Company: **CargoJet Inc**

Conference Title: **CargoJet Conference Call**

Moderator: **Pauline Dhilon**

Conference Time: **08:30 ET**

Operator: Good day and welcome to the CargoJet conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to Pauline Dhilon, chief corporate officer. Please go ahead.

Pauline Dhilon: Thank you, operator. Good morning everyone and thank you for joining us on the call today. With me on the call are Ajay Virmani, our president and chief executive officer, Jamie Porteous, our chief commercial officer, and Sanjeev Manny, our interim financial officer. After opening remarks about the quarter, we will open the call for questions. I would, however, like to point out that certain statements made on this call, such as those relating to our forecasted revenues, cost and strategic plans are forward looking within the meaning of applicable securities laws. This call also includes references to non GAAP measures like adjusted EBITDA and adjusted EBITDAR. Please refer to our most recent press release and MDNA for important assumptions and cautionary statements relating to forward-looking information, and for reconciliations of non GAAP measures to GAAP income. I will now turn over the call to Ajay.

Ajay Virmani: Thank you everybody for joining us this morning. After a long 18 month dark shadow of COVID, there is some sunshine emerging as more and more Canadians get fully vaccinated. There is no question that the past 18 months have been challenging for businesses, governments, healthcare workers, employees, and students, and companies like ours. But what I was most impressed with is the human spirit and its ability to adapt, adjust and thrive. While the initial shock of shutdowns forced incredible hardships on businesses, you saw many businesses quickly adopt the new digital reality. CargoJet is no different. After being declared as an essential service, CargoJet employees demonstrated heroic effort to keep our business going despite an unprecedented rise in volumes in a very short period. We also want to thank our customers who trusted us and trusted our team with their deliveries at this critical period.

Like many other companies, CargoJet is also adopting to its new realities. While we don't yet know what the new norm may look like, we do know that we are not going to go back to the old. One word that we are hearing most often is hybrid, return to office, schools, universities and even shopping. People are adopting a hybrid approach to their lives. As economies reopened, people are eager to step outside and enjoy what they miss the most, the restaurants, the movies, the shopping and the travel. At the same time, they have discovered that many of their routine tasks can handled more efficiently through digital channels. Shopping for staples, daily household goods, and goods for kids, and around house are much simpler to get delivered to your door.

In terms of our business environment, thousands of new businesses have started purely on a digital basis, because they do not want to take the risk of investing large capital in real estate or rent. These structural changes are driving a whole new digital economy.

We're still not seeing the full recovery in B2B business segment. As you are aware, businesses were largely shut down for the most part of Q2. We expect the sec segment to pick up in Q3 and Q4 accordingly. While there are many signs of hope in domestic air travel, most experts do not expect the international air travel to return to pre COVID at levels until 2023, 2024 or even maybe 2025. This will keep the belly cargo capacity constrained for the next few years. This means the international air cargo markets will remain tight and will continue to present opportunity for CargoJet to go. Some of these trends are bound to become permanent because of the level of services companies like CargoJet provide for this market.

Now, turning over to our second quarter results. We are pleased to see strong momentum in virtually all our lines of business. Revenue growth, excluding charter line of business, was a solid

30%. As you know, prior years, charter revenue reflect a significant one-time benefit from dedicated charter flights to bring PPE from China and other parts of the world to Canada. Going forward, we expect a more normalized revenue growth in our charter business. It is worth reminding everyone that CargoJet ended the full pre COVID year of 2019 with an EBITDA of only $156 million. The EBITDA for the first six months of 2021 stands at $131.6 million, compared to $124.8 million in 2020, an increase of 5.4% in spite of the fact that we had a significant one-time benefit from the charter business in 2020. I share these numbers to explain the size of structural change we have gone through in the past 18 months.

One noticeable cost increase is a cost increase of 49% in our crew costs. With the implementation of new transport Canada pilot fatigue rules, which clearly disadvantage Canada based cargo airlines against the US based cargo airlines, we are seeing a higher initial cost trend. CargoJet team is focused on finding cost effective solutions to address this issue and deal with it with highest priority to find solutions to offset these costs and gain effectiveness. On the balance sheet front, we have been extremely prudent in utilizing strong free cash flows generated by the business over the past five quarters. We have brought down the leverage our debt to EBITDA ratio to below one times EBITDA. You may recall the CargoJet leverage stood at nearly five times four years ago.

Number two, we early retired aircraft leases and now own 83% of our fleet. 25 out of 30 aircraft are fully owned. We have paid down the revolver in full. We have $600 million in undrawn revolver providing strong liquidity should we pursue growth ideas. Our net debt stands at $273 million, which is below our trailing 12 months EBITDA levels. We have also resumed over annual dividend growth as previously announced to return cash to the shareholders. CargoJet now enjoys one of the strongest balance sheet in the North American airline industry, and it was a deliberate decision. We wanted to be prepared for a potential inflationary environment. While there is a great debate about how long the inflation might last, wage inflation is permanent and it's here to stay.

Economists agree that central banks will have to raise interest rates eventually. CargoJet is now well-positioned to deliver shareholder value regardless of the direction the interest rates goes.

Let me touch on the operational side. We are continuing to see strong volume growth, as I mentioned earlier. In this new hybrid world, we expect the baseline for almost every aspect of our business to move up. We grew our fleet size by two additional planes, and it now stands at 30. This compares to 26 aircraft of Q2 last year. Our on-time performance remains at over 98.5%, despite a significant change in the block hours flown profile of our company. This remains a critical deliverable, given the importance placed on this by our customers. We are adding key talent and management in several parts of the company to reflect our size and complexity of this new baseline.

