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# EDITED TRANSCRIPT

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## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen. Welcome to the B2Gold Corp.'s Second Quarter and First Half 2018 Financial Results Conference Call. I would now like to turn the call over to Mr. Clive Johnson, President and CEO. You may proceed, Mr. Johnson.

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**Clive Thomas Johnson** - *B2Gold Corp. - President, CEO & Director*

Thanks, operator. Welcome, everyone, to the conference call today as the operator said to discuss the second quarter 2018 financial results. We, as everyone knows, prereleased the production numbers. We put out extensive financials yesterday with extensive MD&A management discussion and analysis results and the [news release] as well. So basically I think the numbers and what we're doing should speak for itself.

So today, we'll have a brief discussion, perhaps a little bit of strategy of the firm, at least from me, very briefly, and then Mike is going to take over and talk about the summary of the financials. And then, Tom is going to talk a bit about the drilling we're doing going at Fekola North and Bill is going to talk about the expansion studies we're doing and the timing of those events of new resource and expansion study for Fekola.

So just in terms of the quarter, as I said, numbers speak for themselves, another very strong quarter for us, very good performance from the mines. In terms of strategically where we are, our strategy is as outlined in the new release and the MD&A. But briefly, it's to continue on what we did for a while, which is to maximize production in our operations, maintain our tremendous safety track record and environmental responsibility and social programs and focus our -- focus the future on repaying debt -- maximizing cash flows, repaying debt, and also looking to grow through our pipeline of opportunities, of which Fekola probably being the most in the fore of accomplishments we'll talk about quite a bit as we go through this.

But the strategy is (inaudible) M&A, frankly, we like a lot of opportunities we see out there. Obviously, we would be looking to use our shares as a currency any time in this credit environment, but more importantly and significantly it's because of the dramatic [potential] growth from within the pipeline such as potential to make Fekola a substantially larger mine and a much larger resource and ultimately reserves and also looking at some of our other opportunities in the -- [the stakes in] Fekola and also in things like Toega in Burkina Faso and various other projects we're looking



to do more work and drilling on. We have, as everyone is probably aware, we're doing very well on schedule a bit ahead on the Masbate mill expansion. And we're also going to come out soon with what we think will be a positive study on the El Limon Central Zone. The impact that, that large new resource has when we put the mine plan on it and apply costs, et cetera, we think it's going to be a game changer for El Limon in terms of mine life and also its profitability, et cetera.

So that's the main points. I guess, some things I would like to talk about at the outset, just to deal with them. One of the things I'd like to point out is that, we're hearing a lot of negativity in the sector understandably, unfortunately, because of some pretty poor performance by too many companies.

When it comes to us, I guess, what we're hearing a lot of is that -- about political risk. And West African and political risk has become a theme, or Africa and political risk. I think it's just really important to emphasize that we -- that when it comes to political risk between [B&N] and B2Gold, we've really spent the last 35 years showing how we deal with political risk and often political risk in others' eyes has been an opportunity in ours. But I just think it's important that people realize that everyone has political risk everywhere, but it's how you deal with it, what do you about it. I look at political risk when you just want to talk about B2Gold as a positive because of the way we, and in the years before with [B&N Gold], have dealt successfully with every imaginable political risk in all these different countries. So when people bring it up, I don't see it as a negative. I see it as a positive. Because it's how you deal with political risk whichever one has, which separates the successful companies from those that are less successful. So we're very good at it. Specifically and in West Africa, we have a great relationship with the government. We talked about this all -- we've talked about this time and time again. Mali's not Tanzania and every project in every country needs to be looked at by installation when I know people want to generalize, but that would be wrong.

Specifically as well, we've just seen an announcement from Randgold that they've reached an agreement with the Government of Mali to proceed with the expansion of a project and they had, I guess, a previously existing agreement with government for some lesser taxes that they expanded the operation. But I not going to -- I don't know the details of that. But what I will say is it's a positive sign that the government, again, as we've always seen, that the government wants more gold mining in Mali.

And if you look at the speech the President made in February this year, this development for Randgold is very positive for the government, very positive for sector and obviously for Randgold. It shows the government is serious about making sure other mines that can be economically expanded or built get done. And you couldn't have a better political climate from the point of view of the government wanting mining that Mali has shown for over 30 years. So I really think if people are going to throw around the political risk criticism or worry or fear there's lots to be afraid of in (inaudible). There's lots to be afraid of in the gold space these days in terms of poor performance, unfortunately. But at the end of the day if people want to throw around political risk let's at least know what they're talking about. So I would invite you to dig a little deeper if you want to talk about political risk in B2Gold. So that's really all I wanted to say and I'll pass it over to Mike now to review the financials and Tom will talk about the resource and drilling, as I said, at Fekola, talk about the cash [we're putting into] Fekola and we'll open it up for your questions and we'll try and be concise and brief. Over to you, Mike.

