FALCON GOLD ZIMBABWE LIMITED

Audited Financial Statements For The Year Ended 30 September 2016

ANALYSIS OF RESULTS

Falcon Gold Zimbabwe Limited (the "Group") realized a net loss of US$1 356 385 (US$0.012 per share) for the year ended 30 September 2016, as compared to a net profit of US$6 443 977 (US$0.058 per share) for the year ended 30 September 2015. The net operating loss for the year ended 30 September 2016 was US$2 689 497, as compared to a net operating loss of US$1 952 018 for the year ended 30 September 2015. The Group's increase in operating loss in fiscal 2016 as compared to fiscal 2015 was caused mainly by lower production levels. On the positive side, lower mining and processing costs, together with lower administration costs, helped reduce the negative impact of lower production levels.

Gold sales in fiscal 2015 and 2016 were realised from the Group's sole operating mine, the Golden Quarry/Camperdown Mine. Gold sales for the year ended 30 September 2016 decreased by 67 kilograms or 22.5%, to 231 kilograms, as compared to 298 kilograms for the year ended 30 September 2015, mainly due to power outages and equipment breakdowns in fiscal 2016.

The average gold price realised was US$1 219 per ounce for the year ended 30 September 2016, as compared to US$1 164 per ounce for the year ended 30 September 2015, an increase of US$55 per ounce or 4.7%. The world gold price has continued to remain at depressed levels, and is currently fluctuating in a range between US$1 130 and US$1 190 per ounce, with the risk in fiscal 2017 appearing to be to the downside.

Mining and processing costs were US$10 361 326 for the year ended 30 September 2016, as compared to US$11 243 768 for the year ended 30 September 2015 for continuing operations, a reduction of 7.8%. This reduction was in spite of a 1.5% increase in NEC mandated salary and wage levels effective 1 January 2016.

Administration charges were US$1 019 672 for the year ended 30 September 2016, as compared to US$1 318 736 for the year ended 30 September 2015. Total administration costs for 2016 excludes care and maintenance costs of $184 576 for Dalny Mine, a discontinued operation. The prior year profit resulted mainly from the loss of control of Admeprint Marketing (Private) Limited.

Notes to the Consolidated Financial Statements

1. Capital expenditure incurred amounted to $546 893 (2015: $395 199).
2. No dividends were paid during the year ended 30 September 2016.
3. Shareholder's loans are long term, payable over 5 years and relate to unsecured loans provided by the parent company New Dawn Mining Corp at an interest rate of 3 months LIBOR.
4. The short term loan refers to a refundable unsecured amount received from Vast Resources PLC payable within 12 months and is interest free.
5. The current year impairment reversal relates to Gold Bonds previously impaired and converted into treasury bills and sold. The prior year impairment reversal relates to Dalny Mine assets that were previously impaired.

AUDIT STATEMENT

The Group's external auditors, Ernst & Young, have issued an unqualified opinion on the consolidated financial statements for the year ended 30 September 2016, with an emphasis of matter on going concern uncertainty. The Group has recorded a net loss for the year ended 30 September 2016 of $1 356 385 (2015: profit of $6 443 977) and as at that date its current liabilities exceed its current assets by $2 373 615 (2015: $4 230 110) and has negative equity of $11 371 805 (2015: $10 015 430). These conditions, along with other matters as set forth in the Chairman's Statement below, indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The audited financial statements, including the audit opinion, are available for inspection at the Company's registered offices, of which this press release represents an extract.

CHAIRMAN'S STATEMENT

OVERVIEW

In the 2016 half-year report for the 6 months ended 31 March 2016, the Group reiterated that there was a need in the short-term to undertake certain underground infrastructure changes to ensure that the higher grade, lower tonnage operating program embarked on during the previous year became self-sustaining. The capital required for this program is still not available and ongoing improvements continue to be made from the Group's limited cash resources. As a result of this capital shortage, the program time lines have been extended and the operations are not currently able to produce at a rate that covers the cash costs of production. The impact of this situation is reflected in the Group's 2016 operating results.

