

26 June 2009

To: Joint Committee on Human Rights

GCM Resources and the Phulbari Coal Project

GCM Resources plc (GCM or the Company) welcomes the important work being undertaken by the Joint Committee to inquire into business and human rights, the impact of business, and the responsibilities of the UK Government.

Comments on the Review

Business, including extractive industries, can make a positive contribution to human rights in developing countries. In the case of Bangladesh, the human right to development is being hampered by the lack of available power and energy to fuel the economy. The Phulbari Coal Project (the Project), the main asset of GCM, will make a significant contribution to relieving the country's energy crisis. The social and environmental impacts will be managed to international standards and affected people will be fully and fairly compensated for loss of assets and provided with new opportunities for development.

We believe that being a good corporate citizen is a competitive advantage irrespective of the regulation in the UK or host country. But, in this emerging field of business and human rights, government has an important role to play in providing support and advice to businesses and helping to share examples of good practice.

The activities of business are rightly subject to review and challenge by other parties and we welcome opportunities to discuss and debate, explain our activities and learn from others. It is inevitable that businesses operating in developing countries are subject to higher levels of scrutiny – we accept this. In our experience, however, not all comment and analysis is well informed, balanced or constructive and so any changes to the UK framework should include safeguards to ensure that a UK company does not expend unnecessary resources in responding to ungrounded accusations from ill-informed organisations. Any formal UK process for investigating complaints against UK companies should include controls to screen out unsubstantiated allegations at as early stage as possible so that the company's reputation is not tarnished nor is it necessary for it to expend significant financial resources and management time. An absence of such controls would put UK companies at a disadvantage relative to those incorporated in other countries where controls are less exacting or nonexistent.

Response to NGO Submissions

GCM appreciates the Committee's invitation to respond to the submissions made by the London Mining Network and the World Development Movement which mention GCM and its Phulbari Coal Project. We would like to take this opportunity to clarify the facts about the Project and



restate the strong commitment GCM has to respecting human rights throughout its business operations.

Firstly, we believe it is important to provide some information regarding the context in which the Project will be developed. Bangladesh is currently facing an acute energy crisis, brought about by reliance on depleting reserves of gas and rising energy demand. Two thirds of the 150 million people who live in Bangladesh do not have access to electricity, and those that do suffer from frequent power cuts from load shedding. Agricultural production has been hampered as a reliable supply of power is not available for farmers' irrigation pumps and the Government is having to ration gas between power generation and fertiliser production. Other industries are also suffering due to chronic load shedding. The Project will make a significant contribution to the country's energy security by providing reliable supplies of coal to new power stations. Independent studies forecast that over its 30+ year life, the Project has the potential to increase annual Gross Domestic Product by up to 1.0 % per annum and create some 17,000 direct and indirect jobs. In order to even maintain economic growth levels of 5 - 6% and continue to make some progress against the Millennium Development Goals, Bangladesh must resolve this energy crisis.

Following the terms of its contract with the Bangladesh Government the Company embarked on detailed exploration of the Phulbari Coal field in 2004. This led to a Feasibility Study which included an extensive Environmental and Social Impact Assessment (ESIA) carried out by SMEC International Pty Ltd, a leading Australian consulting firm with over twenty years experience in Bangladesh. The ESIA includes a Resettlement Plan, an Indigenous Peoples Development Plan (the first of its kind in Bangladesh), a Livelihood Restoration Plan, various Water Management Studies and a Public Consultation and Disclosure Plan. Environmental Clearance was granted in September 2005.

In October 2005 the Company submitted its Feasibility Study to develop an open pit coal mine in the northwest of the country, and awaited approval from the Government of Bangladesh to proceed. Some months afterwards a public debate began regarding the development of a coal industry in the country, as well as a debate on the role of foreign companies in the energy and power sector.

In August 2006, a protest against the mine took place in the Project area. Estimates of the numbers of people attending the protest vary but are generally agreed to be several thousand (certainly not 50,000). The protest included local residents as well as many who had been transported to the area from outside. The protest ended in tragedy with loss of life and many suffering injury reportedly following actions taken by the Bangladesh Rifles to manage the crowd.

Since 2006 the debate has continued. There are a number of people who vocally oppose the Project and others who are strongly supportive. GCM has always welcomed and expects open debate on all aspects of the planned coal mine. The World Development Movement refer in their submission to an 'Expert Committee Report'. As was reported in the media at the time, the Committee's final Report is contentious as it was not signed off by the majority of its members and was therefore never publicly released.

