19 July 2016

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

Q2 2016 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 2016 (“Q2”, the “Quarter” or the “Period”) for its New Luika Gold Mine ("NLGM"), in Southwest Tanzania.

Highlights

Operational

- Quarterly gold production of 23,896 ounces (“oz”) (Q1 2016: 24,341 oz);
- Quarterly gold sales of 26,134 oz at an average price of US$1,246 per oz (“/oz”), compared to average spot price of US$1,222 /oz (Q1 2016: 21,486 oz at an average price of US$1,132 /oz);
- Cash costs for Q2 of US$429 /oz (Q1 2016: US$445 /oz) and All in Sustaining Cost (“AISC”) of US$664 /oz (Q1 2016: US$600 /oz); and
- No lost time injuries for the Quarter.

Financial

- Cash balance of US$30.5 million (“m”) (Q1 2016: US$16.3 m);
- Cash generated from operations of US$13.1 m (Q1 2016: US$2.8 m);
- Capital expenditure of US$7.0 m (Q1 2016: US$5.6 m);
- Gross debt of US$75.0 m (Q1 2016: US$74.7 m) and net debt of US$44.5 m (Q1 2016: US$58.4 m) following US$10.75 m equity placement during the period; and
- Forward sales from July to December 2016 of 39,000 oz at an average price of US$1,222 /oz.

Development and Exploration

- Underground project development started in June 2016 and remains on track and within budget to produce first production of underground ore in Q2 2017;
- The Luika River dam to provide low cost water security has been completed;
- Works have begun on the second Tailings Storage Facility (“TSF2”);
- Exploration drilling in the second phase program in Q2 2016 delivered excellent intersections at the Ilunga prospect at depth and along strike;
- An updated Resources and Reserves statement is expected at the end of Q3 2016 to be incorporated into an updated mine plan; and
- Further progress in the development of the Singida Project with a planned pilot mining operation.

Corporate

- Convertible Loan Note restructuring with US$10 m repaid and an extension of the maturity date of the remaining US$15 m to April 2019;
- Well-supported equity placement with US$10.75 m raised from over 50% of existing, and new institutional shareholders; and
- US$5.25 m silver stream for seven years (minimum) and 10 years (maximum) mine life at current mill capacity. Closure of the deal is imminent with funds still to be received.

Guidance for 2016

- Annual production guidance maintained for 2016 of 82,000 – 87,000 oz; and
- Lowered AISC guidance to US$730 – 780 /oz, from US$750 – 800 /oz; and
- The Base Case Mine Plan produces gold at an average AISC of US$695 /oz with an average production for the next 5 years (2016 – 2020) of 84,000 oz.
- More than 500k oz of resources sit outside the mine plan and further drilling for incremental oz is planned for potential extensions at Bauhinia Creek, Luika and Ilunga in addition to drilling in surrounding Prospecting Licences held by the Company.

Toby Bradbury, Chief Executive Officer, commented:

"Q2 has been another excellent period for Shanta, benefiting from the accelerated and reduced cost operations in the first half year alongside the higher gold price. With the transition to underground mining at the New Luika Gold Mine, the second half will sustain mill throughput of slightly lower grade ore as planned ensuring full year production guidance is maintained. Importantly, this will be achieved at the favourable end in the case of both ounces and cost. Our objective continues to focus on dependable low cost and sustainable production and delivery of gold at an AISC of below $780 /oz which results in exceptional cash generation."

Analyst conference call and presentation

Shanta Gold will host an analyst conference call and presentation today, 19 July 2016, 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): 080 8237 0030
From the rest of the world: +44 (0) 20 3139 4830
Participant PIN code: 42960093#

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

http://www.anywhereconference.com?UserAudioMode=DATA&Name=&Conference=131674649&PIN=42960093

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

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

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About Shanta Gold

Shanta 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 81,873 ounces in 2015. For further information please visit: www.shantagold.com.