This difficult situation could have been mitigated by a reduction in royalty and power tariffs, long mooted and motivated by the Zimbabwe Chamber of Mines, but to date the economic operating regime in the country has not been revised to reflect these issues. Notwithstanding this constraint, the Group is making slow but consistent progress on the current projects, and is hopeful that these projects will be completed during the second quarter of fiscal 2017. Until such time that the planned infrastructure changes are completed, management will continue to focus on operating efficiencies and further cost containment.

The toll treatment at Dalny Mine has been a significant source of revenue for the Group, generating income greater than the care and maintenance costs of Dalny Mine. This rental agreement is scheduled to expire on 31 December 2017.

On 30 September 2016 the Group entered into an agreement to sell Dalny Mine to Rio Gold (Private) Limited. The disposal of Dalny Mine will allow the Group to realign and rationalise its asset base, whilst providing much needed growth and working capital. This new capital should enable the Group to enhance the various projects described above and return the Group to viability. This agreement is subject to various conditions precedent and the Group is working to fulfil these. A circular on this transaction will be presented to shareholders prior to an EGM, where the approval of the transaction will be proposed.

In January 2016 Falcon Gold Zimbabwe Limited acquired 74% of shares in Musical Scales (Private) Limited, a company involved in the processing of sands, for a nominal amount of US$ 29.60.

OUTLOOK

The concerted effort at industry level to lobby the authorities for a change in the tax and power cost base has been met with limited success. Towards the end of fiscal 2016, Government advised of an intention to reduce the cost of power to the mining industry by nearly 40%, from the current US12.8c/kWhr to US8.0c/kWhr. Implementation of this recommendation early in fiscal 2017 would go a long way in reducing the cost base of the mines, with the possibility of at least going into a cash neutral position. Regrettably, implementation of this recommendation remains doubtful, as the power utility seems reluctant to implement the recommendation.

The high cost base, coupled with the falling gold price, remains a real and persistent threat to the continued operations of the Golden Quarry/Camperdown Mine. However, measures in the form of key growth projects are being put in place to increase the ore production and treatment capacities at the mine in fiscal 2017, which should raise production volumes and generate increased revenues. However, since these projects are being funded from the limited cash generated by the mine, they may not be commissioned within the desired time frames. The proceeds of the Dalny Mine sale may accelerate these projects and fund other new projects that will further enhance the performance of the Group.

Access to investment and debt capital would have resulted in the above-described projects being commissioned in 2016 however, regrettably, it is extremely difficult at the moment to raise investment and debt capital in Zimbabwe. The current liquidity constraints being seen in the country have made debt capital almost non-existent and it would appear that financial institutions base their decision making on current financial results rather than the potential of the business after such debt funding. Added to the reluctance of local institutions to lend, investor appetite, whether foreign or local, remains dampened by the macro environment in the country. It therefore follows that the Group will have to extricate itself from this difficult situation before support can be sought and secured from local financial institutions or new investors into the Group. The sale of Dalny Mine and the prudent use of the proceeds' will assist the Group in resolving this situation.

Notwithstanding the fact that the Group had previously stopped all exploration and new project developments during fiscal 2016, efforts are now in place to carry out some limited exploration activities and to implement previously planned and mooted projects for commissioning during the current fiscal year and beyond. The pace at which this can be done will be accelerated by the proceeds from the sale of Dalny Mine.

The Group remains in distress, but it is management's view that during fiscal 2017 the efforts being pursued have the potential for the Group to realise an improved operating performance and subsequent financial position, with the possibility of arriving at more than a cash neutral position by the end of the fiscal year. These efforts will include serious attention to controlling costs and a continuing focus on increasing production and, subject to the trends in the price of gold, revenues.

