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**Moderator:** **Pauline Dhillon**

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Operator: Good day and welcome to the Cargojet Conference Call. Today's conference is being recorded. At this time, it is my pleasure to turn the conference over to Ms. Pauline Dhillon. Ma'am, please begin.

Pauline Dhillon: Thank you very much. Good morning, everyone and thank you for joining us on this call today. With me on the call are Ajay Virmani, our President and Chief Executive Officer; Jamie Porteous, our Chief Strategy Officer; and Sanjeev Maini, our Interim Financial Officer.

After opening remarks about the quarter, we will open the call for questions. I would like to point out that certain statements made on the call such as those related to our forecasted revenues costs and strategic plans are forward-looking within the meaning of the applicable securities laws. This call also includes references to non-GAAP measures and like adjusted EBITDA and adjusted EBITDAR. Please refer to our most recent press release and MD&A 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 the call over to Ajay.

Ajay Virmani: Thank you, Pauline and thank you, everyone, for joining this morning. Q3 was the summer of reopening. After a long hard road, vaccinated Canadians were able to step out of their home once again.

We saw a gradual reopening of shopping malls, restaurants, gyms, sporting events. There's no question that there was a pent-up demand for all these services. The impact of this new freedom was clearly visible in July and August retail sales data published by Statistics Canada. But one of the most interesting datapoint for us is new baseline of Canadian's e-commerce sales. Despite the reopening, the e-commerce sales are maintaining the new high baseline. We believe the massive digital adaptation that took place over the past 1.5 years has fundamentally shifted behaviors for consumers. As I noted in my last quarter remarks, hybrid is the new normal. Be it schools, offices and universities or shopping, people are adopting a hybrid approach to their lives.

We continue to believe that shopping will move to two types of experiences. First, we'll call it joy shopping. This would include items that qualify as retail therapy, luxury goods, impulse shopping and fun experiences. These are mostly likely to be enjoyed in person.

Second, routine day-to-day needs. This includes household items that are needed on a regular basis: office applies, groceries, appliances, electronics, books, back-to-school, holiday gifts and many more. We believe consumers have discovered that they can efficiently order these items and free up time in their lives do other things. Cargojet is very closely watching these trends and positioning its business continued to capture these emerging growth opportunities.

Now turning to third quarter results. I'm pleased to see that our business diversification strategy is yielding strong results. Our Q3 revenue growth of 16.8% was led by the ACMI line of business. Other lines of business such as domestic network, ACMI and all-in charters have taken turns to lead a given quarter. The adjusted EBITDA for the first nine months of 2021 stands at $202.5 million compared to $194.6 million for the same period in 2020, an increase of 4%.

Our balance sheet is strong with the leverage ratio now standing at 1x adjusted EBITDA compared to over 3x a couple of years ago. We have used our strong results to reduce debt, pay down aircraft leases and build balance sheet capacity to fund future growth. All signs point towards monitory policy moving towards high interest rates. Cargojet is now well positioned to navigate the next economic cycle. This was an important priority for us, and I'm pleased with our decisions and progress we have made.

Business environment and macroeconomics remain strong for growth opportunities. Let me share a few observations. A much higher number of entrepreneurs are now starting online-only businesses compared to pre-COVID levels. This is visible on platforms such as Shopify and others. Traditional large retailers and big-box stores have fundamentally increased the share of their online sales and are now putting new CapEx only towards online channel.

Number three, new business models such as recently announced partnership between Spotify and Shopify will enable music artists to sell their branded merchandise on Shopify stores. We'll significantly expand the total addressable market for e-commerce. There are many more examples of such partnership.

Number four, B2B is starting to behave more like B2C and is expected to contribute new growth to the overnight shipping market.

Number five, the big retail giant, Amazon, continues to expand its offering. And according to recent media report, it has now 46 warehouses, logistics and delivery facilities in Canada compared to 30 in mid-2020. This is more than 50% growth in one year.

Number six, while there are early signs of hope in the domestic air travel, most experts do not expect the international air travel to return to pre-COVID level until 2023 or maybe even '24. This will keep the belly capacity constrained for the next few years. This means the international cargo markets will remain tight and we'll continue to present opportunity for Cargojet. This will also result in shipping patterns and shipping expectations to be different than what they are current as people get used to the better level of service with cargo aircraft rather than belly cargo capacities. So the picture here is, while there may be some short-term volatility due to pent-up demand for in-person shopping, the longer-term trends are moving on online shopping is firmly intact.

