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PRESENTATION

Operator

Good morning and welcome to GCC's Third Quarter 2022 Earnings Call. Before we begin, I would like to remind you that this call is being recorded and all participants will be in listen-only mode. Please also note a slide presentation accompanies today's webcast. The link is available on the company's IR website at gcc.com.

At this time, I would like to turn the call over to Sahory Ogushi, Head of investor Relations. Please go ahead.

Sahory Ogushi

Good morning, everyone, and thank you for joining our third quarter results call. With me today are Enrique Escalante, our Chief Executive Officer, and Luis Carlos Arias, Chief Financial Officer.

Before we get started, I'd like to remind you that our remarks today will include forward-looking statements, including our long-term objectives and forecasts, as well as our expectations regarding our business, assets, products, strategies, demand and markets. These statements are subject to risks and uncertainties that could cause actual results to differ materially. They are also based on assumptions as of today, and we undertake no obligation to update them as a result of new information or future events.

Please also note that all materials from today's call are posted on GCC's website. With that, let me now turn the call over to Enrique.

Enrique Escalante

Thank you, Sahory, and good morning, everyone.

First off, on behalf of GCC, we cannot give enough thanks to our teams for their work, contributions, and most of all for their commitment in a very challenging environment. Our employees are our greatest asset and GCC's first priority is their health and safety.

Turning to slide 3, as you read in our press release, we again reported strong performance for the third quarter and nine-month period, particularly when compared to the considerable growth we delivered last year. The supply-demand balance in the U.S. cement market continues to be extremely tight with current demand pushing supply to its limits.

GCC's team remains focused on our commitments to clients and on producing as quickly and consistently as possible. And while the logistics headwinds we have cited previously have not improved substantially during the third quarter, through increased communication and coordination with customers and railroads, we have adapted to mitigate these effects to reduce variability in production and distribution. Our main challenge for the rest of the year is continue to produce at capacity in all plants, especially given our inventories are low across our operations.

We are also taking decisive actions to mitigate the impacts of today's extraordinary inflation. In August, we implemented a third price increase of US\$6 per ton broadly across markets and clients. This took effect on October 1 and despite moderate customer pushback, was accepted in all our markets. Moreover, we have advised customers of a US\$12 per ton price increase for construction and oil well cement effective January 1, 2023, and potentially another increase in mid-year if inflation continues at a significant level.

We believe these pricing actions, coupled with our ongoing focus on cost containment throughout our organization, position us well to preserve and even recover our lost margins in light of a market dynamic characterized by continued strong product demand, coupled with customers' focus on reliable product availability. This is expected to support an extended favorable pricing environment and the positive momentum in our industry.

U.S. sales represented 76% percent of GCC's Q3 2022 consolidated net sales, increasing by 10%. One of the main factors driving cement consumption growth in the last two years has been residential construction. In the context of rising rates and increased construction costs, we've not yet seen residential growth rates diminish and have a solid backlog for the rest of the year. However, the PCA is predicting a 13% decrease for this segment in 2023. So while homebuilding remains a concern for the overall economy for next year, and an important component of GCC's overall business, it's important to note that demand for our products is well diversified by sector and industry; the residential segment represents only 27% of GCC's cement sales. We

expect oil well cement demand to partially offset homebuilding construction effects in 2023, since the PCA forecasts a 30% increase for the oilwell segment, and we have already begun receiving customer orders for next year. In addition to oilwell cement, another offsetting segment could be the strong demand for industrial manufacturing plants and warehouses we expect in both sides of the border because of increased nearshoring activity.

Briefly touching upon the Infrastructure Investment and Jobs Act: to date there have been no recent relevant updates to share. States and DOTs are preparing for funding, and infrastructure projects are therefore running at a steady but lower pace than the past year. We expect to have more visibility in the Q4 2023. It's important to know that this timing remains on schedule and should not be considered delayed; we had expected this process to span roughly 24 months. Although PCA has softened the impact, but not the timing, on cement consumption from the infrastructure bill, we are more conservative on the timeline thinking the projects will have a slower start and will extend beyond the anticipated 5-year period.