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**Michael Andrew Cinnamond** - B2Gold Corp. - Senior VP of Finance & CFO

Okay. Thanks, Clive. So as Clive said very positive quarter, the second quarter for B2. We had -- on the sales side, we sold 221,000 ounces, which was 89,000 more than the comparable quarter last year and that's driven almost exclusively by Fekola being online for the full -- or since the start of the year with full commercial production.

We had sales from Fekola of 100,000 ounces. Overall, revenues increased to \$285 million, which was driven 68% by an increase in ounces sold and 3% increase in the gold price. On the production side, consolidated gold production for the Q was 240,000 ounces, which was 16,000 ounces higher than budget. And that beat on budget comes from the outperformance of Fekola and Masbate, slightly offset by some minor shortfalls in the June Nicaragua production.

Breaking it down, Fekola had 113,000 ounces for the Q against the budget of 101,000 ounces, so it beat it by 12,000 ounces. And that came from the -- what do you call it, Bill?

**William Lytle** - B2Gold Corp. - SVP of Operations

The holy trinity.

**Michael Andrew Cinnamond** - B2Gold Corp. - Senior VP of Finance & CFO

The holy trinity of higher throughput. We were 8% over budget. And I think the mill's now running comfortably at somewhere around 5.5 million tonnes per annum and we've tested that now over a variety of ore types and rock types. It's also run higher recoveries, 95.3% against a budget of 92.7%.

Otjikoto, 41,000 ounces is basically in line. Masbate, 54,000 ounces, which was 11,000 ounces over budget. Masbate had higher recoveries and higher grade in the Q and that's mainly from an unexpected higher grade in backfill ore that we actually took from old underground mine workings as we mine the Colorado Pit. That was backfill ore was higher grade than originally -- the original planned in situ ore that we were going to mine and therefore it increased the overall grade.

Libertad, 21,000 ounces, which was about 3,000 ounces under budget. Libertad was progressing well through the second quarter, through April and May, basically on budget. But we had some roadblocks related to the current political unrest in Nicaragua, which was restricted the supply of key consumables, mainly lime and fuel, in June. And so therefore in June, we actually ran some lower grade spent ore to just to manage that supply issue and reduce lime and fuel consumption.

And El Limon. Limon had an 11,000 ounces in the Q, again about 3,000 ounces under budget. It also was impacted by some blockades in June related to local employment issues, which have since been rectified and resolved. So Limon in April and May was actually tracking slightly better than budget. And now with the resolution of the June issue, we've tracked back to budgeted levels again. Overall, 240,000 ounces for the Q. With Fekola's continued outperformance, it's basically been beating budget by around about 10,000 ounces for the first couple of quarters. We've now reguided up Fekola. We've now said its annual production is expected to be somewhere in the 420,000 to 430,000 ounce range. And with the Nicaraguan production shortfalls in June, we've actually reguided both Libertad and Limon down by 5,000 ounces each for the period, which results in an overall revised consolidated production forecast of between 920,000 and 960,000 ounces. And we haven't reguided anything on the cost side, just on the production side.

Moving to the cost side, cash cost for Q2. Consolidated cash cost, very healthy, \$474 an ounce, which was \$86 less than budget, driven mainly again by that higher production in Fekola, Masbate along with other [costs attributed to] those operations. So Fekola was \$318 an ounce, \$73 under budget. And it benefited from, firstly, the higher gold production and then also lower-than-budgeted mining costs. During the quarter, we were in a zone that was a near-surface [weathered rock zone] in phase 4 of the Fekola Pit, which didn't require drilling and blasting and hence we had lower operating and maintenance cost for the period.

Otjikoto, \$505 an ounce, almost pretty much on budget. We did have a strengthening in the rand in the period, but that was offset by other cost savings. And I should also comment that we had Otjikoto's Solar Plant grand opening at the end of May 2018, which -- now that solar plant is expected to replace approximately 13% of the generator electricity needs at Otjikoto. And we think overall it will reduce operating cost by approximately 3%.

Masbate for the Q, \$531 an ounce. That was \$199, almost \$200 an ounce less than budget. So it beat the budget cost range again due to higher production and also significantly lower mining cost with cost savings in drilling, blasting and grade control and we also had some higher deferred strip adjustments than we had originally budgeted.

Libertad was \$875 an ounce, pretty much on budget. Although we had reduced production in June, aggressive cost control basically held Libertad's overall operating cost to budget. And then Limon, \$893 an ounce, only marginally, \$33 an ounce, over budget. Again, it outperformed budget in April and May, and then we saw some -- it clawed back some that was the lower June production numbers, but overall Limon pretty much on budget. And as I said before, Limon has now returned to sort of steady state budgeted numbers as we move forward.



