated to be after 2056.

31. SHARE-BASED PAYMENTS TRANSACTIONS

Share Option Scheme

In November 2015, the Company adopted a share option scheme ("Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees that will expire on 19 November 2025. Under the Share Option Scheme, the Company's directors may, at their sole discretion, grant options (the "Options") to any directors and employees of the Group to subscribe for shares of the Company at a price which shall be at least the higher of (i) the closing price of shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the day of the offer of grant; and (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the day of the offer of the grant. The Board shall specify in an offer letter a date by which a grantee must accept the offer, being a date no later than 28 days after the date on which the option is offered or the date on which the conditions for the offer are satisfied. Payment of an option price of HK$1.00 shall be made upon acceptance of the offer.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 10% of the shares in issue on the date of commencement of dealings in the shares of the Company on the Stock Exchange, unless the Company obtains further approval from the shareholders.

The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Notwithstanding the above, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 30% of the relevant shares or securities of the Company in issue from time to time.

Share Options granted in 2015

On 20 November 2015, 228,000,000 share options were granted to the Company's selected employees and directors. The exercise price is HK$0.315 per share, which was higher than the closing price of the Company's shares on the date of grant of HK$0.246 per share.

Of the total 228,000,000 share options, 87,000,000 share options were granted to directors of the Company, and 141,000,000 share options were granted to certain employees of the Group. The share options are valid for a period of 10 years from the date of grant and are subject to the vesting periods as follows:

- one-third of the Options granted to each Grantee shall vest on 19 November 2016;
- one-third of the Options granted to each Grantee shall vest on 19 November 2017; and
- one-third of the Options granted to each Grantee shall vest on 19 November 2018.

31. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

Share Option Scheme (Continued)

Share Options granted in 2015 (Continued)

Each one-third tranche of the share options granted in 2015 are subject to the following vesting conditions:

– 25% of the tranche vesting relates to the achievement of certain production targets;

– 25% of the tranche vesting relates to profitability;

– 25% of the tranche vesting relates to the growth and development of the Group; and

– 25% of the tranche vesting relates to the meeting of certain health, safety and environmental requirements.

To address the dilutive effect of the Company's share placement which completed on 30 December 2016 (please refer to note 25 for details of the placement), the exercise price and the aggregate number of share options granted on 20 November 2015 have been adjusted to HK$0.296 and 242,328,035, respectively. One-third of the share options granted (80,776,011 share options) were due to vest in 2016, subject to the achievement of certain performance targets during the vesting period. However, as the K&S Project was not in commercial production so the grantees were not in the position to deliver on certain performance targets, the board of directors has determined that 50% of the share options that were due for vesting in 2016 (i.e. 40,388,008 share options) vested in 2017. As such, 40,388,003 share options vested in 2016 and became exercisable. However, in 2017, 15,499,783 share options were forfeited due to cessation of employment. One-third (37,288,055 share options) of the remaining share options (111,864,152 share options) due to vest in 2017 were cancelled as approved by the remuneration committee of the Company and the effect of accelerating the expense was not significant. On 19 November 2018, the vesting period for share option granted in 2015 ended. 74,576,097 share options granted were due to vest. Other than 9,322,016 share options were cancelled as approved by the remuneration committee of the Company, the remaining 65,254,081 share options were fully vested.

As at 31 December 2020, the number of exercisable share options under the scheme is 180,218,181 (31 December 2019: 180,218,181), representing 2.54% of the issued number of shares of the Company (31 December 2019: 2.54%). No share options granted in 2015 were exercised during the years ended 31 December 2020 and 2019.

Share Options granted in 2017

On 29 September 2017, 296,400,000 share options were granted to the Company's selected employees and directors. The exercise price is HK$0.2728 per share, which was higher than the closing price of the Company's shares on the date of grant of HK$0.248 per share.

Of the total 296,400,000 share options, 111,600,000 share options were granted to directors of the Company, and 184,800,000 share options were granted to certain employees of the Group. The share options are valid for a period of 5 years from the date of grant and are subject to the vesting periods as follows:

– one-third of the Options granted to each Grantee shall vest on 28 September 2018;

– one-third of the Options granted to each Grantee shall vest on 28 September 2019; and

– one-third of the Options granted to each Grantee shall vest on 28 September 2020.

31. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

Share Option Scheme (Continued)

Share Options granted in 2017 (Continued)

Each one-third tranche of the share options granted in 2017 are subject to the following vesting conditions:

– 25% of the tranche vesting relates to the achievement of certain production targets;

– 25% of the tranche vesting relates to profitability;

– 25% of the tranche vesting relates to the growth and development of the Group; and

– 25% of the tranche vesting relates to the meeting of certain health, safety and environmental requirements.

In 2018, one-third of the share options granted (98,800,000 share options) were due to vest, subject to the achievement of certain performance targets during the vesting period. After assessing the level of achievement of the performance targets, 12,350,000 share options have been cancelled and 86,450,000 share options were vested.

In 2019, 24,800,000 share options were forfeited due to cessation of employment. Half of the remaining share options granted (86,400,000 share options) were due to vest. After assessing the level of achievement of the performance targets, 43,200,000 share options have been vested, and 43,200,000 share options have been cancelled. The effect of accelerating the expense was not significant.

In 2020, the vesting period for share options granted in 2017 ended and the Company assessed that all the vesting conditions were fulfilled. The remaining 86,400,000 share options granted have been fully vested.

At 31 December 2020, 216,050,000 (2019: 216,050,000) share options granted remained outstanding under the scheme. The number of exercisable share options under the scheme is 216,050,000 (2019: 129,650,000), representing 3.05% of the issued number of shares of the Company as at 31 December 2020 (31 December 2019: 1.83%). No share options were exercised or lapsed during the year ended 31 December 2020.

The fair value of the share options granted during the year ended 31 December 2017 was approximately HK$34,829,000 and was determined using the Binomial valuation model by an independent valuer, RSM Consulting (Hong Kong) Limited with value per option in the range of HK$0.1096 to HK$0.1236. The significant inputs into the model are as follows:

Share price, at the grant date (HK$)	0.248
Exercise price (HK$)	0.2728
Expected volatility (%)	62.50
Expected dividend yield (%)	–
Expected share option life (years)	5
Annual risk-free interest rate (%)	1.29

31. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

Share Option Scheme (Continued)

Share Options granted in 2017 (Continued)

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the previous five years at the date of the valuation.

The Binomial valuation model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The expected share option life is based on the share option maturity period of 5 years.

