19 July 2017

Shanta Gold Limited
("Shanta Gold", "Shanta" or the "Company")

Q2 2017 PRODUCTION AND OPERATIONAL UPDATE

Shanta Gold (AIM: SHG), the East Africa-focused gold producer, developer and explorer, announces its production and operational results for the quarter ended 30 June 2017 (the "Quarter", "Q2" or the "Period") for its New Luika Gold Mine ("NLGM"), in Southwest Tanzania.

Highlights

Tanzania Legislation

- Tanzanian Parliament approved a new Finance Act and published a number of legislative Bills in June 2017 that were enacted as Laws in early July;
- Shanta is seeking advice on the legislation and assessing its potential impact and will provide updates as appropriate;
- It is anticipated that from its next gold shipment, royalty rates will increase from 4% to 6%, in addition to the 1% clearing fee already implemented; and,
- As a result of the new legislation, Shanta is undergoing a business review of its operation and cost base. Further updates will be provided in Q3 although this does not impact Shanta's production forecast.

Operational

- No lost time injuries for the Quarter;
- Quarterly gold production of 19,657 ounces ("oz") (Q1 2017: 20,416 oz) which is ahead of budget;
- Quarterly gold sales of 17,982 oz at an average price of US$1,249 per oz ("/oz"), compared to average spot price of US$1,258 /oz; and,
- Before accounting for capital adjustments, cash costs for Q2 of US$559 /oz (Q1 2017: US$553 /oz) and All in Sustaining Cost ("AISC") of US$735 /oz (Q1 2017: US$768 /oz).

Financial

- Cash balance of US$13.8 m (Q1 2017: US$11.7 m);
- Cash generated from operations in Q2 of US$13.1 m (Q1 2017: US$6.6 m);
- Capital expenditure of US$8.7 m (Q1 2017: US$9.9 m), before deducting US$5.3 m relating to processing of 26,702 tonnes of underground development ore (27,644 tonnes of underground development ore was mined) prior to commercial underground production of 1 June 2017 at NLGM;
- Gross debt of US$57.1 m (Q1 2017: US$56.2 m) and net debt of US$43.3 m (Q1 2017: US$44.5 m); and,

- Forward sales from July to December 2017 of 37,000 oz at an average price of US$1,278 /oz.

Development and Exploration

- First stope ore produced from NLGM underground operation in May 2017 and commercial production declared as of 1 June 2017. Establishment of further stopes continues and the decline had reached the 835 Relative Level ("RL") as at the end of June;
- Underground mining continued to achieve good and consistent gold grades. A total of 41,096 tonnes of ore grading 7.41 grams per tonne ("g/t") was mined in Q2; and,
- A JORC Compliant Code (2012) maiden resource for Nkuluwisi was announced totalling 3,973,000 tonnes at 1.1 g/t for a total of 140,894 oz of gold.

Corporate

- In June, Mr Keith Marshall was appointed as a Non-Executive Director. Mr Marshall is a mining engineer with over 35 years' experience including 22 years with Rio Tinto;
- Financing of €2.1 m (US$2.2 m) for underground equipment purchases with Sandvik completed in Q2;
- Financing of US$10.0 m (comprising US$7.5 m over 4-years and US$2.5 m for short term working capital) agreed with Exim, one of the largest commercial banks in Tanzania secured against the NLGM Power Station which was commissioned in Q1 2017 and is now fully operational. US$2.5 m of the US$7.5 m 4-year facility was disbursed in the Quarter;
- Entered into Arrangement Agreement for the proposed acquisition of Helio Resource Corp in exchange for 59.5 million Shanta shares. The posting of the offer document is expected in Q3 and remains subject to positive completion of outstanding conditions precedent;
- Proposed debt restructuring including a credit approved commitment letter with Investec Bank plc regarding a new US$50 m facility to replace the current US$40 m facility, of which US$32.6 m is outstanding. The restructuring remains subject to final documentation and due diligence by Investec Bank plc;
- Proposed buyback of the Company's US$15.0 m Convertible Loan Notes including receiving support from 77% of the noteholders to vote in favour of the buyback; and,
- Equity placement raising gross proceeds of US$14.0 m.

Guidance for 2017

- Annual guidance reiterated for 2017 of 80,000 – 85,000 oz at AISC of US$800 – US$850 /oz. The Revised Mine Plan ("RMP") produces gold at an average AISC of US$736 /oz with an average production for the next four years (2017-2020) of 85,000 oz.

Post Period

- The expanded Solar Power Plant at NLGM started commercial supply to NLGM as of 14 July 2017.

Toby Bradbury, Chief Executive Officer, commented:

"The Q2 2017 production result has far surpassed our projections whilst the underground mine ramped up. We have crossed the 40,000 oz of gold production mark for the year to date and are pleasingly on track to meet full year production guidance of 80,000 – 85,000 oz.