So [add all of that to] consolidated cash cost, \$474 an ounce, which, \$86 under budget. When you translate that into the all-in sustaining cost, \$721 an ounce, \$146 under budget. That reflects the \$86 beat on the cash cost side plus some lower CapEx at some of the operations.

Fekola \$445 an ounce, \$160 under budget. So the benefit from lower operating costs and then it also had some mining costs and CapEx that were lower than budget, specifically some of it on the stripping side.

Otjikoto, \$824 an ounce, \$58 over budget and that's mainly a reflection of some CapEx that's a timing issue. Some of the CapEx we had in Q2 for fleet rebuilds was originally expected to happen later in the year, but it happened in Q2. So we should see that timing difference reverse later in the year.

Masbate, \$727 an ounce, \$270 under budget, and that's just a function of the lower cash cost and the higher-than-budgeted production.

And Libertad and Limon. Libertad \$1,200, \$27 under budget. And that reflects slightly lower cash cost and then also it had some lower-than-budgeted prestrip costs at [San Juan]. We think overall with the final pit design at San Juan we're going to have slightly lower overall CapEx there. Limon, \$1,614 an ounce. It was \$220 -- \$222 over budget, higher cash costs and it also reflects some higher development costs in Santa Pancha now -- with CapEx that we originally planned for Q1 that was actually done in Q2.

A couple other general comments on the Ops, just before I move on to the cash flows. So at Masbate, the expansion is progressing well. We're still scheduled to come online by the first quarter of 2019 and that expansion is to expand the mill from 6.8 million to 8 million tonnes per annum. And it's on time and on budget.

And then Nicaragua. We did have a delay in developing the Jabali open pit with some of the social unrest that was there. So we're now scheduling Jabali Antena open pit to come on line in Q1 2019. And we also had a couple months delay in furthering the Jabali Antena underground development. It was temporarily delayed in Q2. And we now expect that to come online at the end of Q3.

And then with Limon, with the revolution and the issues in June, Limon's return to steady state and the big focus there now is on updating the Limon central feasibility study and mine plan. I think we'll hear more about that from Tom shortly.

So I'd like to move on just a couple of things on the income statement. G&A was up marginally by about \$1 million and that really reflects the fact that Fekola is now online and SG&A costs are being expensed. They were previously capitalized. Derivative gains and the income statement, we saw realized and unrealized derivative gains of approximately \$6 million -- or \$5 million. That reflects gains from fuel derivatives, offset by smaller losses on Namibian go-forwards. Those Namibian go-forwards were contracts we put in place in an earlier version of the RCF a few years ago when Otjikoto was being built. We only have 21,000 ounces left on that to be delivered and that will be delivered into -- through the remainder of 2018.

And then on the fuel side, we're still following our hedging policy of hedging 50% of the next 12 months production and then 25% of the subsequent 12 months production, and we continue watch gold prices and put on forwards when we think it makes sense.

The other thing to comment on, on the income statement our income taxes, the significant increase in the quarter to \$23 million from \$2 million in the prior year quarter. And that almost exclusively reflects the fact that Fekola's come online. Of that \$23 million, [number 19] relates to Fekola. So \$14 million of that is Fekola corporate income taxes and then \$5 million of it is the Fekola government priority dividend. The first 10% to the government will hold in Fekola. They get a priority dividend, which is equal to 10% of net earnings. And so that's the kind of [forward tax and flow] that flows through the tax line.

We also saw \$1 million increase on Masbate taxes. Masbate was -- previously had an income tax holiday which expired in June of last year. And then for those of you that like deferred income taxes or care to know, the \$27 million charge in the year and that's just relates to foreign exchange. We saw a strengthening of the [CFA] on the Namibian dollar. And what that -- that creates some timing differences that are reflected in deferred income tax. And again, those will reverse over time.



Net income for the quarter, \$21 million, \$0.02 a share. And adjusted net income for the quarter was \$46 million or \$0.05 per share. Few comments on the cash flow. Operating cash flow for the period, the quarter, was \$86 million, \$0.09 a share. That did include just under \$20 million of working capital inventory adjustments, where we built up some bullion at Fekola and Masbate, and we expect that we'll see that. That's just the timing of shipments issue. And we expect that we'll see that difference reverse in the third quarter.

Year-to-date, we've generated \$233 million or \$0.24 a share of operating cash flow. On the financing side, we repaid a net \$50 million on the revolver for the quarter. We paid it down again. And so far to the end of June, we paid down a net \$125 million year-to-date. Subsequent to the end of the June, we repaid another \$25 million. So total repayments on the RCF for the year, \$150 million and that takes our drawn balance, the amount that we actually still owe under the RCF down to \$200 million at the current time, which means we have \$300 million undrawn and available under the facility. And that facility runs to 2021.