The amount expensed under the Share Option Scheme during the year ended 31 December 2020 totalled US$874,000 (2019: US$650,000).

32. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF") for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The contributions charged to the consolidated statement of profit or loss for the year ended 31 December 2020 amounted to US$244,000 (2019: US$74,000) and represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

The Group also operates an investment fund for its directors and the total amount is charged to the consolidated statement of profit or loss for the year ended 31 December 2020 is US$89,000 (2019: US$98,000).

As at 31 December 2020, contributions of US$14,000 (2019: US$12,000) due in respect of the year ended 31 December 2020 (2019) had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

For the year ended 31 December 2020

33. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of profit (loss) before taxation to cash generated from operations

	2020 US$'000	2019 US$'000
Profit (loss) before taxation	**102,112**	(41,827)
Adjustments for:		
Depreciation of property, plant and equipment	**25,343**	25,115
Depreciation of right-of-use assets	**3,475**	3,389
Financial income	**(44)**	(83)
Financial costs	**25,157**	40,421
Net gain on disposal of property, plant and equipment	**(377)**	(451)
Reversal of impairment losses	**(75,832)**	–
Share-based payments expense	**874**	650
Net foreign exchange (gain) loss	**(6,935)**	6,181
Other provision	**7,115**	–
Impairment loss on asset held for sale	**–**	141
Other non-cash adjustments	**458**	(6)
Operating cash flows before movements in working capital	**81,346**	33,530
Increase in inventories	**(4,505)**	(6,020)
Increase in trade and other receivables	**(9,991)**	(1,596)
(Decrease) increase in trade and other payables	**(3,979)**	6,513
Net cash generated from operations	**62,871**	32,427

(b) Major non-cash transactions

There were no major non-cash transactions during the years ended 31 December 2020 and 2019.

33. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings US$'000 (Note 27)	Amount due to Petropavlovsk PLC included in other payables US$'000	Lease liabilities US$'000 (Note 29)	Total US$'000
At 1 January 2019	212,869	10,317	–	223,186
Adjustment upon application of HKFRS 16	–	–	12,804	12,804
At 1 January 2019 (restated)	212,869	10,317	12,804	235,990
Financing cash flow	(24,346)	(6,000)	(4,153)	(34,499)
Interest expense (borrowings)	19,954	–	–	19,954
Interest expense (leases)	–	–	1,200	1,200
Loan guarantee fee	–	6,300	–	6,300
Finance expenses on early repayment of bank loan	11,465	–	–	11,465
New leases entered	–	–	343	343
Lease modification	–	–	(424)	(424)
Other payables	–	–	1,156	1,156
Exchange differences	1,965	–	–	1,965
At 31 December 2019	221,907	10,617	10,926	243,450
Financing cash flow	(36,636)	(5,000)	(3,832)	(45,468)
Interest expense (borrowings)	16,673	–	–	16,673
Interest expense (leases)	–	–	870	870
Loan guarantee fee	–	6,654	–	6,654
Lease modification	–	–	1,166	1,166
Exchange differences	136	–	(1,908)	(1,772)
At 31 December 2020	202,080	12,271	7,222	221,573

34. OPERATING LEASE

The Group as a lessor

The Group earned property rental income of approximately US$4,094,000 during the year ended 31 December 2020 (2019: US$1,539,000), relating to i) the sub-let of part of the floor space of buildings owned by OJSC Giproruda and ii) machineries and wagons subleased by LLC KS GOK, both subsidiaries of the Group. At 31 December 2020 and 2019, the Group had contracted with tenants for minimum lease payments due within eleven months. The total minimum lease payment is approximately US$546,000 and US$654,000 as at 31 December 2020 and 2019, respectively.

	2020 US$'000	2019 US$'000
Within one year	**546**	654

35. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of net debt, which includes borrowings net of bank balances and equity attributable to owners of the Company, comprising issued capital and reserves.

36. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments

	Carrying value as at 31 December 2020 US$'000	Carrying value as at 31 December 2019 US$'000
Financial assets		
Financial assets at FVTPL	**6,151**	3,190
Financial assets at amortised cost	**22,398**	6,880
Derivative instruments designated in cash flow hedge relationships	**9**	–
Financial liabilities		
Derivative instruments designated in cash flow hedge relationships	**–**	(4,285)
Amortised cost	**(254,946)**	(278,059)

Financial risk management objectives

The Group's activities expose it to other price risk, foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the board of directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units.

Other price risk

The Group's trade receivables and derivative financial instruments are measured at fair value at the end of the reporting period. Therefore, the Group is exposed to commodity price risk in relation to the trade receivables and derivative financial instruments.

Sensitivity analysis

The Group's sensitivity to the trade receivables and derivative financial instrument is not significant.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk management

The group entities undertake certain transactions denominated in foreign currencies, principally Pounds Sterling, US$, Euros, Hong Kong Dollars ("HK$"), Renminbi and Russian Roubles, which exposes the Group to exchange rate risk associated with fluctuations in the relative values of Pounds Sterling, US$, Euros, HK$ and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the board of directors of the Company, through holding the relevant currencies for future settlement. At present, the Group does not undertake any foreign currency transaction hedging.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities of the Group at the reporting date are as follows:

	Assets		Liabilities	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000
Russian Roubles	**1,318**	4,118	**38,092**	61,032
US$	**16**	19	**–**	–
Renminbi	**17**	16	**–**	–
Pounds Sterling	**–**	–	**128**	1
Euros	**–**	–	**–**	446
HK$	**230**	137	**252**	205

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US$ and Russian Roubles. The following table details the Group's sensitivity to a 25% (2019: 25%) change in exchange rate of functional currency (i.e. US$) of the group entities against the relevant foreign currency (i.e. Russian Roubles) for the year. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates. No sensitivity analysis is presented for foreign currency fluctuation between US$ against HK$ because HK$ is pegged to US$. The exposure to other currencies are limited, hence no sensitivity analysis is presented.

A positive number below indicates an increase in post-tax profit where the functional currency of the group entities strengthen 25% against Russian Roubles. For a 25% weakening of functional currency of the group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss.

	Russian Rouble currency impact	
	2020 US$'000	2019 US$'000
Profit or loss	**7,355**	11,383

The Group's policy is to hold a portion of its cash equivalents in Russian Roubles to cover its exposure arising on capital and operational expenditures incurred in Russian Roubles.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Group is exposed to fair value interest rate risk mainly in relation to fixed rate construction costs payable, borrowings (see note 27 for details), lease liabilities and cash flow interest rate risk in relation to variable-rate borrowings (see note 27 for details of these borrowings). The Group's policy is to maintain borrowings at variable rates.

