19 October 2017

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

Q3 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 September 2017 (the "Quarter", "Q3" or the "Period") for its New Luika Gold Mine ("NLGM"), in Southwest Tanzania.

Highlights

Corporate and strategic

- On 5 September 2017, the Company announced a change of strategy to improve profitability and reduce debt;
- The new strategy will right-size the business, reducing headcount at New Luika by an estimated 40% by 31 December 2017, compared to the start of 2017;
- The Company has commenced a cost reduction programme targeting US$5.0 m of annual savings and is targeting operational improvement across the business including working capital management and equipment productivity;
- Eric Zurrin appointed Chief Executive Officer ("CEO") and joined the Board of Directors;
- Luke Leslie, a Non-Executive Director, appointed as Interim Chief Financial Officer ("CFO");
- Scott Yelland promoted to Chief Operating Officer ("COO"); from General Manager ("GM");
- Promotion of senior Tanzanians to key leadership roles in the Company and to the Executive Committee;
- Senior management of the Company ("Executive Committee") agreed to an average 15% reduction in gross cash salaries and to replace cash bonuses with discretionary share awards to increase alignment with shareholders; and,
- The Company delivered notice to Helio Resource Corp. ("Helio") (TSXV: HRC) on 18 August 2017, terminating the arrangement agreement relating to the proposed acquisition of Helio, dated 19 June 2017.

Operational

- No lost time injuries for the Quarter;
- Quarterly gold production of 18,225 ounces ("oz") (Q2 2017: 19,657 oz);

- Q3 2017 production impacted marginally by grade variability in isolated western section of Bauhinia Creek along the nose fault. Q4 2017 grade expected to improve with the Company now operating from two stopes;
- Total ore mined during the Period from underground production of 75,996 tonnes (Q2 2017: 41,096 tonnes);
- Quarterly gold sales of 18,487 oz at an average price of US$1,267 per oz ("/oz"), compared to average spot price of US$1,279 /oz;
- Q3 cash costs of US$558 /oz (Q2 2017: US$559 /oz);
- Q3 All in Sustaining Cost ("AISC") of US$822 /oz (Q2 2017: US$735 /oz) which includes US$39 /oz for higher royalties and a new clearing fee; and,
- FY2017 full year guidance expected to be approximately 80,000 oz at an AISC of US$800 /oz. Shanta previously guided to the lower end of 80,000 - 85,000 oz with an AISC between US$800 - US$850 /oz for FY2017.

Financial

- Total liquidity of US$13.6 m including a cash balance of US$8.0 m (Q2 2017: US$13.8 m) and access to the remaining undrawn unrestricted Exim Bank facility of US$5.6 m as at 30 September 2017;
- Gross debt of US$53.5 m (Q2 2017: US$57.1 m) and net debt of US$45.5 m (Q2 2017: US$43.3 m);
- Capital expenditure of US$9.5 m (Q2 2017: US$10.7 m) relating to legacy issues and which is expected to reduce in Q4 2017; and,
- Forward sales from September to March 2018 of 29,909 oz at an average price of US$1,274 /oz, down from 37,000 at the end of Q2 2017.

Tanzania Legislation

- New Natural Resources legislation approved by the Tanzanian Parliament with three legislative Bills promulgated in July 2017; and,
- An increase in royalty rates from 4% to 6%. This is in addition to the 1% clearing fee already in place.

VAT Repayments

- At the end of Q3, the Company had accumulated US$15.8 m of VAT receivables (Q2 2017: US$14 m). As part of the new strategy, Shanta has increased its representation in Dodoma (Tanzania's capital city) and Senior Tanzanians are now leading ongoing discussions with the Government of Tanzania. Shanta is working constructively with the Government to have the outstanding balance repaid.

Post Period

- Extension of the Investec UK US$50 m financing due diligence period to 31 March 2018, originally announced on 20 June 2017;

- The Company drew down US$1.9 m from the US$7.5 m 4-year facility with Exim Bank, taking the total amount drawn down to US$3.8 m. Exim Bank is one of the largest commercial banks in Tanzania; and,
- One-off restructuring costs totalling US$3.0 m paid for severance, termination and retrenchment costs which will lead to reduced operating costs in the future.

Eric Zurrin, Chief Executive Officer, commented:

"Shanta's new strategy of focussing closely on cost control, operational improvements and shareholder returns was implemented in September 2017, accelerated by the recent legislative changes in Tanzania. The senior management team and I are confident that we are positioning the Company in a much stronger direction for the future and all our staff are committed to achieving the goals we've set.

