# GCM Resources plc

## Interim Report for the six months to 31 December 2019

(LON:GCM)

# Chairman's Statement

I'm pleased to report to our shareholders on the Company's performance for the six months ended 31 December 2019. It has been a busy period for the Company and, despite the macro-economic headwinds I am pleased with the progress made. We have continued to pursue our strategy of presenting a comprehensive power solution to the Bangladesh Government, based on a 15 million tonne per annum "captive" coal mine in the Phulbari Coal Basin, feeding power plants with a combined capacity of 6,000MW, utilising highly energy-efficient ultra-supercritical boiler technology, and we continue this progress into 2020.

As the world is confronting climate change and looking for ways to increase power generation, whilst simultaneously reducing greenhouse gas production, we have taken steps to incorporate "high efficiency, low emission" (HELE) coal-fired power plant technology into our project. Over the past decade, developments in HELE technology have moved coal-fired power plant energy efficiency from circa 35% to 43-44% using the ultra-supercritical technology and this trend is expected to continue over the next 5 years, with "advanced ultra-supercritical plants" expected to further increase energy efficiency towards 50%, with greatly reduced $CO_2$ emissions. This technological advance is highly relevant to GCM, as it is expected to happen within the 10-year timeframe that is estimated for the installation of the 6,000MW Phulbari Coal and Power Project.

Our recent progress can be measured by the fact that:

1. Working under the joint-venture arrangements with internationally renowned PowerChina (Power Construction Corporation of China Ltd), we have completed the full Power Proposals covering an initial 4,000MW. These documents were prepared to the Bangladesh Power Development Board's requirements and will be presented as two 2,000MW Phases, installed in succession, to suit the production ramp-up of the Phulbari coal mine.

2. Working under the MOU with NFC (China Non-ferrous Metal Industry's Foreign Engineering and Construction Co. Ltd) and PowerChina, NFC successfully completed their Due Diligence studies towards the end of 2019 and we are hopeful of moving to a formal joint venture arrangement as early as possible in 2020.

We have prepared the Phulbari Coal and Power Project Proposal and are working with our appointed local consultant to finalise ready for submission to the Bangladesh Government. This is a truly a "Mega Project" and is estimated to require some US$14.5 billion Foreign Direct Investment into Bangladesh to deliver the Project in its entirety. The Board would note that it's not just about the mine and power plants, but also about bringing major local and regional development, with significant job creation, a new township, new villages, roads, rail, industrial development based on stable and expansive power supply, reticulated water supplies and free water for irrigation schemes, sanitation systems and many other improved community amenities.

Other steps taken in early 2020 include:

- Securing the continuing support of Polo Resources Ltd (AIM: POL) ("Polo") by way of the extension of the loan agreement to ensure funding for a further 12 months.

- Agreeing extension of the memorandum of understanding with NFC and PowerChina for a further three months, through into April 2020, on the same terms as previously announced.

- Agreeing the extension of the Joint Venture Agreement ("JVA") and definitive Engineering, Procurement and Construction Contract ("EPC Contract") with PowerChina, for a further 12 months, to 17 January 2021, on the same terms as previously announced.

**Financials**

GCM incurred a loss after tax of £616,000 for the six months ended 31 December 2019 (31 December 2018: loss after tax of £1,844,000). The most significant expenditure during the period was pre-development expenditure, while administrative expenses for the six months ended 31 December 2019 were £198,000 (31 December 2018: £335,000) and capitalised project expenditure for the period was £287,000 (31 December 2018: £275,000).

During the period, GCM agreed an extension in the short-term loan facility with Polo, the Company's second largest shareholder. The short-term loan facility was been increased by £1.2 million, in exchange for permitting the outstanding loan balance and accrued interest to be repaid by issuing new ordinary shares in the Company, at a conversion price of 11 pence per share. The loan facility continues to attract an interest rate of 12% per annum and may be repaid via the issue of new ordinary shares in GCM as mentioned, or in cash, with Polo being required to give 90 days' notice to the Company.