Surviving the initial months of fiscal 2017 is requiring a concerted partnership with creditors and support from all staff as the Group strives for survival. After that, however, the Group is hopeful that the worst will have been overcome and that the Group can operate on an even keel.

GOING CONCERN

Based on the above factors, the Directors consider that, at this time, a combination of the measures previously implemented and the strategies noted above have a reasonable expectation of allowing the Group to overcome the current adverse operating and financial circumstances. Therefore, in the opinion of the Directors, the going concern basis is the appropriate method of reporting the Group's financial position as at 30 September 2016 and its results of operations for the twelve months then ended, and the Group will continue to realise its assets and discharge its liabilities in the ordinary course of business.

Due to the serious liquidity problems, the continued absence of significant investor appetite for Zimbabwe, and the lack of profits, management of the Group is, of necessity, operating the Group with a determined focus on addressing short-term issues as they arise, but there can be no assurances that the Group will be able to continue to conduct operations should existing circumstances persist and become exacerbated. The majority of factors affecting the Group's operations are external factors outside of its control. As such, there is significant pressure on the Group's efforts to survive. Accordingly, and as stated previously, should the Group be forced to consider shutting down its remaining mining operations, either temporarily or permanently, and/or liquidating the Group and its assets in a formal or informal arrangement, then the Group may be unable to continue realizing value from its assets and discharging its liabilities in the normal course of business.

These financial statements do not include any adjustments that might result were it inappropriate to use the going concern basis of accounting.

IAN R SAUNDERS
FOR THE BOARD **30 December 2016**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2016

	2016 US$	2015* US$
Continuing operations		
Revenue	9 009 518	11 138 916
Mineral production expenses	(10 361 326)	(11 243 768)
Gross loss	(1 351 808)	(104 852)
General and administrative expenses	(1 019 672)	(1 318 736)
Other operating expenses	(318 017)	(528 430)
Net operating loss	(2 689 497)	(1 952 018)
Other income	526 515	100 401
Impairment reversal	333 897	-
Other expenses	(274 700)	(373 498)
Finance income	3 022	2 960
Finance costs	(252 922)	(214 739)
Loss before taxation from continuing operations	(2 353 685)	(2 436 894)
Taxation	(680)	(4 031)
Loss for the year from continuing operations	(2 354 365)	(2 440 925)
Discontinued operations		
Profit from discontinued operations	997 980	8 884 902
Total comprehensive (loss)/profit for the year	(1 356 385)	6 443 977
(Loss)/profit for the year attributable to:		
Owners of the parent	(1 287 889)	6 443 977
Non-controlling interest	(68 496)	-
	(1 356 385)	6 443 977
Basic and diluted (loss)/earnings per share for continuing and discontinuing operations (US cents)	(1)	6
Basic and diluted (loss)/earnings per share for continuing operations (US cents)	(2)	(2)

** Certain comparatives have been re-presented to reflect the impact of the results from the discontinued and discontinuing operations.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

	2016 US$	2015 US$
ASSETS		
Non current assets		
Property, plant and equipment	2 423 488	8 096 730
Current assets		
Inventories	900 420	1 869 321
Related party receivables	1 842 165	1 443 121
Trade and other receivables	658 127	1 085 775
Cash and cash equivalents	150 054	239 507
Assets held for sale	6 573 362	-
Total current assets	10 124 128	4 637 724
TOTAL ASSETS	12 547 616	12 734 454
EQUITY AND LIABILITIES		
Equity		
Share capital	1 111 651	1 111 651
Non distributable reserve	(2 766 582)	(2 766 582)
Accumulated losses	(9 648 388)	(8 360 499)
Non - Controlling Interest	(68 486)	-
Total equity	(11 371 805)	(10 015 430)
Non current liabilities		
Shareholders' loan	9 927 653	10 048 949
Rehabilitation provision	1 494 025	3 833 101
	11 421 678	13 882 050
Current liabilities		
Related party payables	2 639 992	1 717 542
Other Short term loans	183 335	458 334
Trade and other payables	4 602 549	6 691 958
Liabilities directly associated with assets held for sale	5 071 867	-
Total current liabilities	12 497 743	8 867 834
Total liabilities	23 919 421	22 749 884
TOTAL EQUITY AND LIABILITIES	12 547 616	12 734 454

