

THE SOURCE OF ENERGY  
FOR THE PEOPLE AND  
BUSINESSES OF BANGLADESH



INTERIM REPORT

Six months to 31 December **2010**



GCM Resources plc (GCM) is a London based resource exploration and development company. Its principal asset is its undeveloped coal deposit in the Phulbari region of Bangladesh, the development of which is awaiting approval from the Government of Bangladesh.

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# Key Developments



- The Bangladesh Parliamentary Standing Committee on Power, Energy and Mineral Resources has recommended that the country moves to extraction of its coal reserves using open cut mining methods. It is now widely accepted that coal has a critical role to play in meeting the energy requirements of Bangladesh.
- GCM remains ready to move the Phulbari Project forward when the Government approves the Scheme of Development. Discussions with the Bangladesh Government continue.
- As at 31 January 2011 GCM had £25,433,000 in cash and listed equity investments.
- The Group made a profit of £3,291,000 after tax for the six months ended 31 December 2010 (31 December 2009: loss of £350,000).
- GCM disposed of its holding in Aura Energy Limited and its interest in the GCM/Aura joint venture projects in Western Africa for a combined profit of £1,696,000.
- GCM received a dividend from Polo Resources Limited of £2,244,000.

# Chief Executive's Statement



## Phulbari Coal Project

GCM Resources plc (GCM) remains fully committed to the Phulbari Coal Project (the Project) in Bangladesh, the development of which is awaiting approval for the Scheme of Development by the Government of Bangladesh.

The energy crisis in Bangladesh continues to worsen, highlighting the need for a significant increase in electricity generating capacity. With the country's gas reserves being insufficient to meet current and future demand, there is now wide acceptance that coal has a critical role to play in meeting the country's energy requirements. As time passes the case for developing the Project becomes even more compelling.

GCM's activities continue to be focused on ensuring the key decision makers have a thorough understanding of modern large scale coal mining. GCM management recently accompanied the Bangladesh Parliamentary Standing Committee on Power, Energy and Mineral Resources on a visit to existing open pit coal mines and coal fired power stations in Germany. The Committee has since recommended that the country moves to extraction of its coal reserves using open cut mining methods.

GCM and the Government of Bangladesh are continuing discussions in relation to the detail of the Project and its implementation, including the effective management of social and environmental issues.

While there is uncertainty as to the timing of approval, GCM is ready to move the Project forward once approval is received.

## Financial resources

As at 31 December 2010 GCM held £2,436,000 in cash and £21,751,000 in listed equity investments to fund our activities.

## Results

GCM made a profit of £3,291,000 after tax for the six months ended 31 December 2010 (31 December 2009: loss of £350,000). During the period GCM disposed of its holding in Aura Energy Limited (Aura) for a profit of £497,000. GCM also sold its interest in the joint venture projects with Aura in Western Africa for consideration of £1,199,000, of which £323,000 is payable in November 2011. The Group also received a dividend from Polo Resources Limited during the period of £2,244,000.

Evaluation expenditure relating to the Phulbari Coal Project was £1,652,000 for the six months ended 31 December 2010 (31 December 2009: £1,655,000).

A handwritten signature in black ink, appearing to read 'S Bywater', is positioned above the name and title of the Chief Executive.

Steve Bywater  
Chief Executive

# The Phulbari Coal Project



## Background

The Phulbari Coal Project (the Project) is a landmark development for Bangladesh. It embodies a unique opportunity to alleviate the energy crisis of one of the world's most populous countries, provide regional economic stimulus to northern Bangladesh with an estimated 17,000 new jobs (direct and indirect), while also being a catalyst for broader economic development throughout the country. Phulbari will contribute 1% to Bangladesh's GDP each year and pay in the order of US\$7 billion in taxes, royalties and service charges to the Government over the life of the Project.

## Project status

GCM has identified a world class coal resource of 572 million tonnes (JORC compliant) near the town of Phulbari in North West Bangladesh. The Company has completed a detailed exploration program leading to a Feasibility Study and Scheme of Development that was submitted to the Government of Bangladesh for approval in late 2005. Approval was delayed by political and social uncertainty arising in the 2006 election year and which continued into the period when Bangladesh was governed under a state of emergency by Caretaker Governments. The elections that were held in December 2008 returned a new democratic government with a significant majority and a stated intention to address the country's energy and power problems which continue to impede economic development. GCM continues to work with the Government of Bangladesh and other stakeholders to move the Project forward.