"Good progress continues to be made at the underground mine which remains on track, with first stope ore and commercial production declared as of 1 June 2017. The New Luika operation has been significantly de-risked in its transition to a predominantly underground mining operation.

"During the Quarter, we also announced important corporate achievements which will reshape the business to realise stronger shareholder value over the long term. We completed a US$14 million equity placement giving us increased financial flexibility and reducing outstanding working capital, and announced the proposed restructuring of our balance sheet allowing us to smooth our debt repayments and reduce our cost of capital. Lastly, we also announced the proposed conditional all-share acquisition of Helio Resource Corp, a Company which owns the property adjacent to NLGM.

"Shanta, as a result, sits on a stronger platform, notwithstanding the latest developments in country in regards to the new Finance Act and the number of legislative Bills recently enacted as Laws by the Tanzanian Parliament. As we have mentioned previously, we continue to seek advice on the legislation, as we assess its potential impact and further updates will be provided as appropriate."

Analyst conference call and presentation

Shanta Gold will host an analyst conference call and presentation today, 19 July 2017, at 09:30 BST. Participants can access the call by dialling one of the following numbers below approximately 10 minutes prior to the start of the call.

From UK (toll free): 08003589473
From UK toll: +44 3333000804
Participant PIN code: 95567707#

The presentation will be available for download from the Company's website: www.shantagold.com or by clicking on the link below:

https://www.anywhereconference.com?Conference=301194697&PIN=95567707&UserAudioMode=DATA

A recording of the conference call will subsequently be available on the Company's website.

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About Shanta Gold

Shanta Gold is an East Africa-focused gold producer, developer and explorer. It currently has defined ore resources on the New Luika and Singida projects in Tanzania and holds exploration licences over a number of additional properties in the country. Shanta's flagship New Luika Gold Mine commenced production in 2012 and produced 87,714 ounces in 2016. The Company has been admitted to trading on London's AIM and has approximately 766 million shares in issue. For further information please visit: www.shantagold.com.

This announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

Tanzania country update

The Tanzanian Parliament approved the new Finance Act in June, which imposes a 1% clearing fee on the value of all minerals exported from the country from 1 July 2017.

The Tanzania Parliament also published a number of legislative Bills in late June that were enacted as Laws in the Tanzanian Parliament in early July. The Company is seeking advice on the legislation and assessing its potential impact and will provide updates as appropriate.

Operational

Production Summary

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Tonnes ore milled	155,567	151,378	151,827	144,930
Grade (g/t)	4.28	4.57	4.26	4.90
Recovery (%)	90.9	92.0	90.8	90.2
Gold (oz)				
Production	19,657	20,416	18,897	20,580

Sales	17,982	23,252	15,285	23,426
Silver production (oz)	24,524	28,750	24,731	30,381
Realised gold price (US$)	1,249	1,249	1,187	1,301

The Run of Mine ("ROM") stockpile at 30 June 2017 was 107,000 tonnes of ore grading 1.9 g/t which is being blended with the high grade underground ore.

Safety, Health and Environment

Safety, Health and Environmental issues remain an ongoing priority for Shanta. There were no lost time injuries and no environmental incidents during Q2 2017.

Financial

A total of 17,982 oz of gold was sold at an average price of US$1,249 /oz. The average realised price was below the average spot price of US$1,258 /oz for the Quarter. As of 30 June 2017, the Company had sold forward 37,000 oz to December 2017 at an average price of US$1,278 /oz.

Cost guidance for 2017 was based on processing underground development ore as it became available with the development cost reporting to capital. On this basis, cash costs for Q2 were US$559 /oz (Q1 2017: US$553 /oz) and AISC were US$735 /oz (Q1 2017: US$768 /oz). Conventional accounting of capital projects requires the net revenue from development ore be offset against capital. Including the effect of accounting for underground development ore prior to commercial production, the AISC for the Quarter was US$1,006 /oz (Q1 2017: US$930 /oz) and capital would be reduced by US$5.3 m (Q1 2017: US$5.1 m). There is no cash impact of the different accounting scenarios. Commercial production was achieved on 1 June 2017.

There was a US$8.8 m decrease in working capital in the Quarter accounted for by a decrease in payables (US$3.5 m), an increase in inventories (US$3.8 m) and an increase in trade and other receivables (US$1.5 m) which includes VAT receivable which increased by US$1.6 m to US$14.0 m (including impact of foreign exchange revaluation of VAT from Tanzanian Shillings to USD). Cash generated from operations before working capital for the period was US$13.1 m. Capital expenditure was US$8.7 m (Q1: US$9.9 m) which was predominantly related to underground development and equipment.

The Company's cash balance at the Quarter end was US$13.8 m (Q1: US$11.7 m). The increase is due primarily to the successful completion of the equity placement in June 2017, offset against debt repayments of US$6.5 m in the Quarter, investment in capital expenditure and increase in VAT receivables. Gross debt increased to US$57.1 m (Q1: US$56.2 m) following ongoing repayments to Investec and Sandvik, offset against a drawdown of US$2.5 m from Exim Bank while net debt decreased to US$43.3 m (Q1: US$44.5 m).