On the operational side, volume growth remained strong. Average daily volume is up 22% for the first nine months of 2021 compared to the same period last year. We grew our fleet size by another aircraft, and it now stands at 31 aircraft. Our on-time performance remains at 98% plus. This is a crucial deliverable given the importance placed on this target by our customers. While we remain disciplined in most cost and expense management and year-to-date SG&A cost is down 5.4%. But one area that remains challenging is the cost of our crew. Crew costs have been impacted by a combination of factors, including the recently implemented new pilot fatigue rules by Transport Canada, that discriminate Canadian all-cargo carriers against U.S. and other international all-cargo carriers. We are also investing in pilot training to prepare for growth in our fleet which added short-term costs to the quarter. We are focused on finding cost-effective solutions and work with all stakeholders to address this headwind over the next coming quarters.

Let us also make a few observations on supply chain bottlenecks. Much has been written and talked about supply chains recently, shortage of truck drivers and congestion at shopping ports. In addition, the return of full passenger capacity on international route is still a couple of years away. Therefore, we continue to believe that cargo international markets is a growth opportunity, and we are seeing some of these trends play out in our ACMI business as well. Cargojet is focusing to ensure that our diversification strategy remains our focus and we intend to use future 767 and 777 deliveries for our international ACMI growth business. We are carefully investing in talent, infrastructure, facilities and aircraft necessary to build a strong diversified business and are beginning to see some early encouraging results.

Once again, thanks for joining us this morning. We'll now open the call for questions.

Operator: All right. Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone please make sure that your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is live and open. Please be sure to state your name before posing your question. Again, that is star one to ask a question. Here comes our first question.

Kevin Chiang: Hi, this is Kevin Chiang from CIBC. Good morning, everybody. I hope everyone had a good weekend.

Ajay Virmani: Good morning. How are you?

Kevin Chiang: Good. I am doing good, Ajay. Thank you. Maybe if I could ask just as we think about the peak season into Q4. And if I could just focus my question on the all-in charter, I guess, the sequential pattern we should be thinking. I think in the past and if I recall last year, you had suggested that you typically devote more capacity to your domestic network to service your long-standing customers and we typically see or we should expect a sequential decline in that all-in charter number in the fourth quarter. But just given the Amazon CMI contracts, some of the capacity you've added, if you could just maybe speak to your ability to maybe continue to take advantage of what seems to be a very hot charter market today for air cargo carriers even into the fourth quarter?

Ajay Virmani: Yes. So Kevin, our strategy has always been to focus on long-term views in this matter. Fourth quarter is expected to be extremely heavy as forecasted by our customers, domestic and some ACMI customers as well. So all-in charters, while it is an attractive proposition for a shorter or a short-term situation, we need to service our existing customers, and that's where our focus is. As our existing customers have a lot of extra peak demand and capacity requirement, you can certainly expect a decline in all-in charters for the month of November and December, definitely.

Kevin Chiang: Okay, that's helpful. And then I think just looking at your MD&A, it looks like you picked up another ACMI contract in August there, so congrats on that. It looks like it's a U.S. route. I just want to get a little bit more color or if you could provide more color on that new ACMI contract. And did your JV in the U.S. play a role here in winning that business? And if you could provide some color in terms of kind of where the cargo has been flown to and from?

Ajay Virmani: Yes. So we did pick up a small ACMI route but that was on a temporary basis. And that route has now been discontinued but we are in negotiations to place that aircraft on another route. So I can't give you any more information that I don't have. But the bottom line is that was a short-term route. And hopefully, that aircraft – it is flying today on various routes, and we'll have some permanent answers from a customer shortly on that.

Kevin Chiang: Okay, that's helpful. And then just last one for me. Just if you can give us an update on the Amazon CMI integration here going into the peak season. And maybe how that ebbs and flows through your domestic network?

Ajay Virmani: Yeah, CMI as you know we fly two aircrafts, so that are going to be in strong demand obviously in the coming months. We'll also complement the requirements with some ACMI flying and also on the daily network as well. So all three modes daily network flights, ACMI and CMI and some chatters in domestic will probably fulfill the need of all our customers in the coming months.

Kevin Chiang: Thank you. That's it from me.

Operator: All right. Thank you. Again, that is star one to ask a question. If you find that your question has already been answered, you may press star two to remove yourself from the queue. Here comes out next question. Eduardi[?], your line is open. Ask your question.

Eduardi: Okay. Thank you. Good morning everyone. My first question on the fleet plan, just reading through it, it looks like you've signed an LOI for 3, 757 but the timing or delivery was not stated. Can you give us an idea what – what the idea here, what are these for?