Operational

Production Summary

	Q2 2016	**Q1 2016**	**Q4 2015**	**Q3 2015**
Tonnes ore milled	151,698	149,128	155,622	150,216
Grade (g/t)	5.48	5.69	6.50	5.68
Recovery (%)	89.5	89.3	89.5	89.5
Gold (oz)				

Production	23,896	24,341	29,139	24,532
Sales	26,134	21,486	29,228	26,254
Silver production(oz)[1]	36,316	35,144	39,153	36,107
Realised gold price (US$)	1,246	1,132	1,087	1,175

1. *Note that the full production figures included pending closure of the silver stream.*

Shanta has had another strong quarter of operational performance driven by consistent access to grade and reliable plant performance at NLGM. As part of the accelerated mining programme in the first half of the year, reflected in the financial performance below, run of mine ("ROM") inventories have been increased as strip ratios have reduced to just below 4:1 as current pits near the end of their economic life. Satellite open pit and underground activities will progressively replace the current open pit production sources.

In June, the Luika Pit was completed with an alternative open pit ore source having been developed at the Ilunga deposit located 2.5 kilometres north east of the NLGM plant. The Bauhinia Creek Open Pit will complete at the end of Q3 2016. In the meanwhile, significant ROM stockpiles have been established representing close to 4 months plant capacity to see the operation through the transition into the higher grade underground ore from Bauhinia Creek in 2017. As at the end of June Shanta's ROM inventory was 190,064 tonnes at a grade of 3.18 g/t.

For the second half of 2016, NLGM's grade is expected to be slightly lower than that achieved in the first half at an average grade of around 5 g/t. Consequently, total gold production for the year is expected to remain within guidance. Planned ore grades are expected to increase from 2017 as the underground ore reserves in Bauhinia Creek are accessed. Average annual production from 2016 – 2020 as provided in the Base Case Mine Plan in September 2015 is maintained at an average of over 84,000 oz over the next 5 years within the current resource base.

<u>Underground Project</u>

As reported in June 2016, underground development has started and production of ore from the Bauhinia Creek stopes is anticipated in Q2 2017.

In order to achieve this milestone, a great deal of work has been completed since the announcement of the Underground Project as part of the Base Case Mine Plan in September 2015.

The underground feasibility project team has been expanded to plan and prepare for the underground development including:

- Integration of the underground into the Bauhinia Creek Open Pit design to provide for decline access and ventilation shafts;
- Ground support and highwall preparation including shotcreting, construction of gabion basket retaining walls on upper level benches, catch fences and cable bolting;

- Detailed design and scheduling of mine development and production activities following on from the feasibility study;
- Delivery and commissioning of key new underground mobile equipment including twin boom jumbo and load and haul units;
- Delivery and commissioning of key items of surface and underground fixed infrastructure including HV overhead line, switch gear, starter boxes, pumps and fans;
- Water infrastructure near completion including header tank, settling ponds, dewatering and supply lines;
- Surface buildings including workshops, stores, offices and change house largely complete;
- Appointment of key personnel complete including highly experienced managerial, supervisory and operating staff;
- Training programs developed and implemented for all underground personnel; and
- Finance secured from Sandvik (US$5.25 m) for underground mining equipment purchases and from Bank M (US$9.1 m) for the expanded power generation plant.

Also key to the commencement of the underground was a revised Environmental and Social Impact Assessment (ESIA). The receipt of the environmental permit was targeted at the end of April 2016 and although it took longer than had been hoped, it still took substantially less time than allowed under the law. This was thanks to the constructive assistance of the Tanzanian Authorities. A revised schedule has been generated that maintains delivery of the 5 year guidance provided in September 2015 with an average annual production of 84,000 oz.

In the meantime, the portal entry has been completed and at the end of June the decline had advanced 10 metres in favourable ground conditions with all brow support completed. Development remains on track to commence production in Q2 2017 and the capital cost is expected to be completed within budget.

Major Projects

Shanta has begun construction of TSF2 in the Quarter which will be commissioned later in 2016. This gives NLGM a life of eight years including the retreatment and re-locating of the current Tailings Storage Facility One ("TSF1") contents. The space vacated by TSF1 will again become available for tailings placement providing NLGM with total identified tailings space for approximately 12 years operation at current production.

The Luika River dam has completed its first stage of construction providing storage of 350Ml of water. Together with on-site storage capacity, NLGM has sufficient water storage to see it though the coming dry season. A subsequent raise of the dam level in a future phase could provide the mine with water security in the event of a drought. The dam forms part of the regional infrastructure and will ultimately revert to the community.

