GCM Resources plc

Interim Report for the six months to 31 December 2022

(LON:GCM)

Chairman's Statement

The environment under which we operated in the six months ending 31 December was dominated by growing negative economic impacts of the Ukraine conflict and, in the latter part of the reporting period, the emergence of a changing political landscape as the Bangladesh Government and Opposition parties launched campaigns ahead of the national election, stated for early 2024.

The Bangladesh Government demonstrates commitment to coal being in its long-term energy mix with 11,755MW coal-fired power plants commissioned or in the pipeline. It has also committed to implement the latest HELE power plants (High Efficiency, Low Emissions), based on Ultra-Supercritical boiler technology resulting in smaller environmental footprints as less coal is consumed with reduced carbon dioxide emissions to produce the same electricity as conventional power plants. Progress has been substantial, with Ultra-Supercritical Power Plants commissioned at Payra 1,320MW in 2019-20; Rampal first unit (660MW) in November 2022 and the second 660MW unit scheduled for first half 2023; Banshkhali 1,320MW (2x660MW) scheduled for 2023; and Matarbari 1,200MW (2x600MW) scheduled for 2024.

The Phulbari Coal and Power Project ("the Project") can support some 6,600MW of Ultra-Supercritical power generation. The Project Proposal is built around supplying some or all coal production to existing (and planned) coal-fired plants and also provides for the option of installing up to 4,000MW new capacity at the Phulbari coal mine site (which ultimately would provide the lowest cost coal based power for Bangladesh).

Our Development Partner, Power Construction Corporation of China Ltd. ("PowerChina"), earlier reiterated their commitment to developing mine-mouth new capacity (RNS Number: 5488E, 11 March 2022). In this reporting period, PowerChina further demonstrated their overall Project support through the extension of an MOU focussed on coal mine development (RNS Number: 2978J, 12 December 2022). The intention is to arrive at a partnership covering finance, project development and on-going mine management.

The Project's Proposal has been refined through discussions and presentations at senior level of Government and during this process our Bangladesh team were supported by PowerChina. A significant enhancement is the inclusion of a large-scale Solar Power Park (over 2GW possible) within the confines of the Project area, to be operated in parallel with the mining operations. The Solar Power Park would be installed in stages and it's planned that the power would be supplied to both the national grid and mining operation, also enabling the mine to become a "Net Zero Carbon Green Mine".

Beyond the reporting period, the Company entered into a Joint Development Agreement ("JDA") with PowerChina and Dyani Corporation for development of the proposed Solar Power Park (RNS Number: 0138M, 9 January 2023). The JDA is comprehensive covering financing, construction and operation of the Solar Power Park.

Bangladesh is on a trajectory to move from being a Least Developed Country ("LDC") to a Developing Country in 2026. Key to such a transition is a vibrant, growing economy. The way forward unfortunately has been made more difficult by the inflationary and supply-chain pressures (principally for energy) brought on by the protracted Ukraine conflict. Like many other net-energy-importing countries, Bangladesh has found itself in a position of not only facing persistent high inflation but also a 30% drop in both the value of its Taka currency against the US Dollar and its foreign currency reserves over the past year. This has impacted the ability to maintain energy supplies, particularly coal and LNG.

There is growing awareness both within the Bangladesh Government and Civil Society that an over-dependence on imported energy to power places the Country's industrial and economic development in an unnecessary high risk situation, and that the strategy should involve a balance between domestic and imported energy supply. The State Minister for the Ministry of Power, Energy, and Mineral Resources spoke openly for domestic coal supply in November 2022 when he was responding to questions by one of the MP's covering the Project area. The State Minister emphasised that open pit coal extraction was only possible in the Phulbari Coal Basin. More recently, Bangladesh's significant power companies and business identities have called for the Government to move on developing its domestic coal and gas potential to provide the Country with higher energy security and more sustainable energy costs.

The Project's Proposal address the concerns of over dependency on imported fuels and provides compelling list of benefits, including government participation, consistency in coal price and large-scale supply and billions of dollars foreign exchange savings. The Company is working closely with its consultant lobbyists to gain approval for moving Project forward and finally realise the enormous benefits for the Government and peoples of Bangladesh and our shareholders.

