

EVENT: CAPSTONE MINING CORP. Q2
RESULTS CONFERENCE CALL
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OPERATOR: Good morning. My name is Christopher and I will be your conference operator today.

At this time I would like to welcome everyone to the Capstone Mining Corporation's second quarter financial results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question during this time, simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key.

I'd now like to turn the call over to Mr. Darren Pylot, Chief Executive Officer of Capstone Mining.

You may begin your conference, sir.

DARREN PYLOT (Chief Executive Officer, Capstone Mining Corporation): Thank you, Operator, and good morning, everybody; and thanks for attending Capstone's second quarter conference call.

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On the line with me today in Vancouver is our President, Stephen Quin; Richard Godfrey, our Chief Financial Officer; and Jason Howe, Vice President of Business Development.

All the financial numbers today will be quoted in U.S. dollars unless otherwise stated.

I'll run through the highlights of the second quarter's financials. We recorded net earnings of \$45.4 million, or \$0.23 per share, which includes earnings from mining operations of \$27.1 million, a gain of disposal of investments, which is mainly the sales of additional Silver Wheaton shares in the quarter of \$11 million, and a net gain of \$29.1 million on derivative instruments, which is made up of a realized loss of \$7.2 million on instruments settled during the quarter, an unrealized non-cash net gain of \$36.3 million on instruments outstanding as a result of the reduction in metal prices over the period.

The adjusted earnings were \$10 million, or \$0.05 a share after making adjustments for the non-cash non-recurring and derivative non-cash derivative instrument gain and the gain on the disposal of investments.

We generated cash flow from operating activities of \$32.5 million or \$0.16 a share. Working capital, which does include \$151.6 million in cash.

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Of that \$10.8 million is restricted, has increased to \$142 million at June 30th, and that's up from \$110.9 million at March 31st, at the end of the first quarter.

We sold 17.7 million pounds of copper, 3.2 million pounds of zinc, 3.6 million pounds of lead, 6,201 ounces of gold, and 428,767 ounces of silver in the period. We produced a total of 17.3 million pounds of copper, at a total estimated cash cost of \$1.31 per pound.

Bringing that into the first quarter and combining that to the first six months of financial numbers we get net earnings of \$58.9 million, or \$0.30 per share, which includes earnings from mining operations of \$64.9 million. The gain on selling of shares, Silver Wheaton shares is the same at \$11 million. The net gain is \$21.1 million on derivative instruments, which is made up of the realized loss during the period of \$14.9 million, and the unrealized non-cash net gain of \$36 million. Again, the gain is due to the metal price decline during the period of the first six months.

Adjusted net earnings were \$31.7 million, or \$0.16 per share, again, after factoring up the non-cash and derivative instruments. We generated cash flow for the first six months of \$36.9 million, or \$0.19 per share. We sold 38.8 million pounds of copper, 6.3 million pounds of zinc, 6.2 million pounds of lead, 16,896 ounces of gold, and 781,307 ounces of silver. We

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produced a total of 37.4 million pounds of copper at an estimated cash cost of \$1.23 per pound of payable copper.

Subsequent to the quarter the company has entered into forward copper purchase contracts for 9.2 million pounds of copper at prices that range between \$2.93 and \$3.42 per pound over the years 2011 to 2013 that gives an average price of \$3.19 per pound. These forward purchase contracts offset approximately 18 per cent of the outstanding copper forward hedge book as at the end of this second quarter.

The company has no commitments to make further purchases, although it is our intention to take advantage of, when favourable market conditions exist, to enter into additional forward contracts with the goal of offsetting the balance of our outstanding forward positions in the years 2011 to '14.

We'll probably let 2010 settle as we're halfway through 2010, so most of the copper forward contracts in 2010 will settle as they come due. We are continuing as of now to purchase forward contracts in '11 to '13, so we do view this copper price as favourable. But again I want to reiterate that at any time we can stop the program and restart it, depending on what we feel is favourable market conditions with the copper price.