It's our intention at this point in time the financing side, as we have said a few times before the converts, the next bullet, our major debt item will be the maturity of the convert, \$258 million on October 1 of this year and it's our intention to repay that cash, unless those notes are converted -- the conversion options are exercised. So we have lots of liquidity. We have \$107 million at the end of the period in cash, and also now have \$300 million available under our facility. So we have lots of liquidity to deal with the convert. On the investing side just a quick comment, we spent \$80 million in the period, pretty much on budget for most Ops. We were underbudgeted at La Libertad, which -- by approximately \$12 million. And that relates to a couple of things: one is the Jabali development cost we expect to push those out now to the end of the year, early next year of \$8 million; and then we were also under in San Juan prestripping as I mentioned earlier.

Exploration for the period was \$33 million and -- that's for year-to-date, and the total -- that's pretty much right on budget. We did increase exploration cost, the budget for exploration by \$4 million this quarter and that money is scheduled to go into the ground in the Fekola North Extension Exploration Activity. And then final comment, 2019, as we move forward reducing our debt load, which is part of our overall strategy, we intend to revisit the dividend discussion. So we'll evaluate cash flows in 2019 and then potential for a dividend based on where the company is and what its current growth activities are at that time.

I think those really were the main financial items I was planning to cover, but I'm happy to answer any questions.

So I guess, Tom is going to maybe talk about exploration right now, and then, I guess, we can take questions after that.

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**Thomas Alan Garagan** - B2Gold Corp. - SVP of Exploration

Thanks, Mike. Good morning, everybody. Just to talk about the Fekola exploration. As Mike said, we have significantly expanded the budget of Fekola, largely to do infill drilling in an area to the north of the current reserve pit. In fact, the area that we're covering with drilling right now is approximately a kilometer north of the pit and to a depth of just over 350 meters. This is the area we're doing infill drilling. By the end of the year, we'll have drilled about 25,000 meters of diamond drilling and 38,000 meters of RC. Now the area that we're drilling is for -- to complete a resource by October. But once that infill drilling is done, we're going to continue drilling to north of that because there's -- the deposit remains open in that direction. We expect to have this resource out in October and there's pretty good chance we'll have some drill results coming out in September to back that up. I will make a comment about this resource drilling. A lot of people will say, well, why are you going north, because there's some plunging down to the north. Well, what, in fact, has happened is although it's still plunges northwards, the main part of the ore body has come up towards surface, either a second shoot or the main shoot itself is expanded. But either way with that coming closer to surface, it actually allows the pit to be driven out in that direction and that's what driving this larger resource that we're looking at. If there is any questions, just pass them on. Thanks.

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**Unidentified Company Representative**

Tom, maybe just to add to what you're saying, Clive mentioned that we talk a little bit about the expansion potential, we are currently looking at it from an engineering standpoint, John Rahala, the VP of metallurgy is currently working on a grinding study, basically to figure out how much capacity we have in the mills and how much -- how big we can go there. In addition he's doing a de-bottlenecking study, which would give us an



indication really what the largest we could make that mill is and what the cost would be associated with that. Dennis Stansbury our VP of Product -- Senior VP of Product Development is leading a study, which looks at both the infrastructure and the mining fleet. So how big could we make the mining fleet? What's the optimal size based on the potential resource that Tom's developing? In addition to that he's looking at all the infrastructure things like tailings facility and warehouses, HME, shops, those types of things just to make sure that by the end of the year, we have sufficient information internally to make some decisions on how big we really think that this thing can get and how big we want it to be based on capital influx.

So I don't know if anyone wants to add to that. Okay, back to you, Clive.

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**Clive Thomas Johnson** - *B2Gold Corp. - President, CEO & Director*

Okay. Well, I guess, with that, we'll open it up to questions. Just one comment on the dividend that Mike talked about was -- was looking at dividend policy next year. I just want to reiterate that we think that our shareholders want us to be a profitable company that continues to grow as we've done successfully through our 11 years so far. So we hope that one day -- we aspire to be a company that is still a growth company and as Mike said we'll start to look at that as we get into '19. A part of it will be dependent upon cash flow, of course, and therefore, that will partly be dependent upon the gold price. But we see ourselves as wanting to be able to do both, aspire to get to the point where we continue to grow, which we do well, but also get to a point where we can do both, grow and pay a dividend to our shareholders as well.

So with that, I will think we'll open it up to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Lawson Winder from Bank of America Merrill Lynch.

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**Lawson Winder** - *BofA Merrill Lynch, Research Division - Associate*

Just wanted to maybe start with Fekola. You mentioned that the mine was -- you were mining 20% above budget. I was just curious, is that being driven just by the softer rock that you're experiencing? Or is there something else to that?

