31 January 2020

PANTERRA GOLD LIMITED

QUARTERLY REPORT TO 31 DECEMBER 2019

ABN: 48 008 031 034

Registered Office:
55 Kirkham Road
Bowral NSW 2576 Australia
PO Box 846
Bowral NSW 2576 Australia
T: 61 2 4861 1740
Email: admin@panterragold.com

Project Office

DOMINICAN REPUBLIC
Calle Mayaguano No. 2
Los Cacicazgos,
Santo Domingo,
Distrito Nacional
T: +1 809 482 0876

LAS LAGUNAS GOLD/SILVER PROJECT, DOMINICAN REPUBLIC

HIGHLIGHTS FOR THE QUARTER

- Gold production – down 8.1% on previous Quarter
- Sales revenue – down 8.1% on previous Quarter
- Operating costs – US$750 per ounce Au equivalent, up 7.1% on previous Quarter
- Doré sales – US$12.5 million
- Operating costs – US$6.4 million
- Operating profit – US$6.1 million

PRODUCTION

	December Quarter	Previous Quarter	Variance vs Previous Quarter	YTD
Plant Throughput (t)	153,998	176,511	-12.8%	574,673
Average head grade (g/t)				
Gold	3.20	3.25	-1.5%	3.44
Silver	36.2	34.3	5.4%	41.5
Recovery (%)				
Gold	50.5	49.4	2.3%	51.8
Silver	10.7	12.4	-13.4%	13.1
Production (oz)				
Gold	8,004	9,092	-12.0%	33,042
Silver	19,319	23,824	-18.9%	91,861
Sales (oz)				
Gold	8,258	8,989	-8.1%	33,641
Silver	20,591	21,398	-3.8%	94,135
Sales (US$m)	12.5	13.6	-8.1%	48.2
Sales (A$m)*	18.2	19.9	-8.4%	69.6

* Based on average exchange rate for the Quarter.

Gold production was 12.0% lower than the previous Quarter, and doré sales decreased by 8.1% to US$12.5 million.

OPERATING COSTS

	December Quarter		Previous Quarter	
	US$ ('000)	US$/oz (Gold Equiv. Production)	US$ ('000)	US$/oz (Gold Equiv. Production)
Tailings Reclaim	380	44	493	53
Processing Consumables	2,010	235	1,815	196
Salaries	1,115	131	1,158	125
Grid Power	1,665	195	1,718	185
Processing Fuel	124	15	144	16
Spares, Repairs & Maintenance	355	41	575	62
Site & Camp Costs	344	40	448	48
Office Overheads	348	41	100	11
Insurance	65	8	40	4
TOTAL OPERATING COSTS (C1 Cash Costs)	6,406	750	6,491	700

Notes: Gold equivalent production – 8,536 oz, based on 74oz silver equalling one ounce gold.

Total Operating Costs (C1 Cash Costs) of US$6.4 million down 1.3% on previous Quarter.

Operating Costs of US$750 per ounce Au equivalent production up 7.1% on previous Quarter.

PLANT THROUGHPUT

Average plant throughput of 11,846 tonnes per week was slightly below the 12,000 tonnes per week target for 2019. Final feed to the plant for the project occurred on 28 December 2019.

CASH POSITION

Available Group funds as at 31 December 2019 were US$6.9 million (A$9.9 million).

A further US$4.3 million (A$6.2 million) of receipts from deferred gold sales was banked in early January 2020 and added to available funds.

An additional US$1.0 million is on deposit with the project's power supplier as a performance bond and will be returned to the Company in early February 2020.

DISMANTLING OF PLANT AND SITE REHABILITATION

Dismantling of the Albion /CIL process commenced in January 2020 with saleable items to be stored on site prior to disposal. Cost of the dismantling and ongoing administration in the Dominican Republic for 2020 is estimated at approximately US$1.8 million.

It is expected that all, or the majority of these costs will be offset by plant and equipment sales.