The Group's exposure to interest rates on financial liabilities and lease liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's US dollar denominated borrowings. The Group did not enter into any interest rate swaps to hedge against its exposure to cash flow interest risk.

The Group is also exposed to cash flow interest rate risk through the holding of cash and cash equivalents, restricted bank deposits and time deposits. The interest rates attached to these instruments are at floating rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's post-tax profit (loss) for the year ended 31 December 2020 would increase/decrease (2019: increase/decrease) by US$168,000 (2019: US$158,000).

Credit risk management and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of the counterparties are monitored by the directors of the Company, and limits have been established to ensure that the aggregate value of transactions is spread amongst approved counterparties.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed annually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, except for trade receivables measured at FVTPL, the Group performs impairment assessment for financial assets and other items under the ECL model using a provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

The Group's concentration of credit risk by geographical location is mainly in China, which accounted for 99% of the total trade receivables as at 31 December 2020, while it is accounted for 100% in Russia as at 31 December 2019.

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management and impairment assessment (Continued)

The table below details the credit risk exposure of the Group's financial assets, which are subject to ECL assessment:

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	2020 Gross carrying amount US$'000	2019 Gross carrying amount US$'000
Financial assets at amortised cost						
Other receivables	(a)	N/A	Low	12-month ECL	**2,485**	2,596
Bank balances		AAA	N/A	12-month ECL	**20,371**	3,631
Short-term time deposits		AAA	N/A	12-month ECL	**–**	661

Note:

(a) For the purpose of internal credit risk management, the Group uses both publicly available and past due information to assess whether credit risk has increased significantly since initial recognition.

2020	**Past due US$'000**	**Not past due US$'000**	**Total US$'000**
Other receivables	**–**	**2,485**	**2,485**

2019	Past due US$'000	Not past due US$'000	Total US$'000
Other receivables	–	2,596	2,596

The following table shows the reconciliation of loss allowances that have been recognised for other receivables.

	12m ECL US$'000
As at 1 January 2019	222
Financial instruments recognised during the year	23
Write-off	(237)
As at 31 December 2019	8
Financial instruments recognised during the year	458
Write-off	(8)
As at 31 December 2020	458

36. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2020, the Group's principal financial liabilities include trade and other payables, borrowings, lease liabilities, construction cost payables and derivative financial liabilities. The management of the Group monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and derivative instruments. The table has been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The following tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the tables have also been drawn up based on the undiscounted contractual cash outflows on derivative instruments that settle on a net basis and the undiscounted gross outflows on those derivative instruments that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weight average interest rate %	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Due after more than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2020 US$'000
As at 31 December 2020							
Non-derivative financial liabilities							
Trade and other payables	**–**	**30,172**	**–**	**–**	**–**	**30,172**	**30,172**
Borrowings	**7.6**	**20,645**	**20,680**	**61,935**	**100,646**	**203,906**	**202,080**
Construction costs payable	**8.2**	**22,694**	**–**	**–**	**–**	**22,694**	**22,694**
Lease liabilities	**10.8**	**4,022**	**3,909**	**–**	**–**	**7,931**	**7,222**
		77,533	**24,589**	**61,935**	**100,646**	**264,703**	**262,168**
As at 31 December 2019							
Non-derivative financial liabilities							
Trade and other payables	–	33,458	–	–	–	33,458	33,458
Borrowings	9.5	20,703	20,645	61,935	121,291	224,574	221,907
Construction costs payable	8.2	22,694	–	–	–	22,694	22,694
Lease liabilities	10.8	4,323	4,224	4,213	–	12,760	10,926
		81,178	24,869	66,148	121,291	293,486	288,985
Derivatives – net settlement							
Commodity swap contracts	–	4,285	–	–	–	4,285	4,285

36. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The fair value of other financial assets and financial liabilities at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The fair value of trade receivables are measured using quoted market index. The fair value of derivative instruments are measured using quoted swap price and discounted using applicable yield rates for the duration of the instruments.

37. CONTINGENCIES

As at year ended 31 December 2020, the Group has contingent liabilities in respect of a legal claim raised by one of its customers, due to disagreements in the way of selling prices were determined. The aggregate amount that could be required to be paid by the Group to that customer amounted to approximately US$3.7 million. At the end of reporting period, the Group has assessed the legal claim by the abovementioned customer and has determined it is not probable that the Group would be required to pay such claim amounting to US$3.7 million. Accordingly, the Group has determined a provision for this claim is not required.

38. RELATED PARTY DISCLOSURES

Transactions between the Group and its related parties are disclosed below. All of the transactions were reviewed by independent members of the board of directors of the Company.

During the year, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is a substantial shareholder of the Company, and its subsidiaries are considered to be related parties.

As disclosed in note 27, Petropavlovsk PLC provides a guarantee to secure the Group's borrowing, the Group has entered into an agreement setting out the terms on which Petropavlovsk PLC provides the guarantee.

As disclosed in note 18, the Group has entered into the sale and purchase agreement on a helicopter with a related party of the Company at a consideration of approximately US$5,045,000. The transaction is completed in February 2020.

38. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions

The Group entered into the following transactions relating to the day-to-day operations of the business:

	Services provided[(a)]		Services received[(b)]	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**6,654**	7,856
JSC Pokrovskiy mine	**4,547**	–	**–**	1,804[(c)]
JSC Management Company Petropavlovsk	**–**	308	**27**	38
JSC PHM Engineering	**–**	–	**36**	–
LLC NIC Gydrometallurgia	**110**	123	**–**	–
LLC BMRP	**–**	–	**22**	4

Notes:

(a) Amounts represents due received from related parties for provision of administrative support.

(b) Amounts represent fee paid/payable to related parties for receipt of financial guarantee, administrative support and helicopter services.

(c) Amount represents interest charged on loan borrowings from a related party.

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with the counter parties.

38. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions (continued)

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[a]		Amounts owed to related parties[b]	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**13,846**	12,192
JSC Irgiredmet	**–**	–	**2**	2
LLC NPGF Regis	**15**	18	**74**	88
JSC Pokrovskiy mine	**153**	183	**–**	1,615
LLC Albynskiy Rudnik	**127**	151	**–**	–
LLC Malomirskiy Rudnik	**9**	11	**–**	–
JSC Management Company Petropavlovsk	**793**	951	**1,953**	1,985
LLC NIC Gydrometallurgia	**3**	4	**–**	–
JSC PHM Engineering	**–**	23	**–**	–
	1,100	1,341	**15,875**	15,882

Notes:

(a) The amounts are recorded in other receivables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(b) The amounts are recorded in other payables, which are not in trade nature, unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period. All the outstanding balances are current.

Key Management Compensation

The remuneration of directors, which represents members of key management, during the year was as follows:

	2020 US$'000	2019 US$'000
Short-term benefits	**1,925**	2,297
Post-employment benefits	**237**	99
Share-based payments	**348**	186
	2,510	2,582

The remuneration of key management personnel is determined by the remuneration committee with regards to the performance of the individuals and market trends.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at the end of the reporting period are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital[d]	Equity interest attributable to the Group		Principal activities
			2020[c]	2019[c]	
Arfin Limited	Cyprus 22 August 2005	US$18,710	100%	100%	Provision of financing services for the Group
Brasenose Services Limited	Cyprus 20 January 2004	US$64,485	100%	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US$5,695	100%	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US$5,032	100%	100%	Investment holding
Expokom (Cyprus) Limited	Cyprus 22 December 2005	US$312,265	100%	100%	Investment holding
Guiner Enterprises Ltd.	Cyprus 25 August 2007	US$370,853	100%	100%	Investment holding
Kapucius Services Limited	Cyprus 12 April 2006	US$668,663	100%	100%	Investment holding
Lapwing Limited	Cyprus 9 August 2006	EUR28,795	99.58%	99.58%	Investment holding
Lucilius Investments Limited	Cyprus 22 November 2008	US$27,698	100%	100%	Investment holding
Metellus Limited	Cyprus 21 August 2006	US$8,606	100%	100%	Investment holding
Rumier Holdings Ltd.	Cyprus 3 October 2007	US$431,943	100%	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US$271,116	100%	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US$6,113	100%	100%	Investment holding
Thorholdco (Cyprus) Limited	Cyprus 3 October 2013	US$1,144	100%	100%	Investment holding
Caedmon Ltd.	Cyprus 29 September 2011	US$1,547	50.1%	50.1%	Financing and investment holding
Aricom Limited	United Kingdom 12 September 2003	GBP1,335,748	100%	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP243,417,567	100%	100%	Investment holding

For the year ended 31 December 2020

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital[(d)]	Equity interest attributable to the Group 2020[(c)]	Equity interest attributable to the Group 2019[(c)]	Principal activities
Heilongjiang Jiatai Titanium Co., Ltd.[(d)]	PRC 11 February 2009	RMB219,024,974	100%	100%	Development of Titanium Sponge
Ariti HK Limited	Hong Kong 11 February 2008	HK$98,250,664	100%	100%	General trading
Ariva HK Limited	Hong Kong 11 March 2008	HK$53,143,001	100%	100%	Investment holding
Thorholdco Limited	Cayman Islands 18 May 2010	US$8,610	100%	100%	Investment holding
Thorrouble Limited	Cayman Islands 18 May 2010	RUB290,860	100%	100%	Provision of financing services for the Group
Thordollar Limited	Cayman Islands 18 May 2010	US$9,157	100%	100%	Provision of financing services for the Group
LLC Petropavlovsk – Iron Ore	Russia 25 August 2004	RUB10,000,000	100%	100%	Business services for the Group
LLC KS GOK	Russia 2 August 2004	RUB141,514,865	100%	100%	Exploration and mining – K&S
LLC Olekminsky Rudnik	Russia 28 March 2001	RUB1,378,664,935	100%	100%	Exploration and mining
CJSC Soviet Harbour Maritime Trade Port ("CJSC SGMTP")[(a)]	Russia 30 August 2005	RUB1,000,000	100%	100%	Development of port for the Group
LLC TOK	Russia 3 April 2007	RUB10,000	100%	100%	Dormant
OJSC Giproruda[(b)]	Russia 8 December 1992	RUB4,639	70.28%	70.28%	Engineering services
LLC GMMC	Russia 26 June 2006	RUB780,000,000	99.58%	99.58%	Exploration and mining – Garinskoye
LLC Kostenginskiy GOK	Russia 16 February 2007	RUB10,000	100%	100%	Exploration and mining – Kostenginskoye project
LLC Orlovsko – Sokhatinsky Rudnik	Russia 3 April 2007	RUB10,000	100%	100%	Exploration and mining

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital(d)	Equity interest attributable to the Group		Principal activities
			2020(c)	2019(c)	
LLC Garinskaya Infrastructure	Russia 14 December 2007	RUB1,000,000	100%	100%	Transportation services for Garinskoye project
LLC Amursnab	Russia 28 December 2009	RUB10,000,000	99.9%	99.9%	Procurement services
LLC Uralmining	Russia 12 October 2008	RUB1,000,000	100%	100%	Exploration and mining – Bolshoi Seym
LLC Gorniy Park	Russia 25 October 2010	RUB8,400,000	50.1%	50.1%	Exploration and mining

(a) CJSC SGMTP is a closed joint stock company in Russia. Shares issued by CJSC SGMTP cannot be freely traded.

(b) OJSC Giproruda is an open joint stock company in Russia. Shares issued by OJSC Giproruda can be freely traded.

(c) As at 31 December 2020 and 2019, except for Thorholdco Limited, which was directly held by the Company, all of the interests in remaining subsidiaries are indirectly attributable to the Group.

(d) Apart from Heilongjiang Jiatai Titanium Co., Ltd., a wholly foreign-owned enterprise established in the PRC with registered capital of RMB219,024,974, class of shares held by all other subsidiaries is ordinary shares.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At the end of the reporting period, the Company did not have subsidiaries that have material non-controlling interests.