Another significant focus for us is ESG. The board and the management team have been devoting a considerable effort to outline our policies, targets, and a framework where we can all play a role in helping the environment and reducing our carbon footprint while we continue to report on progress against the targets set by our board for each of the ESG components.

An update on the internationals and ACMI growth strategy. We continue to make progress in both these areas. Having demonstrated the added value of dedicated air cargo service to our customers who initially signed up for shorter term commitment, we are starting to see greater stickiness for certain international segments despite the reopening of certain passenger air routes. The international air cargo demand still remains very high, and continues to present opportunities for ACMI and charter businesses. Once again, some of these trends are becoming long-term and permanent as the customers get spoilt with the service they receive at dedicated cargo airlines.

I, once again, thank you all for joining this morning, and we are now open for questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll take our first question from Konark Gupta with Scotiabank. Please go ahead.

Konark Gupta: Thank you. Good morning, everyone.

Ajay Virmani: Good morning.

Konark Gupta: So, maybe the first is you talked about this first half of EBITDA being up over this last year. And that is commendable, I guess, given the second quarter last year was pretty strong. How are you feeling about the growth heading into the second half this year versus last year? You still have somewhat of tough comps in second half, but you have new ACMI routes, I guess, and then you have the new CMI contract with Amazon, and domestic B2B hopefully will be bounty at some point. So, how do you feel about second half?

Ajay Virmani: Well, we're feeling pretty good. We have made significant progress. As you know, we have – in the next 18 to 24 months, we are taking delivery of seven new 767s. And in 2023 we have plans to get two 777 and then two, in 2024, we have an option for those ones. We feel pretty good at the demand for those aircraft. We are in discussions with number of customers. We have a lot of choices. And let's put it this way, without saying that we have signed contract, we feel pretty confident that there the aircraft will be replaced as soon as they arrive in both those segments, whether it's international, whether it's ACMI. So, those would be nice choices for us to have.

On the domestic front, as I mentioned, the business continues to – our customers are telling us that the forecasts are quite robust in quarter three and four. I know the economy in Canada has opened up somewhat. The lockdowns are a thing in the past. I think they will be a thing in the past in every country, not only just in Canada. But we feel that hybrid trends will settle somewhere in between at the highest what they were in 2022 and what they were in 2020/2019. So, overall, we see a net positive increase on those as well.

As for the two CMI aircraft, they have started a couple of weeks ago. This will require some study for the next three to six weeks, or even eight weeks, as to what demand is required to fill those aircraft. At the same time, we operated network for the rest of the traffic. So, some of the adjustments will have to take place. As we mentioned in the last call, that this would take at least a quarter or two to make sure that the demand and the network is fine tuned together. So, this would be a bit of a learning forecast on our part, on our customer's part. And we will continue to make tweaks on a daily basis as the capacity and demand to match the best needs that produce the results for both parties.

So, we find that generally we are optimistic that e-commerce not only domestically, but internationally, and transport continues to grow. The duty free limits of $150 now is coming into effect. And I think we will see a lot more international activity on the e-commerce front, as well as domestic.

Konark Gupta: That's good color. Thanks, Ajay. And then talking about ACMI, we saw a slight, call it, downtick in ACMI revenue quarter over quarter. And you just started a new contract, I guess, in June. Where do we stand on ACMI contracts? And what do you expect as a run rate for this business line going forward?

Ajay Virmani: So, we've added two additional routes for one of our largest customers starting in August. And we are also in discussion with a bunch of other parties who are interested in doing some more ACMI work. Our issue right now, if I had five extra planes, they would be all committed to some ACMI routes. So, as the new aircraft come in in October, there's one October-November, then we have one in March, and every four months we are getting a new aircraft. And, at this rate, I can tell you that nothing is signed. And I don't want to jump ahead of myself here, but we have a great demand for those. And, as a matter of fact, we are in discussion of placing those aircrafts going forward. So, we find that the ACMI segment of our business is going to be a significant portion of our business going forward. Customers who are using us for ACMI used to use commercial airlines for mostly shipping their cargo, and now they've switched to their own aircraft ACMI. Although the flights are fully full, but the basic advantage of the ACMI versus commercial is that the customers are finding that they can fine tune their delivery schedules better. They have better service. They have better control of their times. And they have better, overall, synergies using ACMI versus commercial. So, it's a matter of them getting spoilt. And these guys, I can tell you, Konark, that the feedback we have is that a lot of this is here to stay as permanent trends.

Konark Gupta: Makes sense. Thanks. And last one for me before I turn it over. So, we are hearing – the guys in the US are saying the delivery model, the on-ground delivery model, is expanding to seven days a week. I think FedEx was making an announcement there. Do you see something like that coming into Canada pretty shortly as well, where your customers are asking you to fly more or incrementally Fridays, Sundays and Saturdays?

Jamie Porteous: Yeah. Good morning, Konark. It's Jamie. I can take that one. Yeah, absolutely. We started to see that trend really starting a couple of years ago when we added a Sunday flight initially for Amazon. But we've grown that since. And I would say that all our customers that are in the B2C space are now offering seven day – either are or will shortly be offering seven day a week delivery to their customers.

Konark Gupta: Thanks, Jamie.

Operator: Thank you. We'll take our next question from David Ocampo with Cormark Securities. Please go ahead.

David Ocampo: Hey, good morning, everyone. I just wanted to circle back on the CMI route contracts that you guys are talking about with Amazon. When you guys think about that side of the business, do you just – I guess, in the early innings, are you starting to see deterioration of volumes that shift from, say, the domestic overnight network into the CMI basis? Or, should we look at that as all incremental volumes?

