WESTSHORE TERMINALS INCOME FUND

ANNUAL REPORT

2005

Westshore Terminals Income Fund (the "Fund") is an open-ended trust which was created under the laws of British Columbia on December 2, 1996. The Fund owns all of the limited partnership units of Westshore Terminals Limited Partnership ("Westshore").

Westshore operates a bulk coal handling terminal located in British Columbia. Distributions received by the Fund from Westshore, net of expenses, are distributed to Unitholders on a quarterly basis. The Fund does not conduct any active business.

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Westshore Terminals Income Fund (Consolidated)

(In thousands of dollars except per unit amounts and tonnage)

		2005		2004
Tonnage (in thousands)		**21,874**		21,245
Revenue				
Coal	**$**	**165,247**	$	111,420
Other[1]		**4,487**		15,269
		169,734		126,689
Operating Income		**93,820**		56,170
Fording Trust - Net proceeds on Sales[2]		**-**		11,860
Cash Distributions declared		**81,994**		57,712
Cash Distributions per unit	**$**	**1.165**	$	0.820
Taxable portion of cash distributions	**$**	**74,446**	$	48,813
Taxable portion of cash distributions per unit	**$**	**1.05776**	$	0.69355
Units outstanding at December 31		**70,381,111**		70,381,111
Trading Statistics				
High	**$**	**15.190**	$	12.66
Low	**$**	**10.520**	$	6.15
Close	**$**	**11.960**	$	12.52
Volume		**56,614,902**		44,754,836

(1) 2005 includes $4.7 million of realized gains ($2.2 million of realized gains in 2004) and a $3.4 million decrease in unrealized gains ($11.7 million of unrealized gains in 2004) on forward exchange contracts.
(2) Net of interest and principal repaid on debt incurred to acquire units of the Fording Canadian Coal Trust.

Dear Unitholder:

For the twelve months ending December 31, 2005, Westshore Terminals Income Fund (the "Fund") declared cash distributions to Unitholders of $82.0 million ($1.165 per unit), of which $74.4 million ($1.058 per unit) was taxable.

Until September 30, 2005, the Fund derived its cash inflows from its investment in the $645 million subordinated notes and common shares of Westshore Terminals Ltd. Following that date, as a result of the Fund's previously announced reorganization, the only cash inflows of the Fund are distributions from Westshore Terminals Limited Partnership ("Westshore LP"). In this Annual Report "Westshore" refers to Westshore Terminals Ltd. for financial reporting periods up to September 30, 2005 and to Westshore LP thereafter.

Distributions by the Fund are entirely dependent on the performance of Westshore. Westshore's results are determined largely by the volume of coal shipped by its coal mine customers for sale in the export market, the rate per tonne charged by Westshore and Westshore's costs. During 2005, Westshore loaded 21.9 million tonnes of coal as compared to 21.2 million tonnes shipped in 2004.

The last of the Fund's investment in the trust units of the Fording Canadian Coal Trust (the "Fording Trust") was sold in early 2004. References to the gain on the sale of the Fording Trust units apply only to the financial results for 2004, which are included in this Annual Report for comparison.

The Fund's consolidated earnings before depreciation, interest, income taxes and gain on sale of Fording Trust units increased by 66.9% from $56.2 million in 2004 to $93.8 million in 2005. Revenues increased from $126.7 million in 2004 to $169.7 million in 2005, an increase of 34.0%. The principal contributor to this increase was a significantly higher average loading rate due to a higher Canadian dollar price realized for coal shipped by Westshore. Offsetting this increase was an increase in expenses of 7.7% primarily resulting from a performance-based incentive fee ($1,654,000) paid to Westar Management Ltd. (which is based on significantly higher distributions to Unitholders), higher employee wages and overtime payments and increased lease costs because of higher throughput.

As a result of Westshore's arrangements with the Elk Valley Coal Partnership (the "Coal Partnership") covering the former Fording mines and the Elkview mine, the loading rate for approximately half of the coal loaded by Westshore in the second half of 2005 was a function of the price in Canadian dollars realized by the Coal Partnership for that coal. In 2005, Westshore recognized $4.7 million of realized gains and a $3.4 million decrease in unrealized gains on its forward exchange contracts.

It is more than usually difficult to assess the level and timing of throughput volumes for 2006. The uncertainty is reflected in the March 20, 2006 news release issued by Fording Canadian Coal Trust, the owner of 60% of the Coal Partnership, which is Westshore's largest customer and accounted for 92% of the terminal's throughput by volume in 2005. Fording has indicated that the uncertainties are such that it can only provide a range of sale tonnages of between 22 million and 25 million tonnes for the 2006 calendar year. That range of tonnages suggests that Westshore's throughput for 2006 would be in the range of 18 million to 21 million tonnes.

As also announced in the Fording Canadian Coal Trust news release, the Elk Valley Coal Partnership has achieved sufficient settlements to indicate that its average price for coal sales in the period April 1, 2006 to March 31, 2007 is expected to be approximately US$109. This represents a reduction of approximately 11% from the US dollar prices realized by the Coal Partnership for the coal year ending March 31, 2006, which were over 100% higher than the average US dollar price realized in the coal year ending March 31, 2005. (These prices represent sales for all products, not only those exported through Westshore.) Coupled with the recent further rise in the value of the Canadian dollar relative to the US dollar, these prices indicate that Westshore's loading rate for tonnage shipped at a variable rate, and hence its average loading rate, for the 2006/07 coal year will be lower than for the 2005/06 coal year.