## Project economics

The mine will produce a mix of high quality thermal coal, low ash metallurgical coal (also known as semi-soft coking coal) and a good quality thermal coal suitable for the domestic industrial market. The coal will be extracted

by the open cut mining method using trucks and hydraulic excavators. Substantial initial investment, relating to equipment costs, site preparation, box cut development and initial resettlement and other community programs will take place over a three year period leading to the first commercial coal production. Ramp up to saleable coal production of 15 million tonnes per annum will take a further five years. The mine will have a life of over 30 years. The combination of high quality coal, a large resource, thick seams and low operating costs make Phulbari a world class deposit.

The methods and techniques for managing the Project's impacts have been well tested and are widely used in other mines throughout the world.

## Management of impacts

By their nature, mining operations can have a significant effect on the environment and communities in which they take place and managing these impacts is of critical importance to the long term success of any mining project. The potential impacts of the Project have been extensively studied and subject to external review.

One of the Project's most significant impacts is the proposed resettlement, over a 10 year period, of approximately 40,000 people. As part of the resettlement plan, GCM will be constructing a new western extension to the Phulbari Township as well as a number of new resettlement villages in the surrounding area. The new resettlement sites will have improved services and infrastructure including electricity, the provision of sanitation and reticulated water supply and storm-water drainage. New schools, religious centres and medical centres will also be built.

The Project's environmental and social impacts, including the resettlement programme, will comply with the Equator Principles, an internationally recognised set of benchmarks

# The Phulbari Coal Project (continued)



for managing the impacts of large projects. One key component of these principles is the commitment that no one will be worse off and each person adversely affected will be fairly and fully compensated for all loss of land, property, and livelihood.

## **Benefits to Bangladesh**

The Project will deliver a new source of energy for Bangladesh, helping to address the chronic shortage of electricity that is hampering the country's economic development. The co-products from the mine, including silica sand, kaolin and rock aggregates have the potential to support many spin-off industries resulting in the creation of a significant number of new jobs. The improved infrastructure, including rail and port upgrades, necessary to support the Project will be a catalyst for further development. The coal from Phulbari will displace lower quality imported coal predominantly used in the brickworks industry, which will have a positive effect on both air quality and the country's balance of payments.

# Interim Consolidated Income Statement



		6 months ended 31 December 2010 unaudited £000	6 months ended 31 December 2009 unaudited £000	Year ended 30 June 2010 audited £000
<b>Operating expenses</b>				
Exploration and evaluation costs		11	83	463
Administrative expenses		681	677	1,435
Operating (loss)		(692)	(760)	(1,898)
Exceptional items	3	1,696	297	(2,399)
Finance revenue	4	2,250	28	29
<b>Profit/(loss) before tax</b>		<b>3,254</b>	(435)	(4,268)
Taxation		37	85	1,054
<b>Profit/(loss) for the period</b>		<b>3,291</b>	(350)	(3,214)
<b>Earnings per share</b>				
Basic earnings/(loss) per share (pence)		6.4p	(0.7)p	(6.3)p
Diluted earnings/(loss) per share (pence)		6.1p	(0.7)p	(6.3)p

# Interim Consolidated Statement of Comprehensive Income



	6 months ended 31 December 2010 unaudited £000	6 months ended 31 December 2009 unaudited £000	Year ended 30 June 2010 audited £000
<b>Profit/(loss) for the period</b>	<b>3,291</b>	(350)	(3,214)
<b>Other comprehensive income</b>			
Net gain on revaluation of available-for-sale investments	<b>922</b>	5,328	5,256
Transfer to income statement: sale of available-for-sale investments	<b>(497)</b>	(297)	(2,294)
Income tax relating to components of other comprehensive income	<b>(119)</b>	(1,409)	(829)
<b>Total comprehensive income</b>	<b>3,597</b>	3,272	(1,081)