Jamie Porteous: No, I think David we've been – it's Jamie again. Good morning. I think we've been pretty clear in the last couple of calls that we expected that when the CMI aircraft first started there could be a bit of an impact on the domestic volumes that otherwise were being carried on our domestic network. But you have to appreciate that, from Amazon standpoint, it's a growth story. They're adding dedicated capacity on a CMI basis to provide capacity for their expected growth, which has, over the last several years, we've seen obviously significant impact and significant growth on our networks. So, as Ajay noted in his previous remarks, we'll take the next probably four to six weeks to evaluate what that impact is. Certainly expected, as we get into Q4, we'll see that any impact will start to fill back up with demand for peak.

David Ocampo: And have you heard any commentary from your other customers that may take on Amazon volumes as part of their network, particularly Canada Post [inaudible]?

Jamie Porteous: No, we haven't seen any equal concern on some of our other customers' parts that are providing capacity to Amazon. But similar to when Amazon started dealing directly with CargoJet five or six years ago, there was no – there was a concern about dilution to other customers that were carrying packages for Amazon. Those have continued at similar, if not increased levels, to what they were previously. So, we don't anticipate any dilution there.

David Ocampo: All right. And then shifting gears to B2B volumes here, how close are we to pre pandemic levels? And where do you see that ultimately settling in as we enter this new normal?

Jamie Porteous: I think we're getting close. I think I had expected, if everything, the economy stays growing the way it has been over the last couple of quarters, particularly as we go through Q3 and into Q4, I think we would return to normal volumes that we would expect on the B2B side of things. One barometer that we use is our non – what we call our non-contract customers, which is a mix of B2C, but it's primarily B2B customers. And if I looked at Q2 revenues year over year, I think we were up 20%, which is a good reflection of the strength of the return of the B2B volumes.

Ajay Virmani: It also all depends on how quickly things open up. You walk by some of the retail areas and a lot of stores are still not open, and a lot of retail outlets are still closed. Depending on how – if we got a fourth wave, then obviously we'll be – it'll be a different story. So, it all depends on how quickly things can open up.

David Ocampo: Okay. That's my question. So, I'll hop back in the queue. Thank you.

Ajay Virmani: Thanks.

Operator: Thank you. Next question from Chris Murray with ATB Capital Markets. Please go ahead.

Chris Murray: Yeah. Thanks folks. Good morning. Just maybe turning back to your comment around the cost associated with the fatigue rules. I think we were led to believe though that part of your – or the structure your contract is that you can put through surcharges to offset some of those costs so you're net neutral. Any commentary around that? And what sort of measures do you think you can take to actually offset those costs?

Ajay Virmani: Well, first of all, the surcharges, we did have surcharges for certain non-contract customers that we have long-term contracts, and obviously some of these costs cannot be passed. So, till the contract expires, we will be negotiating new contracts with the customer. So, unfortunately, we have to eat those costs. And that's why you see a big bulge there.

Part of it is that the government of Canada, we have tried for three to four years to highlight one thing in these regulations, which is the rules for passenger and cargo airlines are the same. Whereas US, after three congressional studies, they decided that cargo was a separate business, not related to passengers because of the timing of the flights. Unfortunately we could not explain to our government and regulatory authorities that was the case, and they decided to go their own way, which has caused a lot of hurt to cargo companies. And we have hired a lot of crews to offset that cost. So, we continue to talk to the government. But as everybody else knows what happens when you keep talking to the government, we can't depend on them, and we can't depend on any other solutions from them, especially if they're all preparing for elections more than anything else.

So, where does that leave us, and what offsets we are going to do in terms of that? There's not a whole lot we can do in terms of – we are looking at some computer assisted program to where we can gain crew efficiencies more. We are looking at certain ways of structuring of our crew schedules that work out the best. There is not much we are going to be able to do in terms of that. We are also looking at certain – at the end of the day, we have to be competitive and we have to make sure that we have something left over after all these additional crew costs. So, it's a learning experience. We are also learning the new rules to apply where we can. And it would take us at least another quarter before we settle down and say, okay, we have now optimized according to the new. So, even the programs that we have, they're learning as well how crews can be utilized more effectively.

So, we will gain some efficiency with that stuff. But I think some of the trends would be permanent. But we are looking for some permanent solutions to this issue as well we speak. And I would be updating in the next conference call on those issues.

Chris Murray: Okay. That sounds fair. My next question is just thinking about growth, and it sounds like, from your commentary, there's enough opportunities out there that at least everything you have in terms of aircraft – sounds like there's a couple options, but there is definitely a plan for putting those aircraft as they come into service. You'll be able to generate some pretty good revenue off of. Do you have any opportunity to accelerate any of that – the fleet additions? And are there other opportunities to maybe go in and maybe accelerate additional aircraft? Or, is the bottleneck in the conversions? Any thoughts on whether or not you can do anything in the near term to capture some of this opportunity that's out there?

Ajay Virmani: Yeah. We were able to get a 757 a couple of months ago, which was at being converted at that time. And we were offered an opportunity to get that aircraft in our service. We also picked up another 757 which we – from a Mexican presidential fleet, which was up for sale. And we're going to be converting that in the next couple of months. So, the size of the aircraft is somewhat smaller, but it fills a need for a certain market. 767s are concerned that convergence slots are tight. Right now, if we were to apply for a slot, right now, we would be looking at – towards the end of 2024.

