

# FALCON GOLD ZIMBABWE LIMITED



## Unaudited Interim Results For The Half Year Ended 31 March 2019



Falcon Gold Zimbabwe Limited (the "Group"), the Zimbabwe Stock Exchange-listed gold mining and exploration company, announced unaudited interim consolidated results of operations as of and for the six months ended 31 March 2019.

### ANALYSIS OF RESULTS

The Group reported a total comprehensive loss of \$27 224 725 (-\$0.245 per share) for the six months ended 31 March 2019, as compared to a total comprehensive loss of \$1 681 348 (-\$0.015 per share) for the six months ended 31 March 2018. The increase in total comprehensive loss is mainly due to foreign exchange losses amounting to \$23 917 228.

The Group produced 1,849 ounces of gold for the six months ended 31 March 2019 (average sale price of US\$1,350 per ounce on the sale of 1,961 ounces of gold), as compared to 1,920 ounces of gold for the six months ended 31 March 2018 (average sale price of US\$1,321 per ounce on the sale of 1,964 ounces of gold). Gold production decreased by 71 ounces or 3.7% in 2019 as compared to 2018.

Mineral production expenses increased to \$5 240 676 (-183,70% of revenue) for the six months ended 31 March 2019, as compared to \$3 707 570 (-143,32% of revenue) for the six months ended 31 March 2018.

General and administrative costs increased by 46.06% for the six months ended 31 March 2019, as compared to the six months ended 31 March 2018. These costs increased to 16.51% of mining and processing costs for the six months ended 31 March 2019, as compared to 15.91% of mining and processing costs for the six months ended 31 March 2018.

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 March 2019.

- The interim results were prepared in compliance with IAS 34: Interim Financial Reporting and in accordance with the Zimbabwe Stock Exchange listing requirements. The Group has applied both IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective approach. The key impact of IFRS 9 is the measurement of the impairment provision relating to trade receivables. Under IFRS 9 the provision has been calculated using the expected credit loss model compared to the incurred loss model under IAS 39. The change has not resulted in a material change due to the nature of the Group's trade debtor. The adoption of IFRS 15 has not impacted on the timing or amount of revenue recognised from the sale of gold.
  - The Group's functional and presentation currency is the RTGS Dollar (ZWS). The Group had in prior financial periods used the United States Dollar as its functional and presentation currency. The fiscal and monetary policy pronouncements made in October 2018 led to a reassessment of the functional currency and a justification to conclude that, under IAS 21 'Effects of Foreign Exchange Rates', there was a change in functional currency effective 22 February 2019. Comparative numbers for the six months ended 31 March 2018 and for the full year ended 30 September 2018 have not been restated and have been disclosed as RTGS Dollars at a rate of one to one to the USD.
  - The opening balances at 1 October 2018 are carried at USD/ZWS1:1 in compliance with Statutory Instrument 33 (SI 33) of 2019. The Group used this fixed exchange rate at 1 October 2018 and thus did not comply with the requirements of International Accounting Standard 21 (IAS21), "The Effects of Changes in Foreign Exchange Rates", as doing so would have been in contravention of SI 33 of 2019. The financial statements were restated using the first available interbank mid-rate on 22 February 2019 of USD/ZWS1:2.5, giving rise to exchange gains/losses of ZWS16 174 928.
- The International Financial Reporting Standards (IFRS) do not prescribe clear guidance on the treatment of the movements arising on the translation of foreign currencies on the date of change in functional currency. As such, the Directors had to apply their judgement on the treatment of these translation gains and losses in a manner that most faithfully represents the substance of the event and related transactions.
- The Directors had to apply judgement in determining the rates at which the comparative information for the six months ended 31 March 2018 would be restated. The currency conversion challenge emanates from existence of a 3-tier pricing structure during the comparative period depending on mode of settlement and the challenge was compounded by the fact that the official exchange rate between USD and the bond note/electronic balances was pegged at 1:1 and there was no orderly, functional market where foreign currency transactions were being conducted in order to establish credible foreign currency conversion rates. On that basis, the Directors have restated the comparative information at the official rate of USD/ZWS1:1 as the cost and effort of restating the comparative information using any other rate outweighs the benefits that may arise from the exercise and would contravene the country's laws and regulations.
- The Directors are ultimately responsible for the preparation of the results and related financial information that fairly present the state of affairs and the results of the Group.
  - The ZSE suspended trading in Falcon Gold Zimbabwe Limited shares with effect from 5 February 2019 following the delay in publicising audited consolidated financial statements for the year ended 30 September 2018.
  - The Group had minimal capital expenditures incurred for the six months ended 31 March 2019 amounting to \$60 221, as compared to \$150 854 for the six months ended 31 March 2018.
  - No dividends were paid during the six months ended 31 March 2019 and 31 March 2018.
  - Shareholder's loans refer to unsecured parent company loans. The interest rate is at United States Dollar 3 months Libor rate. Payments terms towards loan is on availability of funds.
  - Related party payables are intercompany balances owed to sister companies within the Group.