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We also appointed Ms. Chantal Gosselin to the board of directors. Ms. Gosselin brings both capital market and mining site experience to our board, and we welcome Ms. Gosselin to our board of directors.

At this time I'll pass the call to Stephen Quin, and he will take you through the operation.

STEPHEN QUIN (President, Capstone Mining Corporation): Thanks, Darren. And the operating results were released back on July 19th, so I don't intend to go over all the details, but more focus on what happened and the outlook for the rest of the year.

In highlights in Q2 we produced 21.9 million pounds of copper in concentrate and the average total cost was \$1.12 per pound, which was less copper than we had originally planned.

At Cozamin, as we talked about in the last quarter, we were primarily constrained by underground mining where we have been opening up since late last year a much wider higher-grade area of the mine, and we're taking a cautious approach to the extraction of that area to ensure geotechnical stability. I mean, to be clear we haven't had any geotechnical problems, but we have a fairly intensive monitoring program, and these stopes are upwards of 30 metres wide, so they're very substantial openings. And we

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obviously don't want to lose access to any of that material because it would hurt us in the long term.

In the meantime we made up production from other areas while we generated less tonnes from those high-grade copper areas, and those other areas had higher lead grades, which is why you see the lead by-product credits quite a bit higher, which offset some of the higher operating costs on a net basis.

However, at Cozamin we have opened up two new stopes in the higher-grade copper area to supplement production, and we obviously need to ramp up that production from all three areas or all three stopes to ensure we meet our revised, slightly lower guidance of 40 to 42 million pounds in concentrates as opposed to the prior guidance of 40 to 45 million pounds.

Obviously this revised guidance is dependent on that underground production ramping up through the remainder of the year. And as we've repeatedly stated over the last while, the mill has no problem handling larger tonnages. It can easily handle well above our design requirements.

At Minto production was hampered by under-performance at the tailings pond. And to remind people we dry-stack our tailings, which

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essentially we need to dry those tailings in a filter pond. And so that had a significant impact on the ability of the pond to process material.

In addition, during the quarter we had a wildfire that took out about a week's worth of production, and then that was followed by rain that flooded the pit. Nothing like last year's level, but has restricted access to some of the higher-grade material in the pit.

We are working through the tailings pond constraints at Minto. But basically we have decided that we need to rebuild the five tailings filters and replace all of the plates. Unfortunately, they are manufactured in Germany, so the lead time to get a complete replacement set means this will not be completed until September.

We're also operating our water treatment plant and treating and discharging from the water... water from the site with the objective of getting access to the pit to that high-grade material of the pit as soon as possible.

As a result of these factors, we've reduced our guidance for Minto to 40 to 43 million pounds, which is obviously dependent on ramping production up to 3,200 tonnes a day by the end of the year with the... all the filter plates replaced, and regaining access to the bottom of the pit

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where the high-grade ore is exposed, waiting to be mined, but currently under water.

As a result of these comments for the combined operations, we've reduced our overall guidance to 80 to 85 million pounds of copper in concentrates with cash costs likely to be at the higher end of the prior guidance of \$1.10 to \$1.20 a pound.

What I'll now do is move on to the growth side of the company and talk about exploration and expansions and so on and just briefly touch on some of the highlights. And as we reported in April, we commenced drilling at the Cozamin mine primarily focused on the underground drilling of a newly discovered footwall zone to the Mala Noche vein. And the Mala Noche vein is the one that hosts all of the current reserves and resources at Cozamin.

Reported intercepts include 2.5 metres at 2.1 per cent and 2.2 metres at 2.6 per cent copper. While these are relatively modest widths, the proximity of this mineralization to the existing mine infrastructure just being a few metres to tens of metres into the footwall of all the existing development and the relatively good copper grades added as purely copper mineralization with very few by-products, it does give us something

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that could quickly turn into new production with very little development required.