However, we do continue to look for aircraft that might be already converted. And if anything comes in the market, we have our eyes open. But we can't speed it up, certainly. But we are hopeful that if the – right now the delivery schedules are on time. And anything that we can do to enhance, we continue to ask the vendors. But right now it doesn't look that we will be able to advance it. But we do take on opportunities that are presented from time to time, like we did with two 757s. So, those would be coming in much faster. One has already started service, the 757, and the second one would be expected to be in February, which is speeding it up in our world.

Chris Murray: Okay. That sounds good. And then just a housekeeping question, so CapEx, you had originally thought about this year somewhere in the $225 to $250 million range, is that still a good number to think of?

Ajay Virmani: Yeah. That still holds good. But due to additions of the 757, and this was an opportunity which we availed, so it will be slightly in the range of $270 to $280 million for this year. Because we have been able to cash in on this aircraft availability.

Chris Murray: Perfect. All right. Thank you very much.

Ajay Virmani: Thank you.

Operator: Thank you. We'll take our next question from Walter Spracklin with RBC Capital Markets. Please go ahead.

Walter Spracklin: Thanks very much, operator. Good morning, everyone.

Ajay Virmani: Good morning.

Walter Spracklin: So, starting with some of the commentary you mentioned, the back half, excluding some of the second quarter revenue from PPE last year, every quarter you've seen sequential improvement seasonally through the year, both in revenue and EBITDA. I know there's some moving parts here with Amazon, but is that fair to look at now in terms of the seasonality, the same seasonality holding in 2021 where you build EBITDA sequential improvement each quarter through the year?

Ajay Virmani: We normally we would do that, Walter, but I think this year we are operating two CMI aircrafts. And with all the other stuff happening in the marketplace, I think we will have to next – as we mentioned in the last quarter, once we are operating those two aircraft, we have to see does it really free up two additional aircraft for us to go deploy somewhere else on more profitable route? That is yet to be seen, because we have not seen the change much in terms of the shipping patterns in spite of the two – adding two additional aircraft. So, I think in about – it will take us at least this quarter or next – half of next quarter to get really, and then the peak starts, so it will get distorted again. So, we just want to make sure that, yes, we, we want to see improvements and that's our target. But, at this stage, we want to make sure that we assess our network cost and network capacity to what the real demand is going to be at the end of the day.

So, this is a learning experience. It will take a quarter or a quarter and a half to settle down. And we continue to monitor it on a daily basis. The target is to continue to improve. With this new addition of new services, it certainly is something that we have to continue to monitor and adjust upwards or downwards as we go along.

Walter Spracklin: Fair enough. Okay. And then going back to the international, you gave us a little bit of insight, Ajay, on how international contracts would be signed. You've indicated you have a degree of optionality, so presumably that's with your existing customers who are saying, "Hey, look, if you have that aircraft available for international use, we'd like to take it out on an ACMI basis, but you're continuing to monitor." How soon will you know that? You mentioned you're talking to customers now, will you look to sign on customers? Could you put one 777 toward kind of your own at risk flying, and then the other one to ACMI, and then eventually perhaps convert both over to your own at risk? Or, what's your strategy, essentially, with your – mainly with the 777s on the international routes as you start to come closer to those delivery dates?

Ajay Virmani: So, the 777s, we're still at least two years away from the first one, but our first brush looks like that a combination flight from the far east into, let's say, Vancouver, which [inaudible]. The flight continues on to Eastern Canada, let's say, to Hamilton over [inaudible]. That portion becomes like a domestic type of portion which eats some overhead because of the domestic – we take advantage of the domestic opportunity, which is full, which frees up certain 757 to deploy it other places, and then continuing on to Europe. And then we deploy some 767s and 757s to South America, Mexico and some of those markets, which continue with – give us the feed from the 777 from all over, international places. So, it's a network design that will happen that would incorporate – our first two 777s would incorporate some element of domestic already that exists today with some new international opportunities. Again, it can change. It's two years away, so we'll see where the market is, but that's what we're hoping to do.

As for the 767 international growth strategy is that our first two or three aircraft, or at least minimum three aircraft, are committed to going into some kind of an ACMI service initially. But keep in mind we have at least six or seven aircraft that are available to us over the weekend, Friday, Saturday, Sunday, Monday, as a matter of fact, four days, some of them, in each part of the country where we plan to use those – that capacity to grow internationally to build up those 777s in the next couple of years when those 777 comes. So, we are going to deploy our international strategy in third, fourth quarter of this year, starting with 767s to be used when they are available on the weekends or during the days that can do a round trip and come back. That would be our first phase of international growth on selected basis where we feel the yields warrant it. We're not just going to be everything to everybody, but we will take the niche in selected market where the demand is far greater, the yields are better, and then build those into the 777 program. So, start with 767s wherever it's available, plug them in, and then move on to 777 certain areas, and also take advantage of putting these aircraft on a ACMI basis, the first three, at least, that are coming up.

Walter Spracklin: So, it sounds like this is something you can ease into and check demand and pricing as it evolves, rather than – it's not like you're going to be flooding the market with new capacity the minute you take delivery. It's something you can judiciously enter where the opportunity offers itself with some good optionality.

Ajay Virmani: Yeah, absolutely. We will use the 767s to build the business. And those 767s are going to be more incremental, as you know, because they're already working in domestic or some ACMI. So, we will have the opportunity to use those aircraft to start building the international marketplace slowly and gradually. Because if we threw a 777 capacity in international market, obviously then the price gets diluted for everybody. So, we want to start slowly, fill those up and then move into the 777 phase. So, you're exactly right. You called it right, totally.