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**William Lytle** - *B2Gold Corp. - SVP of Operations*

I'll take that one for sure, it's that -- because it was in the press release, but in discussion this morning, would state -- they actually chastised me a little bit. Certainly -- and obviously, we're in the honeymoon phase of our equipment, our brand-new equipment. Well, with that being said, we're seeing much higher productivities than we anticipated. Certainly, much higher availability. The fact is we're not that deep in the pit, and you do have -- we're in the upper zone, for sure. So we do think the COGS are going to come up a little bit. We don't think that they're going to approach what the feasibility costs were.

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**Lawson Winder** - *BofA Merrill Lynch, Research Division - Associate*

That's in 2018? Or are you talking 2019, 2020 as well when you're looking out and saying that you don't think you'll approach those feasibility cost?

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**William Lytle** - *B2Gold Corp. - SVP of Operations*

Going forward as well.





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**Lawson Winder** - BofA Merrill Lynch, Research Division - Associate

Okay. Okay, that's great. And then, are you able to share with us just what your cost was -- your mining cost per total tonne moved was at Fekola for Q2?

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**William Lytle** - B2Gold Corp. - SVP of Operations

I can, for sure. Let me just roll it up here, so I get the right number. So for the current period, our cost per rock tonne mined was USD 1.34.

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**Lawson Winder** - BofA Merrill Lynch, Research Division - Associate

\$1.34. And then, yes, just one more sort of follow-up then on that cost. So it actually did come up a little bit versus Q1, just on a cost per tonne milled basis. Is that just the evolution of the pit as you do -- actually do go a little bit lower?

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**William Lytle** - B2Gold Corp. - SVP of Operations

Was your question on the mining side or on the processing side?

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**Lawson Winder** - BofA Merrill Lynch, Research Division - Associate

Just total cost. So you just take the cash operating cost and convert that on a per tonne -- to a per tonne processed basis. It changes...

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**William Lytle** - B2Gold Corp. - SVP of Operations

Yes. Maybe someone else can chime in after I answer if they have a different answer. But the way I see it, is remember, we're still only in our second quarter of production, so we still are testing some things, as you can see, like the mill cost is still kind of moving around a little bit as we look at reagent consumption and optimization. The mining costs for the year, it's kind of stuck right there at the USD 1.35, USD 1.34 per tonne. So in general, it's actually down a little bit for the -- or up for the half year, but down for the quarter. So we continue to just optimize. So I think we're still in Q2 and it's still too early to say where it's going to settle in kind of steady state.

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**John Rajala** - B2Gold Corp. - VP of Metallurgy

And we're well underbudget.

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**William Lytle** - B2Gold Corp. - SVP of Operations

And we're well underbudget.

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**Lawson Winder** - BofA Merrill Lynch, Research Division - Associate

Yes. No, definitely. Great. Absolutely amazing quarter for Fekola. And then just one last one from me on Libertad. So with Jabali Antenna open pit now not included in the guidance, will, like, the tonnes processed and the grade be materially different from what you originally guided to? So originally, back in early 2018, you'd said 2.3 million tonnes at around \$1.75, I believe. Is that still in line? Or is that...





**William Lytle** - B2Gold Corp. - SVP of Operations

Well, Lawson, recall in our stated guidance, we dropped our ounce production forecast by 5,000 ounces. And in the interim, developed our sources, basically remixed our existing mine sources, which will be heavily underground late in the third quarter, San Juan, San Diego and (inaudible).

**Operator**

Your next question comes from Mick Sroba with Macquarie.

**Michael Sroba** - Macquarie Research - Research Analyst

Couple of questions on my end. Just at Fekola, do you foresee a decrease in recoveries from that 95% range as more fresh material is processed?

**William Lytle** - B2Gold Corp. - SVP of Operations

I'll answer, John, then you can correct me if I'm wrong, as we've talked about a little bit.

**John Rajala** - B2Gold Corp. - VP of Metallurgy

Yes, go ahead, go ahead.

**William Lytle** - B2Gold Corp. - SVP of Operations

So the 95%, one thing -- we're still -- we still haven't tested all the types of rocks. What we can say, and I think we said it in the press release, is we do believe we're going to be above the 92.7%. And so all, right now, we're bracketing between that kind of 95.3% and the 92.7%. We think it's going to be somewhere between there. We don't think it's going to be ultimately 95.3%, or we can't say that yet. We don't have enough information. So we think it's definitely higher than 92.7%. John?

**John Rajala** - B2Gold Corp. - VP of Metallurgy

Yes, I agree with that, Bill. We'll exceed feasibility study recovery, but still too early to make a projection on where the recoveries will settle in for the future.

**Michael Sroba** - Macquarie Research - Research Analyst

Okay. And on the processing side of things, you said that it has been shifting around, the processing cost per tonne. Are you able to provide us with an indicative budgeted processing cost you're shooting for in 2018?

**Clive Thomas Johnson** - B2Gold Corp. - President, CEO & Director

Want to try that, John?