Permian Basin oil well cement demand drove volume increase for GCC in the Q3. Along these lines, in August we announced capacity expansion at our cement plant in Odessa, Texas, which is focused on oil well cement production. This will increase Odessa's annual cement production capacity by more than 1 million metric tons. The overall investment not only includes a new production line but also significant investments in logistics for our interconnected distribution networks. With these investments we're decreasing freight distances and costs, further optimizing our cost structure and cement network while enabling us to address future demand growth. It's important to also note Odessa's flexibility to switch to construction cement if and when it's ever needed in one of the most dynamic markets in the U.S., Texas.

As commented before, we target mid 2025 to commission the new line. However, considering the expected recession and economic slowdown, and the potential cost decrease of commodities, freight, and construction inputs necessary for a project of this magnitude, we re-engaged in negotiations with equipment suppliers and contractors in an effort to lower the new line investment. Since we also expect the infra bill projects execution to extend beyond the initial 5-year period in the law, we believe time is on our side in this negotiation efforts.

Turning to our Mexico operations, as previously mentioned, industrial real estate construction demand remains strong in the Juarez market, led by exploding nearshoring trends. However, bagged cement purchasing, which was considerably higher due to pandemic Do It Yourself projects, resulted in an unfavorable year on year comparison again this quarter. To date we've seen bagged cement demand reach pre-pandemic levels.

During the quarter we also saw decreased mining sector activity due to the nature of this industry, with variations in need for our products. Per conversations with customers, we expect this segment to continue growing in 2023.

As I had discussed last quarter, we have been switching to a new reserve at our coal mine during 2022, which decreased coal production during the first half of this year. GCC has been burning natural gas and purchased

third party coal in Chihuahua, Juarez and Samalayuca during this period. We had expected those plants to be fully converted back to GCC coal this month. Unfortunately, the development process is taking longer than expected. In early September we began using coal from our mine, however, this only covers half of the plants' consumption, the remainder is still supplied by a third party. And while we get back to full production using GCC coal, in this Q4 we will ultimately recover part of that margin and quarterly results will reflect the transition from purchased coal for fuel at these plants.

Another step we've taken to mitigate inflationary impacts and cost increases is our natural gas hedge which fully covers our Odessa plant's consumption through 2022 and over 90% of 2023's consumption. Monthly prices have been negotiated in advance, all of which were below market prices in 2022. As a reminder, the Odessa plant is the only GCC plant that runs 100% on natural gas given its strategic location. Also, this plant runs 100% on a fixed cost solar power contract, 50% of the energy consumption at the Rapid City plant comes from wind generation, and 75% in Montana from hydro. We have not experienced any significant power cost increases in the rest of the plants, which should help us recover part of the lost margin this year.

Turning to sustainability goals and progress during the quarter, in August we released our 2021 sustainability report, marking GCC's first time reporting based on SASB standards. The full report is available on our website but let me share a few noteworthy highlights.

- First, we've strengthened our commitment to CO2 emissions reduction by reaffirming our Science Based Target to the well below two-degree curve, joining our industry's Race to Zero.
- GCC senior management compensation is also now tied to meeting sustainability goals. We're embracing our role in today's challenge to build a more sustainable planet by quickly adapting to regulatory and market requirements and are improving related strategies across all business units.
- I was also elected to Global Cement and Concrete Association's board of directors and will contribute to GCCA's strategy to become a net zero carbon industry by 2050.
- And GCC launched a Materiality Assessment in 2022 to ensure we remain closely aligned with our stakeholders on how we continue to move forward related to ESG.

Our company is therefore well positioned to reach our 2030 and 2050 targets. Our Trident plant was fully converted to PLC cement production and Rapid City began shipping PLC to the Minnesota market during the Q3 2022. Our Pueblo plant is on target to be fully converted to PLC by November of this year. All our exports of construction cement from Mexico were switched to PLC in July.

GCC was certified by our employees as one of Mexico's best companies by the Great Place to Work Institute for the 6th consecutive year. In 2021, our U.S. Division received its 2nd consecutive certification.

In closing, we are proud of our Q3 performance and ability to deliver year on year EBITDA growth during a period when accelerating energy costs and inflation placed incremental pressure on an already stressed

system. As we continue to navigate the challenges and opportunities ahead of us, our team remains focused on running the business towards profitability and on making decisions that deepen our customers' confidence in the quality of our product and our ability to deliver.

