

LAURENTIAN PILOTAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTER ENDED SEPTEMBER 30, 2013

1. Highlights

The current report covers the LPA's activities and financial situation for the three month period ended September 30, 2013; this report must be read in conjunction with the unaudited financial statements for the nine month period ended September 30, 2013, as well as the audited financial statements for the financial year ended December 31, 2012 which have been prepared and presented according to IFRS and which can be found in the Authority's 2012 Annual Report.

2. Financial results analysis

COMPARISON WITH THE 2013 BUDGET

REVENUES

Pilotage charges

Pilotage charges amounted to \$ 19.5 million for the quarter ended September 30, 2013 (\$55.4 million for the nine month period) versus \$21.7 million for the corresponding budget period (\$59.6 million for the nine month period); these unfavourable variations originate from a 11.7% shortfall in the number of assignments compared to the third quarter's budgeted estimates (decrease of 7.8% for the nine month period) due to slower grain and tanker traffic activities.

Other revenues

The LPA's other revenues totalled \$24,107 for the quarter ended September 30, 2013 (\$76,023 for the nine month period) compared to \$24,000 for the corresponding budget period (\$570,000 for the nine month period); this unfavorable variation is due to a change in the disposal timetable of the Charlevoix pilot boat.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$16,2 million for the quarter ended September 30, 2013 (\$45,0 million for the nine month period) compared to \$18,2 million for the corresponding budget period (\$48,7 million for the nine month period); these favorable variations originate from the shortfall in the number of assignments compared to the third quarter and cumulative budgeted estimates due to slower grain and tanker traffic activities.

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Operating costs of pilot boats

Operating costs of pilot boats amounted to \$1.8 million for the quarter ended September 30, 2013 (\$6.0 million for the nine month period) versus \$1.9 million for the corresponding budget period (\$6.4 million for the nine month period); traffic and assignment decreases have resulted in slightly lower usage of pilot boat services in 2013 when compared to budgeted estimates for these periods.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.3 million for the quarter ended September 30, 2013 (\$3.7 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 2012 FINANCIAL YEAR

REVENUES

Pilotage charges

Pilotage charges amounted to \$19.5 million for the quarter ended September 30, 2013 (\$55.4 million for the nine month period) versus \$20.6 million for the corresponding previous year period (\$56.3 million for the nine month period); these variations originate from a 10.5% decrease in the number of assignments compared to last year's third quarter results (shortfall of 6.9% for the nine month period). The average ships' dimensions are however increasing in 2013 when compared to 2012.

Other revenues

The LPA's other revenues totalled \$24,107 for the quarter ended September 30, 2013 (\$76,203 for the nine month period) compared to \$37,477 for the corresponding previous year period (\$121,928 for the nine month period); these variations are not material.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$16.2 million for the quarter ended September 30, 2013 (\$45.0 million for the nine month period) compared to \$16.8 million for the corresponding previous year period (\$44.8 million for the nine month period); the favorable quarterly variation originates from the decrease in the number of assignments compared to last year's third quarter results.

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Operating costs of pilot boats

Operating costs of pilot boats amounted to \$1.8 million for the quarter ended September 30, 2013 (\$6.0 million for the nine month period) versus \$1.7 million for the corresponding previous year period (\$6.1 million for the nine month period); depreciation expenses have started on new assets at the transboarding base in Les Escoumins early in the 2013 financial year.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.3 million for the quarter ended September 30, 2013 (\$3.7 million for the nine month period) similar to \$1.1 million for the corresponding previous year period (\$3.8 million for the nine month period). This unfavorable variation results from post-employment benefit expenses. 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 2012 Annual Report. The Special exam report performed by representatives from the Office of the Auditor General of Canada was presented to the Board of directors in July 2013; this report confirmed that the LPA's resources are managed economically and efficiently. Furthermore, the Authority's operational and personnel programs have not significantly changed since the preparation of the LPA's Business Plan.

4. Budget 2012 reduction 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, 2013 and for the nine month period ended September 30, 2013, are generally in line with the budgeted estimates for the corresponding periods.