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 US$'000	2019 US$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**360,814**	347,908
Right-of-use assets	**244**	83
	361,058	347,991
CURRENT ASSETS		
Prepayment and other receivables	**429**	306
Amounts due from subsidiaries	**5,065**	3,596
Cash and cash equivalents	**1,131**	107
	6,625	4,009
TOTAL ASSETS	**367,683**	352,000
CURRENT LIABILITIES		
Amounts due to subsidiaries	**(22,823)**	(22,930)
Amount due to a shareholder	**(13,846)**	(12,192)
Accruals and other payables	**(873)**	(1,592)
Lease liabilities	**(244)**	(84)
	(37,786)	(36,798)
NET CURRENT LIABILITIES	**(31,161)**	(32,789)
NON-CURRENT LIABILITY		
Loan from a subsidiary	**(36,740)**	(8,799)
TOTAL LIABILITIES	**(74,526)**	(45,597)
NET ASSETS	**293,157**	306,403
CAPITAL AND RESERVES		
Share capital	**1,285,158**	1,285,158
Capital reserve	**592**	592
Share-based payment reserve	**6,571**	5,697
Other reserve	**13,759**	13,759
Accumulated losses	**(1,012,923)**	(998,803)
TOTAL EQUITY	**293,157**	306,403

The Company's statement of financial position was approved and authorised for issue by the board of directors on 30 March 2021.

Peter Hambro	**Yury Makarov**
DIRECTOR	*DIRECTOR*

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Capital reserve US$000	Share-based payment reserve US$000	Other reserve US$000	Accumulated losses US$000	Total US$000
At 1 January 2019	592	5,047	13,759	(984,598)	(965,200)
Loss for the year	–	–	–	(14,205)	(14,205)
Total comprehensive income for the year	–	–	–	(14,205)	(14,205)
Share-based expense	–	650	–	–	650
At 31 December 2019	592	5,697	13,759	(998,803)	(978,755)
Loss for the year	–	–	–	(14,120)	(14,120)
Total comprehensive income for the year	–	–	–	(14,120)	(14,120)
Share-based expense	–	874	–	–	874
At 31 December 2020	592	6,571	13,759	(1,012,923)	(992,001)

FINANCIAL SUMMARY

	Results of the Group for the year ended 31 December				
	2016	2017	2018	2019	**2020**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Revenue	16,467	109,265	151,549	177,164	**224,591**
Profit (Loss) attributable to owners of the Company	(18,226)	113,254	68,235	(38,669)	**100,551**

	Assets and liabilities of the Group as at 31 December				
	2016	2017	2018	2019	**2020**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Total assets	432,845	546,282	609,960	607,430	**681,121**
Less: Total liabilities	(299,231)	(294,838)	(290,450)	(329,429)	**(298,835)**
Total net assets	133,614	251,444	319,510	278,001	**382,286**

GLOSSARY

This glossary contains definitions of certain terms used in this report in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

ASP	Achieved selling price
Board	The Board of Directors
Cayiron	Cayiron Limited, a wholly owned subsidiary of Petropavlovsk and the immediate controlling shareholder of the Company
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFR	INCOTERM Cost and Freight
CIM	The Canadian Institute of Mining, Metallurgy and Petroleum
CNEEC	China National Electric Engineering Company Limited, the principle EPC contractor at the K&S Project
Concentrate	The clean product recovered from a treatment plant
COVID-19	Infectious disease caused by a newly discovered coronavirus
DAP	INCOTERM Delivery at Place
Deposit	Mineral deposit or ore deposit is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
Directors	The directors of the Company
DSO	Direct shipping ores. Ores that are economic due to their high grades and therefore limited requirement for upgrading and processing before sale to end users. Raw material for iron ore concentrate, isometric mineral, Fe
EAO	Jewish Autonomous Region, an oblast of the Russian Federation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering, Procurement and Construction contract
Exploration	Method by which ore deposits are evaluated
Fe	The chemical symbol for iron
Feasibility study	An extensive technical and financial study to assess the commercial viability of a project
Flotation	A mineral process used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
FOB	INCOTERM Free on Board
Gazprombank	Gazprombank, is a private-owned Russian bank, the third largest bank in Russia by assets
GDP	Gross domestic product
General Nice	General Nice Development Limited is a Hong Kong incorporated holding company which trades and produces steel raw material commodities in China and globally
Geophysical	Prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
Geotechnical	Referring to the use of scientific methods and engineering principles to acquire, interpret, and apply knowledge of earth materials for solving engineering problems
Grade	Relative quantity or the percentage of ore mineral or metal content in an ore body
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKEX	Hong Kong Exchanges and Clearing Limited
Hong Kong	The Hong Kong Special Administrative Region of the PRC
HSE	Health, Safety and Environment
ICBC	Industrial and Commercial Bank of China Limited, a company listed on the Stock Exchange (Stock code: 1398)
Ilmenite	Iron titanium oxide; a trigonal mineral, chemical formula $FeTiO_3$
JORC code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time
K&S	A magnetite development project in the Company's portfolio consisting of the Kimkan deposit and the Sutara deposit
LTIFR	Lost time injury frequency rate, the number of lost time injuries per million man hours worked

Magnetite	Fe_3O_4; major mineral in banded iron formations, generally low grade (1.5%-40% iron)
MC Petropavlovsk	JSC Management Company Petropavlovsk
Metallurgical	Describing the science concerned with the production, purification and properties of metals and their applications
Micon	Micon International Limited has provided consulting services to the international mining industry since 1988, with particular focus upon mineral resource estimations, metallurgical services, mine design and production scheduling, preparation of pre-feasibility and feasibility studies, independent reviews of mining and mineral properties, project monitoring, independent engineer roles, financial analysis and litigation support. Micon's resource estimate complies with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and definitions, as required by Canadian National Instrument 43-101 (NI 43-101)
Mill	Equipment used to grind crushed rocks to the desired size for mineral extraction
Mineralisation	Process of formation and concentration of elements and their chemical compounds within a mass or body of rock
NI 43-101	Also referred to as National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time
NRI	Non-recurring items
Open-pit	A large scale hard rock surface mine; mine working or excavation open to the surface
Optimisation	Co-ordination of various mining and processing factors, controls and specifications to provide optimum conditions for technical/economic operation
Ore	Material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
Ore-field	A zone of concentration of mineral occurrences
Ore body	Mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserves	The parts of a Mineral Resource that can at present be economically mined
Petropavlovsk	Petropavlovsk PLC, the London Stock Exchange quoted, Russian gold mining company
Precious metal	Gold, silver and platinum group minerals
Primary	Characteristic of or existing in a rock at the time of its formation; pertains to minerals, textures and etc.; original
Processing	Methods employed to clean, process and prepare materials or ore into the final marketable product
Recovery	Proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
Resources	The concentration of material of economic interest in or on the earth's crust
ROM	Run-of-mine. This is recovered ore, as mined with dilution, before any pre-concentration or other form of processing
Rospotrebnadzor	The federal service for surveillance on consumer rights protection and human wellbeing
Russian Far East	Refers to the Far Eastern Federal district of the Russian Federation, which covers the area of Russia between Lake Baikal in Siberia and the Pacific Ocean
Rouble or RUB	Russian Rouble
Shareholder(s)	Holder of the Share(s)
SRP	Steel/Slag Reprocessing Project
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tailings	Material that remains after all metals/minerals considered economic have been removed from the ore
TiO_2	Titanium dioxide. A fine white powder. Used in paints, plastics or paper, it provides for maximum whiteness and opacity
Titanomagnetite	Concentrate which is a variation of a magnetite concentrate typically with a high vanadium and titanium content
Tonne/t	1 wet metric tonne (1,000 kg)
Treatment plant	A plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
US Dollar or US$	United States Dollar