Walter Spracklin: That makes sense. Okay. That's everything for me. Thanks very much. Great quarter.

Ajay Virmani: Thank you.

Operator: Thank you. We'll take our next question from Kevin Chiang with CIBC. Please go ahead.

Kevin Chiang: Hi. Good morning, everybody. Thanks for taking my question here. Maybe if we could ask Walter's question on seasonality a little bit differently. When I look at your pre pandemic EBITDA seasonality, let's say 43%, 44% of that you would generate in the first half of the year, and the remainder in the back half of the year. Just wondering how you think about maybe that broader seasonality in 2021? And then, just given the change in the mix of your business, any comments or any insight how you think that seasonality might trend as you bring on these new aircraft, and as you build up the CMI and your ACMI and international charter business over time?

Jamie Porteous: Good morning, Kevin. It's Jamie. As Ajay said, I don't think there's any real fundamental change in our seasonality other than, as he indicated, that with the introduction of the two CMI aircraft that we just started operating in July, it's probably going to take us close to a good quarter to understand what impact, if any, that has on the normal domestic volumes on our scheduled overnight network. And, other than that, I don't see any real change in the seasonality. Expect Q4 be a very strong quarter as it was in previous years.

Kevin Chiang: Okay. That's helpful. And maybe just a second one for me just on pilots. And thank you for all the color in terms of what you're seeing today. But just wondering as passenger air traffic comes back, and presumably pilots that are furloughed start reentering that – reentering the passenger airline industry again, is that having any impact on your ability to recruit pilots? Is that creating any incremental cost pressures that you didn't see a quarter or two ago? Is there anything just to do on your end? If you are seeing any bottleneck issues or you think you need to put into place in order to recruit to the levels you need to recruit to have the pilots for all these planes you have coming in?

Ajay Virmani: So, we have no issue with recruitment of pilots. There's a whole lot of ex-pats that went to Middle East and Southeast Asia to fly. When these pilots were young, they had families, a majority of them want to come back. We've hired at least 50 of them from that lot over the past one year. These are people from Etihad, Emirates, Cathay Pacific, Korean Airlines. These are Canadians who went with young families. Now, the families are ready to come back, and they could never find flying right bodies or being captains in any of the Canadian airlines, so they were stuck. So, this is a great opportunity for these guys to return home to a decent job, and they are. So, there's a big pool of those pilots available. We don't have any shortage at this time. But again, a year,

year and a half ago, there was a big shortage of pilots. So, from what we've been told by the major carriers, that there is a small recall going on, but they don't expect that any major recall is going to happen for at least two to three years. There will be some recall. It might go up to 75% or 80% of the 2019 level.

We went through a crazy period of hiring over 100 pilots in the past one year, number one, to offset the crew fatigue regulations, and, secondly, increase demand. As you know, it takes 50, 60, 70 grand to get a pilot training, and getting them type rated and getting them online. So, there was a lot of training costs that we incurred, and that's why we see a big line item over on our expenses.

As where the market is concerned, we are not concerned, at this stage, about having a shortage, because we have hired more than what we need at this stage. And I know there will be some attrition when the passenger airlines do call back, and we are fully prepared for that contingency as we have some extra pilots on board for that.

Kevin Chiang: That's helpful. Actually, can I mention one more, just as I think out longer term, and you bring on these 777s and you build out or extend out your network further internationally, how do you think about the Interline partnerships you've developed over time? How do you look at that in a world where maybe you can source more cargo from further places that might have otherwise flown on an Interline, on an airline they had an Interline partnership with? And do think that that might jeopardize some of those relationships, if they think you're siphoning some of the volumes that otherwise might've been on the belly of their planes when they were flying passenger traffic to Vancouver, or Toronto, or Montreal?

Ajay Virmani: As a matter of fact, it's a very good question, Kevin. And we've looked at that issue. And in terms of whether it would be a dilution to revenue, because if we're flying direct to certain places. Keep in mind that there's a lot of capacity that doesn't exist that used to exist in those days. So, if we are if we are seeing European carriers that used to fly to South America and Latin America directly, the flights have discontinued, or they've gone to narrower body aircraft in certain places. So, when they bring their stuff into Canada, that's where we use to pick up and go to other places. I think, domestically, we will never – whatever the capacity and Interline was required, we don't anticipate that will change. As a matter of fact, when we start flying international, we will have more opportunities to sign up more Interline agreements with carriers that need that capacity. Let say, for example, a company like Cathay Pacific that comes into Vancouver. And now instead of just selling Vancouver, they can also be selling if you're flying to Mexico or, let's say, Caribbean, or some of the other – or Columbia. We could now carry China's products not only within Canada, but also to the South American and Latin American destinations. We also would have South American, Latin American carriers feeding us for European freight. So, I think we see more opportunity internationally with Interline with selected expanded routes that we are thinking on. So, we don't feel that would jeopardize or dilute any of that revenue.

Kevin Chiang: That's very helpful color. Thank you very much.

Ajay Virmani: Thank you, Kevin.

Operator: Thank you. We'll take our next question from Matthew Lee with Concord. Please go ahead.

Matthew Lee: Hi guys. Congrats on the solid quarter.

Ajay Virmani: Hi. Thank you.

Matthew Lee: Can you maybe expand on the US strategy in terms of are you seeing good partnership opportunities in the market? And maybe talk about what your ideal partner looks like for the US?

Ajay Virmani: Can you repeat that? Sorry, you broke up a little bit.

Matthew Lee: Yeah. I'm just thinking about the US strategy in terms of partnership opportunities in the market, and what your ideal partner looks like in the US.