Financials

GCM incurred a lower loss after tax of £693,000 for the six months ended 31 December 2022 (31 December 2021: loss after tax of £763,000). The most significant expenditure during the period was pre-development expenditure, while administrative expenses for the six months ended 31 December 2022 were £368,000 (31 December 2021: £352,000) and capitalised project expenditure for the period was £277,000 (31 December 2021: £273,000).

The Company has at the date of this report drawn down £3.2 million of the total short-term loan facility of £3.5 million with Polo Resources Ltd, the terms of the facility are detailed in Note 5 of the interim report.

The Company will need to raise further funds by early in Q3 of this year. The Company aims to strengthen GCM's financial position and provide future funding by raising further funds by end of June 2023, and although there can be no certainty provided the directors remain confident that sufficient funding will be obtained as and when required. As such, the financial statements have been prepared on a going concern basis. Please refer to the accounting policy note on going concern (Note 1 to the Financial Statements) for further information.

Outlook

In its World Energy Outlook in October 2022, the International Energy Agency ("IEA") said: "The world is in the midst of the first truly global energy crisis". It went on to reference "concerns over global energy security, fuelling the transition to clean energy for the climate and the interconnection between the energy crisis and food security". The fact remains for LDC's, such as Bangladesh, the current range of renewable energy systems are not suitable for baseload power which LDC's struggle to provide. For the foreseeable future, fossil fuels (principally coal and gas) will dominate power generation in LDC's as well as in Developing Countries such as China and India.

While Bangladesh remains in a "net-energy-importing" situation, it is highly likely its economy will be disadvantaged by ongoing supply constraints and high prices. Extracting its own domestic energy resources, including moving forward with the Project, will go a long way to reducing the exposure to the long-term vagaries of the international energy market.

The Company is grateful for the patience and continued support from its shareholders and stakeholders and I assure you that we working diligently to move the Project forward and deliver returns on your investment.

Mohd Najib Bin Abdul Aziz
Non-Executive Chairman

Interim Consolidated Income Statement

	6 months ended 31 December 2022 unaudited £000	6 months ended 31 December 2021 unaudited £000	Year ended 30 June 2022 audited £000
Operating expenses			
Pre-development expenditure	**(90)**	(174)	(414)
Exploration and evaluation costs	**7**	5	(35)
Administrative expenses	**(368)**	(352)	(750)
Operating loss	**(451)**	(521)	(1,199)
Finance costs	**(242)**	(242)	(480)
Loss before tax	**(693)**	(763)	(1,679)
Taxation	**-**	-	-
Loss and total comprehensive income for the period	**(693)**	(763)	(1,679)
Earnings per share			
Basic loss per share (pence)	**(0.4p)**	(0.6p)	(1.1p)
Diluted loss per share (pence)	**(0.4p)**	(0.6p)	(1.1p)

Interim Consolidated Statement of Changes in Equity

	Share capital £000	Share premium account £000	Share based payments not settled £000	Accumulated losses £000	Total £000
Balance at 1 July 2021	12,048	55,611	772	(30,953)	37,289
Total comprehensive loss	-	-	-	(1,679)	(1,679)
Share issuances	447	2,089	(372)	-	2,161
Share issuance costs	-	(121)	-	-	(121)
Shares to be issued	-	-	414	-	414
Share based payments	-	-	17	-	17
Balance at 30 June 2022	12,495	57,576	642	(32,632)	38,081
Total comprehensive loss	-	-	-	(693)	(693)
Share issuances	-	-	-	-	-
Shares to be issued	-	-	90	-	90
Share based payments	-	-	1	-	1
Balance at 31 December 2022 (unaudited)	**12,495**	**57,576**	**733**	**(33,325)**	**37,479**
Balance at 1 July 2021	12,048	55,611	583	(30,953)	37,289
Total comprehensive loss	-	-	-	(763)	(763)
Share issuances	-	-	-	-	-
Shares to be issued	-	-	174	-	174
Share based payments	-	-	15	-	15
Balance at 31 December 2021 (unaudited)	**12,048**	**55,611**	**772**	**(31,716)**	**36,715**