Over the next six months, the Company will seek new investment to strengthen GCM's financial position and provide future funding. Until such time, there remains a material uncertainty which may cast doubt as to the Group's ability to continue as a going concern. 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

Finally, I would like to thank our shareholders for their continued commitment and support for GCM and its prospects. We are looking forward to finally presenting the Project Proposal to the Bangladesh Government and progressing the Project in the interest of our shareholders and other stakeholders. However, it would be unrealistic to assume the COVID-19 pandemic won't have an impact on our timelines, given that governments worldwide are focused on dealing with the pandemic.

**Datuk Michael Tang PJN**
Executive Chairman

# Interim Consolidated Income Statement

| | 6 months ended 31 December 2019 unaudited £000 | 6 months ended 31 December 2018 unaudited £000 | Year ended 30 June 2019 audited £000 |
|---|---|---|---|
| **Operating expenses** | | | |
| Pre-development expenditure | **(198)** | (1,427) | (5,181) |
| Exploration and evaluation costs | **-** | (14) | (14) |
| Administrative expenses | **(279)** | (335) | (6665) |
| **Operating loss** | **(477)** | (1,776) | (5,860) |
| Finance costs | **(139)** | (68) | (164) |
| **Loss before tax** | **(616)** | (1,844) | (6,024) |
| Taxation | **-** | - | - |
| **Loss and total comprehensive income for the period** | **(616)** | (1,844) | (6,024) |
| **Earnings per share** | | | |
| Basic loss per share (pence) | **(0.6p)** | (1.9p) | (6.1p) |
| Diluted loss per share (pence) | **(0.6p)** | (1.9p) | (6.1p) |

# 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 2018** | 9,811 | 50,484 | 625 | (21,540) | 39,380 |
| Total comprehensive loss | - | - | - | (6,024) | (6,024) |
| Share issuances | 53 | 13 | - | - | 66 |
| Shares to be issued | - | - | 5,181 | - | 5,181 |
| Share based payments | - | - | 29 | - | 29 |
| **Balance at 30 June 2019** | 9,864 | 50,497 | 5,835 | (27,564) | 38,632 |
| Total comprehensive loss | - | - | - | (616) | (616) |
| Share issuances | - | - | - | - | - |
| Shares to be issued | - | - | 198 | - | 198 |
| Share based payments | - | - | 3 | - | 3 |
| **Balance at 31 December 2019 (unaudited)** | **9,864** | **50,497** | **6,036** | **(28,180)** | **38,217** |
| | | | | | |
| **Balance at 1 July 2018** | 9,811 | 50,484 | 625 | (21,540) | 39,380 |
| Total comprehensive loss | - | - | - | (1,844) | (1,844) |
| Share issuances | 10 | 8 | - | - | 18 |
| Share based payments | - | - | 4 | - | 4 |
| **Balance at 31 December 2018 (unaudited)** | **9,812** | **50,492** | **629** | **(23,384)** | **37,558** |

# Interim Consolidated Balance Sheet

| | Notes | 31 December 2019 unaudited £000 | 31 December 2018 unaudited £000 | 30 June 2019 audited £000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | | **236** | 168 | 385 |
| Receivables | | **14** | 65 | 23 |
| Total current assets | | **250** | 233 | 408 |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **16** | 20 | 19 |
| Intangible assets | 3 | **41,537** | 40,912 | 41,250 |
| Receivables | | **-** | - | - |
| Total non-current assets | | **41,553** | 40,932 | 41,269 |
| **Total assets** | | **41,803** | 41,165 | 41,677 |
| **Current liabilities** | | | | |
| Payables | 4 | **(806)** | (1,960) | (702) |
| Borrowings | 5 | **(2,780)** | (1,647) | (2,343) |
| Total current liabilities | | **(3,586)** | (3,607) | (3,045) |
| **Total liabilities** | | **(3,586)** | (3,607) | (3,045) |
| **Net assets** | | **38,217** | 37,558 | 38,632 |
| **Equity** | | | | |
| Share capital | 6 | **9,864** | 9,821 | 9,864 |
| Share premium account | 6 | **50,497** | 50,492 | 50,497 |
| Other reserves | | **6,036** | 629 | 5,835 |
| Accumulated losses | | **(28,180)** | (23,384) | (27,564) |
| **Total equity** | | **38,217** | 37,558 | 38,632 |