The sum total of all capital projects are expected to be completed within budget.

Safety, Health and Environment

Safety, Health and Environmental issues remain an ongoing priority for Shanta with zero lost time injuries or environmental incidents in the Quarter.

Financial

A total of 26,134 oz of gold was sold at an average price of US$1,246 /oz. The average realised price was above the average spot price of US$1,222/oz for the Quarter, reflecting the improved benefit of the Company's forward sales positions that have taken advantage of the recent increase in spot gold price. As of 18 July 2016, the Company had sold forward 39,000 oz to December 2016 at an average price of US$1,222 /oz.

Importantly, Shanta's hedging policy is aimed at securing cashflow in a year of major capital and debt servicing commitments.

Shanta produced strong unit cost performance in Q2 as a result in part to high levels of gold production and continued cost efficiencies. Cash cost per ounce amounted to US$429 /oz (Q1 2016: US$445 /oz) and AISC amounted to US$664 /oz (Q1 2016: US$600 /oz). The first half of 2016 has benefited from an accelerated mining program in a below average strip ratio environment. This has reduced the fixed cost component of mining and enabled very beneficial cash costs to be achieved. With the completion of Luika Pit in June and Bauhinia Creek Pit expected to complete at the end of Q3 2016, the Company expects cash costs to be higher in the second half of the year in comparison to the first half. However, Shanta is confident of meeting the revised AISC 2016 guidance of US$730 – 780 /oz.

A considerable investment was made in working capital in the quarter in the estimated ROM inventory (US$19.3 m), receivables and prepayments for underground capital items (US$11.2 m). The cashflow impact of the increased ROM inventory will be contained within the current financial year and will enable sustainable production levels in the transition to underground operations in 2016. Whilst during the Period there was an overall US$13.4 m increase in the working capital (Q1 2016: US$10 m) importantly cash generated from operations before working capital for the Period was US$13.1 m (Q1 2016: US$2.8 m). Capital expenditure was US$7.0 m (Q1: US$5.6 m).

The Company's cash balance at the Quarter end was US$30.5 m (Q1: US$16.3 m). The increase is due primarily to the drawdown of the remainder of the Investec standby facility (US$10.0 m), an equity placement (US$10.75 m), operating cashflow (US$13.1 m) whilst reduced by further capital expenditure (US$7.0 m) and purchase of Convertible Loan Notes (US$10.0 m). Gross debt increased marginally to US$75.0 m (Q1 2016: US$74.7 m) while net debt reduced to US$44.5 m (Q1 2016: US$58.4 m).

The Company continues to identify and implement efficiency improvements across the business as well as improve its performance management reporting and business process optimisation. These changes serve two key purposes including cost savings and risk mitigation against operational or financial inefficiencies. Separately, capital programmes are continuously reviewed to test for on-going requirement, potential alternatives and efficiency opportunities.

Exploration and Development

At New Luika, more than 500k oz of resources sits outside the mine plan and further drilling for incremental oz is planned at BC extensions, Luika and Ilunga in addition to drilling in surrounding Prospecting Licences held by the Company.

Ongoing exploration results from satellite deposits are encouraging with updates on Ilunga and Black Tree Hill announced on 12 April 2016 and post quarter-end on 6 July 2016.

The exploration commitment continues with on-going priorities adjusted according to the results of the respective drilling campaigns. In light of the success at Ilunga, a second stage of drilling was undertaken during the quarter to extend our understanding of this exciting resource at depth and along strike.

The near mine exploration and development campaign is a key component of the Company's ongoing strategy, as newly proven reserve ounces will be duly incorporated into the NLGM mine plan extending the project's life and further improving the project economics. The Company intends to provide an updated Resources and Reserves statement at the end of Q3 2016 which will incorporate newly defined reserves into an updated mine plan.

Given the excellent results at Ilunga, this prospect has become the top priority for further exploration efforts within the NLGM mining licence. The new data is being incorporated into an updated resource model for Ilunga. Meanwhile, potential mineralisation to the west of a truncating fault is still open and will be tested in future programmes.

Beyond NLGM, Singida is now being pursued as an active development project as announced on 15 July 2016. By the end of Q1 2017, the Company intends to have a pilot mining operation underway.

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