Westshore has negotiated a conditional lease extension with the Vancouver Port Authority which, if certain conditions are met, would give Westshore the right to extend the lease term to December 31, 2046. The outstanding condition to be satisfied is receipt of permit approvals from the Vancouver Port Authority for a capital upgrade to Westshore's existing equipment. The cost of the upgrade is anticipated to be approximately $42 million. The upgrade would take approximately two years to complete from the permit date and would increase Westshore's throughput capacity to approximately 29 million tonnes.

On behalf of the board of trustees, I would like to express my sincere gratitude and appreciation to Bill Scheidt, one of the original trustees of the Fund, for his involvement and important contributions over the years. Mr. Scheidt is retiring and not standing for re-election at the 2006 Annual General Meeting.

Audited consolidated financial statements for the Fund are attached.

For the Board of Trustees,

William W. Stinson Vancouver, B.C.
Chairman of the Board of Trustees March 27, 2006

The following discussion and analysis should be read in conjunction with information contained in the Consolidated Financial Statements and the notes thereto starting on page 18. This discussion and analysis has been based upon financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This discussion and analysis is the responsibility of management of Westshore. Unless otherwise indicated, the information presented in this Annual Report is stated as at February 28, 2006.

All amounts are presented in Canadian dollars unless otherwise noted.

Caution Concerning Forward-Looking Statements

This Annual Report contains certain forward-looking statements, which reflect the current expectations of the Fund and Westshore with respect to future events and performance. The words "anticipate," "believe," "expect," "estimate", "intend," "plan," "may," "will," "should", "would", "could" and similar words or expressions often identify forward-looking statements.

Forward-looking statements are based on information available at the time they are made, assumptions made by management, and management's good faith belief with respect to future events, and are subject to inherent risks and uncertainties, including those outlined in the Fund's annual information form filed on www.sedar.com, that could cause actual performance or results to differ materially from those reflected in the forward-looking statements, historical results or current expectations.

Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at which, such performance or results will be achieved. There is significant risk that estimates, predictions, forecasts, conclusions and projections will not prove to be accurate, that assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Readers of this Annual Report should not place undue reliance on forward-looking statements as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

All forward -looking statements of the Fund or Westshore, including those set out in this Annual Report, are expressly qualified in their entirety by this cautionary statement. In addition, the forward-looking statements are made only as of the date of this Annual Report, and the Fund and Westshore undertake no obligation to update or supplement forward-looking statements to reflect new information, subsequent events or otherwise.

General

Until September 30, 2005, Westshore Terminals Income Fund (the "Fund") derived its cash inflows from its investment in the $645 million subordinated notes and common shares of Westshore Terminals Ltd. After that date, as a result of the Fund's previously announced reorganization, the cash inflows of the Fund are based on the distributions received from the operations of Westshore Terminals Limited Partnership ("Westshore LP"). In this Annual Report "Westshore" refers to Westshore Terminals Ltd. for financial reporting periods up to September 30, 2005 and to Westshore LP thereafter.

The earnings and distributable cash of the Fund are wholly dependent on the results of Westshore. Westshore's results are determined largely by the volume of coal shipped by its coal mine customers for sale in the export market, the rate per tonne charged by Westshore and Westshore's costs. Higher prices for hard coking coal resulted in Westshore's customers achieving much higher average settlement prices for the 2005/06 coal year (ending March 31, 2006) compared to the 2004/05 coal year (ending March 31, 2005).

Westshore's throughput charges that vary with the price of coal (which covered approximately half of the throughput in the second half of 2005) increased significantly and led to materially higher distributions in the second half of 2005 compared to 2004. As Westshore has some exposure to fluctuations in exchange rates (as a result of the pricing mechanisms under most of its customer contracts), Westshore has also put in place some currency hedging which is intended to offer partial protection to Westshore from material short-term swings in the Canadian/US dollar exchange rate.

Effective December 31, 2004, the end of its 2004 fiscal year, the Fund adopted the standard set out in CICA Accounting Guideline 15 "Consolidation of Variable Interest Entities". The Fund consolidates Westshore pursuant to this Guideline because the Fund will absorb Westshore's expected losses and receive its expected residual return. Accordingly, this Annual Report includes only one set of financial statements, being the Fund's consolidated financial statements containing a full consolidation of Westshore's results. (See Note 2 to the financial statements on page 23.)

This management's discussion and analysis refers to certain measures other than those prescribed by GAAP. These measures do not have standardized meanings and may not be comparable to similar measures presented by other trusts or corporations. They are however determined by reference to the Fund's financial statements. These non-GAAP measures are discussed because the Fund believes they provide investors with valuable information in understanding the results of the Fund's and Westshore's operations and financial position.