# Interim Consolidated Statement of Cash Flows

| | 6 months ended 31 December 2019 unaudited £000 | 6 months ended 31 December 2018 unaudited £000 | Year ended 30 June 2019 audited £000 |
|---|---|---|---|
| **Cash flows used in operating activities** | | | |
| Loss before tax | **(616)** | (1,844) | (6,024) |
| Adjusted for: | | | |
| Non-cash pre-development expenditure | **198** | 1,427 | 5,181 |
| Non-cash finance costs | **139** | 68 | 164 |
| Other non-cash expenses | **-** | - | 20 |
| | **(279)** | (349) | (659) |
| Movements in working capital: | | | |
| Decrease/(increase) in operating receivables | **9** | (30) | 13 |
| Increase in operating payables | **104** | 51 | 219 |
| Cash used in operations | **(166)** | (328) | (427) |
| **Net cash used in operating activities** | **(166)** | (328) | (427) |
| **Cash flows from investing activities** | | | |
| Payments for intangible assets | **(283)** | (268) | (579) |
| Payments for property, plant and equipment | **-** | - | (2) |
| **Net cash generated from investing activities** | **(283)** | (268) | (581) |
| **Cash flows from financing activities** | | | |
| Issue of ordinary share capital | **-** | 18 | 47 |
| Share issue costs | **-** | - | - |
| Proceeds from borrowing | **300** | 300 | 900 |
| Interest paid | **-** | - | - |
| **Net cash from financing activities** | **300** | 318 | 947 |
| **Total (decrease) in cash and cash equivalents** | **(149)** | (278) | (61) |
| Cash and cash equivalents at the start of the period | **385** | 446 | 446 |
| **Cash and cash equivalents at the end of the period** | **236** | 168 | 385 |

# 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 23 March 2020.

**Basis of preparation**

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 30 June 2019 and applied in accordance with the Companies Act 2006.

The interim condensed consolidated financial statements for the six months ended 31 December 2019 have been prepared using the same policies and methods of computation as applied in the financial statements for the year ended 30 June 2019. 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 2019 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 (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 are confident that the Phulbari Coal and Power Project (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. The Government seeks to rapidly expand the country's power generation, including the increase in coal fired power generation from the current 250MW to approximately 20,000MW. The Group's strategy is to combine the planned coal mine with 6,000MW power plants in conjunction with large Chinese State-owned engineering enterprises.

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 £41,537,000 as at 31 December 2019.

**Going concern**

As at 31 December 2019 the Group's financial resources were £236,000, as well as access to an unutilised amount of £1,200,000 in the Polo short-term loan facility of £3.6 million; such £1.2 million increase being formally executed in January 2020. The unutilised portion of the loan facility is available to be drawn down in four quarterly instalments.

In order to support its operating expenses for a period of at least 12 months and discharge its current liabilities as and when they fall due, the Company will need to obtain further financial resources through debt or equity financing. The Directors are confident that the necessary financial resources will be raised as and when required. The financial statements continue to be prepared on a going concern basis. However, until such time that sufficient funds are raised, there remains a material uncertainty which may cast doubt as to the Group's ability to continue as a going concern.

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 £287,000. 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 2019 unaudited £000 | 31 December 2018 unaudited £000 | 30 June 2019 audited £000 |
|---|---|---|---|
| Trade payables | **259** | 1,711 | 304 |
| Related party accrued payable | **397** | 99 | 248 |
| Transaction costs payable | **150** | 150 | 150 |
| | **806** | 1,960 | 702 |

The trade payables of £259,00 at 31 December 2019 includes £60,000 non-cash costs relating to power plant pre-development expenditure, which will be settled by the issuance of new ordinary shares in the Company.