Interim Consolidated Balance Sheet

	Notes	31 December 2022 unaudited £000	31 December 2021 unaudited £000	30 June 2022 audited £000
Current assets				
Cash and cash equivalents		**740**	116	961
Receivables		**43**	48	436
Total current assets		**783**	164	1,397
Non-current assets				
Property, plant and equipment		**1**	6	3
Right of use assets		**5**	37	19
Intangible assets	3	**43,005**	42,452	42,742
Receivables		**-**	-	-
Total non-current assets		**43,011**	42,495	42,764
Total assets		**43,794**	42,659	44,161
Current liabilities				
Payables	4	**(1,375)**	(1,457)	(1,369)
Lease liabilities		**(15)**	(31)	(27)
Borrowings	5	**-**	-	-
Total current liabilities		**(1,390)**	(1,488)	(1,396)
Non-current liabilities				
Lease liabilities		**-**	(11)	(1)
Borrowings		**(4,925)**	(4,445)	(4,683)
Total non-current liabilities		**(4,925)**	(4,456)	(4,684)
Total liabilities		**(6,315)**	(5,944)	(6,080)
Net assets		**37,479**	36,715	38,081
Equity				
Share capital	6	**12,445**	12,048	12,495
Share premium account	6	**57,576**	55,611	57,576
Other reserves		**733**	772	642
Accumulated losses		**(33,325)**	(31,716)	(32,632)
Total equity		**37,479**	36,715	38,081

Interim Consolidated Statement of Cash Flows

	6 months ended 31 December 2022 unaudited £000	6 months ended 31 December 2021 unaudited £000	Year ended 30 June 2022 audited £000
Cash flows used in operating activities			
Loss before tax	**(693)**	(763)	(1,679)
Adjusted for:			
Non-cash pre-development expenditure	**90**	174	414
Non-cash finance costs	**242**	242	480
Other non-cash expenses	**-**	-	30
	(361)	(347)	(755)
Movements in working capital:			
(Increase) in operating receivables	**(7)**	(34)	(23)
Increase/(decrease) in operating payables	**25**	35	(68)
Cash used in operations	**(343)**	(346)	(846)
Net cash used in operating activities	**(343)**	(346)	(846)
Cash flows from investing activities			
Payments for intangible assets	**(278)**	(255)	(520)
Payments for property, plant and equipment	**-**	-	-
Net cash generated from investing activities	**(278)**	(255)	(520)
Cash flows from financing activities			
Issue of ordinary share capital	**400**	-	1,731
Share issue costs	**-**	-	(121)
Proceeds from borrowing	**-**	-	-
Interest paid	**-**	-	-
Net cash from financing activities	**400**	-	1,610
Total (decrease)/increase in cash and cash equivalents	**(221)**	(601)	244
Cash and cash equivalents at the start of the period	**961**	717	717
Cash and cash equivalents at the end of the period	**740**	116	961

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.

This unaudited interim report was authorised for issue by the Board of Directors on 21 March 2023.

Basis of preparation

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as they apply to the financial statements of the Group for the year ended 30 June 2022 and applied in accordance with the Companies Act 2006.

The interim condensed consolidated financial statements for the six months ended 31 December 2022 have been prepared using the same policies and methods of computation as applied in the financial statements for the year ended 30 June 2022. 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 2022 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 concerning significant doubt over the ability for the Group to continue as a going concern 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 – carrying value of intangible asset

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. 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 of the Scheme of Development 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 (the "Government") 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.

Accordingly, the Directors believe that the Phulbari Coal and Power Project (the "Project") will ultimately receive approval, although the timing of approval remains in the hands of the Government. To enhance the prospects of the Project, GCM has engaged in a strategy to align the Project with the needs and objectives of the Government. This includes the option to supply coal to both the Government's commissioned and in the pipeline power plants, which total 11,755MW. The Government is seeking to grow its economy and deliver electricity at prices that will ensure competitiveness of its industries. The Group's strategy of developing the Phulbari coal deposit as a captive, large-scale, open pit mining operation supporting some 6,600MW of highly energy-efficient Ultra-Supercritical power generation will enable cheaper coal-fired electricity than imported coal options. This evolving strategy has been enhanced to include installation of a large-scale Solar Power Park (up to 2,500MW) within the Project area, to be installed within the first two years of gaining land access; operating the Phulbari coal mine as a "Net Zero Carbon" or "Green Mine"; and participation modalities for Government.

Until approval of the Scheme of Development from the Government of Bangladesh is received there is continued 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, totalling £43,005,000 as at 31 December 2022.