Some components may be retained for use on a potential future project.

An estimated US$300,000 will be spent during 2020 on removal of concrete foundations and general site rehabilitation which will be paid for from an account holding US$417,000 which was set up for this purpose.

DISPUTES WITH DOMINICAN GOVERNMENT

Tailings Dam Site

The Company has submitted a formal Claim to the Dominican Government for costs relating to its failure at the commencement of the project, to provide a suitable site for constructing a dam for the storage of tailings from the Las Lagunas Albion/CIL plant after re-processing. The provision of the dam site was an obligation of the Government under the "Special Contract" with the Company's subsidiary, EnviroGold (Las Lagunas) Limited ("EVGLL").

The inability of EVGLL to construct a new storage dam resulted in the re-processed tailings having to be deposited back into the same storage facility from which they were mined, and also prohibited blending of the feed to the flotation circuit which resulted in additional direct costs and inefficiencies in the operation of the plant.

The Claim, which has been rejected by the Government, was prepared by independent consultants and will be submitted next month for arbitration under the rules of the International Centre for Settlement of Investment Disputes (ICSID) in Washington DC.

The Claim for costs to 30 June 2019 was US$16,551,290 million. A further US$400,000 of related costs were incurred to the end of operations in December 2019.

An estimated additional US$700,000 will be spent by June 2020 sluicing stacked reprocessed tailings back behind the Las Lagunas dam wall to improve the stability of the internal rock retaining walls that were constructed to allow deposition after processing. This amount will be added to the Claim which will ultimately total approximately US$17.7 million plus costs.

The London office of Swiss law firm, Lalive, has been retained to submit the application to ICSID for arbitration. Lalive specialises and has extensive experience in handling disputes between investors and State entities, Lalive will present a detailed plan, timetable, and budget for the conduct of the arbitration in the near future, details of which will be reported to the ASX.

Taxation Matters

Despite very clear documentation in the Special Contract that EVGLL will benefit from an "exemption from any type of tax, fee, duty, national or municipal", the Dominican Government has repeatedly submitted assessments to EVGLL for 'asset tax' and 'income tax', which have had to be defended in the Courts. As advised to the ASX on 17 December 2019 the Supreme Court of the Dominican Republic has ruled in favour of EVGLL's interpretation of the Special Contract.

Despite this, the Government has recently decided to challenge the Supreme Court decision in the Constitutional Court.

EVGLL's legal counsel has advised that such challenge is highly unlikely to succeed as it was a condition precedent to the validity of the Special Contract providing exemptions on taxation, that such exemptions be approved by Congress in the Dominican Republic within 90 days of the signing of the Special Contract, which was done and officially gazetted on 5 August 2004.

EVGLL also disputes the Governments' interpretation of the Special Contract that Profit Share and Royalties payable to the Government are taxes and as such interest and penalties should apply under the Tax Code for any late payments even in the event of delays in payments occasioned by disagreement and resolution of applicable amounts.

EVGLL will add these disputes to the matters to be submitted for arbitration and will seek to recover approximately US$500,00 of legal costs defending its position against tax assessments, and US$350,000 levied as penalties and interest for late payments of royalties in 2015.

POTENTIAL BUSINESS DEVELOPMENTS

CHINA

A major Chinese gold mining company is showing serious interest in the application of the Albion process for oxidising refractory concentrate, particularly when sourced from arsenopyrite ore.

Following an invitation from the mining company, PanTerra Gold Technologies Pty Ltd ("PGT") negotiated the terms of a non-binding Memorandum of Understanding ("MOU") setting out in detail the mutual intent of the parties to conduct a feasibility study prior to the joint construction of a 75,000 tpa Albion/CIL plant near Kunlun in NW China.

The concept established in the MOU was for the plant to process arsenopyrite concentrate with a grade of approximately 36g/t Au purchased from the mining company, with the aim of producing 80,000oz gold per year for a minimum of 15 years. This MOU was signed by both parties in May 2019.

