

LAURENTIAN PILOTAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTER ENDED JUNE 30, 2014

1. Highlights

The current report covers the LPA's activities and financial situation for the six month period ended June 30, 2014; this report must be read in conjunction with the unaudited financial statements for the six month period ended June 30, 2014, as well as the audited financial statements for the financial year ended December 31, 2013 which have been prepared and presented according to IFRS and which can be found in the Authority's 2013 Annual Report.

2. Financial results analysis

COMPARISON WITH THE 2014 BUDGET

REVENUES

Pilotage charges

Pilotage charges amounted to \$20,5 million for the quarter ended June 30, 2014 (\$37,6 million for the six month period) versus \$19.5 million for the corresponding budget period (\$37.7 million for the six month period). Assignments are higher than budget estimates by 10.4% for the second quarter period. As for the cumulative six-month period, the number of assignments is higher than budget estimates by 5.3% due to grain and tanker traffic and to a longer post-winter period than usual. Budgeted pilotage charges during these periods were based on an increase in the number of assignments of 5.0% for the full 2014 year versus 2013.

Other revenues

The LPA's other revenues totalled \$26,909 for the quarter ended June 30, 2014 (\$49,997 for the six month period) compared to \$10,000 for the corresponding budget period (\$42,000 for the six month period); this variation is not material.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$ 16.0 million for the quarter ended June 30, 2014 (\$29.8 million for the six month period) compared to \$15.9 million for the corresponding budget period (\$30.5 million for the six month period); this variation mostly originates from a higher assignment volume than budgeted.

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Operating costs of pilot boats

Operating costs of pilot boats amounted to \$2.6 million for the quarter ended June 30, 2014 (\$5.3 million for the six month period) versus \$2.0 million for the corresponding budget period (\$4.6 million for the six month period); traffic and assignment increases have resulted in a higher usage of pilot boat services in 2014 when compared to budgeted estimates for these periods. Higher cost increases than budgeted for transboarding services provided by a third-party operator also impacted this variation.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.4 million for the quarter ended June 30, 2014 (\$2.6 million for the six month period) compared to budgeted levels of \$1.5 million for the corresponding budget period (\$2.9 million for the six month period), resulting in a minor favorable variation for both periods.

COMPARISON WITH THE 2013 FINANCIAL YEAR

REVENUES

Pilotage charges

Pilotage charges amounted to \$20.5 million for the quarter ended June 30, 2014 (\$37.6 million for the six month period) versus \$19.7 million for the corresponding previous year period (\$35.9 million for the six month period); these variations originate from an increase in average ships' dimensions coupled to a 4.2% increase in the number of assignments compared to last year's second quarter results. For the six-month period, the number of assignments increased by 6.4% due to grain and tanker traffic and to a longer post-winter period than usual.

Other revenues

The LPA's other revenues totalled \$26,909 for the quarter ended June 30, 2014 (\$49,997 for the six month period) compared to \$20,350 for the corresponding previous year period (\$52,096 for the six month period); these variations are not material.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits have reached \$16.0 million for the quarter ended June 30, 2014 (\$29.8 million for the six month period) compared to \$15.9 million for the corresponding previous year period (\$28.8 million for the six month period); these unfavorable variations originate from a 4.2% increase in the number of assignments during the second quarter and from the annual increase in pilotage fees covered in current service contracts between the Authority and the two pilot corporations. The increase in average ships' dimensions was also a factor in these variations.

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Operating costs of pilot boats

Operating costs of pilot boats amounted to \$2.6 million for the quarter ended June 30, 2014 (\$5.3 million for the six month period) versus \$1.8 million for the corresponding previous year period (\$4.3 million for the six month period); traffic and assignment increases have resulted in a higher usage of pilot boat services in 2014 when compared to last year's numbers. Cost increases for transboarding services provided by a third-party operator also impacted this variation.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.4 million for the quarter ended June 30, 2014 (\$2.6 million for the six month period) compared to \$1.2 million for the corresponding previous year period (\$2.4 million for the six month period). These unfavorable variations are mostly due to costs associated to the Authority's head office move and to costs related to a risk study on the safe duration of a voyage with a single pilot aboard in district no 1.

3. Risk analysis

No major change in the risk analysis of the Authority's operations has occurred since the preparation of its 2013 Annual Report. Furthermore, the Authority's operational and personnel activities have not significantly changed since the preparation of the LPA's 2014-2018 Corporate Plan. Operational and strategic risks are being updated as part of the 2015-2019 Corporate Plan preparation process.

4. Cost Reduction Initiatives

Operational expenses, for the second quarter ended June 30, 2014, are generally in line and even lower than the budgeted estimates.