At the end of 2008, following a two-year State of Emergency, the Bangladeshi people elected a new government by an overwhelming majority. As stated in their manifesto, key issues to be addressed by this new government to add capacity to the national grid include special initiatives

to ensure economic use of coal and the development of coal-based power plants. The new government is currently examining the different opinions of experts within and outside the country, in particular with regard to the social, environmental and local economic impacts of mining to form its approach to developing a coal industry in the country.

Important points:

- The Project will adhere to national regulations, to the social and environmental safeguard policies of any institutional investor and to the revised Equator Principles (www.equator-principles.com) which are required by many commercial banks for project financing and reflect the International Finance Corporation's Performance Standards on Social and Environmental Sustainability. The Environmental and Social Impact Assessment (ESIA) prepared by GCM has already been subject to independent review and this approach will continue throughout its lifetime.
- The Company recognises that a key component of the Project is regular and ongoing engagement with the community. Despite the difficulties of doing so in a complex environment, the Company continues to meet with numerous groups to explain the Project (including NGOs and media) and has also provided information about the Project in Bangladesh on the website: www.phulbaricoal.com. Once approval is granted the Company will restart extensive consultation with local stakeholders. Furthermore, considering the delay in the Project timeline, the Company will also reconfirm various data regarding who will be impacted and what their preferences are with regard to resettlement options and livelihood support. The Project will continue to ensure that local stakeholders are fully informed and have been consulted prior to Project commencement.
- Compensation measures for the approximately 40,000 people who will need to be resettled will meet the requirements of the IFC Performance Standard 5 on Land Acquisition and Involuntary Resettlement. This covers titled and non-titled landowners and illegal settlers. People will be able to move into homes in the village resettlement sites and the western extension of the Phulbari Township. These homes will be an improvement on their current living conditions and investments will be made in education and health facilities and improved infrastructure. The capital budget for all resettlement and community provisions is the largest single item in the Project development costs.
- The Project itself, while requiring approximately 5,900 hectares of land over its 30+ year lifetime, will only use around a third of this area at any one time. As mining progresses southwards the excavated pit will be backfilled and the land rehabilitated. At the end of the Project's life, agricultural land will be available once more, along with newly created forest area, and a lake which will be an important community asset.
- During the Feasibility Study the Company conducted agricultural studies and field demonstrations, together with the Department of Agriculture Extension and over 200 local farmers. The studies show an expected increase in agricultural productivity in the Project area due to the introduction of improved farming practices, crop varieties, and year round availability of water for irrigation.
- Livelihood restoration is an important component of the overall social management plan for the Project. To facilitate this, the Company has developed a Livelihood Restoration Strategy which will enable local stakeholders to take advantage of the opportunities generated by the

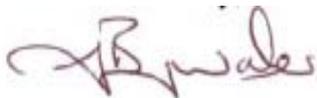
stimulation of the local economy, the establishment of cottage industries and improved farming methods. Many spin off industries will also be created through the use of co-products from the mine including sand, gravel, china clay and rock aggregate and thousands of jobs will be created. Training and development will be provided and preferential employment policies will enable local people to benefit from the creation of new jobs associated with the Project.

- Extensive water management studies have been undertaken to ensure that the Project manages its impacts on water. The Company's plans reflect the requirements of farmers and the community. Water from the Project will be provided for irrigation, village and town reticulated water supplies. The comprehensive Water Management Plan includes injecting water into the aquifer to maintain the water table away from the Project area and to thus restrict drawdown to the near vicinity of the Project area. A water distribution system will ensure reliable access to water for residents, businesses and farmers; existing water bores and pumps will be upgraded by the Project. This Water Management Plan is not unique and there are many examples of successful implementation elsewhere in the world.

Over the last ten years, the mining industry has consistently improved the way in which it manages its social and environmental impacts and GCM takes great care to stay up to date on such improvements. The various studies contained in the ESIA are living documents and are subject to regular review and improvement. As such, while awaiting Government approval for the Project, the Company has engaged various experts to improve our social and environmental management plans and keep staff informed of new developments in best practices. For example, last year, senior management were trained on the latest developments with regard to human rights and business and fully understand how our social and environmental management plans have been developed to protect such rights. Earlier this year, the Company joined the UN Global Compact and is actively integrating the ten principles into its own management systems.

GCM and its subsidiary Asia Energy Corporation (Bangladesh) Pty Ltd remain committed to undertaking the Phulbari Coal Project to the highest international standards and look forward to helping Bangladesh overcome the current energy crisis, reach its development goals, and ensure we deliver significant benefits for all our stakeholders and attractive returns for our shareholders. In so doing, we believe that we will help protect human rights, including the human right to development (1986 Declaration on the Right to Development).

Yours faithfully



Steve Bywater
Chief Executive