LIST OF ABBREVIATIONS

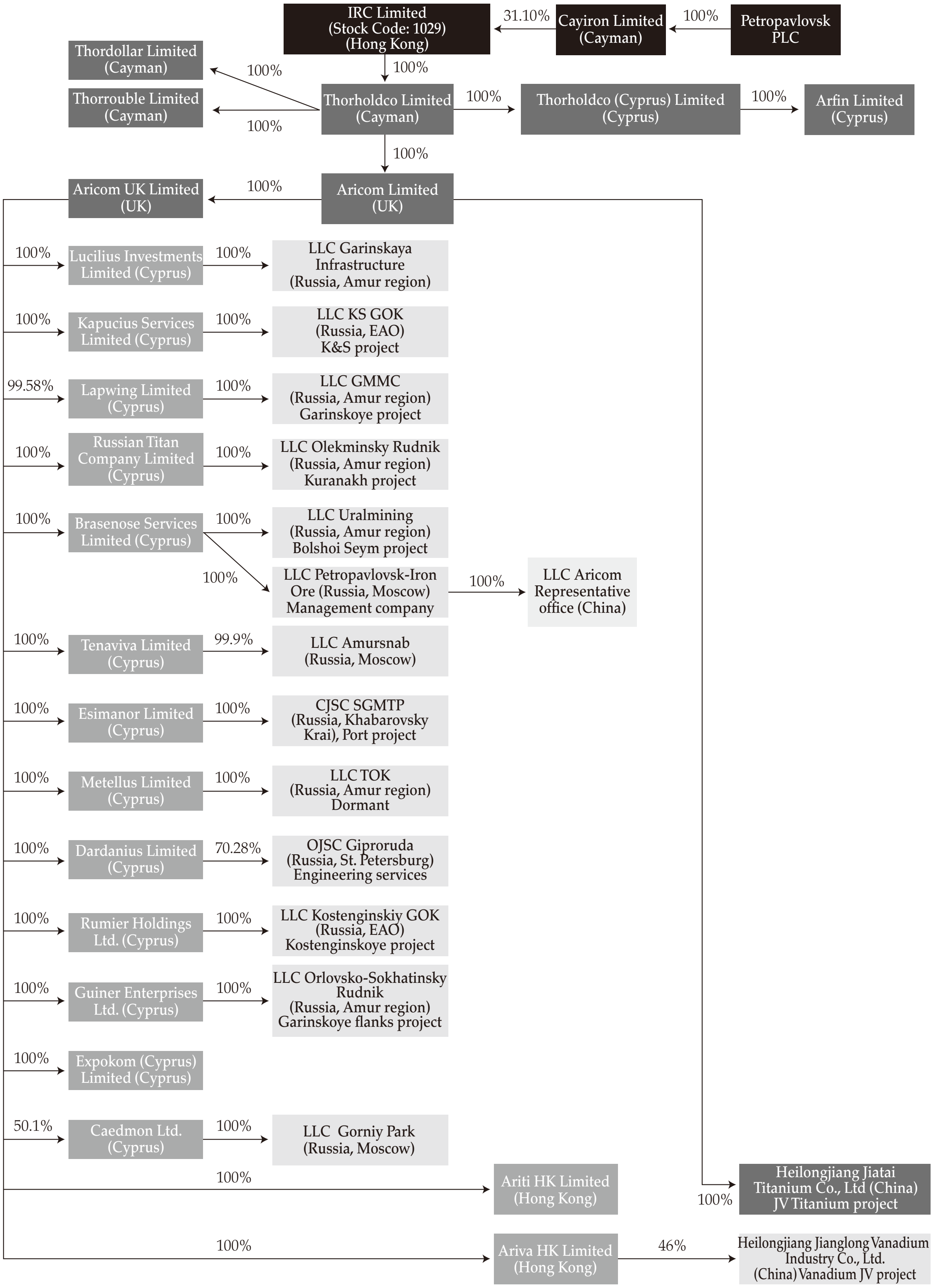
°C	degrees Celsius, a thermal unit equivalent to Kelvin+273.15
CaO	chemical symbol for calcium oxide or quicklime
dmt	dry metric tonne, a unit of mass equivalent to 1,000 kg
Fe	chemical symbol for iron
Fe_{magn}	total iron in the ore originating from magnetite
$Fe_{(total)}$	total amount of iron content
ha	hectares
kg	kilogramme, the SI unit of mass
km	kilometres, a unit of length equivalent to 1,000 m
km^2	square kilometres, a unit of area equivalent to 1,000,000 m^2
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
kV	kilovolts, one thousand volts, a unit of electromotive force
Kwh	kilowatt hour, a unit of energy
m	metres, the SI unit of length
m^3	cubic meter, a unit of volume
mm	millimetres, unit of length equivalent to 0.001 m
Mt	million tonnes
Mtpa	million tonnes per annum
mWt	megawatt, one million watts, a unit of power
nm	not measured
t	a wet metric tonne, a unit of mass equivalent to 1,000 kg
tpa	tonnes per annum
TiO_2	chemical symbol for titanium dioxide
V_2O_5	chemical symbol for vanadium pentoxide
wmt	wet metric tonne, a unit of mass equivalent to 1,000 kg

All dollars refer to United States Dollars unless otherwise stated.

All maps and diagrams in this report are for illustration purposes only and are not to scale.

Production volumes disclosed in this annual report 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 approximately 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.