Let me turn the call over to Luis Carlos to review the quarter's financial results and I will return for some brief closing comments.

Luis Carlos Arias

Thank you, Enrique, and good morning to everyone.

Turning to slide 16, consolidated net sales for the Q3 increased by 12%. This was mainly driven by the increase in cement and concrete volumes in the U.S and concrete volumes in Mexico along with better prices in both markets. This was partially offset by lower cement volumes in Mexico reflecting reduced demand of bagged cement.

Moving on to slide 17, cost of sales as a percentage of revenues increased 1 percentage point to 67% in the quarter, mainly reflecting unfavorable cost of production, increased fuel price in Mexico, as well as higher freight costs, of which around 30% is passed on to our customers.

SG&A expenses as a percentage of sales decreased 80 basis points in the quarter to 7%.

As a result, as you can see on slide 18, EBITDA increased 7% year on year while the margin contracted 160 basis points.

Turning to slide 19, net financial expenses decreased more than US\$5 million in the quarter due to higher financial income and a decrease in the effective interest rate, as well as a lower debt balance.

Moving to our bottom line, consolidated net income increased 18% while earnings per share increased 19% in Q3. Along these lines, during the quarter we repurchased 600,000 shares equivalent to US\$3 million. Under this program we can buy back up to US\$50 million of outstanding shares.

Turning to our cash generation on slide 21, free cash flow increased 11% to US\$105 million in Q3. This was mainly driven by higher EBITDA generation, lower interest expenses and working capital requirements.

Once again, I would like to note GCC's improvement in controlling payables, receivables, and inventories. Based on the last twelve months of sales, we reduced days in net working capital from 54 to 43 – an 11-day total decrease.

Turning to our balance sheet, we ended the quarter with US\$732 million in cash and equivalents. Our net debt to EBITDA ratio decreased to -0.7 times at the end of September reflecting once again our very solid financial position with leverage ratios significantly below the industry's average.

With that, I will now return the call over to Enrique for his closing remarks.

Enrique Escalante

Thank you, Luis Carlos. Turning to slide 23:

We are not revising our full year guidance. Although there are some variations in cement volumes and prices in Mexico, we don't think these will materially change the expected overall results for the year.

We're focused on driving the business forward and will continue to prevail in addressing and mitigating today's challenges as I've described. I'm extremely proud of the way our team is executing and delivering strong results in what continues to be a challenging operating environment.

Let's now turn to your questions. Operator, please go ahead.

Operator

Thank you. Our first question comes from the line of Carlos Peyrelongue with Bank of America. Please proceed with your question.

Carlos Peyrelongue

Thank you for the call, Enrique and Luis Carlos. Two questions, if I may. The first one is related to Biden's infrastructure package. If you could provide a bit more color on this? You mentioned on the call that you expect a slightly lower start, so if you could elaborate a bit more on that, it would be quite helpful.

The second question is related to the dividend policy. You have now about US\$750 million in cash accumulated on the balance sheet and the Capex for the expansion in Odessa. I believe it's about the same amount or very similar. Is there any possibility for an increase in the dividend over coming years? You're generating a ton of free cash flow. If you could also comment on that, it would be great. Thank you.

Enrique Escalante

Buenos días. Hello, Carlos. Thank you very much for your questions.

Carlos Peyrelongue

Buenos días.

Enrique Escalante

First on the Infrastructure Bill, yes, we're just not that optimistic that projects are going to be ready in the first 18 months after the law was enacted. With all this cost inflation pressures also for DOTs, we tend to believe that they are obviously going to take a little bit more time to really understand what projects they can execute

and by when. We're thinking that on this occasion, it's going to take a little bit longer for them to be ready with projects.

On the positive side for us, we believe that the execution of all the projects that are coming from the Infra Bill, it's going to extend beyond five years, probably as PCA has even commented sometimes up to eight years. This is especially good for us in light of our expansion project in the Odessa plant.

