GCM RESOURCES

The source of energy for the people and businesses of Bangladesh

REGIONAL DEVELOPMENT

HIGHEST INTERNATIONAL ENVIRONMENTAL AND SOCIAL STANDARDS

HUGE ECONOMIC IMPACT

ENERGY SECURITY FOR BANGLADESH

LONG LIFE OPERATION

LOW COST

WORLD CLASS COAL PROJECT

HIGH QUALITY COAL

Interim Report

Six months to 31 December **2011**

KEY DEVELOPMENTS

- Discussions with Bangladesh Government ministers and officials continued. Discussions with other organisations are taking place with a view to a partnership that would strengthen the Phulbari proposition. GCM remains ready to move the Phulbari Project forward when the Government approves the Scheme of Development.

- The Company made a loss after tax of £690,000 for the six months ended 31 December 2011 (31 December 2010: profit after tax of £3,291,000).

- GCM received a dividend from Polo Resources Limited of £1,496,000.

- As at 31 January 2012 GCM had £14,218,000 in cash and listed equity investments.

CHIEF EXECUTIVE'S STATEMENT

Phulbari Coal Project

The Phulbari Coal Project (the Project) remains the key opportunity for the Company and we continue to pursue approval of the Scheme of Development from the Government of Bangladesh. Because of the unique contribution that the Project can make to the development of the electricity capacity of Bangladesh we have confidence that it will ultimately be developed.

Advancement of the Phulbari Coal Project would provide significant benefits to the local Phulbari community, the country of Bangladesh and the shareholders of GCM Resources plc (GCM). To this end, during the last six months GCM management has continued to have meetings with government ministers and officials to ensure that those responsible for making the approval decision have a full understanding of the Project including its benefits and impacts and how we propose to manage those impacts.

We have continued to seek partnerships with organisations which could strengthen the Phulbari proposition from the perspective of the Bangladesh Government. Discussions are being held with organisations that have strong networks in Bangladesh, expertise in power development, marketing and logistics, experience of developing substantial projects and/or can offer synergies with the Project.

We are conscious that the pursuit of approval has been time consuming. While GCM continues to strive to advance the Project, the approval of the Scheme of Development is a political decision outside our control and accordingly we are unable to predict its timing. GCM is ready to move the Project forward upon approval.

Financial resources

As at 31 December 2011 GCM held £1,008,000 in cash and £12,438,000 in listed equity investments to fund future activities.

Results

The Group made a loss after tax of £690,000 for the six months ended 31 December 2011 (31 December 2010: profit after tax of £3,291,000). GCM received a dividend from Polo Resources Limited of £1,496,000.

Evaluation expenditure relating to the Phulbari Coal Project was £1,118,000 for the six months ended 31 December 2011 (31 December 2010: £1,652,000).

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 and 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.

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

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 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 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

	Notes	6 months ended 31 December 2011 unaudited £000	6 months ended 31 December 2010 unaudited £000	Year ended 30 June 2011 audited £000
Operating expenses				
Exploration and evaluation costs		**(74)**	(11)	(241)
Administrative expenses		**(796)**	(681)	(1,466)
Operating (loss)		**(870)**	(692)	(1,707)
Exceptional items	3	**(291)**	1,696	1,696
Finance revenue	4	**1,497**	2,250	2,256
Profit/(loss) before tax		**336**	3,254	2,245
Taxation	5	**(1,026)**	37	43
(Loss)/profit for the period		**(690)**	3,291	2,288
Earnings per share				
Basic (loss)/earnings per share (pence)		**(1.4)p**	6.4p	4.5p
Diluted (loss)/earnings per share (pence)		**(1.4)p**	6.1p	4.2p

Interim Consolidated Statement of Comprehensive Income

	6 months ended 31 December 2011 unaudited £000	6 months ended 31 December 2010 unaudited £000	Year ended 30 June 2011 audited £000
(Loss)/profit for the period	**(690)**	3,291	2,288
Other comprehensive income			
Net (loss)/gain on revaluation of available-for-sale investments	**(5,068)**	922	(2,830)
Transfer to income statement: sale of available-for-sale investments	**(326)**	(497)	(497)
Transfer to income statement: impairment of available-for-sale investments	**617**	–	–
Income tax relating to components of other comprehensive income	**1,242**	(119)	1,149
Total comprehensive (loss)/income	**(4,225)**	3,597	110