### OVERVIEW

In our Statement to Shareholders accompanying the 30 September 2018 year-end financial statements, we reported that there was a catastrophic engineering failure of the main operating mill at Golden Quarry Mine, which adversely affected production and cash flows. Termination of power supplies by ZETDC further compounded the problems. As a result of this and other cash flow challenges, the Golden Quarry Mine has not been operational. Management has undertaken a full impact assessment and is evaluating various options to deal with the situation including either repair, refurbish or outright replacement of the mill. Notwithstanding the mill failure, to date the funding required to execute the 2019 Budget has not been provided and discussion with the company's majority shareholder are ongoing.

### OUTLOOK

There have been some positive developments in the operational macro environment for the mining industry as compared to previous years although the tax regime remains unfavourable. The gold price has remained favourable and is predicted to continue the upward trend in the foreseeable future. The power supply situation remains unstable although it is believed that there could be some improvements going forward with the mining industry set to be on dedicated power supply. Management is currently working hard to ensure that as soon as funding is received and some minor repairs to the plant undertaken, the Golden Quarry Mine will resume operations.

### GOING CONCERN

The Group sustained losses attributable to the shareholders of the Group during the six months ended 31 March 2019 amounting to \$27 224 725 (2018: \$1 681 348). The Group had a net working capital deficit at 31 March 2019 of \$11 329 680 (30 September 2018: \$6 748 056) and negative equity of \$44 386 023 at 31 March 2019 (30 September 2018: \$17 161 298). The Group continues to incur losses.

We obtained a letter of support from the ultimate holding company New Dawn Mining Corporation, which states that they will not demand repayment of loans in the 12 months after period end and will extend principal repayments due for another year.

The Board and management, with the assistance of the majority shareholder, are exploring options for additional US\$2.5m – US\$3m of funding to enable repair of the mill and resuscitation of mining operations but have not finalised the funding structure.

The interim financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### APPRECIATION

The delay in the publication of the March 2019 Interim Financial Results was caused by the delayed publication of the September 2018 Financial statement as per the cautionary statement to the shareholders dated 17 December 2018.

The company's shares were suspended from trading on the 5th of February 2019, on application by the company to ZSE, as the company had not finalised the September 2018 Financial statements in time. After the publication of the Falcon Gold 2019 half year results, the company will be making an application to ZSE to resume trading of the shares.

I am thankful to board colleagues, management and staff for their dedication. I am also grateful to our suppliers for their continued support

IAN R SAUNDERS  
FOR THE BOARD

13 September 2019

### CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

	(Unaudited) Six months ended 31 March 2019 ZWS	(Unaudited) Six months ended 31 March 2018 ZWS*
<b>Continuing operations</b>		
Revenue	2 852 920	2 586 834
Mineral production expenses	(5 240 676)	(3 707 570)
<b>Gross loss</b>	<b>(2 387 756)</b>	<b>(1 120 736)</b>
Other operating income	316 651	133 481
General and administrative expenses	(865 240)	(592 387)
Depreciation and depletion	(167 800)	(192 471)
Operating loss	(3 104 145)	(1 772 113)
Finance income	116 072	243 835
Foreign exchange loss	(23 917 228)	-
Finance costs	(322 852)	(151 308)
Loss before taxation	(27 228 153)	(1 679 586)
Taxation	3 428	(1 762)
Loss for the period	(27 224 725)	(1 681 348)
<b>Other comprehensive income:</b>		
Total comprehensive loss for the period	(27 224 725)	(1 681 348)
<b>Loss for the period attributable to:</b>		
Owners of the parent	(27 295 589)	(1 702 795)
Non-controlling interest	70 864	21 447
	(27 224 725)	(1 681 348)
Loss per share	<b>(0.245)</b>	<b>(0.015)</b>
Number of shares issued	<b>111 165 131</b>	<b>111 165 131</b>

