

LAURENTIAN PILOTAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTER ENDED JUNE 30, 2016

1. Highlights

The current report covers the LPA's activities and financial situation for the six month period ended June 30, 2016; this report must be read in conjunction with the unaudited financial statements for the six month period ended June 30, 2016, as well as the audited financial statements for the financial year ended December 31, 2015 which have been prepared and presented according to IFRS and which can be found in the Authority's 2015 Annual Report.

2. Financial results analysis

COMPARISON WITH THE 2016 BUDGET

REVENUES

Pilotage charges

Pilotage charges amounted to \$20.4 million for the quarter ended June 30, 2016 (\$40.5 million for the six month period) versus \$22.1 million for the corresponding budget period (\$40.4 million for the six month period). Assignments are 6.8% lower than the second quarter budget estimates and 0.9% higher for the six-month period; the pilotage charges' favorable variation for the six-month period is due to, among other things, to higher average ship dimensions per voyage and to a new unbudgeted tanker service between Montreal and Quebec City. Budgeted pilotage charges during these periods were based on an increase in the number of assignments of 2.1% for the full 2016 year versus 2015.

Other revenues

The LPA's other revenues totalled \$51,143 for the quarter ended June 30, 2016 (\$95,978 for the six month period) compared to \$17,000 for the corresponding budget period (\$56,000 for the six month period); this favorable variation is derived from higher interest income due to higher cash liquidities held by the Authority compared to budgeted amounts.

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EXPENSES

Pilots' fees

Pilots' fees have reached \$ 16.6 million for the quarter ended June 30, 2016 (\$32.6 million for the six month period) compared to \$18.0 million for the corresponding budget period (\$32.9 million for the six month period); this variation originates from higher average ship dimensions per voyage and to a new unbudgeted tanker service between Montreal and Quebec City, as well as a lower contractual pilotage fee increase than budgeted estimates.

Operating costs of pilot boats

Operating costs of pilot boats amounted to \$2.2 million for the quarter ended June 30, 2016 (\$5.0 million for the six month period) versus \$2.7 million for the corresponding budget period (\$5.6 million for the six month period); this variation is due to the supplier's contractual transboarding rate increase and by a temporary variation related to the budget's monthly breakdown.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.5 million for the quarter ended June 30, 2016 (\$3.1 million for the six month period) compared to budgeted levels of \$1.6 million for the corresponding budget period (\$3.2 million for the six month period), resulting in a minor favorable variation for both periods.

COMPARISON WITH THE 2015 FINANCIAL YEAR

REVENUES

Pilotage charges

Pilotage charges amounted to \$20.4 million for the quarter ended June 30, 2016 (\$40.5 million for the six month period) versus \$20.8 million for the corresponding previous year period (\$38.4 million for the six month period); these variations originate from an increase in average ships' dimensions per voyage coupled with a new tanker service between Montreal and Quebec City.

Other revenues

The LPA's other revenues totalled \$51,143 for the quarter ended June 30, 2016 (\$95,978 for the six month period) compared to \$53,916 for the corresponding previous year period (\$97,032 for the six month period); these variations are not material.

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EXPENSES

Pilots' fees

Pilots' fees have reached \$16.6 million for the quarter ended June 30, 2016 (\$32.6 million for the six month period) compared to \$16.3 million for the corresponding previous year period (\$30.1 million for the six month period); this unfavorable variation for the six-month period originates from an increase in average ships' dimensions per voyage compared to last year, from the annual increase in pilotage fee rates covered in current service contracts with the pilot corporations and from a new tanker service between Montreal and Quebec City.

Operating costs of pilot boats

Operating costs of pilot boats amounted to \$2.2 million for the quarter ended June 30, 2016 (\$5.0 million for the six month period) versus \$2.5 million for the corresponding previous year period (\$4.9 million for the six month period); the variation for the six-month period is not material.

Administrative and operational expenses

Administrative and operational expenses totalled \$1.5 million for the quarter ended June 30, 2016 (\$3.1 million for the six month period) compared to \$1.3 million for the corresponding previous year period (\$2.7 million for the six month period). These unfavorable variations are due to higher salary expenses which resulted from the return of an employee on sickness leave and from a new administrative position.

3. Risk analysis

No major change in the risk analysis of the Authority's operations has occurred since the preparation of its 2015 Annual Report. Furthermore, the Authority's operational and personnel activities have not significantly changed since the preparation of the LPA's 2016-2020 Corporate Plan. Operational and strategic risks are being updated as part of the 2017-2021 Corporate Plan preparation process.

4. Cost Reduction Initiatives

Operational expenses, for the second quarter ended June 30, 2016, are generally in line and even slightly lower than the budgeted estimates.

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5. Travel, hospitality and conference directives

In compliance with guidelines associated with travel, hospitality and conference directives, amounts for the six-month period ended June 30, 2016 related to these expenses are the following:

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES SUMMARY
For the six-month period ended June 30, 2016

Interim Chair of the Board of directors	\$ 905
Chief Executive Officer	\$ 12,865
Board of directors (6 members)	\$ 2,404