In November 2019, senior technical staff of the mining company visited the Ararat Albion/CIL plant in Armenia in the company of representatives of PGT and Glencore Technology which holds the Albion Oxidation Process patents.

The visit was aimed at confirming the 95% to 97% recovery of gold from the refractory concentrate being processed at the Armenian plant, and reviewing the neutralisation of arsenic in the plant tailings.

PGT has tested the Kunlun concentrate and achieved a 95% gold recovery.

Following the successful visit, PGT were requested to revise their Preliminary Economic Assessment (PEA) for the proposed Kunlun project to increase plant capacity to 100,000 tpa with a targeted production of 110,000 oz Au per year.

This has been completed and recently submitted to the gold mining company for their review prior to a meeting to determine whether the parties should now proceed to a Definitive Feasibility Study (DFS) for the project over an 18 to 24 month period.

PGT will be required to fund 49% of the DFS cost of approximately US$2.0 million and contribute a further US$9.0 million of equity to the JV company if the project development proceeds.

It is anticipated that approximately US$44.0 million of the total development costs of US$64.0 million including working capital, will be provided by a Chinese financial institution recommended by the Chinese partner.

In order to reduce the Group's equity contributions it is probable that suitable new investors will be introduced to the holding company which will be formed to enter into the Kunlun venture, if it proceeds.

PGT has an agreement with Glencore Technology which grants PGT exclusive rights to utilise the Albion technology in China for a minimum period of 10 years from 2017, and the Kunlun project could prove to be the cornerstone for viable business developments in China.

CUBA

The Company was selected in October 2018 by the Cuban Government's mining company, GeoMinera S.A., as its proposed 49% joint venture partner for the development of their La Demajagua refractory gold deposit on the Isle of Youth in Southwest Cuba.

PanTerra Gold's involvement in the project is dependent on approval of the proposed Joint Venture Agreement by the Cuban Government's Committee for Foreign Investment. Drafting of the joint venture agreement has been completed and is currently expected to be approved with formalisation of the Agreement within the next two months.

This will be followed by a Pre-Feasibility Study (PFS) at a cost to PGT of approximately US$1.0 million over a period of 12 months.

The first stage of the proposed project is planned as an open pit mining operation for a period of seven years, followed by a second stage underground operation for around 10 years. The deposit has been extensively drilled (>50,000m) but will require further exploration for both the open pit and underground targets to define JORC compliant resources. Both stages will require successful Definitive Feasibility Studies to be undertaken prior to development.

If the project proceeds, PGT will design and construct an 80,000 tpa Albion/CIL processing plant for the joint venture on a turnkey basis aimed at producing approximately 70,000 oz Au per year from the arsenopyrite concentrate expected to be produced by the mine during the period of open pit operations.

PGT has completed a detailed Preliminary Economic Assessment ("PEA") for Stage 1 of the project which has indicated its technical and commercial viability.

Despite the positive PEA, the project will be difficult to structure and finance, with US sanctions limiting the availability of project financing, and with the equity contribution by GeoMinera being limited to the agreed value of their ore body which will result in a disproportionately high debt to equity ratio.

It is possible that the Company will seek to introduce an additional participant to the project after completion of the PFS.

POTENTIAL OF ALBION/CIL PROCESS

Despite the disappointing financial performance of the Las Lagunas project, due primarily to the poor gold recovery from the low-grade (10g/t Au) metallurgically complex concentrate that has been produced from the refractory tailings, the Company is confident that a clean concentrate from mined sulphide ore will normally have a gold grade in excess of 40g/t with the potential for +90% recovery, as is occurring at the Ararat project in Armenia.

PanTerra Gold has accumulated significant intellectual property in relation to the utilisation of the Albion oxidation process and will continue with its objective of establishing a profitable business based on extraction of precious metals from refractory ores.

END