CORPORATE STRUCTURE



Board of Directors & Company Secretary
Financial Review
Glossary
Corporate Structure

CORPORATE INFORMATION

IRC LIMITED — 鐵江現貨有限公司

Stock Exchange of Hong Kong: 1029

As at 31 December 2020

CORPORATE INFORMATION

Headquarters, registered address and principal place of business in Hong Kong:

6H, 9 Queen's Road Central, Central District
Hong Kong Special Administrative Region
of the People's Republic of China

Telephone: +852 2772 0007
Facsimile: +852 2772 0329
Corporate Website: www.ircgroup.com.hk

Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

PRINCIPAL PLACE OF BUSINESS IN RUSSIA

Bulvar Entuziastov, Building 2
7/F, Business Center "Golden Gate"
Moscow
109544
Russia

CHAIRMAN

P.C.P. Hambro

DEPUTY CHAIRMAN

D.R. Bradshaw

EXECUTIVE DIRECTOR

Chief Executive Officer: Y.V. Makarov

NON-EXECUTIVE DIRECTORS

P.C.P. Hambro
D. Kotlyarov

INDEPENDENT NON-EXECUTIVE DIRECTORS

D.R. Bradshaw, *Senior Independent Non-Executive Director*
C.F. Li
J.E. Martin Smith
R.K.T. Woo
M.J. Davison

EMERITUS DIRECTOR

Dr P.A. Maslovskiy

COMMITTEES OF THE BOARD

Audit Committee

C.F. Li *(Chairman)*
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee

J.E. Martin Smith *(Chairman)*
D.R. Bradshaw
C.F. Li

Health, Safety and Environment Committee

D.R. Bradshaw *(Chairman)*
C.F. Li
J.E. Martin Smith

Nomination Committee

P.C.P. Hambro *(Chairman)*
D.R. Bradshaw
J.E. Martin Smith

AUTHORISED REPRESENTATIVES FOR THE PURPOSES OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Y.V. Makarov
J.S.C. Yuen

COMPANY SECRETARY

J.S.C. Yuen

AUDITOR

Deloitte Touche Tohmatsu, *Certified Public Accountants*
Registered public interest entity auditors

RISK FACTORS & DISCLAIMER

RISK FACTORS

The Group is exposed to a variety of risks and uncertainties that could have significant impact on its business and financial results. The Group seeks to undertake a pro-active approach that anticipates risk, seeks to identify them, measure their impacts and thereby avoid, reduce, transfer or control such risks.

The factors set out below are those that the Group believes could result in a material difference between the Group's financial condition or the results of its operations and the expected or historical results. There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Risk of iron ore price volatility and foreign exchange movements

The Group's revenues rely on the iron ore prices, while the operating costs are sensitive to the foreign exchange movements of Russian Rouble. These parameters are subject to changes in global economic environment, political landscape and market supply disruptions. The volatility in iron ore price and foreign exchange may also result in the need to provide for assets impairments in the Group's financial statements.

To address the risks, various hedging instruments have been taken to protect against the downside risks of the iron ore price and Russian Rouble movements. The Group could use different hedge strategies from time to time depending on the market situation of iron ore price.

Risk of customers concentration

Currently, the Group's iron ore business only has a limited number of major customers. This essentially creates a buyers' market and gives the customers a higher level of bargaining power.

In light of this risk, the Group has been expanding its customer base by selling to other customers, such as seaborne customers, although the transportation costs could be higher. The Group is also levering on the fact the major customers are in different geographical locations and jurisdictions, so that there is a certain level of competition for better terms of sales and prices. External consultant has been engaged to provide advices and explore new market opportunities. In addition, after the commissioning of the Amur River Bridge, IRC will actively explore new transportation routes which may be more cost efficient to allow the Group to tap into new customer base.

Risk of suppliers concentration

The Group currently have two mining contractors who are doing a majority of the mining works on K&S. In case these mining contractors have any technical/financial difficulties and decide to pull out of the project, K&S could face an adverse situation with ore mining and supply, and consequently could affect production. Besides, this gives these mining contractors higher level of bargaining power on mining fees which might adversely affect K&S's profitability.

To mitigate this risk, the Group has ongoing discussions with a number of other mining contractors for risk diversification. Moreover, one of the current mining contractors has a long-established relationship with IRC and this provides a certain level of comfort.

Risk of delay in the capital investment program to develop the Sutara pit due to technical or financial difficulties

If the Sutara deposit is not ready for operation when the Kimkan deposit starts depleting, K&S would not have adequate supply of ore for production and would result in decrease in production capacity.

To mitigate this risk, the Sutara development program is closely monitored by IRC. With the help of external consultants, IRC is looking at the options to increase the mineable reserves in Kimkan to extend its mine life. Recent consultant report shows that the Sutara development program is viable and achievable.

Risk of going concern

The Group may not have adequate funding to meet its debts as they fall due.

The completion of the ICBC refinancing with the loans from Gazprombank has significantly reduced the going concern risks. Cash flow forecasts are prepared on a monthly basis, and any potential funding gaps are identified and addressed timely. The high iron ore price and good production rate at K&S in 2020 allowed IRC to build up more cash which significantly reduced the liquidity risk.

Risk of fixed assets damage resulting in downtime in production or fluctuation in production volume

Fixed assets play an important role in the Group's iron concentrate ore production. With only a single project in operation, any production downtime or delay in production ramp up would have direct impact to the Group.

When considering this risk, it should be noted that most of the commissioning works were performed by the K&S site team and the team is experienced and is technically competent. External experts perform regular technical audits of the processing plant. Production is currently at relatively high capacities indicating that most of the teething issues have been resolved.

Risk of products' competitiveness

The Group's revenue stream is mainly derived from the sales of a single product (iron ore concentrate) from a single project (K&S) and there could be a risk of high product concentration.

K&S is focusing on the premium iron ore concentrate market (65% iron ore concentrate) which is essentially a different market segment to the 62% one and is more preferred by the market. As the quantity produced by K&S only represents a small percentage of the total market share, the risk of not being able to sell the product is relatively low. More revenue from the operation of the Vanadium joint venture and the potential of developing the Bolshoi Seym project for ilmenite may also lower the risk.

Risk of conducting business in Russia

As the majority of the Group's assets and business operations are located in Russia, sanctions from other countries as well as the local economic political and social conditions, including taxation policies, could affect the business of the Group.

To address the risk, the Group closely monitors the economic, political, legal and social developments in Russia and maintains close relationship with local authorities and seeks assistance where necessary. IRC has a strict policy to avoid doing businesses with sanctioned companies, individuals and regions. Despite sanctions from other countries which are not affecting the Group directly, overall political and legislative environments in Russia have been relatively stable over the past years.