Ajay Virmani: So, yes, we've been pursuing that international and growth, but also seeking partnership and strategic alliances in the US. What our ideal partner would look like, somewhat that has obviously a fully licensed, what they call 121 certificate, which is equal to over 705 operating certificate. Ideal partner would be a cargo carrier that has proper licenses. They're well run and managed and organization. And will also be able to fly aircraft, if needed, for us, because certain routes we cannot do. Let's say, for example, if we go for a flight from Hamilton to Miami, and then Miami to LA, and then LA to Mexico City, we cannot do the Miami-LA portion on our present route. That's where the international or the US partner comes in to do certain routes and certain routes selectively that is being offered to us by our customer, but lack of regulatory authorities, and, as you know, it's called cabotage, we cannot do certain routes. But with combining US and a Canadian carrier could certainly fill those kinds of needs. And that's what we are after.

As I mentioned that we will be finalizing and – some kind of an arrangement with an American carrier this quarter. We have a number of them that we have had discussions with. And it looks like that certainly will be the case before the yearend. And also, keep in mind, that also gives us an opportunity to place aircraft with this carrier either on a dry lease, or CMI basis, but getting the economic benefits and a win-win situation for the American carrier and the Canadian carrier. So, watch the space for more on that.

Matthew Lee: Thanks. And then, bigger picture, DHL announced today that it's going to be investing in electric cargo planes in order to reach their mission goals. Do you guys feel any pressure from them or any of your other partners to invest in similar technology?

Ajay Virmani: As a matter of fact, we have discussed this issue with DHL quite a lot. These are small planes called – company called Eviation out of Seattle area. They are they're 2,600 pounds, which can go up to one hour of flight. These are electric planes, DHL signed up for 12 planes. I knew fully about it as – a long time back. We might even look at some of our needs are regional, if we can get one of those planes, I think it would be great. Those size of planes don't compete with us. There's no pressure on us. But as a matter of fact, we are closely looking at there is some customers who have demands for that kind of – we don't want to get into a full blown regional operation, but just to continue with our own feed. For example, if we fly into Vancouver, for example, and there is demand for a small portion of that going into Nanaimo or Victoria, a 2,600 pound aircraft electric would be perfect for those routes. So, if it enhances our network, we would also look at those planes, but unfortunately those planes don't come into service in 2024, but we are certainly very keen to look at what DHL has done. And we've asked DHL to give us some introduction so we could plan for those kinds of flights for the future. Because their path looks quite neat and smart, and they don't have any fuel, they're electric. So, it really interests us to enhance our capability to our customers.

Matthew Lee: All right. Thanks guys. Great quarter.

Operator: Thank you. We'll take our next question from Tim James with TD Securities. Please go ahead.

Tim James: Thanks. Good morning. I'm just wondering if you can take a minute and characterize the types cargo that you're seeing, those customers that are choosing and you expect in the future will choose to stay with dedicated services, as opposed to planning to return to passenger aircraft, to the bellies of those aircraft?

Jamie Porteous: Hey. Good morning, Tim. It's Jamie. I can give you some color on that. I don't think there's any one particular product that stands out. Healthcare obviously, globally, has increased demands because of the COVID-19 pandemic. But literally anything that requires time sensitive, overnight or cross intercontinental travel is shipped by air, certainly manufactured goods and the whole logistics supply chain demands that many different types of products, especially products that are in short supply from a manufacturing standpoint. But the product types themselves seem to change over the years, it's not any one single product that we're seeing. It's just that we're definitely seeing an increase in demand for air cargo services globally. And also, obviously, because of the increase of e-commerce and online shopping, which is not just a phenomenon here in Canada, but also globally, and not just the actual retail side of it direct to the consumer, but also the manufactured goods that have to get to fulfillment centers around the world, are causing increases in demand. And at a time when, as I think I've said a couple of times on previous calls, prior to COVID-19 more than 50% of the world's air cargo travel was in the belly of passenger aircraft, particularly on long haul Intercontinental routes. And with, I would think, a consensus in the industry that that capacity is never going to come back to pre COVID-19 levels, at least at any time, I would say, in the next – at least the next 10 years. So, the demand for dedicated cargo services has subsequently increased dramatically.

Tim James: Okay. That's very helpful. Thanks, Jamie. And then just one additional question on the competitive environment with WestJet announcing dedicated cargo plans, and Air Canada having already articulated its strategy. And I realized they're not – it's not a clear cut competition, but I'm just wondering if you could talk about what your thoughts are on implications and CargoJet's long-term positioning?

Jamie Porteous: We don't take it as a significant threat to our – certainly to our domestic overnight business. I think we're confident enough that we built a deep enough moat around the domestic business over the last 20 years in terms of reliability, particularly because that's number one, the most important criteria that our customers demand from a service standpoint, so they can compete effectively in their markets. Secondly, the fact that we operate to 15 cities across Canada from coast to coast and have long – but our major customers have long-term agreements in place, all of which has several years, if not many years, and extension agreements options as well in those agreements. So, we don't see a threat from that standpoint.