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
Balance at 1 July 2010	5,103	44,184	1,344	10,218	(9,930)	50,919
Total comprehensive income	–	–	–	(2,178)	2,288	110
Shares issued during the year	2	33	–	–	–	35
Share based payments	–	–	461	–	2	463
Balance at 30 June 2011	5,105	44,217	1,805	8,040	(7,640)	51,527
Total comprehensive loss	–	–	–	(3,535)	(690)	(4,225)
Shares issued during the period	2	13	–	–	–	15
Share based payments	–	–	100	–	1	101
Balance at 31 December 2011 (unaudited)	**5,107**	**44,230**	**1,905**	**4,505**	**(8,329)**	**47,418**
Balance at 1 July 2010	5,103	44,184	1,344	10,218	(9,930)	50,919
Total comprehensive income	–	–	–	306	3,291	3,597
Shares issued during the period	1	19	–	–	–	20
Share based payments	–	–	118	–	2	120
Balance at 31 December 2010 (unaudited)	5,104	44,203	1,462	10,524	(6,637)	54,656

Interim Consolidated Balance Sheet

	Notes	31 December 2011 unaudited £000	31 December 2010 unaudited £000	30 June 2011 audited £000
Current assets				
Cash and cash equivalents		**1,008**	2,436	547
Receivables		**315**	731	685
Total current assets		**1,323**	3,167	1,232
Non-current assets				
Property, plant and equipment		**67**	91	79
Intangible assets	6	**33,906**	31,417	32,788
Financial assets	7	**12,438**	21,751	18,000
Total non-current assets		**46,411**	53,259	50,867
Total assets		**47,734**	56,426	52,099
Current liabilities				
Payables		**(316)**	(280)	(356)
Total current liabilities		**(316)**	(280)	(356)
Non-current liabilities				
Deferred tax liabilities		**–**	(1,490)	(216)
Total non-current liabilities		**–**	(1,490)	(216)
Total liabilities		**(316)**	(1,770)	(572)
Net assets		**47,418**	54,656	51,527
Equity				
Share capital		**5,107**	5,104	5,105
Share premium account		**44,230**	44,203	44,217
Other reserves		**6,410**	11,986	9,845
Accumulated losses		**(8,329)**	(6,637)	(7,640)
Total equity		**47,418**	54,656	51,527

Steve Bywater
Chief Executive

Interim Consolidated Statement of Cash Flows

	6 months ended 31 December 2011 unaudited £000	6 months ended 31 December 2010 unaudited £000	Year ended 30 June 2011 audited £000
Cash flows used in operating activities			
Profit before tax	**336**	3,254	2,245
Adjusted for:			
Exceptional items	**291**	(1,696)	(1,696)
Finance revenue	**(1,497)**	(2,250)	(2,256)
Other non cash expenses	**2**	7	7
	(868)	(685)	(1,700)
Movements in working capital:			
Decrease in operating receivables	**58**	1	36
(Decrease) in operating payables	**(65)**	(138)	(49)
Cash used in operations	**(875)**	(822)	(1,713)
Interest received	**1**	6	12
Net cash used in operating activities	**(874)**	(816)	(1,701)
Cash flows from in investing activities			
Payments for property, plant and equipment	**(1)**	(5)	(6)
Proceeds from sale of property, plant and equipment	**–**	9	9
Payments for intangible assets	**(983)**	(1,743)	(2,776)
Proceeds from sale of subsidiary	**313**	876	891
Proceeds from sale of investments	**495**	960	960
Dividends received	**1,496**	2,244	2,244
Net cash generated from investing activities	**1,320**	2,341	1,322
Cash flows from financing activities			
Issue of ordinary share capital	**15**	20	35
Net cash from financing activities	**15**	20	35
Total increase/(decrease) in cash and cash equivalents	**461**	1,545	(344)
Cash and cash equivalents at the start of the period	**547**	891	891
Cash and cash equivalents at the end of the period	**1,008**	2,436	547

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 31 January 2012, 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 2011. The interim condensed consolidated financial statements for the six months ended 31 December 2011 have been prepared using the same policies and methods of computation as applied in the financial statements for the year ended 30 June 2011, 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 2011.