The related party accrued payable of £397,000 at 31 December 2019 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 2019 unaudited £000 | 31 December 2018 unaudited £000 | 30 June 2019 audited £000 |
|---|---|---|---|
| Short-term loan facility from related party | **2,780** | 1,647 | 2,343 |
| | **2,780** | 1,647 | 2,343 |

GCM is party to a £3,500,000 short-term loan facility with its second largest shareholder, Polo Resources Limited (AIM: POL) (“Polo”). As at 31 December 2019, the Company owed £2,780,000, comprising £2,2300,000 loan balance and accrued finance costs on borrowings of £480,000. The principle terms of the short-term loan are 12% per annum interest rate on the loan balance and repayment within 90 days upon request. Alternatively, the lender may request repayment by the issuance of new ordinary shares in the Company at 11 pence per share. Any issue of GCM shares to the Polo is conditional upon its interest, together with the interest of any parties with which it is in concert, remaining below 30% of the Company's issued share capital. The Company may elect to repay all or part of the outstanding loan at any time giving 60 days’ notice.

## 6. Share issues

No shares were issued during the period.

## 7. Post-balance sheet events

On 13 January 2020, the Company announced it had agreed an extension of the memorandum of understanding ("MoU") with China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. ("NFC") and Power Construction Corporation of China, Ltd. ("PowerChina"), for a further three months, on the same terms as previously announced. In addition, the Company also announced that, further to its announcement of 17 January 2019, it had agreed the extension of the Joint Venture Agreement ("JVA") and definitive Engineering, Procurement and Construction Contract ("EPC Contract") with PowerChina, for a further 12 months, to 17 January 2021, on the same terms as previously announced.

On 23 January 2020, the Company announced the issuance of new ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") as payment of consulting fees in accordance with the consultancy agreement announced on 26 October 2018, with Dyani Corporation Limited ("Dyani") (the "Dyani Agreement"), and in accordance with the consultancy agreement announced on 4 September 2019, with DG Infratech Pte Ltd ("DG") (the "DG Agreement") (together, the "Agreements").

The Agreements provide that new Ordinary Shares would be awarded to Dyani and DG in the event that certain key milestones were reached in respect of formally securing the interest of Chinese State-owned enterprises to partner in the Phulbari Coal and Power Project. Details of these milestones are set out in the Company's announcements dated 26 October 2018 with respect to the Dyani Agreement and 4 September 2019 with respect to the DG Agreement.

Accordingly, the following consulting fees were settled via the issuance of new Ordinary Shares:

- in lieu of the retainer fee for the period from 1 April 2018 to 30 June 2018, the Company issued 300,000 new Ordinary Shares to Dyani in accordance with the terms of the previous Dyani consultancy agreement, announced on 18 May 2017;
- in lieu of the retainer fee for the period from 1 July 2018 to 30 June 2019, the Company issued 2,142,856 new Ordinary Shares to Dyani;
- for the negotiation and finalisation of the MOU with Power Construction Corporation of China, Ltd ("PowerChina") for power plants generating up to 4,000MW, as announced on 27 November 2018, a success fee was awarded to Dyani, satisfied by the issue of 3,928,546 new Ordinary Shares;
- for the negotiation and finalisation of definitive agreements with PowerChina in respect of power plants generating up to 2,000MW, as announced on 17 January 2019, a success fee was awarded to Dyani, satisfied by the issue of 7,149,954 new Ordinary Shares; and
- in lieu of the retainer fee for the period from 1 September 2019 to 30 November 2019, the Company has issued 199,998 new Ordinary Shares to DG, in accordance with the terms of the DG Agreement.

On 3 February 2020, the Company announced it had agreed a £1.2 million increase to its existing loan facility of £2.3 million with Polo (the "Polo Facility").

Prior to this amendment, the Polo Facility allowed the Company to borrow up to £2.3 million, to be repaid within 90 days upon request and attracting an interest rate of 12% per annum. As set out in the Company's Annual Report and Accounts for the year ended 30 June 2019, the existing Polo Facility had been fully drawn down. The revised terms provide for an increase in the Polo Facility amount by £1.2 million (up to an aggregate of £3.5 million), which can be drawn down by the Company in equal quarterly instalments of £300,000. As set out in the Company's announcement, of 30 November 2018, Polo will have the right to convert the outstanding loan balance and accrued interest into new ordinary shares in the Company's capital at a price of 11p per share, within 14 days upon request. Any issue of GCM shares to the Polo is conditional upon its interest, together with the interest of any parties with which it is in concert, remaining below 30% of the Company's issued share capital. All other principal terms of the Polo Facility remained unchanged.