# Interim Consolidated Statement of Changes in Equity



	Share capital £000	Share premium account £000	Share based payments not settled £000	Net movement in available-for-sale investments £000	Accumulated losses £000	Total £000
<b>Balance at 1 July 2009</b>	5,101	44,164	915	8,085	(6,724)	51,541
Loss for the year	–	–	–	–	(3,214)	(3,214)
Other comprehensive income	–	–	–	2,133	–	2,133
Total comprehensive income	–	–	–	2,133	(3,214)	(1,081)
Shares issued during the year	2	20	–	–	–	22
Share based payments	–	–	429	–	8	437
<b>Balance at 30 June 2010</b>	5,103	44,184	1,344	10,218	(9,930)	50,919
Profit for the period	–	–	–	–	3,291	3,291
Other comprehensive income	–	–	–	306	–	306
Total comprehensive income	–	–	–	306	3,291	3,597
Shares issued during the period	1	19	–	–	–	20
Share based payments	–	–	118	–	2	120
<b>Balance at 31 December 2010 (unaudited)</b>	<b>5,104</b>	<b>44,203</b>	<b>1,462</b>	<b>10,524</b>	<b>(6,637)</b>	<b>54,656</b>
<b>Balance at 1 July 2009</b>	5,101	44,164	915	8,085	(6,724)	51,541
Loss for the period	–	–	–	–	(350)	(350)
Other comprehensive income	–	–	–	3,622	–	3,622
Total comprehensive income	–	–	–	3,622	(350)	3,272
Shares issued during the period	1	4	–	–	–	5
Share based payments	–	–	263	–	6	269
<b>Balance at 31 December 2009 (unaudited)</b>	<b>5,102</b>	<b>44,168</b>	<b>1,178</b>	<b>11,707</b>	<b>(7,068)</b>	<b>55,087</b>

# Interim Consolidated Balance Sheet



	31 December 2010 unaudited Notes	31 December 2009 unaudited £000	30 June 2010 audited £000
<b>Current assets</b>			
Cash and cash equivalents	2,436	574	891
Receivables	731	474	409
Total current assets	3,167	1,048	1,300
<b>Non-current assets</b>			
Property, plant and equipment	91	137	116
Intangible assets	5 31,417	28,226	29,765
Financial assets	6 21,751	29,000	21,790
Total non-current assets	53,259	57,363	51,671
Total assets	56,426	58,411	52,971
<b>Current liabilities</b>			
Payables	280	369	644
Total current liabilities	280	369	644
<b>Non-current liabilities</b>			
Deferred tax liabilities	1,490	2,955	1,408
Total non-current liabilities	1,490	2,955	1,408
Total liabilities	1,770	3,324	2,052
<b>Net assets</b>	<b>54,656</b>	<b>55,087</b>	<b>50,919</b>
<b>Equity</b>			
Share capital	5,104	5,102	5,103
Share premium account	44,203	44,168	44,184
Other reserves	11,986	12,885	11,562
Accumulated losses	(6,637)	(7,068)	(9,930)
Total equity	54,656	55,087	50,919

**Steve Bywater**  
Chief Executive

# Interim Consolidated Cash Flow Statement



	6 months ended 31 December 2010 unaudited £000	6 months ended 31 December 2009 unaudited £000	Year ended 30 June 2010 audited £000
<b>Cash flows used in operating activities</b>			
Profit/(loss) before tax	3,254	(435)	(4,268)
Adjusted for:			
Exceptional items	(1,696)	(297)	2,399
Finance revenue	(2,250)	(28)	(29)
Other non cash expenses	7	14	22
	<b>(685)</b>	<b>(746)</b>	<b>(1,876)</b>
Movements in working capital:			
Decrease in operating receivables	1	68	133
(Decrease)/increase in operating payables	(138)	(73)	34
Cash used in operations	<b>(822)</b>	<b>(751)</b>	<b>(1,709)</b>
Interest received	6	1	3
<b>Net cash used in operating activities</b>	<b>(816)</b>	<b>(750)</b>	<b>(1,706)</b>
<b>Cash flows from/(used) in investing activities</b>			
Payments for property, plant and equipment	(5)	(6)	(11)
Proceeds from sale of property, plant and equipment	9	16	28
Payments for intangible assets	(1,744)	(1,290)	(2,487)
Proceeds from sale of investments	961	1,217	3,663
Proceeds from sale of exploration assets	876	–	–
Dividends received	2,244	27	27
<b>Net cash generated from/(used in) investing activities</b>	<b>2,341</b>	<b>(36)</b>	<b>1,220</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital	20	5	22
<b>Net cash from financing activities</b>	<b>20</b>	<b>5</b>	<b>22</b>
<b>Total increase/(decrease) in cash and cash equivalents</b>	<b>1,545</b>	<b>(781)</b>	<b>(464)</b>
Cash and cash equivalents at the start of the period	891	1,355	1,355
<b>Cash and cash equivalents at the end of the period</b>	<b>2,436</b>	<b>574</b>	<b>891</b>