Distributable cash was determined for the purpose of distributions in 2005 and 2004 as follows:

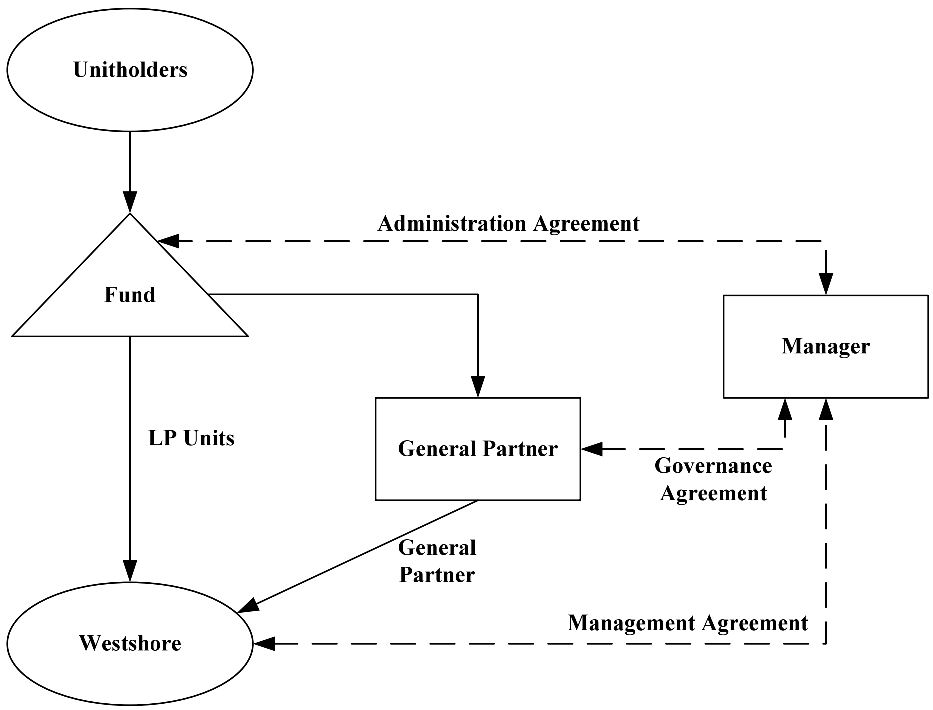
Fund Distributable Cash
(In thousands of dollars except per unit amounts)

	2005	2004
Westshore Terminals Ltd. – Interest[(1)]	**$ 45,512**	$ 43,692
Westshore Terminals Ltd. – Return of Capital	**Nil**	2,265
Westshore Terminals Ltd. – Repayment of Notes	**9,484**	-
Westshore Terminals Limited Partnership – Partnership Distribution[(1)]	**26,998**	-
Westshore – Total	**81,994**	45,957
Fording Trust – Net proceeds on Sales[(2)]	**n/a**	11,860
Total	**81,994**	57,817

(1) Net of Fund's administration costs
(2) Net of interest and principal repaid on debt incurred to acquire Fording Trust units

Structure of the Fund

The following chart illustrates the Fund's primary structural and contractual relationships. The Fund holds all of the limited partnership units of Westshore. Westshore Terminals Ltd. (the "General Partner") is the general partner of Westshore. Westar Management Ltd. (the "Manager") provides management services to the General Partner and administrative services to the Fund and, pursuant to the Governance Agreement between the Manager and the General Partner, is entitled to nominate three of the five directors of the General Partner.



Reorganization

The reorganization of the Fund (the "Reorganization") approved by Unitholders at the Annual and Special Meeting held on June 14, 2005 (the "Meeting") became effective on October 2, 2005. The Reorganization, substantially as described in the Management Information Circular dated May 10, 2005 sent to the Unitholders in connection with the Meeting, was completed after the Fund received a tax ruling from the Canada Revenue Agency on September 12, 2005. Further details relating to the Reorganization are contained in the Fund's Material Change Report dated October 12, 2005.

Selected Financial Information

The following financial data is derived from the Fund's audited consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, which were prepared in Canadian dollars using Canadian GAAP.

(In thousands of dollars except per unit amounts)

	2005	2004	2003
Coal revenues	**$ 165,247**	$ 111,420	$ 97,048
Other revenues	**4,487**	15,269	8,973
Fording distributions	**-**	-	9,040
	169,734	126,689	115,061
Earnings before extraordinary gain	**113,216**	48,366	49,985
Earnings before extraordinary gain per unit	**1.609**	0.687	0.710
Net Earnings	**113,216**	48,366	57,280
Net Earnings per unit	**1.609**	0.687	0.814
Distributable cash	**81,994**	57,817	57,045
Cash Distributions declared	**81,994**	57,712	57,169
Cash Distributions per unit	**1.165**	0.820	0.812
Distributions of units in lieu of cash(1)	**1,540**	-	-
Distributions of units in lieu of cash per unit(1)	**0.022**	-	-
Total Assets	**579,107**	590,581	628,854
Total Long Term Liabilities(2)	**-**	51,493	83,271

(1) On December 31, 2005, the Fund allocated additional taxable income to Unitholders by issuing additional units with a value of $1,540,000 ($0.022 per outstanding unit immediately before the distribution). These additional units were automatically consolidated so that the number of units held by each Unitholder did not change. For additional information concerning distribution and consolidation of units in lieu of cash distributions, see the Fund's Annual Information Form available at www.sedar.com.

