

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

1. Highlights

The current report covers the LPA's activities and financial situation for the three month period ended September 30, 2014; this report must be read in conjunction with the unaudited financial statements for the nine month period ended September 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 \$ 22.2 million for the quarter ended September 30, 2014 (\$59.8 million for the nine month period) versus \$20.8 million for the corresponding budget period (\$58.5 million for the nine month period); these favourable variations originate from a 6.3% increase in the number of assignments compared to the third quarter's budgeted estimates (increase of 5.7% for the nine month period) due to solid grain and tanker traffic activities.

Other revenues

The LPA's other revenues totalled \$23,114 for the quarter ended September 30, 2014 (\$73,111 for the nine month period) compared to \$21,000 for the corresponding budget period (\$63,000 for the nine month period); this favorable variation is not material.

EXPENSES

Pilot fees

Pilot fees have reached \$17.8 million for the quarter ended September 30, 2014 (\$47.6 million for the nine month period) compared to \$17.5 million for the corresponding budget period (\$48.0 million for the nine month period); these unfavorable variations originate from the higher number of assignments compared to the third quarter and cumulative budgeted estimates due to solid grain and tanker traffic activities.

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Operating costs of pilot boats

Operating costs of pilot boats amounted to \$2.1 million for the quarter ended September 30, 2014 (\$7.4 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 increases have resulted in higher usage of pilot boat services in 2014 when compared to budgeted estimates for these periods.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.2 million for the quarter ended September 30, 2014 (\$3.8 million for the nine month period) in line with budgeted levels of \$1.3 million for the corresponding budget period (\$4.2 million for the nine month period). A lower than budgeted use of professional services mostly explains this variation.

COMPARISON WITH THE 2013 FINANCIAL YEAR

REVENUES

Pilotage charges

Pilotage charges amounted to \$12.2 million for the quarter ended September 30, 2014 (\$59.8 million for the nine month period) versus \$19.5 million for the corresponding previous year period (\$55.5 million for the nine month period); these variations originate from a 9.9% increase in the number of assignments compared to last year's third quarter results (increase of 7.6% for the nine month period). The increase in the average ship dimensions' trend continues in 2014 when compared to 2013.

Other revenues

The LPA's other revenues totalled \$23,114 for the quarter ended September 30, 2014 (\$73,111 for the nine month period) compared to \$24,107 for the corresponding previous year period (\$76,203 for the nine month period); these variations are not material.

EXPENSES

Pilot fees

Pilot fees have reached \$17.8 million for the quarter ended September 30, 2014 (\$47.6 million for the nine month period) compared to \$16.2 million for the corresponding previous year period (\$45.0 million for the nine month period); the unfavourable quarterly variation originates from the increase in the number of assignments compared to last year's third quarter results as well as to the increase in the average ship dimensions' trend.

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Operating costs of pilot boats

Operating costs of pilot boats amounted to \$2.1 million for the quarter ended September 30, 2014 (\$7.4 million for the nine month period) versus \$1.8 million for the corresponding previous year period (\$6.0 million for the nine month period); traffic and assignment increases have resulted in higher usage of pilot boat services in 2014 when compared to last year.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.2 million for the quarter ended September 30, 2014 (\$3.8 million for the nine month period) similar to \$1.3 million for the corresponding previous year period (\$3.7 million for the nine month period). This favorable variation results from accounting accruals related to employee benefits (post-employment benefit expenses) in 2013.

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. Furthermore, the Authority's operational and personnel programs have not significantly changed since the preparation of the LPA's 2014-2018 Corporate Plan.

4. Cost reduction initiatives

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