# Notes to the Interim Condensed Consolidated Financial Statements



## 1. Accounting policies

GCM Resources plc (GCM) is domiciled in England and Wales, was incorporated as a Public Limited Company on 26 September 2003 and admitted to the London Stock Exchange Alternative Investment Market (AIM) on 19 April 2004.

The unaudited interim report was authorised for issue by the Directors on 1 February 2011, and the Interim Consolidated Balance Sheet was signed on the Board's behalf by Steve Bywater.

### Basis of preparation

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union for the year ended 30 June 2010. The interim condensed consolidated financial statements for the six months ended 31 December 2010 have been prepared using the same policies and methods of computation as applied in the financial statements for the year ended June 2010, and have been prepared in accordance with *IAS 34 Interim Financial Reporting* as adopted by the European Union.

There has been no impact on the Group's financial position or performance from new and amended IFRS and IFRIC interpretations mandatory as of 1 July 2010.

The financial information contained herein does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006 and is unaudited. The figures for the year ended 30 June 2010 have been extracted from the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and contained an unqualified auditors' report which included an emphasis of matter reference concerning the uncertainty over the recoverability of the intangible mining assets and did not include a statement under section 498(2)(a) or (b), or section 498(3) of the Companies Act 2006.

### Political and economic risks

The principal asset is in Bangladesh and accordingly subject to the political, judicial, fiscal, social and economic risks associated with operating in that country.

The Group's principal project relates to thermal coal and semi-soft coking coal, the markets for which are subject to international and regional supply and demand factors, and consequently future performance will be subject to variations in the prices for these products.

GCM, through its subsidiaries, is party to a Contract with the Government of Bangladesh which gives it the right to explore, develop and mine in respect of the licence areas. As provided by the Contract, the Group holds a mining lease and exploration licences in the Phulbari area covering the prospective mine site. The mining lease has a 30 year term from 2004 and may be renewed for further periods of 10 years each, at GCM's option.

In accordance with the terms of the Contract, GCM submitted a combined Feasibility Study and Scheme of Development report on 2 October 2005 to the Government of Bangladesh. Approval from the Government of Bangladesh is necessary to proceed with development of the mine. However, GCM continues to await approval.

The Group has received no notification from the Government of Bangladesh of any changes to the terms of the Contract. GCM has received legal opinion that the Contract is enforceable under Bangladesh and International law, and will consequently continue to endeavour to receive approval for development.

If for whatever reason the Scheme of Development is not ultimately approved, the Group would be required to impair all of its intangible mining assets. The Directors are confident that the Phulbari Coal Project will ultimately receive approval. Accordingly, the Directors consider that it is appropriate not to record any impairment in respect of the intangible mining assets.

### Going concern

GCM relies on its current resources to fund its operating activities, and has no debt. As at 31 December 2010, GCM held £2,436,000 cash and £21,751,000 listed equity investments. Projections of future costs for a number of scenarios leading to approval, financing and development of the Phulbari Project have been prepared and, taking into account a number of factors including the liquidity and volatility of GCM's listed investments, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

# Notes to the Interim Condensed Consolidated Financial Statements

(continued)



## 2. Segment analysis

The Group operates in one segment being the exploration and evaluation of energy related projects. The only significant project within this segment is the Phulbari Coal Project in Bangladesh. "Other" non-current assets are primarily utilised to provide ongoing funding to the Phulbari Coal Project. For segmental reporting, all central costs are allocated to the Phulbari Coal Project.