Drilling is continuing, and we are also reassessing some historicals that penetrated this horizon that weren't built into any resource estimate. And we will expand exploration to other areas of the Cozamin mine during the balance of the year.

Exploration at Minto continued with drilling on the margins of the Area 2 deposit and Minto East with encouraging results. At Minto East we've seen intercepts in the range of 12 to 18 metres, grading 3.6 to 4.2 per cent copper in the centre, confirming the significant grade potential and thickness of this deposit. And we are continuing to drill to find that to reserve standards.

Area 2 step-out drilling has extended the mineralization that would be primarily targeted to underground production, with intercepts of 12 to 13 metres, around 2 per cent copper, but including higher-grade zones of 4 metres or so in the 3 to 5 per cent copper range, so it's something that could be quite attractive for underground mining.

Talking about Minto East during the quarter, we reported a first-time mineral resource estimate for Minto East, which we used a 1.5-per-cent copper cut off for, which is roughly where we would expect the

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underground mining cut off to come in. And that came in at 540,000 tonnes of 2.9-per-cent copper and 1.2 grams gold, and another 284,000 tonnes inferred at 2.6-per-cent copper and 1 gram gold. So infill drilling is continuing in there to increase the confidence level to include that in a reserve in a pre-feasibility study.

We also announced an updated proposal for the expansion of the Minto mine as part of our permitting process, and that included amended guidance incorporating the proposed underground development of some of the mineral resources. And what that allowed us to do was pull some of the higher-grade from the tail end of the mine, bring it forward, and gave us a higher production over the first six years.

The principal areas that were brought in were a component of Minto East and a part of the Area 2/118, (inaudible) mineralization. All of this work provides the basis for phase 4 permit application, which will be filed shortly, and phase 4 will include Area 2/118, open pit and underground only. And then there'll be a subsequent phase 5 permit application, which will follow at the end of 2010 or early 2011, which will incorporate the rest of all the other deposits, both open pit and underground.

During Q2 at Minto we also completed, just right at the end or just after the end of Q2 a deep penetrating Titan-24 geophysical survey, which

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was completed over almost all of the Minto property, and that identified a number of anomalies. And in July we announced the drilling of the first one of those anomalies and the discovery of the wildfire zone at Minto, which followed up on one of the strongest anomalies we've seen that's relatively close to surface. And the first hole intersected 10.8 metres at 2.4 per cent copper, including 5.2 metres at 3.7 per cent copper.

There were two 40-metre step-out holes, which we reported contained similar mineralization, but we didn't have the assays yet, and they will be reported relatively soon.

As a result of the extent of this anomaly and the encouraging results, we brought in an additional drill, and that will accelerate the evaluation of this new discovery and grid drilling is progressing.

Subsequent to quarter end we also announced the results of an updated preliminary economic assessment for Kutcho, which significantly improved the economic parameters and recommended proceeding to completion of a pre-feasibility study. Based on those recommendations, we announced that we started work on the PFS, and that includes a 13,000-metre 23 drill-hole program, which will operate in confidence(?) in the Esso deposit and collect samples from there.

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The first two holes confirm the presence of very high-grade zone within the overall Esso resource. It included intercepts, one intercept of 13 metres of 5.7 per cent copper, 8 per cent zinc, 0.8 grams gold, and 160 grams of silver. And drilling continues and more results will be released as that drilling progresses. So essentially we have drilling progressing on all three properties at present, so there should be a fairly good flow of information coming from that over the next three to six weeks.

So thank you for that, and I'll turn it back to Darren.

DARREN PYLOT: Thank you, Stephen, for the operations and exploration update. At this time I'll open the floor up for questions, and please ask any questions you may have.

OPERATOR: As a reminder in order to ask a question, press * then the number 1 on your telephone keypad. If you are using a speakerphone, please pick up the handset before asking your question.

Your first question comes from the line of Orest Wowkodaw from Canaccord Genuity. Your line is now open.