(2) Elimination of Total Long Term Liabilities in 2005 was due to the elimination of future income tax liabilities upon the Reorganization.

As shown above, cash distributions declared to Unitholders for 2005 were $81,994,000 ($1.165 per unit) compared to $57,712,000 ($0.820 per unit) for 2004. Distributions were made quarterly during 2005, with the final distribution declared on December 14, 2005 and paid on January 15, 2006. The distributions from the Fund in 2005 to Unitholders for income tax purposes were comprised of income of $74,446,000 ($1.05775 per unit) and a return of capital of $9,008,000 ($0.12913 per unit). All of the 2005 distributions were from Westshore. Of the total 2004 distributions, $46.0 million or $0.653 per unit was from Westshore and $11.7 million or $0.167 per unit (net of interest costs) was from proceeds on the sale of the Fording Trust units. In 2003, $36.7 million or $0.5212 per unit was from Westshore and $20.5 million or $0.2911 per unit was from Fording Trust receipts and proceeds on the sale of Fording Trust units. As at March 27, 2006, 70,381,111 units are issued and outstanding.

The following tables set out selected consolidated financial information for the Fund on a quarterly basis for the last two financial years.

(In thousands of dollars except per unit amounts)	12 Months Ended Dec 31, 2005	Three Months Ended Mar 31, 2005	Jun 30, 2005	Sep 30, 2005	Dec 31, 2005
Revenue					
Coal	$ 165,247	$ 31,692	$ 43,969	$ 46,063	$ 43,523
Other	4,487	21	(1,622)	4,190	1,898
	169,734	31,713	42,347	50,253	45,421
Expenses					
Operating	66,774	16,339	17,237	16,762	16,436
Administration	9,140	1,392	1,562	4,109	2,077
	75,914	17,731	18,799	20,871	18,513
Earnings before depreciation, interest, income taxes	**93,820**	**13,982**	**23,548**	**29,382**	**26,908**
Depreciation	**23,408**	5,728	5,728	5,728	6,224
Interest Expense	-	-	-	-	-
Earnings before income taxes	**70,412**	**8,254**	**17,820**	**23,654**	**20,684**
Recovery of (Provision for) income taxes	42,804	2,222	(1,239)	(446)	42,267
Net earnings	**113,216**	**10,476**	**16,581**	**23,208**	**62,951**
Net earnings per unit	**$ 1.609**	**$ 0.149**	**$ 0.236**	**$ 0.330**	**$ 0.894**
Cash Distributions declared	**81,994**	**14,076**	**14,076**	**26,745**	**27,097**
Cash Distributions per unit	**$ 1.165**	**$ 0.200**	**$ 0.200**	**$ 0.380**	**$ 0.385**
Distributions of units in lieu of cash	**$ 1,540**				**$1,540**
Distributions of units in lieu of cash per unit	**$ 0.022**				**$0.022**

(In thousands of dollars except per unit amounts)	12 Months Ended Dec 31, 2004	Three Months Ended Mar 31, 2004	Jun 30, 2004	Sep 30, 2004	Dec 31, 2004
Income					
Coal	$ 111,420	$ 23,382	$ 30,267	$ 28,448	$ 29,323
Other	15,269	1,627	3,110	4,985	5,547
	126,689	25,009	33,377	33,433	34,870
Expenses					
Operating	64,233	14,228	15,469	17,146	17,390
Administration	6,286	1,753	1,403	1,405	1,725
	70,519	15,981	16,872	18,551	19,115
Earnings before depreciation, interest, income taxes and gain on sale of Fording Canadian Coal Trust units	**56,170**	**9,028**	**16,505**	**14,882**	**15,755**
Depreciation	23,222	5,791	5,791	5,790	5,850
Interest expense	1,268	1,268	-	-	-
Earnings before income taxes and gain on sale of Fording Canadian Coal Trust units	**31,680**	**1,969**	**10,714**	**9,092**	**9,905**
Gain on sale of Fording Canadian Coal Trust units	11,986	11,986	-	-	-
Earnings before income taxes	**43,666**	**13,955**	**10,714**	**9,092**	**9,905**
Recovery of income taxes	4,700	1,801	312	303	2,284
Net earnings	**48,366**	**15,756**	**11,026**	**9,395**	**12,189**
Net earnings per unit	**$ 0.687**	**$ 0.224**	**$ 0.157**	**$ 0.133**	**$ 0.173**
Cash Distributions declared	**57,712**	**21,115**	**9,853**	**9,853**	**16,891**
Cash Distributions per unit	**$ 0.820**	**$ 0.300**	**$ 0.140**	**$ 0.140**	**$ 0.240**

General

Westshore operates coal storage and loading facility at Roberts Bank, British Columbia (the "Terminal") that is the largest coal loading facility on the west coast of North and South America. Westshore operates on a throughput basis and receives handling charges from its customers based on volumes of coal exported through the Terminal. Under Westshore's contracts, Westshore does not take title to the coal it handles. Market conditions for coal affect the competitiveness of Westshore's customers and as a result affect the volume of coal handled by Westshore. Westshore handles coal from mines in British Columbia and Alberta, as well as small quantities from mines in the north-western United States. Coal shipped from the mines acquired by the Coal Partnership, which is by far Westshore's largest customer, accounted for 95% of Westshore's coal revenues in 2005.