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Going concern

As at 31 December 2022, the Group had £740,000 in cash and £601,000 in net current liabilities. The directors and management have prepared a cash flow forecast to March 2024, which showed that the Group would require further funds to cover operating costs to advance the Phulbari Coal and Power Project and meet its liabilities as and when they fall due. Based on the current forecast, additional funding would need to be either raised from third parties or drawn down under the £3.5million loan facility with Polo Resources Limited ("Polo Loan Facility"), which currently has £300,000 available to, in order to meet current operating cost projections. The Company intends to explore alternative funding options over the second quarter of 2023, with the aim to complete and secure the necessary third-party funding by the end of June 2023.

In forming the conclusion that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis the Directors have made the following assumptions that are relevant to the next twelve months:

- In the event that the Polo Loan Facility becomes payable, sufficient funding can be obtained; and

- In the event that operating expenditure increases significantly as a result of successful progress with regards to the Phulbari Coal and Power Project, sufficient funding can be obtained.

Upon achieving approval of the Phulbari Coal and Power Project, significant additional financial resources will be required to proceed to development.

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 and Power Project in Bangladesh.

3. Intangibles

During the period intangibles increased by £277,000. The increase is due to capitalised mining exploration and evaluation expenditure relating to the Phulbari Coal and Power Project in Bangladesh.

4. Payables

	31 December 2022 unaudited £000	31 December 2021 unaudited £000	30 June 2022 audited £000
Trade payables	**581**	663	575
Related party accrued payable	**794**	794	794
Transaction costs payable	**-**	-	-
	1,375	1,457	1,369

The related party accrued payable of £794,000 at 31 December 2022 relates to accrued fees owing to the management services company of the Executive Chairman of the Company, Datuk Michael Tang PJN.

5. Borrowings

	31 December 2022 unaudited £000	31 December 2021 unaudited £000	30 June 2022 audited £000
Short-term loan facility from related party	**4,925**	4,445	4,683
	4,925	4,445	4,683

GCM is party to a £3,500,000 short-term loan facility with its largest shareholder, Polo Resources Limited (“Polo”). As at 31 December 2022, the Company owed £4,925,000, comprising £3,200,000 loan balance and accrued finance costs on borrowings of £1,725,000.

The Company on 1 March 2022, as part of the completed placing and subscriptions, amended the terms of the loan facility, such that the lender may request conversion by the issuance of new ordinary shares in the Company at 5.14 pence per share (being the Issue Price) subject to any necessary regulatory approvals. All other terms of the agreement remained unchanged

The Company on 26 March 2021, as part of the completed placing, extended and amended the terms of the loan facility provided by Polo Resources Limited (the "Facility") of which, as was announced on 7 January 2021, there is £300,000 of the initial £3.5 million facility remaining undrawn. The lender has agreed that it will not serve a repayment request on the company for 5 years from the date of the agreement replacing the previous provision that it was payable on demand with 90 days' notice. The Company and Polo Resources Limited have agreed an increase in the interest rate from 12% to 15% per annum rising by 1.5% on the third anniversary and by a subsequent 1.5% on each anniversary thereafter. Furthermore, the lender may request conversion by the issuance of new ordinary shares in the Company at 7.5 pence per share (being the Issue Price) subject to any necessary regulatory approvals. The Company may elect to repay all or part of the outstanding loan at any time giving 60 days' notice and with the agreement of Polo Resources Limited. Any share issue to the Lender is conditional upon the Lender's interest, together with the interest of any parties with which it is in concert, remaining below 30% of the Company's issued capital. All other principal terms of the loan facility remained unchanged.

6. Share issues

There were no shares issued during the period.

7. Post-balance sheet events

On 9 January 2023, the Company announced that it had agreed a Joint Development Agreement ("JDA") with PowerChina International Group Limited ("POWERCHINA"), and Dyani Corporation Ltd ("DYANI") in relation to a proposed new greenfield solar project called the Dinajpur Solar Power Project ("SOLAR PROJECT") which would be an adjunct project in conjunction with the Phulbari Coal and Power Project ("the Project"). The JDA has a term of 12-months and does not at this stage commit any of the parties to expend any specified sums. It is the intention that it will be superseded, in due course, by a more detailed working arrangement between the parties, but may be terminated earlier under certain prescribed conditions.