

LAURENTIAN PILOTAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTER ENDED SEPTEMBER 30, 2012

1. Highlights

The current report covers the LPA's activities and financial situation for the three month period ended September 30, 2012; this report must be read in conjunction with the unaudited financial statements for the nine month period ended September 30, 2012, as well as the audited financial statements for the financial year ended December 31, 2011 which have been prepared and presented according to IFRS and which can be found in the Authority's 2011 Annual Report.

2. Financial results analysis

COMPARISON WITH THE 2012 BUDGET

REVENUES

Pilotage charges

Pilotage charges amounted to \$20.6 million for the quarter ended September 30, 2012 (\$56.3 million for the nine month period) versus \$20.5 million for the corresponding budget period (\$55.4 million for the nine month period); these favourable variations originate from an increase in average ships' dimensions despite a minor 2.7% decrease in the number of assignments compared to the third quarter's budgeted estimates (decrease of 2.4% for the nine month period). Slower grain and tanker traffic activities have resulted in these decreases during these periods; budgeted pilotage charges during these periods were based on a similar assignment level in 2012 versus 2011.

Other revenues

The LPA's other revenues totalled \$37,477 for the quarter ended September 30, 2012 (\$121,828 for the nine month period) compared to \$17,000 for the corresponding budget period (\$70,000 for the nine month period); interest income on higher than budgeted cash liquidities resulted in these favourable variations.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$ 16.8 million for the quarter ended September 30, 2012 (\$44.8 million for the nine month period) compared to \$16.0 million for the corresponding budget period (\$41.9 million for the nine month period); these unfavorable variations mostly originate from the newly negotiated pilotage fees related to district 2 (Québec – Escoumins) which exceeded budgeted assumptions. These fees and related expenses increased nearly 4.00% while budgeted assumptions called for an increase under 2.00%. A similar assumption has been made with regards to pilotage

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fees and related expenses from July 1st, 2012 for district 1. Assignments were slightly lower compared to the third quarter and cumulative budgeted estimates due to slower grain and tanker traffic activities; budgeted pilots' fees, salaries and benefits during these periods were based on similar assignment levels in 2012 versus 2011.

Operating costs of pilot boats

Operating costs of pilot boats amounted to \$1.7 million for the quarter ended September 30, 2012 (\$6.1 million for the nine month period) versus \$1.7 million for the corresponding budget period (\$6.3 million for the nine month period); traffic and assignment decreases have resulted in slightly lower usage of pilot boat services in 2012 when compared to budgeted estimates for these periods.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.1 million for the quarter ended September 30, 2012 (\$3.8 million for the nine month period) in line with budgeted levels at \$1.2 million for the corresponding budget period (\$3.8 million for the nine month period). An unbudgeted provision for bad debt of \$0.2 million was recorded during the second quarter of 2012.

COMPARISON WITH THE 2011 FINANCIAL YEAR

REVENUES

Pilotage charges

Pilotage charges amounted to \$20.6 million for the quarter ended September 30, 2012 (\$56.3 million for the nine month period) versus \$19.8 million for the corresponding previous year period (\$56.1 million for the nine month period); these variations originate from an increase in average ships' dimensions as well as a 1.7% increase in the number of assignments compared to last year's third quarter results (decrease of 4.1% for the nine month period). Slower grain and tanker traffic activities have resulted in the nine month decrease while the increase in assignments in the third quarter was modest.

Other revenues

The LPA's other revenues totalled \$37,477 for the quarter ended September 30, 2012 (\$121,828 for the nine month period) compared to \$42,859 for the corresponding previous year period (\$122,957 for the nine month period); these variations are not material.

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EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$16.8 million for the quarter ended September 30, 2012 (\$44.8 million for the nine month period) compared to \$15.4 million for the corresponding previous year period (\$43.2 million for the nine month period); these unfavorable variations mostly originate from the newly negotiated pilotage fees related to district 2 (Québec – Escoumins); these fees and related expenses increased nearly 4.00% over 2011. A similar assumption has been made with regards to pilotage fees and related expenses from July 1st, 2012 for district 1.

Operating costs of pilot boats

Operating costs of pilot boats amounted to \$1.7 million for the quarter ended September 30, 2012 (\$6.1 million for the nine month period) versus \$1.5 million for the corresponding previous year period (\$5.8 million for the nine month period); slight traffic and assignment increases during the 3rd quarter have resulted in higher usage of pilot boat services in 2012 when compared to last year's numbers.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.1 million for the quarter ended September 30, 2012 (\$3.8 million for the nine month period) similar to \$1.1 million for the corresponding previous year period (\$3.4 million for the nine month period). A provision for bad debt of \$0.2 million was recorded during the second quarter of 2012.

3. Risk analysis

No major change in the risk analysis of the Authority's operations has occurred since the preparation of its 2011 Annual Report. It can however be noted that negotiations with the mid-St-Lawrence pilots resulted an agreement in principle after the end of the 3rd quarter, while a new pilotage service agreement was finalized on March 7, 2012 with the Lower St-Lawrence pilot Corporation with an effective date of January 1st, 2012. Furthermore, the Authority's operational and personnel activities have not significantly changed since the preparation of the LPA's Business Plan.

4. Cost containment measures

The Authority intends to follow cost containment measures recommended by the Treasury Board Secretariat. Administrative and operational expenses, for the third quarter ended September 30, 2012 and for the nine month period ended September 30, 2012, are generally in line with the budgeted estimates for the corresponding periods.