### Geographic analysis of non-current assets

	Bangladesh £000	Other £000	Total £000
<i>As at December 2010</i>			
Property, plant and equipment	81	10	91
Intangible assets	31,417	–	31,417
Financial assets	–	21,751	21,751
	<b>31,498</b>	<b>21,761</b>	<b>53,259</b>
<i>As at June 2010</i>			
Property, plant and equipment	104	12	116
Intangible assets	29,765	–	29,765
Financial assets	–	21,790	21,790
	29,869	21,802	51,671
<i>As at December 2009</i>			
Property, plant and equipment	123	14	137
Intangible assets	28,226	–	28,226
Financial assets	–	29,000	29,000
	28,349	29,014	57,363

# Notes to the Interim Condensed Consolidated Financial Statements

(continued)



### 3. Exceptional items

	6 months ended 31 December 2010 £000	6 months ended 31 December 2009 £000	Year ended 30 June 2010 £000
Profit on sale of investments	497	297	2,294
Profit on sale of exploration assets	1,199	–	–
Impairment of investments	–	–	(4,693)
	<b>1,696</b>	297	(2,399)

During the period GCM disposed of its holding in Aura Energy Limited (Aura) as well as its interest in the joint venture projects with Aura in Western Africa.

# Notes to the Interim Condensed Consolidated Financial Statements

(continued)



## 4. Finance revenue

	6 months ended 31 December 2010 £000	6 months ended 31 December 2009 £000	Year ended 30 June 2010 £000
Bank interest receivable	6	1	2
Dividends received	2,244	27	27
	<b>2,250</b>	28	29

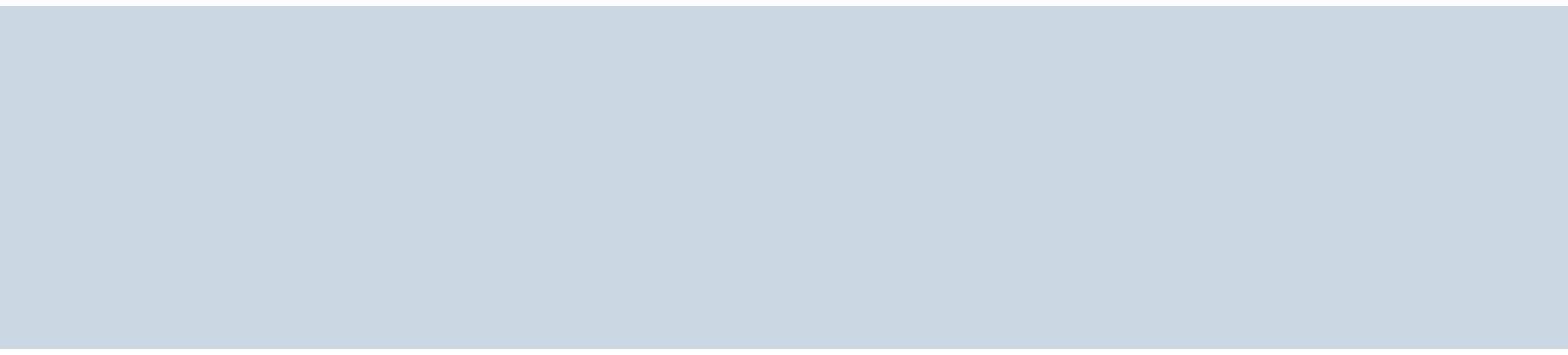
During the period GCM received a dividend of £2,244,000 from Polo Resources Limited.

## 5. Intangible assets

Intangible assets increased by £1,652,000 during the six months to 31 December 2010 (December 2009: £1,655,000). The increase is due to the exploration and evaluation expenditure relating to the Phulbari Coal Project, and is capitalised in accordance with the Group's accounting policies.

## 6. Financial assets

	31 December 2010 £000	31 December 2009 £000	30 June 2010 £000
<b>Available-for-sale investments</b>			
Listed equity investments	21,751	24,307	21,790
Unlisted equity investments	–	4,693	–
	<b>21,751</b>	29,000	21,790



**GCM Resources plc**  
Foxglove House,  
166-168 Picadilly,  
London,  
W1J 9EF