OREST WOWKODAW: Hi, good morning, and a couple of questions if I may. First of all, if we start at Minto, the press release talks about changing the filter plates on the tailings filter plant with a completion expectation of mid August. Did I just hear Stephen say that's now slipped

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to September? And I'm just wondering how many of the filter plates have been changed up to this point?

STEPHEN QUIN: We've just got our first batch in of 62 plates, which will start going in, I think it's next week. And the balance of the plates will arrive in various shipments. The timing of those shipments, we're not 100-per-cent sure. It looks like it could be slipping a little bit, but we are also working to get that expedited and get them all in. So the timing's a little uncertain. It's essentially the manufacturing of those plates and delivery that is the time constraint.

OREST WOWKODAW: Do you think there's possible slippage to your guidance at Minto based on where you see delivery installation now or...?

STEPHEN QUIN: No, because it really doesn't make that much difference overall on the number of pounds produced on that timing. And it's plus or minus like a million pounds.

OREST WOWKODAW: Okay. And then for Darren, obviously your cash build is accelerating. About a third of your market cap now is sitting in cash. Can you give us an idea of what you plan to do with that cash? Are you moving any closer to securing another growth vehicle, or would you even consider perhaps putting in a dividend?

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DARREN PYLOT: Well, Orest, we are continuing to build cash and we are aware of that obviously happening with the cash flow bringing in with these metal prices. And we've stated several times on these calls that obviously our first choice is to provide more growth for the shareholders on top of what we have within the company by making a merger or an acquisition, and we're obviously working very hard on that.

So we feel we're working hard on a number of fronts. And obviously if we felt that we couldn't do that, and for various reasons whether things were evaluated too high or what have you, we would look to give the cash back to the shareholders at some point. Whether it be a buyback or a dividend, that would definitely be on the table at some point in time.

I guess it would be in the nearer future, sort of towards the end of the year. We'd probably look more closer at that if we hadn't made an acquisition or a deal up to that point.

We obviously do have a lot of good things happen within the company as well. We're going to move Kutcho forward, as Stephen spoke about. We've got lots of exploration that's going to go into both Minto and Cozamin and Kutcho as well. So we are busy internally with our growth prospects as well.

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OREST WOWKODAW: Okay, thanks. And just one final housekeeping question: The 9.2 million pounds of copper purchase agreements that you entered into, can you give us a split between the years?

DARREN PYLOT: The 9.2 that we did, I don't have the split. I mean, again it's not 2010. It's 2011 to '13. We can get back to you on the exact... which sort of years.

OREST WOWKODAW: Is it fairly even or is it lumpy in one year in particular?

RICHARD GODFREY (Chief Financial Officer, Capstone Mining Corporation): It's Richard Godfrey here. It's very even. We've actually matched them up against the positions that we have out, the forward sales positions we have out in those years.

OREST WOWKODAW: Okay. Thanks very much, guys.

OPERATOR: Your next question comes from the line of David Cotterell from BMO Capital Markets. Your line is now open.

DAVID COTTERELL: Good morning, everybody. Look, I've got a couple of questions for you. The first one I guess is a bit of a follow on from Orest's question about cash building. I'm just wondering about your sale of the Silver Wheaton shares. Is there a bit of a logic behind that? Should we

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sort of read through that you guys are about to do a deal and need an extra couple of mils?

DARREN PYLOT: No. I mean we've always sold those... we've sold those shares within the year when we feel it's opportunistic to do so. We did that during the previous quarter, and we'll continue to sell. We're not selling for any one reason. If we did, we would have sold the entire block in one sale. We're just opportunistically selling the shares when we see fit. It's not really pointed towards any one transaction or any one item that we need the cash for.

DAVID COTTERELL: Okay. I guess I was looking from the perspective that you guys don't really need more cash. It's almost like cash is needed to be used in terms of doing something, that's all.

DARREN PYLOT: Well, you're correct. We're not in the business to speculate on share prices. We're in the business to build a base level company. So if we can realize those share positions in cash, and therefore use the cash and to creating more value and more base metal production for our shareholders, that's our first and foremost objective. And so the shares have done extremely well over the past couple of years, and we just felt it's time to take some money off the table.