Coal is delivered to the Terminal in unit trains operated by Canadian Pacific Railway, Canadian National Railways and BNSF Railway and is then unloaded and either directly transferred onto a ship or stockpiled for future ship loading. Ultimately, the coal is loaded onto ships that are destined for approximately 20 countries world-wide, with the largest volumes presently being shipped to Asia and Europe. Additionally, Westshore continues to seek to expand its operations through business development opportunities and potential acquisitions.

Markets & Customers

Shipments of coal through the Terminal by destination for the past three years were as follows:

Shipments by Destination
(Expressed in thousands of metric tonnes)

	2005 Tonnes	%	2004 Tonnes	%	2003 Tonnes	%
Asia	12,631	58	11,947	56	11,409	59
Europe	7,135	33	6,371	30	5,669	29
S. America	1,651	7	2,464	12	1,696	9
Other	457	2	463	2	550	3
Total	21,874	100	21,245	100	19,324	100

With its five mines in British Columbia and one in Alberta, the Coal Partnership is by far Westshore's largest customer. These mines shipped 92% of the Terminal's throughput in 2005, unchanged from 2004. There continues to be an emphasis on both the quality and blending of coal at the Terminal to ensure that the customer receives the contractually specified type of coal. During 2005, 91% of Westshore's volume was metallurgical coal (92% in 2004), with the remaining 9% being thermal coal (8% in 2004).

All of Westshore's customers compete with other suppliers of coal throughout the world. Australia is the most significant competitor.

Recent years have seen a significant consolidation among producers of seaborne metallurgical coal, including, in Canada the closure of the Gregg River, Quintette and Bullmoose mines. The most significant event from Westshore's point of view was the formation of the Coal Partnership to become the world's second largest exporter of metallurgical coal. Because of its contractual arrangements with the Coal Partnership, Westshore expects to benefit from any increased sales which the Coal Partnership is able to realize by virtue of enhanced marketing opportunities. Together the largest Australian producer, the Coal Partnership and the third and fourth largest producers account for approximately 61% of the world's seaborne metallurgical coal trade.

Westshore has contracts covering the five mines located in British Columbia owned by the Coal Partnership. In connection with the creation of the Coal Partnership, Westshore's existing contract relating to the Elkview mine (which runs to 2010) was assigned to the Coal Partnership, and Westshore entered into a long-term port services contract, which will run to February 29, 2012, covering the Fording River, Greenhills and Coal Mountain mines that were previously owned by Fording. These contracts provide that, subject to minor exceptions relating to customer preferences, all of the coal shipped from those mines through West Coast ports must be shipped through Westshore. Since April 1, 2003, the loading rates for coal shipped from the Elkview mine and for a portion of the tonnage from the Fording River and Greenhills mines have been linked to the price in Canadian dollars realized by the Coal Partnership for that coal. The contract for the Line Creek mine, which was also assigned to the Coal Partnership, covers only a portion of the product of that mine. The remaining coal from the Line Creek mine is shipped through the Neptune terminal owned by Neptune Terminals Ltd. The Coal Partnership owns a 46% interest in Neptune Terminals.

Westshore has a contract with Luscar Ltd. and covers the Obed Mountain and Coal Valley mines. The term of this contract has been extended to 2017. Luscar Ltd. closed the Obed Mountain mine effective April 2003.

Westshore also has a contract with Grande Cache Coal Corporation for handling coal production from its Grande Cache operations in Alberta. This contract expires on March 31, 2013. Westshore shipped 0.7 million tonnes under this contract in 2005. In 2004, Westshore shipped 52,000 tonnes of Grande Cache coal.

The contract for the Line Creek mine, the contract with Luscar Ltd. and the contract with Grande Cache Coal Corporation each have a pricing mechanism based on fixed rates (with escalation clauses).

Under the contract that governs coal from the Elkview mine (the "Elkview Contract"), the customer gave notice on September 30, 2004 that it was requesting a review of the loading rate, with a view to changing the rate effective April 1, 2005. Any revised rate would apply for the balance of the contract to 2010. The loading rate under the Elkview Contract is at present a function of the Canadian dollar price received for such coal. The Elkview Contract covers production from only the Elkview Mine, and is separate from the contract that covers the Fording, Greenhills and Coal Mountain mines. Westshore considers that the rate structure under the Elkview Contract has operated in accordance with the original intention of the parties. The parties attempted a mediation process which was unsuccessful. The matter is now to be determined by arbitration, which is expected to take place in the second quarter of 2006.

Labour

Labour agreements with all three locals of the International Longshore and Warehouse Union (the longshoremen, foreman and the clerical workers) are in place and expire on January 31, 2007.

Equipment Additions and Lease Extension

Westshore is planning the upgrade of certain existing equipment and the addition of new equipment at the Terminal site, at the combined cost of approximately $42 million. In conjunction with these expenditures, Westshore has negotiated a new extended lease of the Terminal site with VPA, which is conditional upon the planned equipment upgrades being completed. The new lease would provide for a 20-year term from the commencement date on January 1, 2007, following the issuance by VPA of necessary permit approvals, with two 10-year renewal terms at the option of Westshore, and thus would be capable of extension to December 31, 2046. The current VPA Lease, including the final 10-year renewal, runs to February 28, 2022.