Ajay Virmani: So we are expecting first quarter '22 for the first plane and then every quarter for those three planes. The idea of these 777s is that they would be put mostly in the domestic network to free up the 767 for ACMI and other charters and international flying.

Eduardi: Okay. So you're cascading some of the 767 into ACMI International. Do you have kind of visibility into pipeline or where these things are – where the 767 are going to be operating for? Is there more ACMI plan that you can talk about?

Ajay Virmani: ACMI/international. At this stage, we can't – we are in discussions with at least two customers, and we don't have exact details that we could share with you. But once they're finalized, we'll be press releasing those. But there is a lot of demand for, as you know, 767 aircraft. So 757 is a good aircraft for domestic. It kind of provides more nonstop domestically, improve the service on a lot of lanes. So it's a strategic fit to take the 767s and put them at alternate uses where the demand is much higher and where the yields are much higher. And it's a growing business for us. It fits in with our diversification strategy and puts the asset to use a little more yield wise.

Eduardi: Okay. Second question on the Amazon roll out of the CMI aircraft. So I'm guessing at this point, you kind of have a good visibility into how these two aircraft are rolling into and impacting your domestic network. Would you think kind of Q4, we would see normal seasonality versus the third quarter at this point? Like what can you tell us about how we see – yes.

Ajay Virmani: Yes. The CMI aircraft are performing well. The customers are still – the customers operating is still testing out various issues with their own logistics requirements, daily movements and all that. By any – by no means, we expect the fourth quarter to reflect anything normal because the volumes, our forecast and demand is going to be so high that some of that might be doing double terms, some of them doing ACMI flight, we have the right to use those aircraft to on certain ACMI requirements that might – we might have. And to be honest with you, I don't think 4 quarters will be anything like anything normal that you've seen. So if all the forecasts mature of various customers, they have given us, it would be a chaotic sort of fourth quarter to make sure that all the demands are met for all the customers. So I don't think that by any means you can expect a normal fourth quarter viewing of any kind of numbers or visibility.

Eduardi: Okay. And maybe one last just follow-up quickly. You talked about kind of the steps or initiatives you're trying to make to control cost, improve cost a little bit but expenses have been growing faster than revenues for the last couple of quarters at least. And is there a pricing opportunity at some point where you can start to pass through some of these crew cost increases and others? Or is that going to be a cost side improvement and not really pricing?

Ajay Virmani: Well, for example, as you can see that last 1.5 years has been very taxing on the people of this organization in terms of workload, in terms of all the enhancements, improvements to network, a number of flights, number of aircraft. We have not increased any management for the past five to six years actually. So we need to really expand our team. Number one, we need to expand our facilities because the facilities are absolutely operating at 150% of the capacity right now. So there's a lot of investment that the Cargojet needs to make to continue with this growth pattern because we don't want the system to collapse while we are growing. So the cost will increase somewhat from where they are. We are watching them. We are making sure that they don't go out of proportion. Everybody understands the labor shortages that exists. We are no different. We are competing with some of our own customers who are hiring labor and offering signing bonuses in various places. The hardest part to find right now is labor, for example, of loading and unloading, and we have 400 to 500 people that strictly do that.

In order to maintain them, the street is offering signing bonuses, increases in double to triple digit – not triple digits but double-digit increases to these people so – and increase in benefit. So it is a bit chaotic. It is a bit hectic. And to be honest with you, we are no different than any other people in terms of cost of labor, for example. As far as the crew costs are concerned, they are a direct result of the government legislation, as I mentioned in my call, because American cargo crews are operating at different levels. So their cost remains lower compared to ours, which puts us in an uncompetitive situation somewhat. And then we've got to find the savings somewhere else. Some of the costs, our customers realize that they're facing similar cost increases. So they sympathize with us, but we have annual contracts with them as well. So the phenomenon is so new that we have not sort of floated at this time of getting these increases pass through to our customers.

But at some point, we will definitely, after the fourth quarter, sit down and take a look at what's possible and what's not possible. But we – as I said, this is the new norm, and we are in the same boat as our customers and the whole marketplace. And this will all have to be studied to make sure that we are not – we're not absorbing all the cost. And if whatever is possible, we'll definitely – we'll look at it.

Eduardi: Okay, great. Thank you.

Operator: Thank you. Here comes our next question.

Walter Spracklin: Hi, good morning. It's Walter Spracklin[?] here. How are you doing, everyone?

Ajay Virmani: Hi, Walter. How are you?