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DAVID COTTERELL: Okay, sure. The other question was about the forward sales that you're doing. Is that really just going to offset, is your plan to offset everything from 2011 to '14 in terms of getting better prices?

DARREN PYLOT: Well, yes, what we're doing is effectively crystallizing a loss and then taking the hedge book down to zero. We want to be un-hedged sort of after this year.

DAVID COTTERELL: Okay. Sure. And does that mean that you will then pay down the debt to Macquarie, is that the plan?

DARREN PYLOT: Yes, the only thing left on the Macquarie is the subordinated loan facility, which is 10 odd million dollars, with the first payment due in October of this year, the second payment due midway through next year. So we may elect to pay that off early and pay it all off this year, and we may not. We'll just have to look at one, when the time comes. But that's the only debt remaining with Macquarie.

DAVID COTTERELL: Okay, sure. And if I may, Stephen, just one question to do with the filing of the phase 4. Did you say that there's a second part to that, which would just be the underground which you'll file after you file the first part?

STEPHEN QUIN: No, phase 4 includes open pit and underground for Area 2 and Area 118 only.

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DAVID COTTERELL: Okay.

STEPHEN QUIN: And then, but it does include both open pit and underground. And then phase 5 will include open pit and underground everywhere else.

DAVID COTTERELL: Okay. And you'll intend to file that in sort of the later part of this year or early next year?

STEPHEN QUIN: Correct. And it's basically dependent on the timing of the approval of phase 4. Not the final approval, but the moving out of a certain stage, and so the two processes don't get linked into one.

DAVID COTTERELL: Okay, excellent. Thank you very much, guys.

OPERATOR: Your next question comes from the line of Mark Turner from Scotia Capital. Your line is now open.

MARK TURNER: Hi. Thank you. Just two quick questions. I guess first to follow up with Orest's question there before. Stephen, you had mentioned that I guess part of the... maybe the delay in getting the new filter plates in is that the manufacturer and the shipping over. That's not going to materially change I guess the capex estimate for that, is it?

STEPHEN QUIN: No, it's not material. I mean, the total estimated cost including freight was approximately \$1.5 million. So it might make some minor differences.

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MARK TURNER: Okay. So it's not going to like triple it or anything like that?

STEPHEN QUIN: No, no, nothing like that. And the timing is somewhat just dependent on that freight method that we use and when it lands and how quickly it's expedited.

MARK TURNER: Okay. Perfect. And the second question also on the floatation plant up there, I guess just looking at the actual the concentrate grades this quarter being sort of the best I think they've ever been, or close to it up there, and definitely a lot better than Q1, is that more just a function of the reduced throughput through the plant or is that... were there some maybe other operational changes that going forward we can expect to see sort of higher concentrate grades there as well?

STEPHEN QUIN: I think it's probably a bit of a mix of both. Lower throughput obviously gives you a bit more capacity in the floatation end of the circuits. However, we have made over the last year (inaudible) to floatation plant, minor refinements if you want to call them that, to essentially optimize that recovery and concentrate grades. So some of it's definitely related to the work we've done to optimize that circuit. And it's probably sustainable.

MARK TURNER: Okay. Perfect. That's all I have. Thank you.

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OPERATOR: Your next question comes from the line of Stefan Ioannou from Haywood Securities. Your line is now open.

STEFAN IOANNOU: Great. Thanks, guys. I think most of my questions have been answered, but just one quick one. You mentioned that heavy rain post the wildfire at Minto; and just from some of the language in the MD&A, it just sounds like you're a bit uncertain if you're actually going to get it into some higher-grade stuff in Q4 or not.

Can you just... do you expect to actually get the water out of there in Q4 and actually get higher grades going through the mill at that point, or will it sort of be just declining grades through Q4 and we won't see the higher grades return until Q1 of next year?