You're right. It's going to be WestJet and Air Canada will be Canadian licensed air cargo operators that we haven't had – we've enjoyed the benefit of not having any competition with dedicated cargo aircraft of any type, of any significance anyways, domestically here in Canada or internationally. As you indicated, the Air Canada has articulated their use of those aircraft is primarily to provide additional capacity to provide service to their international commercial cargo customers that they've been servicing using flying passenger planes over the last year and a half carrying cargo only in the belly. So, we don't see – that really doesn't compete with us on an international basis and never has. WestJet, equally, we think it's more of a competitive threat to Air Canada cargo on the international side. When you look at, again, WestJet, there's really no demand domestically for services, but there is capacity demands for international cargo, particularly feeding their wide body 787 aircraft. So, if they have an aircraft, they will have passenger 787 flying from Calgary to Amsterdam as an example, not a lot of cargo originating and terminating in Amsterdam to Calgary or vice versa, but a significant amount of cargo coming out of Europe, coming into Canada. And being able to feed to and from those flights in and out of Calgary from other points in Canada, I assume, would be the use of those 737-800s that they've announced that they're going to convert.

Again, I would say that neither – Air Canada certainly has a strong pedigree in the passenger belly cargo capacity or space. Conversely, WestJet, I would say, has very little cargo pedigree in the belly of their passenger aircraft. And we don't really believe it's going to be a significant threat to us. Certainly doesn't change the way we look at building and growing our business, both either on the domestic, the international or the ACMI side.

Ajay Virmani: And I might add that there is no passengers/cargo airline combination that is capable of delivering a 98% to 99% performance. At least it hasn't happened in the past 30 or 40 years. We have only one product to sell, which is cargo. We are focused on that. And you will also find that cargo for some of these carriers is going to be 5% to 7%, or 8% of their total revenue. And once the passenger comes back, or if they do ever come back, their focus is not just going to be on cargo, and that's what history has told us. So, things sometimes change, and we are not totally dependent on history. Yes, we are aware that they're coming in, but CargoJet has over a billion dollars invested in infrastructure, ground support equipment, containers, repairs of ground support equipment, loading and offloading aircraft in 15 to 20 minutes turnarounds. Our hub in Winnipeg and Monkton, we're giving a seamless service from Victoria VC into St. John's Newfoundland on an overnight basis. There's a lot of development over the 20 years that this company has been built, along with, I would say, a bulletproof fortified balance sheet that is almost debt free with all of our assets paid up. There's a lot for these companies to overcome to compete with CargoJet. And we are fully prepared if we are attacked in any which way or manner in terms of taking one route, then obviously the customers will have to make decisions that what happens to the other 16 routes. How do they get back? It's one of those markets that we are fully prepared for competition. But based on our service alone, and our infrastructure, our cargo culture, our cargo pedigree, we don't anticipate that we're going to have any issues competing effectively with these carriers, if they choose to compete with us.

Tim James: Okay. That's really helpful. Thank you, Ajay. Thank you, Jamie.

Ajay Virmani: Thank you.

Operator: Thank you. Once again, please press star one to ask a question. We'll take our next question from [inaudible] with [inaudible] Bank. Please go ahead.

Speaker: Hi. Good morning and congrats on a good quarter.

Ajay Virmani: Thank you.

Speaker: So, my first question is really about when you mentioned that you expect some B2B take up in Q3 and Q4. I'm just wondering, will that dilute the B2C business? Or, is that still going to hold up, and this is an additional thing that comes up?

Ajay Virmani: No, I think it's just an additional incremental B2B. The B2B doesn't impact B2C or vice versa. B2C is really driven by the increase of e-commerce and online shopping by Canadians. And the B2B is really the traditional overnight Monday to Friday business to business courier, freight forwarder type traffic that was somewhat impacted on volumes during the shutdowns because of COVID-19.

Speaker: Okay. Now, that's good color. And just my second question, I think it was in the last call you had mentioned that you were flying some flights for your pilots to transport them because there was not availability of commercial airlines at that point in time. I believe the two challenges that were there. Are you still flying those? Is that one of those costs elements that you can take out, or are you think that's still going to continue because you have to deliver the results to customers?

Ajay Virmani: Right now we do continue to fly those two shuttles to Cincinnati to transport our pilots because of – again it all ties down to the pilot regulations that we faced. We can get additional use of the pilots workday if we fly them to an hour flight into Cincinnati, rather than putting them on commercial, because commercial right now is sometimes two or three flights to change. Sometimes the flights get canceled, so the service is not dependable. We didn't have a choice other than to put our own challenges, which were meant for occasional use, now it's being used almost daily. As a matter of fact, we are supplementing some lift from other corporate jets to get our pilots into Cincinnati. Yes, that is an additional cost. It's quite a bit of additional cost. But it saves us a lot of pilot days at this present time, and continues to improve our operations because the fatigue rule certainly has hurt us. That's one of the ways we are offsetting by gaining more crew productivity by giving them an hour's direct light and they'll be able to continue on some other flights as soon as the land.

So, what's going to happen? I think we plan to probably continue this till, at least, Q4, and towards the end of Q4 till we learn the new rules. We work with the government on these regulations and our crew. So, ideally, yes, my wish would be to – if a commercial lift came back and there was an hour flight, that would be great. But if it doesn't come back, then we might not have a choice. So, that's something that we could continue – it's daily on our minds to make sure that we – the first opportunity we get is to disconnect that and save that cost.

Speaker: Okay. No, that great. And maybe just the last one from my end, and this is just going back to James' question on competitive environment. I'm just wondering when you think of it, CargoJet's long-term business, or the overnight domestic business that is there, down the line do you think that the Canadian market has the capacity to have multiple players that are eventually profitable? Or, do you think that this is a market where one large player will continue to dominate? And the economics are such that it's difficult to have multiple operators on the domestic overnight network.