Walter Spracklin: Good, good. So when you first announced your aircraft purchases, there was a little bit of trepidation about whether there was too much capacity coming on at a time when passenger airlines were going to bring back the belly space. But I think there's been some interesting developments since then that addresses that risk. And I was wondering if you could speak to them. First of all, you've been contracting fairly quickly the new aircraft that you're having come in and even precontracting them somewhat where you've got agreements either in place or about to be in place well ahead of the delivery. If you can give some thought on that. And then the second point, where I thought was pretty interesting was DHL's facility adjacent to yours in Hamilton, four times the size of the one they had there before, suggests to me that they're aligning with dedicated freighter aircraft providers like yourself and away from belly space in the future. Would you have the same read on that?

Ajay Virmani: Yes. So just to take your last question, yes, my read is that integrators like DHL have certainly shifted away from a lot of commercial list into their own network of aircraft which are providing them with much better service and competitive pricing in the marketplace. So if they were using three flights from London to Toronto or London to JFK before, now they're consolidating everything into one flight and using their own flight. Yes, it is a bit costly exercise for them. But also keep in mind that what they are experiencing is that the service now is much better in the marketplace and has made them a lot more competitive. So those habits are being formed. And to go back to the commercial lift and having your freight split over three or four different flights is not that attractive an option anymore. So once you've tried Uber, I guess you don't want to get a normal cab. So that's the kind of trend we are seeing that not only DHL but other customers who were using commercial belly lift and now they're chartering or they're doing ACMI, we find that the market will have a slight shift or a major shift. It might settle somewhere in the middle, but the key routes would probably, in our opinion, would stay with ACMI rather than going back to the commercial way.

Walter Spracklin: And then on the contracting of your aircraft[?].

Ajay Virmani: So Cargojet, we have 767s lined up for the next starting this coming January and then one aircraft every quarter roughly, we have a commitment of four 777s in the next – in '23 and then a couple in '24. We already have expressions of interest from at least a couple of customers on 777s. And as I mentioned in my call before, that as far as the 777s are concerned, it's good to have options on ACMI which is kind of a little lower margin but no risk. So that's one option.

And the second option is to fly commercially and take the commercial risk. At this stage, if we were to apply those in today's market, there is no commercial risk because the pricing and yield is much better than ACMI and we could get longer-term BSA type contracts on those planes. So it's nice to have those choices on those two type of aircraft. We'll obviously have to study these closer to the market. Nobody's going to sign these aircraft two years in advance but certainly, there's a lot of interest. When I say a lot, I literally mean it. And as far as 767s are concerned, as you know Cargojet has aggressive plans to start the international markets as soon as these aircraft become available.

So, we would have a dedicated service to some strategic international points as we start getting these aircraft. So there is a lot of demand. It wouldn't be contracts like we have block space agreements like longer-term contracts on the international market. But certainly, with our connections in Canada, for example, we can cover all of Canada and feed it into a gateway flight out of Vancouver internationally or Hamilton. Certainly gives us a great advantage in any of the international markets in this country. So we are going to use – leverage our domestic network to feed our international flights. We already, as you know, fly a couple of flights a week into Germany. So that's a perfect example of extending one of those flights into South America and having also connections to far east, to Vancouver and feeding that into the network as well. So we do have plans to expand that as we get our aircraft. But contract wise that – we do have options to place some of these aircrafts on ACMI.

So, we might do a bit of a hybrid which kind of protects the risk but also the idea is to grow the international brand of Cargojet at the same time. And the opportunity is right at this time for it.

Walter Spracklin: That's great. And then you blocked or agreements with UPS Purolator and they're coming up in 2025, that's still a ways away, but you do tend to negotiate these early. Any sense of when negotiations will start and when you might have an extension on those?

Ajay Virmani: I think Walter, as you know, four years, three-and-a-half , four years is still left on that. That's a bit early to start talking. I would say that you can expect that any discussions with these – you obviously – we casually and we certainly talk about those, but any serious negotiations would not start 24 months prior do the expiration[?].

Walter Spracklin: Okay. And just back on the crew cost highlight you mentioned, you do have within the scope of your current agreement, the ability to pass on crew costs. Is that right?

Ajay Virmani: Yes, we do to a certain point which we are trying but not on all contracts.

Walter Spracklin: Right. Okay. That's all my questions. Thanks very much. Great quarter.

Ajay Virmani: Yes, thanks.

Operator: Thank you. Here comes our next question.

Konark Gupta: Hi, thanks Operator. It's Konark Gupta from Scotiabank. Good morning, everyone.

Ajay Virmani: Good morning.

