

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

**1. Highlights**

The current report covers the LPA's activities and financial situation for the three month period ended June 30, 2012; this report must be read in conjunction with the unaudited financial statements for the six month period ended June 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 \$19.0 million for the quarter ended June 30, 2012 (\$35.7 million for the six month period) versus \$18.1 million for the corresponding budget period (\$34.9 million for the six month period); these favourable variations originate from an increase in average ships' dimensions despite a minor 1.6% decrease in the number of assignments compared to the second quarter budgeted estimates (decrease of 2.2% for the six-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 \$34,626 for the quarter ended June 30, 2012 (\$84,351 for the six month period) compared to \$28,000 for the corresponding budget period (\$53,000 for the six 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 \$ 14.9 million for the quarter ended June 30, 2012 (\$28.0 million for the six month period) compared to \$13.5 million for the corresponding budget period (\$25.9 million for the six 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%. Assignments were slightly lower compared to the second quarter and

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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 \$1.8 million for the quarter ended June 30, 2012 (\$4.4 million for the six month period) versus \$1,9 million for the corresponding budget period (\$4.6 million for the six month period); traffic and assignment decreases have resulted in 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 \$1.5 million for the quarter ended June 30, 2012 (\$2.7 million for the six month period) in line with budgeted levels at \$1.3 million for the corresponding budget period (\$2.6 million for the six 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 \$19.0 million for the quarter ended June 30, 2012 (\$35.7 million for the six month period) versus \$18.9 million for the corresponding previous year period (\$36.4 million for the six month period); these variations originate from an increase in average ships' dimensions despite a 6.3% decrease in the number of assignments compared to last year's second quarter results (decrease of 8.7% for the six-month period). Slower grain and tanker traffic activities have resulted in these decreases; assignment decrease in the second quarter was modest, but the reduction remained higher for the six month period.

**Other revenues**

The LPA's other revenues totalled \$34,626 for the quarter ended June 30, 2012 (\$84,351 for the six month period) compared to \$43,429 for the corresponding previous year period (\$80,098 for the six month period); these variations are not material.

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**EXPENSES**

**Pilots' fees, salaries and benefits**

Pilots' fees, salaries and benefits have reached \$14.9 million for the quarter ended June 30, 2012 (\$28.0 million for the six month period) compared to \$14.2 million for the corresponding previous year period (\$27.8 million for the six 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. Assignment decrease during these periods was due to slower grain and tanker traffic.

**Operating costs of pilot boats**

Operating costs of pilot boats amounted to \$1.8 million for the quarter ended June 30, 2012 (\$4.4 million for the six month period) versus \$1.9 million for the corresponding previous year period (\$4.3 million for the six month period); traffic and assignment decreases have resulted in lower usage of pilot boat services in 2012 when compared to last year's numbers.

**Administrative and operational expenses**

Administrative and operational expenses totalled \$1.5 million for the quarter ended June 30, 2012 (\$2.7 million for the six month period) similar to \$1.2 million for the corresponding previous year period (\$2.3 million for the six 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 began in the second 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 second quarter ended June 30, 2012 and for the six month period ended June 30, 2012, are generally in line with the budgeted estimates for the corresponding periods.