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 2011 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 coal in Northern Bangladesh. 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. 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.

The Directors are confident that the Phulbari Coal Project will ultimately receive approval, although until that approval is received there is significant uncertainty over the recoverability of the intangible mining assets. The Directors consider that it is appropriate to continue to record the intangible mining assets at cost, however if for whatever reason the Scheme of Development is not ultimately approved, the Group would impair all of its intangible mining assets.

Going concern

GCM relies on its current resources to fund its operating activities, and has no debt. As at 31 December 2011, GCM held £1,008,000 cash and £12,438,000 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.

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
As at December 2011			
Property, plant and equipment	61	6	67
Intangible assets	33,906	–	33,906
Financial assets	–	12,438	12,438
	33,967	**12,444**	**46,411**
As at June 2011			
Property, plant and equipment	72	7	79
Intangible assets	32,788	–	32,788
Financial assets	–	18,000	18,000
	32,860	18,007	50,867
As at December 2010			
Property, plant and equipment	81	10	91
Intangible assets	31,417	–	31,417
Financial assets	–	21,751	21,751
	31,498	21,761	53,259

Notes to the Interim Condensed Consolidated Financial Statements (continued)

3. Exceptional items

	6 months ended 31 December 2011 £000	6 months ended 31 December 2010 £000	Year ended 30 June 2011 £000
Profit on sale of investments	**326**	497	497
Impairment of investments	**(617)**	–	–
Profit on sale of subsidiary	**–**	1,199	1,199
	(291)	1,696	1,696

During the period GCM sold 716,000 Coal of Africa Limited shares for a profit of £326,000. In the comparative period GCM sold its holding in Aura Energy Limited for a profit of £497,000.

An impairment charge of £617,000 has been recorded in relation to the investment in Polo Resources Limited (Polo). The impairment equates to approximately 0.8p per share held in Polo, whereas a dividend of 2p per share was received from Polo during the period ended 31 December 2011.

GCM received £313,000 during the six months ended 31 December 2011, being deferred consideration on the sale of its interest in GCM Africa Uranium Limited. The sale of GCM Africa Uranium Limited occurred during the comparative period resulting in a profit of £1,199,000.

4. Finance revenue

	6 months ended 31 December 2011 £000	6 months ended 31 December 2010 £000	Year ended 30 June 2011 £000
Bank interest receivable	**1**	6	12
Dividends received	**1,496**	2,244	2,244
	1,497	2,250	2,256

During the period GCM received a dividend of £1,496,000 from Polo Resources Limited. In the comparative period GCM received a dividend of £2,244,000 from Polo Resources Limited.

5. Taxation

	6 months ended 31 December 2011 £000	6 months ended 31 December 2010 £000	Year ended 30 June 2011 £000
Tax on ordinary activities	**(111)**	(204)	(400)
Origination and reversal of temporary differences	**1,137**	167	161
Change in tax rate	**–**	–	196
Tax charge/(credit) in income statement	**1,026**	(37)	(43)
Available-for-sale financial assets	**(1,242)**	119	(915)
Change in tax rate	**–**	–	(234)
Tax (credit)/charge in statement of changes in equity	**(1,242)**	119	(1,149)

During the period the decrease in value of available-for-sale financial assets resulted in a decrease in deferred tax liabilities. The decrease in deferred tax liabilities was credited to equity. As deferred tax assets are only recognised up to the value of deferred tax liabilities, deferred tax assets amounting to £1,137,000 were de-recognised and charged to the income statement.

6. Intangible assets

Intangible assets increased by £1,118,000 during the six months to 31 December 2011 (December 2010: £1,652,000). 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.

7. Financial assets

	31 December 2011 £000	31 December 2010 £000	30 June 2011 £000
Available-for-sale investments			
Listed equity investments	**12,438**	21,751	18,000
	12,438	21,751	18,000

GCM RESOURCES

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