

LAURENTIAN PILOTAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTER ENDED JUNE 30, 2011

1. Highlights

Starting January 1, 2011, the Laurentian Pilotage Authority (or « the Authority » or the « LPA ») has prepared and presented its unaudited financial statements according to the Generally accepted accounting principles following adoption of IFRS (« GAAP »), including 2010 corresponding figures.

The current report covers the LPA's activities and financial situation for the three and six month periods ended June 30, 2011; this report must be read in conjunction with the unaudited financial statements for the three and six month periods ended June 30, 2011, as well as the audited financial statements for the financial year ended December 31, 2010 which have been prepared and presented according to Canadian GAAP's and which can be found in the Authority's 2010 Annual Report.

2. Financial results analysis

COMPARISON WITH THE 2011 BUDGET

REVENUES

Pilotage charges

Pilotage charges amounted to \$ 18.9 million for the quarter ended June 30, 2011 (\$ 36.4 million for the six month period) versus \$ 13.8 million for the corresponding budget period (\$ 26.4 million for the six month period); these favourable variations originate from a 17.7% increase in the number of assignments compared to the first quarter budgeted estimates (18.2% for the six month period). Strong grain and tanker traffic activities have resulted in a significant increase in assignments during these periods; budgeted pilotage charges during these periods were based on slightly higher assignment levels in 2011 versus 2010.

Other revenues

The LPA's other revenues totalled \$ 43,429 for the quarter ended June 30, 2011 (\$ 80,098 for the six month period) compared to \$ 28,000 for the corresponding budget period (\$ 52,000 for the six month period); these favourable variations result from the non-recurrent gain generated by the disposal of the Abraham-Martin pilot boat during the second quarter of 2010.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$ 14,2 million for the quarter ended June 30, 2011 (\$ 27,8 million for the six month period) compared to \$ 12,2 million for the corresponding budget period (\$ 23,3 million for the six month period); these unfavorable variations originate from a 17,7% increase in the number of assignments compared to the first quarter budgeted estimates (18,2% for the six month period). Strong grain and tanker traffic activities have resulted in a significant increase in assignments during these periods; budgeted pilots' fees, salaries and benefits during these periods were based on slightly higher assignment levels in 2011 versus 2010.

Operating costs of pilot boats

Operating costs of pilot boats amounted to \$ 1,9 million for the quarter ended June 30, 2011 (\$ 4,3 million for the six month period) versus \$1,5 million for the corresponding budget period (\$ 3,7 million for the six month period); traffic and assignment increases have resulted in higher usage of pilot boat services in 2011 when compared to budgeted estimates for these periods.

Administrative and operational expenses

Administrative and operational expenses totalled \$ 1,2 million for the quarter ended June 30, 2011 (\$ 2,3 million for the six month period) in line with budgeted levels at \$ 1,2 million for the corresponding budget period (\$ 2,3 million for the six month period).

COMPARISON WITH 2010 FINANCIAL YEAR

REVENUES

Pilotage charges

Pilotage charges amounted to \$ 18,9 million for the quarter ended June 30, 2011 (\$ 36,4 million for the six month period) versus \$ 15,3 million for the corresponding previous year period (\$ 28,7 million for the six month period); these favourable variations originate from a 18,3% increase in the number of assignments compared to the 2010 first quarter numbers (22,4% for the six month period). Strong grain and tanker traffic activities have resulted in a significant increase in assignments during these periods; previous year pilotage charges during these periods reflected a lower number of assignments.

Other revenues

The LPA's other revenues totalled \$ 43,429 for the quarter ended June 30, 2011 (\$ 80,098 for the six month period) compared to \$ 219,988 for the corresponding previous year period (\$ 327,419 for the six month period); these favourable variations result from the non-recurrent gain generated by the disposal of the Abraham-Martin pilot boat during the second quarter of 2010.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$ 14,2 million for the quarter ended June 30, 2011 (\$ 27,8 million for the six month period) compared to \$ 11,7 million for the corresponding previous year period (\$ 22,2 million for the six month period); these unfavorable variations originate from a 18.3% increase in the number of assignments compared to the 2010 first quarter numbers (22.4% for the six month period). Strong grain and tanker traffic activities have resulted in a significant increase in assignments during these periods; previous year pilots' fees, salaries and benefits during these periods reflected a lower number of assignments.

Operating costs of pilot boats

Operating costs of pilot boats amounted to \$ 1,9 million for the quarter ended June 30, 2011 (\$ 4,3 million for the six month period) versus \$ 1,4 million for the corresponding previous year period (\$ 3,4 million for the six month period); traffic and assignment increases have resulted in higher usage of pilot boat services in 2011 when compared to last year's numbers for these periods.

Administrative and operational expenses

Administrative and operational expenses totalled \$ 1,2 million for the quarter ended June 30, 2011 (\$ 2,3 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).

3. Risk analysis

No major change in the risk analyses of the Authority's operations has occurred since the preparation of its 2010 Annual Report. It can however be noted that negotiations with the Steelworkers Union, local 9538, continued during the 2011 second quarter. 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, 2011 and for the six month period ended June 30, 2011, are generally in line with the corresponding budgeted estimates for the corresponding periods.