Konark Gupta: Good morning, Ajay. So maybe I wanted to kind of start with domestic first. And you called out Q4 is going to be pretty strong based on what you are hearing from your customers. So I wanted to confirm with you, I think Purolator came out recently saying they expect the peak season to be up 10% in terms of their packages. Is that the latest? Or have you heard anything different now? And does that reflect – fully reflect what Amazon also planned to do in Canada?

Ajay Virmani: So Konark, just when Purolator and so many they say they're going to have 10% more parcels, that's the information they're getting from their customers. So obviously and that's what we read and that's what we told. But that also includes a lot of ground as well, not just all air. So there's an air component which probably is a lot lesser than the ground component of this shipment. So that's number one. Number two, yes, we are expecting the peak volumes from our customers. We are planning for whatever capacity they have requested. And we'll see how much of it is mature. We are prepared to handle it. We cannot give you exact as to how much of this would come – this is kind of a very abnormal year for predicting anything. We have no idea in terms of – this is – things are opening up a little bit. Would that mean more shopping at brick-and-mortar and less online? Or is it going to be that some of the habits that have formed over the past 18 months will continue on.

And as I said, in spite of heavy demand of shipping, we expect that, as I said in my remarks, a bit of a hybrid situation in terms of online shipping versus personal shopping by people. So this is a very unique situation. Lockouts are being lifted. Canada is in good shape with vaccinations. So there will be some spillover that people would go to – like to do personal shopping. So we'll have to wait and see how – but as far as Cargojet is concerned, we are prepared if those demands mature, that we can absorb it and handle it and not let our customers down.

Konark Gupta: That's good color. Thanks. And then perhaps talking about your – one of the fastest growing customers, Amazon. Like these guys, were recently saying they want to grow their Canadian employee base by 60%. That's pretty huge, I guess. And then they were also kind of, I think, reportedly looking into Boeing 777 greater market to get their own products from Asia directly. From your perspective, Amazon is obviously our domestic customer primarily. What kind of opportunities do you – can you suggest you can explore with these guys? Can they go international with you as soon as you have 777s? Or is it all compliant to domestic for now?

Ajay Virmani: No. Our agreement is – with Amazon is shipping. It doesn't entail domestic. We have opportunities with them to grow North America and international as well. And we continue to have those discussions with them and other customers as well. So our growth strategy and our growth discussions with them are not just limited to domestic only.

Konark Gupta: Thanks. And then on the ad hoc charter, I think like this was a pretty strong quarter with $24 million revenue. And I think this has reached above your 15-20 range that you were anticipating. I'm just wondering, I know you mentioned that Q4 typically is seasonally weaker than Q3 on that. But I'm just wondering how much of the recent supply chain constraints in ground and ocean shipping has played into that strength in Q3? And how much is still continuing in Q4?

Ajay Virmani: So our Q3 is definitely a great quarter from a standpoint of all-in charters. And I – if we wanted to under normal circumstances, we would have taken probably a similar type of business in quarter four. But because of the demand for our existing customers and also the service to the existing customers is important. As you do more charters, you get less maintenance times on the planes. So we want to make sure that quarter four reflects not only a capacity that we want to make available to our existing customers but also have proper time to maintain the planes to make sure that they are especially in the cold weather that they operate on our on-time performance at over 98%. So we have the opportunities for those charters at quarter four which we have elected not to take in order to make sure that we take a long-term vision with our customers of serving their needs in quarter four which is the most important for them and not sort of letting them down in terms of delays or in terms of service and in terms of availability of space and aircraft. So that's a conscious decision made by the management to make sure that the charter activity is very limited in quarter four, to make sure that the demand of our customers is kept in mind. Basically, we don't want to get greedy with that and sacrifice the service of our existing customers.

Konark Gupta: That makes sense. And last one for me before I turn it over. With the recent fleet changes that you announced, and it seems like there's been a few minor pushout of the 767s in terms of timing by a quarter or so. Maybe perhaps that's due to parts and supply chain issues that's happening all over. What kind of CapEx can we expect for this year and next year?

Sanjeev Maini: It's Sanjeev here. We are expecting that our CapEx forecast for current year will be in the tune of 240-250. Next year, it will be in the range of $280 million that primarily because of the 757 which are coming up. So at present, that is the level which we are expecting. It may happen that these items may delayed a bit. So the actual amount may be quite different from what we are forecasting at present.

Konark Gupta: That's great. Thanks so much. Thanks, guys.

Ajay Virmani: No problem. Thank you.

Operator: Thank you. Here comes our next question.