**John Rajala** - B2Gold Corp. - VP of Metallurgy

Yes. I don't have those costs in front of me, but we've been below budget and we expect to continue below budget for the remainder of the year. I believe we're averaging about \$14 to \$15 a tonne. Yes, go ahead.



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**William Lytle** - B2Gold Corp. - SVP of Operations

May I? Yes, I'm just showing John, I've got some of the tables here from the variance report. As he said, we're kind of in the -- between \$14 and \$15, and we had \$17 in the budget for 2018. So we're going to be below -- significantly below budget.

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**John Rajala** - B2Gold Corp. - VP of Metallurgy

We're well below budget. And those of \$17 a tonne costs, those were feasibility projected operating costs for process.

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**Michael Sroba** - Macquarie Research - Research Analyst

Okay, excellent. And finally, we didn't see any mention of Anaconda, Adder or Mamba. Is there any reason for lack of disclosure on the Fekola satellite deposits?

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**William Lytle** - B2Gold Corp. - SVP of Operations

Tom, do want to take a wag at that?

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**Clive Thomas Johnson** - B2Gold Corp. - President, CEO & Director

(inaudible) but I think our disclosure's consistent with what's put on there. If you look back at what we said, probably.

(technical difficulty)

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**William Lytle** - B2Gold Corp. - SVP of Operations

We lost you, Clive.

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**Thomas Alan Garagan** - B2Gold Corp. - SVP of Exploration

I can answer. In terms of just the Anaconda area, it's not a question of not being something we're interested in, it's just that we're looking at expanding the Fekola Pit by, could be up to a kilometer, maybe even a bit more. Why would we not focus on that right now? And that's really what we're doing.

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**Clive Thomas Johnson** - B2Gold Corp. - President, CEO & Director

We are doing some internal test work on Anaconda, where we are trying -- we are advancing some things there with internal studies and things of that nature. So we are working on it. And Tom, we are drilling it as well. We're drilling there as well.

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**Michael Sroba** - Macquarie Research - Research Analyst

You're still drilling at Anaconda?



**Thomas Alan Garagan** - B2Gold Corp. - SVP of Exploration

Yes. We still have a rig working on Anaconda. It's slowing down a bit with the rainy season. But yes, we will be there in the back half of the year.

**Michael Andrew Cinnamond** - B2Gold Corp. - Senior VP of Finance & CFO

Yes. Just one coming from Mike. If you want some more detail on that, if you look at Page 24 of the MD&A, there's a discussion about what we're currently doing there.

**Clive Thomas Johnson** - B2Gold Corp. - President, CEO & Director

He's still on the call.

**Operator**

Your next question comes from the line of Matthew Macphail with Canaccord Genuity.

**Matthew Macphail** - Canaccord Genuity Limited, Research Division - Associate

Just talking about the Fekola throughout you're seeing, you're comfortable with the 10% increase, long term, over the current nameplate. Just to confirm, that's with no incremental capital, correct? That's just based on the kind of experience you've had with the different work sites?

**William Lytle** - B2Gold Corp. - SVP of Operations

That is 100% correct. If you remember, the feasibility was designed at -- we went at 4 million tonnes per annum. During construction, due to exploration success and the success we're having with the construction process, we went ahead and expanded to 5 million. They've now tested it. We feel very comfortable that we could accept the minimum that we can run at over the course of a year is 5.5 million.

**Matthew Macphail** - Canaccord Genuity Limited, Research Division - Associate

Okay. And is that -- the 5.5 million, is that -- seems to me that's a little bit conservative. Would you think -- do you think you can go a little bit higher than that? Or is that aggressive or conservative, what do you think?

**William Lytle** - B2Gold Corp. - SVP of Operations

That is exactly what we're testing right now.

**John Rajala** - B2Gold Corp. - VP of Metallurgy

Yes. I'll just add. Yes, we have a grinding study in progress. We just completed sampling and data collection program in July. And then that will feed into the grinding study, which will be completed in about mid-September. So at that time, we'll know a lot more about our expansion potential, then.

**Matthew Macphail** - *Canaccord Genuity Limited, Research Division - Associate*

Okay, great. And then just a follow-up on that. Someone may -- it have been brought up previously, but the -- you were saying that recoveries, you're looking at sustainably, about above 95%. Are you comfortable with that number, even at the higher throughput, the 5.5 million?

**John Rajala** - *B2Gold Corp. - VP of Metallurgy*

Well, what we said actually, was that, although we announced 95.3%, whatever it was for this quarter, the feasibility at 92.7%, and we think it's going to fall somewhere in between there. And we're still doing the studies.

**Operator**

Your next question comes from Chris Thompson with PI Financial.

**Chris Thompson** - *PI Financial Corp., Research Division - Head of Mining Research & Precious Metals Analyst*

Two quick questions. One on Masbate. Obviously, you explained that performance was very much on the back of high grade on the backfill ore from Colorado. Can you give us a sense of what the second half of this year looks like as you, I guess, prepare to enjoy the merits of the expanded mill?