No VAT was returned to Shanta during the Quarter. US$14 m VAT has been paid by Shanta over the past 14 months with the last refund having been received in April 2016. The Company is in continued discussion with the government around progressing the refunding of VAT and during the Quarter applied to offset corporate tax payments against government approved VAT refunds due to the Company.

As a result of the large sum now outstanding in VAT refunds, the Company continues to defer non-essential capital expenditure while it completes the development of its underground mine at New Luika. This applies to the Pilot Plant Project, exploration drilling and community projects at the Company's Singida project.

Exploration and Development

First stope ore was produced from the NLGM underground operation in May 2017 and commercial production was declared on 1 June 2017. Establishment of further stopes continues and the decline in the Bauhinia Creek deposit had reached the 835 RL as at the end of June. The underground continued to achieve good and consistent gold grades. A total of 41,096 tonnes of ore grading 7.41 g/t was mined in Q2.

A JORC Compliant Code (2012) maiden resource for Nkuluwisi was announced in May 2017 totalling 3,973,000 tonnes at 1.1 g/t for a total of 140,894 oz of gold.

No drilling was conducted during the Quarter and the Singida Pilot Plant Project remained on hold.

Corporate

Mr Keith Marshall was appointed as a Non-Executive Director. Mr Marshall is a mining engineer with over 35 years' in the sector enabling him to accumulate a wealth of technical and managerial expertise with the last fifteen years spent in senior mine leadership roles. Mr Marshall's last two operational roles were both with Rio Tinto, with whom he has worked for 22 years, as Managing Director of the Palabora Mining Company in South Africa and as President of the Oyu Tolgoi Project in Mongolia.

A number of financings were announced in the Quarter to fund the development of the underground mine at NLGM and increase the financial flexibility for the Company. During the first half of 2017, capital expenditures were US$18.6 m and expected to taper in the second half of 2017 as investment in the underground mine reduces and the major infrastructure projects are completed.

A financing of €2.1 m (US$2.2 m) for underground equipment purchases with Sandvik completed in Q2. A financing of US$10.0 m (comprising US$7.5 m over 4-years and US$2.5 m for short term working capital) was agreed in May 2017 with Exim, one of the largest commercial banks in Tanzania. The Exim debt is secured against the NLGM Power Station which was commissioned in Q1 2017 and is now fully operational. US$2.5 m of the US$7.5 m 4-year facility was disbursed in the Quarter.

An equity placement raising gross proceeds of US$14.0 m was completed in June 2017.

A number of corporate activities were announced but not yet completed, subject to conditions and documentation in the coming months. The Company entered into an Arrangement Agreement to acquire Helio Resource Corp (TSX-V: HRC) in exchange for 59.5 million Shanta shares. The acquisition is subject to the satisfaction of certain conditions including a vote by shareholders of Helio Resource Corp. and voting support agreements by 39% of existing shareholders have already been entered into.

A proposed debt restructuring was announced including a credit approved commitment letter with Investec Bank plc regarding a new US$50 m facility to replace the current US$40 m facility, of which US$32.6 m is outstanding. The restructuring is subject to documentation with Investec. A proposed buyback of the Company's US$15.0 m Convertible Loan Notes was also announced. The buyback will be funded by the increased debt facility from Investec Bank plc. Support from 77% of the noteholders to vote in favour of the buyback has been received and the buyback is conditional on successful closing of the Investec Bank US$50 m facility. Subsequent to the Quarter end, the written resolution has been passed and the buyback is conditional on the finalisation of the Investec Bank plc debt documentation. The restructured balance sheet reduces the Company's cost of capital and smooths the debt repayment profile over the next 3.5 years.

Solar Power Plant

The expanded Solar Power Plant at NLGM started commercial supply to NLGM as of 14 July 2017. The plant has an installed capacity of 696 kW of solar power. The solar contribution will reduce further NLGM's overall cost of power, which has already benefited in 2017 with the commissioning of the purpose-built Heavy Fuel Oil ("HFO") Power Station. The higher efficiency of the medium speed HFO generators and lower HFO prices have significantly reduced Shanta's energy costs compared with the previous high speed diesel power plant. The solar facility is provided through a power purchase agreement with Redavia Tanzania Asset Ltd and has required no capital from Shanta. The plant will produce an estimated 944,000 kWh annually.

The reduction in HFO fuel consumption from the use of solar energy, anticipated at 250,000 litres p.a., has reduced NLGM fuel storage requirement and has thus provided capital savings over and above the reduced logistics requirement of fuel transportation to the Company's remote location. This project further enhances Shanta's environmental credentials with annual reduction of CO_2 emissions of more than 600 tonnes compared to fossil fuel power generation.

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