"Not only are we are targeting annual savings of US$5 m, we are also adjusting our capital expenditure priorities. These priorities include a reduction in capital expenditure as the Company moves past legacy capital-intensive projects at New Luika, and the ramp up of the underground operation reaches its completion. Pleasingly the ramp up continues to proceed as planned, indeed the total ore mined underground almost doubled from that of the previous quarter.

"I look forward to reporting solid operational and financial performance to shareholders in the coming quarters as our new strategy is implemented and refined."

Analyst conference call and presentation

Shanta Gold will host an analyst conference call and presentation today, 19 October 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.

UK Toll-Free Number: 08003589473
UK Toll Number: +44 3333000804
PIN: 40446235#

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=301206060&PIN=40446235&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 project in Tanzania and holds exploration licences covering approximately 1,500km^2 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 769 m 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.

Corporate

The Company announced a change of strategy which included a cost reduction programme targeting US$5.0 m of annual savings and is making excellent progress on delivering improvements to its cost structure. The Company has reallocated resources away from non-critical ancillary support functions in favour of the underground mine operation which will account for 100 per cent. of ore production in Q4 2017. In addition, the Company is working with suppliers to reduce the cost of major contracts. Management looks forward to providing an update to shareholders in Q4 2017.

Eric Zurrin was appointed as CEO and a Director of Shanta in August 2017 having been previously re-appointed to the Company as CFO on 13 March 2017. Eric has previously worked across a range of roles within the Company over the last four years including as interim CFO in 2015/2016, leading the financial restructuring in May 2016 and as an adviser to the CEO in 2013 leading an operational restructuring of the business as New Luika ramped up production. Eric holds a Bachelor of Commerce (Accounting) degree and has 15 years' experience in investment banking and mining, previously with UBS Investment Bank in London.

Luke Leslie was appointed as Interim CFO on 11 September 2017 having served as a Non-Executive Director of the Company since 2012. Luke has been a member of the Company's audit committee since 2013 and was previously Chairman of the Audit Committee of Canadian listed copper-gold exploration company Kincora Copper, where he currently serves as Chairman of the Board of Directors. Luke was previously the Co-Head of Trafigura-Origo, a member of UBS Investment Bank's Corporate Finance team and a management consultant with Accenture, where he specialised in post-acquisition integration and cost reduction strategies. Luke remains as a director of Shanta Gold Limited and has stepped down from his membership on the Audit and Remuneration Committees.

Scott Yelland (MSc CEng FIMMM) was promoted to the position of COO with technical oversight of the Company’s assets including exploration. As COO, Scott is responsible for the continued successful ramp-up of the underground mine at NLGM and the development of the Singida project which is a key contributor to the next stage of Shanta’s growth. Scott has an intimate understanding of the Company's assets having been a senior technical leader at Shanta, including being the GM of NLGM for the past two and a half years. Scott is a mining engineer with 35 years’ experience having previously worked with Rio Tinto, Kinross and Ashanti Goldfields and was formerly the COO of Berkeley Resources and Highland Gold. Scott’s appointment is a non-board position.

Toby Bradbury and the Company agreed that he would retire as CEO in August 2017 and he subsequently stepped down from the Board on 6 October 2017. This decision was made as part of the revised strategy to deliver the desired long-term value for shareholders, which is being achieved by focusing on shareholder value and balance sheet deleveraging.

In September 2017, the Executive Committee members agreed to reduce gross salaries by an average of 15% and for all discretionary remuneration to be paid in shares in place of cash, to better align senior management with shareholders.

The Company announced in August 2017 that it had delivered notice to Helio Resource Corp. (“Helio”) (TSXV: HRC) to terminate the Arrangement Agreement with Helio dated 19 June 2017, after having taken professional advice and given due consideration to its decision.

Operational

Production Summary

	Q3 2017	**Q2 2017**	**Q1 2017**	**Q4 2016**
Tonnes ore milled	163,109	155,567	151,378	151,827
Grade (g/t)	3.83	4.28	4.57	4.26
Recovery (%)	90.9	90.9	92.0	90.8
Gold (oz)				
Production	18,225	19,657	20,416	18,897
Sales	18,487	17,982	23,252	15,285
Silver production (oz)	22,915	24,524	28,750	24,731
Realised gold price (US$)	1,267	1,249	1,249	1,187

The Company increased tonnes of ore milled to 163,109 tonnes from 155,567 tonnes in Q2. Gold production declined during the period to 18,225 oz (from 19,657 oz in Q2) due to lower mill head grade of 3.83 g/t (4.28 g/t in Q2). During the Quarter, Shanta produced from a single stope at any one time. After the Quarter end, the number of stopes available for production increased to two and is planned to increase to three on a stable basis, improving production flexibility.