Chris Murray: Good morning, folks. It's Chris Murray from ATB Capital Markets. My first question is really around labor and specifically pilot labor. Just wondering how you guys are finding the availability of pilots and crews. And the second part of this is thinking about some of the comments from some of the U.S. carriers about shortages down in the U.S. Does that create an additional opportunity for you on ACMI to be able to take Canadian crews and operate through your joint venture?

Ajay Virmani: No. Actually, the pilot situation and the labor situation is such that specifically that although you read a lot of pilots are out of work. But to be honest with you, as you notice, a lot of flights by Canadian carriers are being canceled because of lack of crews. It's – when you hire a pilot, you're looking at three to four months before they're inducted to flying after training and line checks. So it takes a while. So while there is a lot of pilots unemployed, yet there is a shortage of pilots on the other hand. We are facing that; we hired a number of pilots from passenger airlines and some of them are deciding to go back to passenger airlines. So yes, there is a shortage in real numbers when it comes to pilot. As far as the opportunities being taken advantage by our affiliates in U.S. 21 Air, they have four aircraft now operating. And they, to be honest with you, their hands are full with their own customers. So while there would be opportunities in the future that they plan to grow their business, we can certainly pass on some of the business that we can't handle to them, provided they can handle under their licensing requirements, so we can handle our – on our licensing arrangements but strictly at this stage, they don't have the capacity to do it. And those opportunities are not – yes, they are pilot-driven somewhat but they're also driven aircraft. So right now, both are in short supply, there's no aircraft and there's not enough pilots. So that's why you're seeing the demand and the pricing so high on that market because of those two factors.

Chris Murray: Okay, fair enough. And that kind of brings me to my next question is that you do have, I believe, your first 767 coming in December. What's the intent for that one aircraft? We're pretty close to it now. Is that going to get used in the domestic market, maybe for maintenance spares, relief or do you have any ACMI contract that you think that you'll be able to place it with immediately?

Jamie Porteous: Hey, Chris, it's Jamie. That aircraft that will be delivered at the end of December really is going to become a maintenance spare. It replaces aircraft that we took out of the fleet to take on previous new ACMI commitments earlier this year.

Chris Murray: Okay. And then along those lines, should we be thinking that there'll be a step up of maintenance costs? I know you did call it out a little bit. It isn't that big so far. But should we be thinking about higher maintenance costs as we go into 2022?

Sanjeev Maini: Maintenance cost at present is in the range of $80 million to $90 million. And as new aircraft comes in, in our fleet, definitely, as we said in our report earlier, we expect $3 million expense for each aircraft which is added to the fleet. So next year, probably if three, four aircraft comes, it will be in the tune of $90 million.

Chris Murray: Okay, that's helpful. Thanks folks. I'll turn it over.

Ajay Virmani: Thanks, Chris.

Operator: Thank you. Here comes our next question.

Matthew Lee: Hi, it's Matt Lee from Canaccord. I just wanted to kind of ask in terms of B2B and B2C revenues, can you kind of talk about the trends you're seeing in each segment? Probably fair to assume that your B2C revenue growth has kind of slowed down a bit and maybe B2B is accelerating.

Jamie Porteous: Yeah, good morning, Matt. No, yes, I would agree. I mean definitely, during the quarter as Ajay articulated in his opening remarks, we saw a softening of the B2C volumes probably related to the reopening of the economies and people being able to get out of bricks-and-mortar stores. And as I know I've said to you before, it's a little bit difficult for us to have direct visibility to what's B2B and what's B2C with our customers because the vast majority of them with the exception of perhaps Amazon obviously being strictly in the B2C space, the others all participate in both and we don't have direct visibility to which portion of pure letters volume that they're giving us is B2B or B2C, certainly the B2C portion of it is growing at a much more accelerated pace with each of them.

Matthew Lee: Great. And then maybe on the fuel side, margins on fuel remain in the mid-teens. I know that historically has been kind of closer to 20. Is that because of the volume-based fee model? And is there any chance that margin strength going to Q4 given the price of right now?

Jamie Porteous: Yes. I mean as you know, the fuel – our fuel surcharge recovery is based on weight. So typically, you would see during the quarter when we have heavier volume if fuel prices are going up, our fuel surcharge goes up accordingly. And the revenue that we collect as a fuel surcharge goes up again proportionately if it's during the season like Q4 where the weights are higher. So you should expect to see higher fuel surcharge revenue in Q4.

Matthew Lee: Then in terms of margin, in terms of fuel revenue versus fuel costs?