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	(Unaudited) 31 March 2019 ZWS	(Audited) 30 Sept 2018 ZWS*
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	333 630	441 211
<b>Current assets</b>		
Inventories	803 064	1 088 582
Trade and other receivables	3 285 860	3 025 169
Cash and cash equivalents	192 297	81 721
Total current assets	4 281 221	4 195 472
Total Assets	4 614 851	4 636 683
<b>EQUITY</b>		
Share capital	1 111 651	1 111 651
Non-distributable reserve	(2 766 582)	(2 766 582)
Accumulated losses	(42 847 593)	(15 552 004)
Non-controlling interest	116 501	45 637
Total Equity	(44 386 023)	(17 161 298)
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Shareholder's loan	28 204 066	9 258 646
Rehabilitation provision	5 120 667	1 524 639
Deferred tax liabilities	65 240	71 168
	33 389 973	10 854 453
<b>Current liabilities</b>		
Related party payables	3 432 663	2 772 001
Trade and other payables	12 154 359	8 147 648
Tax liability	23 879	23 879
Total current liabilities	15 610 901	10 943 528
Total Equity and Liabilities	4 614 851	4 636 683

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital ZWS	Non distributable reserve ZWS	Accumulated losses ZWS	Total ZWS	Non- controlling interest ZWS	Total ZWS
<b>Balance as at 1 October 2018</b>	1 111 651	(2 766 582)	(15 552 004)	(17 206 935)	45 637	(17 161 298)
Total comprehensive loss	-	-	(23 295 589)	(27 295 589)	70 864	(27 224 725)
Loss for the period	-	-	(23 295 589)	(27 295 589)	70 864	(27 224 725)
<b>Balance as at 31 March 2019</b>	1 111 651	(2 766 582)	(42 847 593)	(44 502 524)	116 501	(44 386 023)

\* Comparatives have been translated from United States Dollars to RTGS Dollars (ZWS) at the legal rate of one to one.

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED 31 MARCH

	31 March 2019 ZWS	31 March 2018 ZWS*
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(27 228 153)	(1 679 586)
<b>Non-cash items included in loss before taxation:</b>		
Depreciation and depletion	167 800	192 471
Finance income	(116 072)	(243 835)
Foreign exchange loss	23 917 228	-
Finance costs on trade payables	322 852	151 308
Rehabilitation provision	326 652	(128 860)
Gain on disposal of property, plant and equipment	(165 000)	(50)
<b>Working capital adjustments:</b>		
Change in inventories	285 518	(7 889)
Change in trade and other receivables	(260 691)	964 349
Change in trade and other payables	4 667 373	766 755
<b>Cash flows from operating activities</b>	<b>1 917 507</b>	<b>272 383</b>
Finance costs paid	(322 852)	(151 308)
Taxation paid	(2 500)	(1 762)
<b>Net cash flows from operating activities</b>	<b>1 592 155</b>	<b>119 313</b>
<b>FINANCING ACTIVITIES</b>		
Loan repayments	(1 702 430)	(519 990)
<b>Net cash flows used in financing activities</b>	<b>(1 702 430)</b>	<b>(519 990)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	165 000	1 061
Acquisition of property, plant and equipment	(60 221)	(150 854)
Finance income	116 072	243 835
<b>Net cash flows used in investing activities</b>	<b>220 851</b>	<b>94 042</b>
<b>Net decrease in cash and cash equivalents</b>	<b>110 576</b>	<b>(306 635)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>81 721</b>	<b>363 277</b>
<b>Cash and cash equivalents at end of the period</b>	<b>192 297</b>	<b>56 642</b>
<b>Cash and cash equivalents compromise:</b>		
Cash and cash equivalents	192 297	56 642
	192 297	56 642