Risk of significant influence from the controlling shareholder

As Petropavlovsk is the single largest shareholder of IRC, and the rest of IRC's shareholding is not concentrated, Petropavlovsk's influence in IRC could be significant and may negatively affect IRC. There could be a lack of other sizeable shareholders to contest against any decisions taken by Petropavlovsk.

To manage this risk, IRC maintains a close working relationship with Petropavlovsk's board and management with a view to act in the best interest of both Petropavlovsk and IRC. With Petropavlovsk being a connected party to IRC, transactions involving Petropavlovsk would be subject to shareholders' approval under the listing rules of HKEX. Petropavlovsk would need to abstain from voting due to conflict of interests.

Risk of lack of shareholders' support

IRC currently only has one major shareholder, Petropavlovsk, holding 31.1% shareholding. None of the rest of the shareholders holds more than 5% of IRC. As Petropavlovsk does not fully control IRC, given that it does not possess more than 50% shareholding, there is a risk that IRC may not get the necessary shareholders' support when needed.

Petropavlovsk and IRC have always been in discussions with various parties for investing in IRC and/or expanding the shareholders base provided that it will be in the best interest of IRC. Shareholders tracking is performed periodically to identify and to reach out to the shareholders. Investors' conference calls are conducted at least six times a year to facilitate better investor relations function.

Risk of COVID-19

The outbreak of COVID-19 may have an impact on supply chains, currencies and prices of iron ore. The operations of IRC may also be affected by the actions necessary for isolated outbreaks.

COVID-19 has been detected and emerged since the beginning of 2020. The Group has set up an Emergency Response Office to prevent the spread of COVID-19, to take the necessary organisational and administrative measures and to issue an order for preventive measures to prevent the spread of the virus. Currently, the COVID-19 outbreak has not had any significant impact on the Group's operations. The Group will monitor the situation and implement contingency measures as the COVID-19 outbreak evolves.

Risk of loss of key management

There is a risk that IRC may find it difficult to attract and/or retain key personnel.

Directors of IRC have a reasonable notice period of resignation and share options, which are vested over a period of time, are granted to key personnel. Discretionary bonuses are offered to reward exceptional performance and salary levels are being reviewed regularly to ensure that they are competitive and on market levels.

Risk of non-compliance with rules and regulations

IRC is a listed company in HKEX and needs to comply with the relevant rules and regulations such as the listing rules, accounting standards and company ordinances. The operations in Russia also need to comply with the relevant requirements under the local jurisdictions.

To control this risk, the Board and the senior management of IRC possess the relevant experience and knowledge for the compliance with the relevant rules and regulations. Besides, advices from independent legal counsels and professional advisors are sought where necessary. Formal training is provided to the board annually. Continuing professional development seminars and rules and regulations updates are attended by senior management.

DISCLAIMER

Some statements contained in this document referred to in it are or may be forward-looking statements. Statements reflect the Company's current views with respect to future events and are subject to risks, assumptions, uncertainties and other factors beyond the Company's control that could cause actual results to differ from those expressed in such statements. Although the Company believes that such forward-looking statements, which speak only as of the date of this document, are reasonable, no assurance can be given that they will prove to be correct. Therefore, you should not place undue reliance on these statements. There can be no assurance that the results and events contemplated by the forward-looking statements contained in this document will, in fact, occur. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date of this document, except as required by law or by any appropriate regulatory authority. Nothing in this document or in documents referred to herein should be considered as a profit forecast. Past performance of the Company or its shares cannot be relied on as a guide to future performance. This document does not constitute, or form part of or contain any invitation or offer to any person to underwrite, subscribe for, otherwise acquire, or dispose of any shares in IRC Limited or advise persons to do so in any jurisdiction, nor shall it, or any part of it, form the basis of or be relied on in any connection with or act as an inducement to enter into any contract or commitment therefore. In particular, this document and the information contained herein are not an offer of securities for sale in the United States of America. No reliance may be placed for any purpose whatsoever on the information or opinions contained in this document or on its completeness and no liability whatsoever is accepted for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith. The development and production plans and estimates set out herein represent the current views of the Company's management. The Company's Board reviews the production estimates on an ongoing basis. All planning is subject to available funding and capital allocation decisions. This document is prepared in compliance with Hong Kong law and the courts of the Hong Kong Special Administrative Region of the People's Republic of China will have exclusive jurisdiction over any disputes arising from or connected with this document.

Investor Relations
IRC Ltd
6H, 9 Queen's Road Central
Hong Kong SAR

We can be contacted by mail, phone, email and company website:

6H, 9 Queen's Road Central, Hong Kong
+(852) 2772 0007
ir@ircgroup.com.hk
www. ircgroup.com.hk

MILESTONES

Our Future	K&S	Full capacity to 3.2Mt per year Doubling production (Phase II)
	Garinskoye	Trial production
	Bolshoi Seym	Iron ore concentrate and ilmenite production
2020	IRC	Maiden underlying profit of US$24.2 million
	K&S	Successful diversion of sales to new Chinese customers via seaborne routes
2019	IRC	ICBC refinancing completed
	K&S	Operated at 100% of designed capacity in October
	SRP	Vanadium joint venture recommenced operation
2018	K&S	Entry into refinancing facility with Gazprombank Operated at 105% of designed capacity during a 24-hour run Produced over 2.2 million tonnes in 2018
2017	K&S	Commercial production (Phase I) 90%-capacity loading test Produced over 1.5 million tonnes in 2017
2016	IRC	Tiger Capital shares subscription
	K&S	Trial production commenced and ramp-up First iron ore concentrate production Final hot commissioning and testing
2015	IRC	Completed fully underwritten Open Offer
	K&S	Ongoing commissioning and testing
2014	K&S	Commissioning programme commenced
2013	IRC	General Nice strategic alliance
	K&S	Ongoing construction
2012	Kuranakh	Ilmenite production full capacity
	Garinskoye	DSO operation announced
	Exploration	Ilmenite & Molybdenum Exploration acquisitions
2011	IRC	Group reserves increase threefold
	Kuranakh	Full year production targets exceeded
	K&S	First drawdown ICBC facility Optimisation study to double K&S production
2010	IRC	HKEX listing
	Kuranakh	Commissioned
	K&S	US$340m ICBC facility US$400m CNEEC EPC contract
	SRP	First production

铁货
IRC

IRC Limited

6H, 9 Queen's Road Central
Hong Kong
office@ircgroup.com.hk
www.ircgroup.com.hk
T: (852) 2772 0007
F: (852) 2772 0329

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC™ C019970