Sanjeev Maini: The revenue per fuel cost is like as we have said earlier, right? So our fuel surcharge is dependent on volume whereas actual fuel cost is what we are priced for. Since volumes goes up in different quarters, our fuel surcharge revenue will always surpass our fuel cost.

Matthew Lee: Okay, thanks. That's it for me.

Ajay Virmani: Thanks, Matt.

Operator: Thank you. Here comes our next question.

Cameron Doerksen: Hi, good morning. It's Cameron Doerksen from National Bank Financial.

Ajay Virmani: Good morning.

Cameron Doerksen: So, I just want to come back to the CapEx question. Again, you mentioned 2022 expectations of around 280 million. Are you including, I guess, any initial CapEx related to the 777s in that number? Or is that more going to be concentrated into 2023?

Sanjeev Maini: 777 mostly will come in 2023. Maybe initial deposits will flow in 2022.

Cameron Doerksen: Okay. And then, just a second quick question coming back to the questions around crew costs and pilots. I know that some of the pilots maybe you've hired in the last couple of years here were maybe on kind of leave from some of the major airlines. Are you seeing some of those pilots kind of go back as they get recalled? And is that impacting your ability to find enough pilots? Is there any issues around that?

Ajay Virmani: Yes, some of them are going back. Some of them are staying. We are attracting a lot of pilots from overseas, expats who left 10, 15 years ago and have kids now they want to come back to Canada. Places like Emirates, Etihad, Cathay Pacific, Korean Airlines, a lot of Canadian pilots work with those kind of airlines, Qatar Airways and we are attracting a lot of that crop, people who want to return to Canada. So in some ways, yes, we are facing some kind of pressure on that side, and we are continuing to hire people to make up for them. So one of the reasons that crew costs go higher is obviously because of the overtime being offered to keep up with the demand at the same time. Even if there is not a month go by where we are not hiring 15, 25 of this but some of them do continue to go back but that's the way the whole industry works. So – but as far as the operations are concerned, we are managing to make sure that our operations certainly it's keeping up with the demand.

Cameron Doerksen: Okay, that's helpful. That was all I had. Thanks very much.

Operator: Thank you. Here comes our next question.

Nauman Satti: Hi, good morning. It's Nauman from Laurentian Bank.

Ajay Virmani: Good morning.

Nauman Satti: So going back to the labor shortage question. I was just wondering if you could provide some color around how big the compensation differences between what you guys did or what a typical commercial airline would pay?

Jamie Porteous: In terms – the two big labor groups of pilots, we would be comparable to what commercial airlines like Air Canada Rouge particularly would pay in terms of warehouse and ramp staff or entry-level jobs, we would be comparable to what anybody else in the industry and the service industry would be paying whether it's Purolator, whether it's Amazon, whether it's Canada Post or trucking companies for that matter, any general warehousing companies. They've gone up significantly because of a labor shortage in the last couple of years, particularly related to COVID. So entry-level salaries are probably higher than $20 an hour in most cases, including benefits.

Nauman Satti: Okay, that's fair. So any reason that some of the pilots want to go back to the commercial airlines, even though you guys still are at par with the compensation front?

Ajay Virmani: Well, it's a type of flying. A majority of the people go back for various reasons. That could be they want to fly passengers, they don't want to fly cargo. A lot of cargo flying is at night. So – and there is a certain pilot who prefer night flying and they don't mind flying cargo. There are some pilots who don't like flying cargo and they want to stay only on the passenger side of things; so it's a personal preference. Really no reason why they go back except that they prefer that kind of flying. So – but then we have cargo pilots who have been with us for 25 years and they'll never go back to passenger side of things.

Nauman Satti: Okay. No, that's good color. And just one last one from my end. You've mentioned that pricing in the Canadian market, you guys are at a disadvantage with the U.S. or other players. And you have mentioned that with Amazon, you can actually grow with them, not just domestically but in North America as well. I'm just wondering if you guys have engaged the policymakers or if there is any conversation you're having with them around this competitive disadvantage that you guys are? And maybe down the line that can get changed?

Ajay Virmani: We are always hopeful that somewhere along the line, when the pricing becomes too high or these prices get passed on to the consumers and things get a little bit – the shipping costs are factored into cost of living. It would certainly impact the Canadian consumers. The second part is yes, we have engaged with the regulators for the past three to four years. And unfortunately, they decided to follow their own approach and not look at what happened in the international markets and U.S. markets and hoping that someday they will realize that Canadian cargo carriers will lose market share and give – and lose their competitive edge. But again, it's one of those things that yes, there is an increased cost. There is increased awareness. We have constantly pointed out to all stakeholders about the situation. And I think the idea for us is to work with all of them. We're open to working with all of them to prove a case that – look, I mean we have to, number be operate safely. And number two, we have to be competitive. So, I think at some stage all parties will come together and look at this as a common cost rather than just the Cargojet costs.