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Share capital US$	Non distributable reserve US$	Accumulated losses US$	Total US$	Non Controlling Interest US$	Total US$
Balance as at 30 September 2014	1 111 651	(2 766 582)	(14 804 476)	(16 459 407)	-	(16 459 407)
Total comprehensive income	-	-	6 443 977	6 443 977	-	6 443 977
Profit for the year	-	-	6 443 977	6 443 977	-	6 443 977
Balance as at 30 September 2015	1 111 651	(2 766 582)	(8 360 499)	(10 015 430)	-	(10 015 430)
Total comprehensive income	-	-	(1 287 889)	(1 287 889)	(68 496)	(1 356 385)
Loss for the year	-	-	(1 287 889)	(1 287 889)	(68 496)	(1 356 385)
Acquisition of subsidiary	-	-	-	-	10	10
Balance as at 30 September 2016	1 111 651	(2 766 582)	(9 648 388)	(11 303 319)	(68 486)	(11 371 805)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2016

	2016 US$	2015* US$
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation from continuing activities	(2 353 685)	(2 436 894)
Profit before taxation from discontinued activities	997 980	8 884 902
(Loss)/profit before tax	(1 355 705)	6 448 008
Adjusted for non-cash items :		
Depreciation and depletion from continuing operations	318 017	528 429
Depreciation and depletion from discontinued and discontinuing operations	306 382	309 906
Reversal of Impairment on financial instruments	(333 897)	-
Reversal of impairment on property, plant and equipment	-	(5 959 198)
Profit on disposal of property, plant and eqiupment	(23 157)	-
Non-cash write off of Intercompany balances	-	290 116
Net gain arising from loss of control of subsidiary	-	(3 566 105)
Finance income from continuing operations	(3 022)	(2 962)
Finance income from discontinued and discontinuing operations	(24)	-
Finance costs	28 705	9 914
Finance charges on trade payables	-	82 253
Change in leave pay accruals	-	20 255
Rehabilitation provision - interest from continuing operations	210 227	228 884
Rehabilitation provision - interest from discontinued and discontinuing operations	364 738	317 164
Bad debts written off	-	81 723
Cash flows from operations	(487 736)	(1 211 612)
Change in inventories	275 276	342 346
Change in trade and other receivables	(220 381)	(283 114)
Change in trade and other payables	957 803	(1 236 942)
Cash flows from operating activities	524 962	(2 389 322)
Tax paid	(680)	(4 031)
Finance charges paid	-	(9 914)
NET CASH FLOWS FROM OPERATING ACTIVITIES	524 282	(2 403 267)
Cash flows from financing activities		
Loan repayments	(425 000)	(666 666)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(425 000)	(666 666)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(546 892)	(395 199)
Proceeds from reorganisation of Admeprint Marketing (Private) Limited	-	3 650 000
Proceeds from sale of property, plant and equipment	27 572	-
Proceeds from disposal of financial instruments	333 897	
Net cash flow from loss of control of Admeprint Marketing (Private) Limited	-	(2 100)
Finance income from discontinuing operations	24	
Finance income from continuing operations	3 022	2 962
NET CASH FLOWS FROM INVESTING ACTIVITIES	(182 377)	3 255 663
Net change in cash and cash equivalents	(83 095)	185 730
Cash and cash equivalents at the beginning of the year	239 507	53 777
Cash and cash equivalents at the end of the year	156 412	239 507
Cash and cash equivalents comprise:		
Cash and cash equivalents attributable to continuing operations	150 054	239 507
Cash and cash equivalents attributable to discontinuing operations	6 358	-
	156 412	239 507