Equipment Addition and Upgrade

In 2005, Westshore conducted an assessment of the Terminals' throughput capacity. Part of the stimulus for the review were the announcements by Canadian Pacific Railway ("CPR") and Fording Trust to the effect that CPR was expending $160 million to reduce bottlenecks in its western corridor in order to increase capacity, and that the Coal Partnership was making significant expenditures at its mines to increase output. The result of these announcements is that Westshore could reasonably expect to handle increased volumes of coal in future years. The study conducted by Westshore showed that the Terminal currently has a functional throughput capacity of 24 million tonnes per annum. Throughput in 2005 was 21.9 million tonnes compared to 21.2 million tonnes in 2004. In 1997, Westshore's record year to date, the Terminal handled 23.5 million tonnes.

The Terminal has two incoming systems (the tandem and single rotary dumpers) and two outgoing systems (Berths 1 and 2), but only three stacker/reclaimers to operate between the incoming and outgoing systems. The design of the expanded terminal site in 1982 contemplated the addition of a fourth stacker/reclaimer, which, together with associated conveyor systems, is the principal addition now contemplated. Westshore also plans to convert the second barrel of the tandem rotary dumper to accommodate the shorter "US style" aluminium rail cars, the use of which has become more prevalent. (The first barrel of the tandem dumper was converted for that purpose in 1998. All these additions will make the Terminal site more productive and efficient, so that the waiting and unloading/loading times for trains and vessels will be reduced, avoiding congestion which would otherwise result from increased shipments. All of the upgrades will be within the existing Terminal site, and are not expected to result in any increase in the discharges governed by Westshore's environmental permits.

The anticipated cost of the upgrades is approximately $42 million, which will be funded through a combination of cash on hand and debt financing on terms and conditions acceptable to Westshore. In addition, Westshore has recently expended approximately $5 million on new equipment to increase its blending capabilities. The upgrades are expected to take approximately two years to complete following receipt of the required permits from VPA. It is expected that the permits will be obtained within the next six to eight months, which will allow completion of the upgrades before the end of 2008. Westshore expects that it will be able to complete the upgrades without any material disruption of its throughput capacity in the implementation phase, and in sufficient time to enable it to handle the anticipated increase in throughput.

New Lease

As part of its consideration of the equipment upgrades, Westshore approached VPA to request an extension of the current VPA Lease of the Terminal premises. VPA and Westshore have negotiated and signed a new lease agreement (the "New Lease"). The New Lease is conditional upon Westshore obtaining from VPA the permits required for the upgrades. If such permits are not obtained, the equipment upgrades will not be carried out and the current VPA Lease will continue in force unamended.

The New Lease provides for an initial 20-year term commencing January 1, 2007 following the issuance of the permits, with two 10-year extensions covering the period 2027-2046. The rental structure will remain the same as under the current VPA Lease, providing for a land rent and for a throughput charge, which is payable on a minimum of 17.6 million tonnes per annum. The New Lease provides that the land rent will not increase until 2022, increasing thereafter by 1% per annum. The throughput rates will remain fixed for the initial 20-year term. At the end of the 20-year initial term, VPA may stipulate a different rental structure, in which event Westshore will have the right to dispute the new rental if it is higher than the then current rental. As is the case at present, the Fund will continue to guarantee Westshore's obligations under the New Lease.

The current VPA Lease was entered into in 1982. Since that time VPA has significantly updated the standard provisions of its leases terms. The New Lease will contain the current standard provisions used by VPA. While the provisions covering a number of areas are more detailed and change to some extent from the current VPA Lease (for example, the provisions covering insurance, environmental matters and rights and obligations on termination of the New Lease) these changes are not expected to have a material effect on Westshore.

One specific change under the New Lease is that Westshore accepts responsibility for the maintenance of the "riprap" that surrounds the Terminal site, which is currently the responsibility of VPA. This cost, however, is not expected to be material. Another change is to the clause of the current VPA Lease that provides that Westshore may not assign the VPA Lease without VPA's consent. Under the New Lease, that clause is expanded to provide that neither Westshore nor the Fund may enter into any transaction that would result in a change of control of Westshore without the consent of VPA. That provision will not apply to a change in or termination of the Management Agreement between Westshore and Westar Management Ltd.

Results of Operations

Westshore loaded 21.9 million tonnes of coal during 2005 as compared to 21.2 million tonnes during 2004. Throughput increased in the first six months of the year and then declined somewhat in the second half of the year as the mines' coal customers reduced shipments.

Coal loading revenue increased by 48.3% to $165.2 million in 2005 compared with $111.4 million in 2004. The increase was due almost entirely (94%) to higher average loading rates.