Let me now turn to your second question on dividends policy. You mentioned that we have in cash a lot of money, which fortunately we do. That same amount could be equivalent to what we're going to expend in Odessa. I just want to re-clarify here, the Odessa project, it's below those numbers, because the numbers that we mentioned before, includes of course several improvements and additions in our logistics and network infrastructure system, so that doesn't approximate the number that we have in cash.

Turning to your dividend policy question, at this moment, we don't see as an alternative, a special dividend although, we have been increasing our dividend—payouts in the previous years. Most likely, we're going to continue doing that, probably increasing the amount but not paying a special dividend. We still believe that with a recession and economic downturn, some M&A opportunities could start to appear in the horizon, and we want to be ready for that.

Carlos Peyrelongue

Understood. Great. One follow-up on a comment you made on oil well cement. You mentioned, and I didn't catch that number well, an important increase that you're expecting on—or the PCA is expecting in terms of demand. Can you reiterate that number?

Enrique Escalante

Yes. PCA mentioned a 30% increase, Carlos.

Carlos Peyrelongue

Thank you. Thank you, Enrique. Thanks.

Operator

Thank you. Our next question comes from the line of Alejandra Obregón with Morgan Stanley. Please proceed with your question.

Alejandra Obregón

Hi, good morning, GCC team. Thank you for taking my question.

I actually have two on the U.S. The first one is about your backlog, if you can help us understand what you're seeing in the backlog in the U.S. in the different segments, meaning residential, oil, non-res, and infrastructure, anything that can help us think of 2023.

Then, the second question has to do with the expansion in the Odessa plant. You mention that you have a double-digit return expected for the project. I was hoping to hear about your assumptions here and whether these new price increases, US\$12 per ton, that you are thinking of, and the second price increase in mid-year, would that mean upside potential to your double-digit return numbers or is that contingent to those price increases sticking? Thank you.

Enrique Escalante

Good morning, Alejandra. Thank you for your questions.

On the backlog side, of course, we still have a very strong backlog. I don't have a specific number for you by segment at the moment because we are, as we speak, finishing our budgeting process for next year. I know that, on the residential side, we at least see a full backlog for the rest of this year, but I have talked to obviously customers, and they are expecting a decrease, but they are also, at this moment, trying to assess the impact of that increase.

In other segments, like construction of industrial and commercial, in Mexico for example, all the near-shoring activity, we think that we have about six months already in the backlog, and we're looking at an increase in that segment for this year of around 10%. We're very confident that the backlog in the industrial commercial side, it's going to continue to be very strong. Coupled with, of course, the infrastructure segment, we feel that we're going to be very well-positioned for next year.

Of course, the main question is the residential, and as I mentioned, we believe that there are a couple of ways for us to offset that decrease, one through the oil well cement industry, and the other one by this near-shoring activity. We're again in the process of determining the latest numbers on our forecast for next year.

In terms of the Odessa plant, yes, our returns are, as I mentioned, double-digit. That's what we've forecast for the project, and price increases are of course much, much higher than what they were when we initially started with the planning of the project, so that's been helping a lot.

As I mentioned also, in the past, the investment in Capex and in construction and equipment, it's also higher. As I said, we're taking advantage of this coming downturn in the economy to reengage and renegotiate contracts with the suppliers of equipment and contractors of construction. We think that the combination of those two things will continue to support a double-digit return in our project.

Alejandra Obregón

Thank you. That was very helpful.

Operator

Thank you. Our next question comes from the line of Vanessa Quiroga with Credit Suisse. Please proceed with your question.

Vanessa Quiroga

Hi, thank you, and congrats on the results. My question is on the working capital improvement. I'm wondering if you think that you can continue to reduce the number of days of the cycle going forward to boost free cash flow and the conversion rate.

The other question from my side would be, going back to the Infra Bill and regarding this extended timeline to kick off with the first projects, what are you hearing from the ground in terms of any indications that it could kick off earlier, during 2023? Thanks.

Enrique Escalante

Thank you, Vanessa, for your questions. I want to address first if it's okay with you the second question on the Infra Bill, and then I'm going to pass it on to Luis Carlos for him to address the working capital question.

On the Infra Bill, we don't hear anything concrete yet in terms of a potential startup. Our internal assumption is that projects will really start kicking in, in 2024. We don't see projects or hear that there are projects already in the pipeline that could start being executed in 2023. In our predictions, we'll have the main effect of the Infra Bill starting in '24, then increasing '25, '26, and then peaking around those years.