STEPHEN QUIN: The guidance we provided is based on the middle of the range estimate of getting sufficient water out of the pit to get access to that higher-grade material. It's around 3 per cent that's sitting in the bottom of the pit. And the stockpiles are averaging at sort of 1.8 per cent.

So that's kind of the swing factor, and that's why there's the guidance ranges of 40 to 43 million pounds. Because we're not planning to access that material till Q4 anyway. It doesn't have a huge impact. But it obviously has some impact. And we are processing that water, about 4,000 cubic metres a day and getting it offsite.

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STEFAN IOANNOU: Okay, perfect, guys. Thanks very much.

OPERATOR: Your next question comes from the line of Tim Ferguson. Your line is now open.

TIM FERGUSON: Yes, good morning. I just want to follow up on this water in the pit, and there's been a concern obviously last year with the large amount of snow pack that fell. Could you give us a little bit more detail with regards to how much water in layman's terms are we looking at in there, and how long is it going to take to get it out of the pit?

STEPHEN QUIN: Well, one point to make is it's nothing like last year. We had about 850,000 cubic metres of water in the pit last year, which was much more problematic. This year we've reached a peak of about 180,000 cubic metres in the pit, and we're down to somewhere in the 160 range now, and we're processing about 4,000 cubic metres a day.

Obviously the question mark is the net balance because obviously if it rains, you may be discharging 4,000 a day, but you may gain in the interim. So that's why the timing isn't certain. It basically depends on what happens with the weather over the next sort of two-month time period.

TIM FERGUSON: Okay. Thanks very much.

OPERATOR: Again, in order to ask a question, press * then the number 1 on your telephone keypad. As another reminder, if you are using

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speakerphone, please remember to lift your handset before posing your question.

Your next question comes from the line of Sam Kiri from Proactive Investors. Your line is now open.

SAM KIRI: Good morning. Sam Kiri, Proactive Investors, London. A couple of questions, guys. Interesting results. Just trying to find out, few other companies (inaudible) Mexican operation? Are few other producing companies near your Cozamin mine or in that area?

STEPHEN QUIN: Well, the mine's in the state of Zacatecas, so the big mine in the area's obviously Penasquito, which is about a two-hour drive away.

SAM KIRI: Okay.

STEPHEN QUIN: But Penolas has a mine nearby. Pan-American Silver has a mine nearby, and then there are a number of other smaller operations in the region as well, within the state of Zacatecas.

SAM KIRI: And that state is fairly safe to do business even though the difficulties NewGold is having in Mexico?

STEPHEN QUIN: Yes, it's very... it's probably I think number one or two ranked in Mexico of the states to work in. The challenging areas are more the Sierra Madre, and then some of the others where you're very

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close proximity to communities or whatever. We've been operating there for four years and really had no issues to speak of.

SAM KIRI: Right. Brilliant. Now last question: the capex budget for Cozamin.

STEPHEN QUIN: Yes?

SAM KIRI: How much are you trying to spend of capital expenditure over the next 12 months?

STEPHEN QUIN: Over the next 12 months, I think the amount for this year was about \$6 million. I think.

SAM KIRI: All right. Okay.

STEPHEN QUIN: Yes, it's a relatively modest amount of capital, and that's excluding exploration dollars, which we break out separately. And primarily the capex is just related to continued developments of the shafts and the principal holage(?) decline to depths, which is capitalized. And then some other changes, modest changes to the electrical system, a few things like that, putting a loading pocket underground, and nothing significant.

SAM KIRI: Right. But you're fully financed? You don't have any plans to raise any money at the moment?

STEPHEN QUIN: Correct.

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SAM KIRI: Okay. Okay. Thank you, guys. Cheers.

OPERATOR: And there are no further questions at this time.

DARREN PYLOT: Great. Thank you for the questions, everybody. Look forward to speaking with you at the next call at the end of the third quarter. And have a great day and I'll talk to you guys soon.

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

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