**Clive Thomas Johnson** - *B2Gold Corp. - President, CEO & Director*

Want me to do it? Or do you want to.

**Thomas Alan Garagan** - *B2Gold Corp. - SVP of Exploration*

Okay. Chris. What we see really is the continuance of the performance through July and August time frame. And then we'll track closer to our budget forecast as we complete Colorado Pit, which we anticipate doing in August. So we'll track close to budget for the remainder of the year, for September through the end of the year, with declining recoveries as we reduce the off-site content. Third quarter, 30%; final quarter of the year, closer to 5% to 10% offsite. And Chris, it almost sounded like you said something that you thought that the expansion would impact this year, but that only comes on next year.

**Chris Thompson** - *PI Financial Corp., Research Division - Head of Mining Research & Precious Metals Analyst*

Right. Okay, perfect. And just a final question from me, just Otjikoto. Again, I guess, an asset in transition, high strip for this year. But looking at the grades, do we expect to see grades sort of improve towards the end of the year here, head grade?

**John Rajala** - *B2Gold Corp. - VP of Metallurgy*

Maybe the geologist can answer that, but the answer is we kind of track right on budget there. So we would -- at the halfway point, we're kind of at exactly the halfway of where we thought we would be for the year. So I don't think they're going to change that much different. As you know, this year, we're primarily in Otjikoto, except for a very little bit at very end of the year. And then of course, Wolfshag comes in for 2019. And we're currently looking at the resource model there and seeing if there's any change needed to occur there and what that means for 2019.

**Operator**

Your next question comes from Steven Butler with GMP Securities.

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**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Mike, a question for you or 2. On the Fekola, the extra 10% that will go the government's way, I know they're waiting. That process is, I guess, you say imminent here. So we'll wait for that at some point. How -- what is the level of the intercompany loans right now that exist at Fekola? And the interest rate that you deem on those loans?

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

Well, we'll deal with the interest rate point first. Those loans, there's a West African sort group estates rate, which I think is currently 4.5%. And then the loans themselves carrying additional incremental 2%. So we're kind of looking at 6.5% on the loan. So that is the rate. And then the loans bounce around. Obviously, we're repaying them back now as we generate cash flow. But probably -- the number you probably want to work off is what do they peak out at in terms of just when construction was complete and we went into operation. And you're looking somewhere around \$700 million. Because remember, the word historical loans in the local entity, so USD 700 million is roughly the number you should work off.

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**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Okay. And Mike, will that flow through the income tax line as well or separately?

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

No. That will be -- that will be a separate line item. Now remember, as well, as we have disclosed before, we haven't disclosed the final agreement yet because we're waiting for the ratification, which, as you rightly say, we think is imminent. But when that does happen, any amount that the state is going to pay us for that second 10%, post-construction cost volume, we're going to -- that's going to be set up in the form of a loan, and we're going to receive those loan repayments until that loan, plus interest, is repaid. So that's what you'll see on the -- that's how it will be reflected in the financials. It will be loan payable to us by the state of Mali for their purchase price. And you'll see that loan reduce over time as that dividend is paid.

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**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Okay. I got it, yes. And then what's -- Mike, what's your hedging level of oil price on your hedges sit at roughly?

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

You mean, what do we actually -- you mean the levels, the volumes, et cetera?

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**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Yes.

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

I think that, that's (inaudible). I think if you look at Note 11 for the financials, and we've laid it out in there for you, the volumes and the strike prices.

**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Got it. Will look for that, yes. And then lastly, Mike, maybe you could clarify a bit. I saw on the financial statements, of course, in the cash flow statement that a fairly large \$14-odd million for interest and commitment fees on your debt as an additional, if you will, interest-related expense. But maybe you could elaborate a bit more on that. \$14 million there, plus the extra \$8.5 million on the income statement is hefty level of total interest and commitment fees. Maybe you could just elaborate a bit more.

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

No. You've got to remember that's been the way we show it on the cash flow is we show all interest payments as part of financing activities. As you know, companies either decide they show it all as operating or financing. So we show it as financing. So the \$8.5 million you see on the income statement actually gets added back up top.

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**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Oh, it does. Okay. It's up top...

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

So you're not looking at a combination, you're looking at a total of \$14 million. And those reflect fees on the revolver and on the convert. And there had some lease interest, but the main ones were the revolver and the convert. And you got to remember as well, when you compare like-for-like on the income statement, that last year, we were capitalizing interest as part of Fekola's construction cost, which we no longer are.

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**Steven Howard Butler** - *GMP Securities L.P., Research Division - MD of Equity Research & Gold Analyst*

Okay. So on the operating activities, adjustments up above, it's under, I guess, you said noncash charges. It wasn't very clear to me as to where it might have been taken out of the operating activity line above.