Luis Carlos?

Luis Carlos Arias

Thank you, Enrique, and hi, Vanessa.

Just for some context on the reduction of the working capital base, if we compare what the days of net working capital that we had in 2019 against our current numbers, we have decreased by half the days of net working capital. We have—as I said in my remarks, we continue to lower those. In the future, we think we have still some opportunities to continue the reduction. We don't think we're going to have, of course, the same reduction as we did in the past, but we still have some opportunities going forward.

Vanessa Quiroga

Thank you very much, Enrique and Luis Carlos.

Luis Carlos Arias

Thank you, Vanessa.

Operator

Thank you. Our next question comes from the line of Alejandro Azar with GBM. Please proceed with your question.

Alejandro Azar

Hi. Good morning, Enrique, Luis Carlos, Sahory. Thank you for taking my questions. Two quick ones on capital allocation. When analyzing M&A, does the U.S. remain the main focus point, or are you guys looking elsewhere, perhaps Mexico, Canada, or even Central America? That would be my first one.

The second one is I understand that the bond bears a really low interest rate and it's a 10-year bond, but it's currently trading at a 20% discount. In the case that you guys don't find that M&A target, are you guys analyzing perhaps buying or making a tender offer for a partial amount of that bond and paying it at a discount? Thank you.

Enrique Escalante

Thank you, Alejandro, for your questions. First on capital allocation, of course, I want to reiterate that our focus continues to be the U.S. and more ideally, in the same region where we are today. Trying to have an M&A project in which we could plug in plants into our network would be a top priority. Of course, the U.S. as a whole, I would say that's the second tier.

We're not looking today very aggressively at investments in Mexico, although we are always open if the opportunity arises to look into what we could possibly develop here, as well as Canada, same thing, but priority number one, the U.S., within the same region where we are today.

On the bond question, yes, we know that the bond is trading at a significant discount, but in light of what I just said of the M&A possibilities, we think that we want to continue to have the cash on hand. Of course, depending on where the economy goes forward and for how long, we're not open to analyze the possibility of a bond repurchase or anything like that. That's not the priority for the Company at this moment with the cash that we have on hand.

Alejandro Azar

One more if I may, Enrique, and thank you again. When seeing M&A, does the focus remain on your three core products— cement, aggregates, and ready-mix—or you guys would be open to perhaps another, I don't know, product in the construction industry or in the building materials industry?

Enrique Escalante

Well, the more material projects of course will be cement. That's priority number one by far. Aggregates, I would put it as number two priority. Ready-mix, it will have to be a very specific opportunity where we can run

and integrate it, an operation with one of our plants. But I will say, conceptually speaking, that will be a third priority.

Your question about other different products, there are some smaller investments that we have been making in the specialty cement. We're looking at those with a lot of excitement here. In mixing of back product of specialties, for example in Mexico, it's been a very profitable business. We think that there is more demand in front of us to supply product to those segments. So, yes, other products of course are on the pipeline, but those are smaller investments compared to a cement plant.

Alejandro Azar

Thank you for that color, Enrique.

Operator

Thank you. Our next question comes from the line of Lucila Gómez with Compass Group. Please proceed with your question.

Lucila Gómez

Hi, good morning. Thank you for taking my question. I have two questions. The first one is just to clear up if, at this moment, have you seen any impacts from the residential slowdown, or so far, you haven't seen anything impacting your volume?

The second question would be in terms of leverage, the leverage you have right now continues to go down, and I just want to ask if you feel comfortable at those levels, or what are you planning there? Thank you.

Enrique Escalante

Thank you, Lucila.

First, your question on residential. So far, as I mentioned, we have not seen any reduction in our pipeline, at least through the end of the year. I was in an All Managers Meeting yesterday with both divisions. That's a communication mechanism that we have after our Board meeting. I was hearing precisely from our fault in the U.S.A. that, yes, they are having this conversation with customers, but so far, it's still solid. A lot of questions, of course, on the horizon, but as I mentioned, not a lot of information yet on how much the segment could go down.