Nauman Satti: Okay, that's it for me. Thank you.

Operator: Thank you. Here comes our next question.

Tim James: Hi, thanks. Good morning, everyone. It's Tim James here from TD Securities. I'm just wondering if you could sort of give us an updated sort of long-term view of the margin potential for

Cargojet. And specifically, the kind of key factors that will be biasing it both lower and higher. I mean the volume outlook given e-commerce trends and the success you're having with customers, obviously very positive. I'm just interested more specifically on things like as value capacity comes back, if that has much of a margin impact. Other factors you're changing product mix, moving international. If you can just kind of talk about the key considerations that we should think about on the margin profile of the business longer term.

Jamie Porteous: Good morning, Tim. It's Jamie. I think if you looked at – there's three segments of our business, obviously, on the domestic, I think margins are going to be driven by continued strong growth of e-commerce, particularly as we get into 2022 and 2023. The ACMI business remaining very strong and margins will continue. Pretty steady margins and high margins on that as you're aware on that business. And obviously, as indicated by the fleet plans that we have over the next several years, we're very confident that we're going to be able to take advantage of entering into numerous new ACMI agreements with customers that will keep those margins at the levels that we've historically been able to experience particularly over the last couple of years. And then again, the ad hoc charter margin, we still – other than Ajay's comments about Q4, we slowed down a little bit just to protect our domestic business and our ACMI strong domestic demand and strong ACMI demand in the peak season. It's not because of a lack of demand globally for ad hoc or international scheduled services.

And as we add more aircraft, we'll again take advantage of growing that sector of the business and improving those margins. So I think overall, if you look out the next two to three years, you should expect to see continued growth of – at least sustain and growth of the existing margins on each segments of our business.

Tim James: That's great. That's the only question I had. Thank you very much.

Ajay Virmani: Thanks, Tim.

Operator: Thank you. Here comes our next question.

David Ocampo: Hi, everyone. It's David Ocampo from Cormark Securities. I just wanted to follow up on Tim's question about the margin profile going forward. And I'm just curious when you take a look at your margins from when the Canada Post contract was first negotiated, you're kind of in that 20-30% range and now you're in kind of that third – high 30s or low 40% margins. Do you expect to have to give some of the back-end negotiations? Because I know you mentioned that you're not going to get into discussions until 24 months out, but I imagine that's going to be a main point of contention as you enter into those contracts.

Jamie Porteous: Yes. No, it's a good question, David. I mean obviously, always in negotiations with any customer when it comes to pricing. The discussions are sensitive. Certainly, the margin increase that we've been able to gain on the domestic business that you're talking about, it's primarily related to the growth of all of our customers' business and the different service levels that we've been able to offer as we've grown from primarily a business day, Monday to Thursday with a limited schedule on Friday to more seven days a week which we'll continue to do. And I think e-commerce is going to continue to drive demand for that, not just from Amazon but as the other retailers increase their and improve their online platforms here in Canada. It's going to drive additional demand for volume seven days a week and not just overnight daytime flights, particularly during peak season.

So, I don't anticipate that you should see any dilution in those margins going forward. And I think the pricing when it comes to renewing any of our major agreements. Obviously, that's a sensitive discussion that we'll have but we also provide significant value to our customers in terms of on-time performance and reliability that shouldn't be forgotten.

David Ocampo: That's perfect. And then, just a quick follow-up on the pilot cost differential between you and international peers. Do you have an order of magnitude on how much that's impacting you, whether it's 20% or 30% up?

Ajay Virmani: We don't have – we haven't given any guidance on what that total impact is. But as you can see, our hourly cost of pilots is substantially up and that's all due to – that's not only for domestic but all of our operations. So when you look at the cost increase of that magnitude from what it would have been, that will give you an idea of the differential between us and the international and U.S. carriers.

David Ocampo: Okay, that's it for me. Thanks, guys.

Operator: Thank you. And speakers, at this time, we have no questions in the queue.

Ajay Virmani: Thank you, everybody, for joining. We appreciate it and we look forward to talking to you during the next quarter and have a great holiday season everybody.

Operator: Thank you, ladies and gentlemen. This concludes today's call and thank you for your participation. You may now disconnect.