Ajay Virmani: Look, the purpose of CargoJet, when it started in around 2000, 2001, was a product of many cargo airlines operating. As a matter of fact, 15 to 16 cargo airlines sold, or merged, or went bankrupt, closed their doors between 1985 and 2000. The result was that everybody was operating one plane, two planes, five planes, six planes. They could not get the economies of scales. They could not get the cost under control. They could not deliver the performance. So, the model was create one network that services all Canadians. Who could have ever imagined that competitors like DHL, UPS, FedEx, [inaudible], all could be on one plane? But they realized that, look, this model of everybody operating planes didn't work. And because we were able to demonstrate, number one, a well capitalized, well-run company with great cargo culture, delivering 98%, 99% on-time performance, and not having any risks associated with one, or two, or three plane operations. So, what would be the future? Would it be one dominant carrier?

Canada is a very very difficult place to service. Flights between Newfoundland and Vancouver are seven hour flights. We have three times zones in between. The country is very very – it's not dense at all. The population is very very spread out. So, a lot of product also ships out from Ontario and Quebec to Western Canada or to Eastern Canada, hardly anything coming back. So, we have a lot of – the way CargoJet is built is strictly to take those kinds of factors into account, one way country, different density of different products. A lot has gone on of 20 years to build CargoJet to where it is. And I think new entrants, although it seems very nice and attractive to look at cargo yields and stock price and say, "Well, that's the market we should be into." But at the end of the day you need to have the cargo culture to build what CargoJet is. And I can tell you that we feel pretty proud of our network, our team and our facilities, our overall cargo pedigree. And I think we feel that our dominance is here to stay.

Speaker: Okay. No, that makes sense. That's it from my end. And, once again, congrats on the quarter.

Ajay Virmani: Thank you.

Operator: Thank you. We'll take our next question from Cameron Doerksen with National Bank Financial. Please go ahead.

Cameron Doerksen: Thanks. Good morning. Most of my questions have been answered, but I just wanted to follow up on the, I guess, labor cost question one more time. And just looking at the overall head count for the company, up 23% year over year, I presume much of that is related to the hiring of air crew to the fatigue rules, but is there, I guess, other parts of the business where you're hiring ahead of growth that would inflate that head count number?

Ajay Virmani: Yes, that is partially true. Most of it is due to the – there's two areas that we had to. Every time you get an aircraft, you have to add some maintenance team to it. Every time you add an aircraft, it needs to be loaded and offloaded, so you hire the team to do that. One good thing is that our overhead backroom functions have not increased tremendously. We have been able to absorb some of these, whether it's records, whether it's finance, whether it's accounting. We've been able to manage those within our existing costs. So, the direct variable cost, I said, loading the planes, and fixing the planes, and flying the planes is cost that we cannot avoid as the size grows. But certainly there is a balloon you would see, a bulge in the crew cost, and that is what the fatigue rules results are.

So, are we hired enough for the future? That's probably helping. Yes, we do. We'll start hiring some casual workforce for the peak flight market is very very tight for anybody, whether it's restaurant, whether it's factories, or whether it's loading planes. It's very very difficult to find people right now. It's great for the government to hand out checks, but the side effect of it is that companies like ourselves, and restaurants, and general factories are not getting – all of a sudden there is no unemployment, which is hard to believe. So, I think the market will correct itself once these incentives by the government are over to bring our cost down and to bring availability down of the

– bring the availability in line with the demand. So, that's how we feel about the labor market. Yeah.

Cameron Doerksen: Okay. No, that's very helpful. That was all for me. Thanks very much.

Ajay Virmani: Thanks.

Operator: Thank you. We'll take our next question from [inaudible] with Street Global Advisors. Please go ahead.

Speaker: Hi. Good morning gentlemen and congratulations on a great quarter. I have one question on ESG. Many of your customers, especially DHL, UPS and many others are very keen on reducing scope two and scope three emissions. So, is there any pressure on a CargoJet to commit on certain ESG standards? If yes, would it require some additional capital commitments for CargoJet all the time?

Ajay Virmani: Yeah, so we are working with a couple of our large customers to – because we fly for them, so they asked us to look at some ESG as well. And we are in – at least two customers we are looking at getting our policies and procedures, and our – what we're going to do in that area. So, we are working with a couple of customers closely. And we also, as a company, just put out the ESG policy. We have set up some mechanisms now to take into account the environment, the carbon emissions and how to reduce over fuel burn. So, this is going to be a major major focus of us in the coming months and the next year.

As for the capital required for it, I can't give you any numbers because we just started to plan on it. But I don't anticipate other than having some head counts right now. Initially, our first phase would be to reduce what we can in-house and find procedures and policies that help us reduce that footprint of the carbon. That would be our main goal. And I'm sure with what we've seen outside, it certainly is an achievable goal for us in the coming year.

Speaker: That's helpful. And if it's possible, can you give some color on – for any ESG targets or targets or timeline if at all possible?

Ajay Virmani: I can't give it to you right now. As I said, we have just started this whole process internally, and hopefully in the next quarter we can give you some targets, dates and costs related to it. As, again, we've just embarked on this project recently on our own, previously we were doing it in conjunction with our customers. So, as CargoJet we have started the process very aggressively. We can give you a better update in the next quarter on this.

Speaker: Yeah, that's great to hear. Thank you very much.

Ajay Virmani: Thanks.

Operator: Thank you. There are no further questions. At this time I'd like to turn the call back to the host for any additional or closing remarks.

Ajay Virmani: Thank you everybody for joining the CargoJet conference calls. We appreciate your input, feedback, and comments. We look forward to speaking to you in the next quarter, and, with some of you, have individual calls. And we look forward to participating in those. Thank you very much for your support everybody. Good day.