However, as I mentioned, I think we are also very well-positioned to cope with that through other segments, because of our diversification and the improvement that we see in other segments for next year, like commercial, industrial and oil well cement. We're feeling pretty, I would say, cautiously optimistic that we can address well any potential or any decrease that will happen in the residential side.

On your leverage question, I want to just reconfirm that we are not thinking about doing anything on the debt side at this moment. We're planning to continue with this cash, looking for M&A projects and/or, let me clarify, if we don't find them, we also have plans to modernize some other of our plants in the system. So, it's a capital allocation question. There are always projects competing for that cash, and of course, the priority of the Company is to continue to grow in the cement business.

Lucila Gómez

Perfect. Clear. Thank you.

Operator

Thank you. Our next question comes from the line of Daniel Rojas with Bank of America. Please proceed with your question.

Daniel Rojas

Hi, good morning. Thank you for taking my call. I was just hoping to get some color on input price inflation. Have you seen costs easing? What is your outlook for next year? Thank you.

Enrique Escalante

Daniel, thank you for the question. Of course, a lot of work in the Company is trying to assess precisely the impact of inflation for next year. The major cost component in cement, of course, it's energy, including fuel and power. In terms of fuel, as I said, we're pretty confident that we're going to stabilize our cost of fuel by the increase of production in our mine operation in Colorado right now of full blast going forward, increasing production and shipping to all the plants by the end of the year. That's a big hedge and a big advantage that we have in terms of the main fuel for our plants.

Power, as I mentioned, we have several plants running on renewables that are on also fixed contracts or partially fixed at least for part of the consumption of those plants, and we have not seen any significant increase in power this year, so that gives me a lot of confidence that that's going to help us mitigate the inflation impacts that we had this year in the Company.

The other big component, of course, it's fuel, diesel fuel in our ready-mix operations and cement plants. We expect also that to start stabilizing this year. All in all, we think that we're better prepared to cope with inflation this year and next year than what we were this year.

Daniel Rojas

Okay, thank you for your answer. A second question is, you talked a lot about the Infrastructure Bill and how you're expecting the impact to maybe take more time than we expected, but on the Inflation Reduction Act, the second bill that Biden signed, there are some provisions that might also help the industry, specifically in

CO2 and carbon capture. Have you had the time to look over those and measure the potential impact, or maybe it's too early?

Enrique Escalante

No. Daniel, again, thanks for the question, very good question. We're in our early stages of analyzing how to take advantage of that section of the bill. Definitely very interested in what we can do in terms of CO2 projects. We're working, as we speak, with several companies in trying to understand what pilot projects we are going to be running at what plant, and in that context, of course, we want to take advantage of that new bill.

Daniel Rojas

Can you educate us a bit on the geology and the potential—I mean, are you close by to look up to potential locations where you can inject CO2, or is the distance too big? I just want to get an idea of the scope of the potential opportunities here.

Enrique Escalante

Yes, we believe that we're now in a very good position in a couple of our plants in the system, at least with what we know today. For example, the Pueblo plant is not far from geological formations where we can take advantage of that. The Odessa plant, of course, it's very close to CO2 pipelines that are already running. We're pushing very hard in understanding how can we benefit from those conditions, at least for those two plants at the moment.

Daniel Rojas

Okay. Thank you for all your color.

Operator

Thank you. Our next question is a follow-up from the line of Alejandro Azar with GBM. Please proceed with your question.

Alejandro Azar

Hi again, Enrique. Just a quick follow-up. I don't know if you guys talk about prices for January or April in 2023, if you could give us some color on that, please?

Enrique Escalante

Yes, Alejandro. We already announced to all customers, all markets, construction cement, and oil well cement, a US\$12 per ton price increase effective January 1. So, it's out there. Our customers know, they have been informed, and we have had, also, conversations with them, talking about a potential midyear increase, of course depending on how demand is progressing the rest of 2023.

Alejandro Azar

Thank you, Enrique.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Ogushi for any final comments.

Sahory Ogushi

Once again thank you to everyone for your interest in GCC and for joining us today. As always, we appreciate the opportunity to discuss your questions and look forward to talking with you again in the months ahead. This concludes our conference call, but we are of course available for any follow-up conversations. Goodbye for now.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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