At current coal prices, the loading rates for approximately half of the coal handled at Westshore are tied to the average price in Canadian dollars realized by the Coal Partnership for that coal. The Canadian dollar coal price realized by the Coal Partnership in the period May – December 2005 increased to approximately CDN$142 per tonne, due to a significant increase in the reference price for export metallurgical coal for the April 2005 – March 2006 coal year. The benefit of the higher price was not fully realized until May 2005 because of carry-over volumes that were sold at the coal prices for the previous coal year. The benefit of the higher US dollar denominated coal price was offset in part by the continuing strength of the Canadian dollar. In the fourth quarter of 2005, loading revenue was $43.5 million as compared to $29.3 million in the fourth quarter of 2004, on shipments of 5.1 million tonnes in the fourth quarter of 2005, as compared to 5.6 million tonnes in the fourth quarter of 2004.

Other income decreased to $4.5 million in 2005 from $15.3 million in 2004. This was due primarily to realized hedging gains of $4.7 million and a decrease in unrealized hedging gains of $3.4 million as at December 31, 2005, compared to realized hedging gains of $2.2 million and unrealized hedging gains of $11.7 million as at December 31, 2004. The impact of the decrease in hedging gains was partially offset by a significant reduction in accruals for ship demurrage and train detention expense.

Operating and administrative expenses increased from $70.5 million in 2004 to $75.9 million in 2005. The increase resulted principally from a performance based incentive fee of $1.7 million to the Manager (based on significantly higher distributions to Unitholders), higher employee wages and overtime payments, and increased lease costs because of higher throughput.

Earnings before depreciation, interest, income taxes and gain on sale of Fording Trust units increased 66.9% in 2005, from $56.2 million in 2004 to $93.8 million in 2005. Earnings before depreciation, interest and income taxes for the fourth quarter of 2005 were $26.9 million, compared to $15.8 million for the fourth quarter of 2004.

After taking into account depreciation of $23.4 million and a recovery of income taxes of $42.8 million, Westshore's net earnings for the year were $113.2 million. As set out in Note 7 to the financial statements, the recovery of income taxes is a one-time event related to the transfer of the operating business from a subsidiary corporation to a partnership. The recovery of income taxes in the amount of $42.8 million is a non-cash item which has no effect on distributable cash.

Currency Fluctuations

Since April 1, 2003, the loading rates under most of Westshore's long-term handling contracts have depended in whole or in part on the Canadian dollar price realized for coal handled by Westshore. To mitigate the resulting risk, Westshore has engaged in periodic hedging activities. In view of the continuing changes in the value of the Canadian dollar relative to the US dollar, the exposure of Westshore's revenues to such uncertainty and the amount of US dollar driven revenue that Westshore is currently experiencing, Westshore has adopted a flexible policy under which it expects to hedge at the end of each year a portion of its anticipated US dollar related revenues for the coming year, based on the annual budget. Westshore will then continue to review the need and opportunity for additional future hedging in respect of a portion of its revenue.

In the financial statements, the effect of currency fluctuations is shown as affecting coal loading revenues before taking into account the effect of hedging activities, the financial effect of which is accounted for as other revenue. As stated in the audited Financial Statements of the Fund for 2005, because Westshore's hedging transactions do not qualify for "hedge accounting" treatment, the value of Westshore's forward exchange contracts must be "marked to market" at each period end. On this basis, other revenue for the twelve months ended December 31, 2005 included a $3.4 million decrease in unrealized gains on forward exchange contracts, compared to an unrealized gain of $11.7 million for 2004. Unrealized hedging gains or losses are non-cash items. The cash effect of the hedging activities is recognized in other revenue as the forward exchange contracts mature. For the fourth quarter of 2005, other revenue included a realized gain of $1.6 million and a decrease in unrealized gain of $2.0 million, compared to a realized gain of $1.0 million and an unrealized gain of $4.8 million for the fourth quarter of 2004.

Outlook

The Fund's cash inflows are entirely dependent on Westshore's operating results and are significantly influenced by four variables: the volume of coal shipped through the Terminal; the US dollar denominated price received by Westshore's customers for that coal; the Canadian-US dollar exchange rate; and Westshore's operating and administrative costs.

Critical to Westshore's ongoing success will be the ability of the Coal Partnership to maintain and increase its export volumes while competing with other suppliers for sales worldwide. It is more than usually difficult to assess the level and timing of throughput volumes for 2006. The uncertainty is reflected in the March 20, 2006 news release issued by Fording Canadian Coal Trust, the owner of 60% of the Coal Partnership, which is Westshore's largest customer and accounted for 92% of the terminal's throughput by volume in 2005. Fording has indicated that the uncertainties are such that it can only provide a range of sale tonnages of between 22 million and 25 million tonnes for the 2006 calendar year. That range of tonnages suggests that Westshore's throughput for 2006 would be in the range of 18 million to 21 million tonnes.

As also announced in the Fording Canadian Coal Trust news release, the Elk Valley Coal Partnership has achieved sufficient settlements to indicate that its average price for coal sales in the period April 1, 2006 to March 31, 2007 is expected to be approximately US$109. This represents a reduction of approximately 11% from the US dollar prices realized by the Coal Partnership for the coal year ending March 31, 2006, which were over 100% higher than the average US dollar price realized in the coal year ending March 31, 2005. These prices represent sales for all products, not only those exported through Westshore. Coupled with the recent further rise in the value of the Canadian dollar relative to the US dollar, these prices indicate that Westshore's loading rate for tonnage shipped at a variable rate, and hence its average loading rate, for the 2006/07 coal year will be lower than for the 2005/06 coal year.