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**Michael Andrew Cinnamond** - *B2Gold Corp. - Senior VP of Finance & CFO*

Yes. If you go look in Note 14, you'll see it that stack, yes.

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**Operator**

Your next question comes from (inaudible) from Global Mining Research.

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**Unidentified Analyst**

Just one quick follow-up on Fekola. Did you say you're already at 5.5 million tonnes per year? Or are the grinding studies looking to get you there?

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**Clive Thomas Johnson** - *B2Gold Corp. - President, CEO & Director*

We said absolutely that we are at 5.5 million and comfortable saying we can sustain that over all rock types.

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**Operator**

Your next question comes from Don DeMarco with National Bank Financial.

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**Don DeMarco** - *National Bank Financial, Inc., Research Division - Associate*

I guess, the last question just to build on that. Regarding the 5.5 million, like, I see in Q2, you're running at about around 5.3 million annual run rate. So given the fact you're comfortable at 5.5 million, does that suggest that we might see a quarter-over-quarter increase in throughput in Q3?

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**William Lytle** - *B2Gold Corp. - SVP of Operations*

I believe the answer is yes.

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**Don DeMarco** - *National Bank Financial, Inc., Research Division - Associate*

Okay. And I was looking at the grades, the technical report calls for grades at Fekola to edge a little bit higher, I think it's like 3.2 grams per tonne in the second year of operation, that's the mill grade. Is that still reasonable assumption to make?

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**William Lytle** - *B2Gold Corp. - SVP of Operations*

Yes. What you have to remember is we did a little bit different than the feasibility. We actually started mining in March of last year, so we have this very large stockpile that we've accumulated, like 3.7 million tonnes or something like that. And so we're actually being very selective right now in what we're actually mining -- or managing our mill throughput as far as what we're actually putting into the mill. So we have a kind of an interesting scenario, where we're trying to blend this out over the next couple of years, what our ounce production will be. So the answer is yes, we could run 3.2 million. We may run higher this year. We may higher next year. We're still looking at what that looks like.

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**Operator**

Your next question comes from Dan Rollins with RBC Capital Markets.

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**Dan Rollins** - *RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst*

Just a question regarding the potential upcoming expansion at Fekola. Just given the fact that the throughput is running well above design capacity, your unit costs are trending well below expectations, any thoughts of potentially dropping the cut-off grade when you move to reserves, given the improved economics of the ore body?

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**William Lytle** - *B2Gold Corp. - SVP of Operations*

We're looking at it yet.

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**Dan Rollins** - *RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst*

And impacts, trade-off on grade, any thoughts? Or this is really just more ounces at the same cost structure and just more free cash flow to you?



**William Lytle** - B2Gold Corp. - SVP of Operations

Too early to tell.

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**Dan Rollins** - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Okay. And then if we looked at -- one of the challenges we have in the gold sector versus other copper, other mines, is the sustainability of production. Are you looking at sort of a 10-year mine life with the expansion? Or are you thinking maybe pushes it out to 15? Give yourself a 15-year cash flow cow at Fekola, and then take the risk of having to chase 400,000, 500,000-plus ounces of production to replace every year?

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**William Lytle** - B2Gold Corp. - SVP of Operations

Yes. I'm sure Clive wants to answer that one, but from an operational standpoint is, well, it's the total we're looking at it, right? That's what this expansion study does. We don't have a final resource yet, and we certainly don't know what our throughput's going to be.

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**Clive Thomas Johnson** - B2Gold Corp. - President, CEO & Director

It's Clive. Let me just add to that. I'll just add to that we're going obviously look at what the best economics are and taking what's in the best interest of our shareholders there. So the first step is in the resource, how much bigger this could get. So you'll -- in our view, this looks like will have a significantly longer mine life than the current, the 10-year mine life that we started with (inaudible). So the question will be do we want to expand, add just more gold; or do we want to have a longer mine life? And you're right, those are always a challenge in our sector, which we'll be looking at that. By the end of the year, we'll have not only the new resource, we'll have ideas about what expansion looks like. If it does make sense and what mine life to (inaudible). Don't forget, we have the stakes to the north. It's early days, but we're starting to see under the saprolite blended material, we're was starting to see some good hits. Early on, but good hits in the bedrock sulfides below, which is what we're looking for, and that with Fekola potential. So there's a 5 kilometers by kilometers drilled there of saprolite material, so we'll be looking to develop that as we go forward this year and into next.

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**Operator**

There are no further questions queued up at this time. I turn the call back over to Clive Johnson.

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**Clive Thomas Johnson** - B2Gold Corp. - President, CEO & Director

Okay, thanks, everyone. Thanks for your interest and your good questions. We'll keep you posted. And follow up with me if you have any other questions that we weren't able to or we didn't answer on the call. Thanks for your time.

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**Operator**

This concludes today's conference call. You may now disconnect.



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