Underground production ramped-up ahead of plan in the Quarter. Over 37,000 tonnes of high grade underground ore were mined in September, a new record. The decline in the Bauhinia Creek deposit had reached the 810 RL as at the end of September, which is on plan. Progress at the Luika deposit is on track and the first production ore was achieved in August. Overall, a total of 76,996 tonnes of underground ore grading 5.83 g/t was mined in Q3 2017 compared with 41,096 tonnes of ore grading 7.41 g/t in Q2.

The Run of Mine ("ROM") stockpile at 30 September 2017 was 123,200 tonnes of ore grading 1.6 g/t (up from 107,000 tonnes grading 1.9g/t at the end of Q2). The ROM stockpile continues to be blended with high grade ore from the underground.

Safety, Health and Environment

Safety, Health and the Environment remains the utmost priority for Shanta. The Company extended its excellent record with no lost time injuries or environmental incidents during Q3 2017.

Financial

During the Quarter a total of 18,487 oz of gold was sold at an average price of US$1,267 /oz. This was below the average spot price of US$1,279 /oz over the Period. As of 30 September 2017, the Company had sold forward 29,909 oz to March 2018 at an average price of US$1,274 /oz, down from 37,000 oz at the end of Q2 2017.

Cash costs for the Quarter were US$558 /oz (Q2 2017: US$559 /oz) and AISC were US$822 /oz (Q2 2017: US$735 /oz) including the US$39 /oz impact of higher royalties and a clearing fee in the Quarter.

There was a US$1.2 m decrease in working capital in the Quarter accounted for by an increase in payables (US$4.4 m) which includes US$3 m of one-off restructuring costs, an increase in inventories (US$2.0 m) and an increase in trade and other receivables (US$1.2 m). The increase in trade and other receivables includes VAT receivable which increased by US$1.8 m to US$15.8 m. Capital expenditure was US$9.5 m (Q2: US$10.7 m) which included mobile equipment for the underground (US$1.4 m) and legacy costs around completing the Tailings Storage Facility 2 (US$1.1 m) and outstanding commitments for Singida and the pilot plant (US$0.9 m).

The Company had total liquidity of US$13.6 m including a cash balance of US$8.0 m (Q2 2017: US$13.8 m) and access to the remaining undrawn unrestricted Exim Bank facility of US$5.6 m as at 30 September 2017. The lower cash position was driven by debt repayments (US$3.4 m), capital investment (US$9.5 m) and an increase in VAT receivables (US$1.8 m).

The Company is reducing its debt and restructuring the business to deliver improved cash flows going forward. Gross debt decreased to US$53.5 m (Q2: US$57.1 m) following repayments to Investec (US$2.7m) and Sandvik (US$0.7 m). Net debt marginally increased to US$45.5 m (Q2: US$43.3m). Post period end the Company drew down another US$1.9 m from the facility.

Singida

The Company is completing the final phase of the resettlement at Singida and continues its Corporate Social Responsibility program in the district. Management expects to complete an updated JORC resource estimate for Singida in Q4 2017, in advance of an investment decision and will provide an update prior to the end of 2017.

Exploration

During the period, the Company relocated its exploration team to the main camp at New Luika. Previously the Company operated two camps 12 km apart. The consolidation of the camps will reduce costs to the Company and refocus exploration on Shanta's mining licences. Exploration activities have focused on trenching at the triple vein deposit, located approximately 6 km from the NLGM processing plant and to the north of the Ilunga deposit. Small pitting and sampling activities are continuing at near mine targets.

Tanzania country update

As previously announced, a new Finance Act was approved by the Tanzanian Parliament in June 2017 and new legislative Bills were enacted as Laws in early July 2017 (Written Laws Act, Sovereignty Act and Unconscionable Term Act). As a result of the legislative changes, royalties have increased from 4% to 6%. In addition, a 1% clearing fee on the value of all minerals exported from the country became effective from early July 2017. These changes increase Shanta's costs by approximately US$3 m per annum (US$39 /oz). The Company's announced target costs savings would more than offset the impact of these higher costs.

Post Period End

The due diligence period for the Investec UK US$50 m financing announced on 20 June 2017 was extended to 31 March 2018.

The Company had a US$1.9 m draw down from a US$7.5 m 4-year facility agreed with Exim Bank, increasing the total amount drawn down to US$3.8 m. Exim Bank is one of the largest commercial banks in Tanzania.

One-off restructuring costs totaling US$3.0 m were paid for severance, termination and retrenchment costs. The restructuring costs enable the Company to realise short and long-term benefits for shareholders. No further material restructuring costs are expected.

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