For 2006, tonnages shipped at fixed rates are expected to account for approximately 20% of the Terminal's throughput; tonnages shipped at variable rates but subject to a cap, in effect for this year, are expected to account for approximately

30% of throughput; and finally, tonnages shipped at full variable rates are expected to account for approximately 50% of throughput at the Terminal.

Because of a combination of possible variations in tonnage, the US dollar denominated coal price and exchange rates, it is not possible for the Fund to predict accurately the level of its distributions for 2006. However, based on the most current information available to it, the Fund is budgeting for distributions for the 2006 calendar year to be at approximately the same level as for the 2005 calendar year. On that basis, the first quarter distribution of $0.29 per unit was fixed by reference to an annual distribution of approximately $1.16 per unit, the same as in 2005 as a whole. Performance in subsequent quarters will determine the level of distributions. If distributions for the calendar year 2006 exceed $1.035 per unit, incentive fees will be payable by Westshore to the Manager under the Management Agreement, as was the case in 2005.

There are many variables that will affect Westshore's EBITDA and the Fund's distributions in 2006, most of which are outside the control of Westshore or the Fund. The Fund has assessed the likely sensitivity of its distributions, in respect of the nine months from April 1, 2006 to December 31, 2006, to changes in tonnage shipped, the US dollar coal price and the US/Canadian dollar exchange rate.

Based on assumed aggregate tonnage for 2006 of 19 million tonnes (approximately 15 million tonnes for the nine months ending December 31, 2006), Westshore's current assumptions of volume per specific customer, US dollar coal price assumption of US$109 per tonne and exchange rates of US$0.87 per CDN$1.00:

- for every 1,000,000 tonnes difference in throughput, the effect on distributions by the Fund is expected to be approximately 5¢ per unit;
- for every US$5.00 change in the US dollar denominated coal price received by the Elk Valley Coal Partnership, the effect on distributions by the Fund is expected to be approximately 4¢ per unit; and
- for every US$0.01 change in the value of the Canadian dollar, the effect on distributions by the Fund is expected to be approximately 0.6¢ per unit.

The above sensitivities factor in the anticipated effects of Westshore's hedges currently in place. These sensitivities are expected to be applicable only for the nine months from April 1, 2006 to December 31, 2006 and are based on Westshore's current assumptions. Sensitivities for any other period would depend upon the appropriate assumptions at the relevant time.

Liquidity and Capital Resources

The Fund is obliged to distribute to Unitholders its cash inflows, less administrative costs of the Fund and any amounts which may be paid in connection with any cash redemption of units. The Fund has no fixed distribution requirements, distributions being solely a function of amounts received by the Fund from Westshore. Because the Fund's investment in Westshore is of a passive nature, it is not anticipated that the Fund will require significant capital resources to maintain its investment in Westshore on an ongoing basis.

Westshore has in place with a Canadian chartered bank a $1 million secured operating facility that, if required, can be utilized to meet working capital requirements. This facility was not used during the year and remained undrawn at December 31, 2005. Westshore's distribution policy involves leaving sufficient earnings before depreciation, interest and unrealized gains or losses on forward exchange contracts to cover expected cash requirements such as capital expenditures and special pension contributions.

Obligations under operating leases for the years ending December 31 (assuming the lease rates are not adjusted) are as follows:

	Terminal lease $	Other $	Total $
2006	11,665	374	12,039
2007	11,665	358	12,023
2008	11,665	358	12,023
2009	11,665	358	12,023
2010	11,665	358	12,023
Thereafter to 2012	23,330	-	23,330

The Fund does not have any long-term debt, material capital lease obligations, or other long-term obligations.

Transactions with Related Parties

In 2005, Westshore paid $2,404,000 (excluding GST) to the Manager for management services provided under the Management Agreement between Westshore and the Manager, comprised of the annual base management fee of $750,000 (excluding GST) and a performance-based incentive fee of $1,654,000 (excluding GST).

The Management Agreement provides for incentive fees to be payable by Westshore to the Manager in the event that distributions to the Fund from Westshore exceed certain amounts. If loading rates remain at the levels that are indicated by coal prices which the Fording Trust has announced the Coal Partnership is expected to receive in 2006, it is expected that the level of distributions would result in such incentive fees being payable. Those fees are computed on the following basis: 15% of Fund distributable cash between $1.035 - $1.125 per unit; 25% of Fund distributable cash between $1.125 - $1.260 per unit; and 35% of Fund distributable cash above $1.260 per unit.

In 2005, the Fund also paid $250,000 (excluding GST) to the Manager for administration services provided under the Amended Administration Agreement dated September 29, 2005 between the Fund and the Manager. Under the Amended Governance Agreement dated September 29, 2005, the Manager is entitled to appoint a majority of the directors of the general partner of Westshore.

Significant Accounting Policies

The Fund's significant accounting policies are found in note 2 of Westshore's financial statements beginning on page 22.

Critical Accounting Estimates

The preparation of financial statements and related disclosure in accordance with GAAP requires the Fund to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and contingencies. These estimates are based on historical experience and on assumptions that are considered at the time to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from those previously estimated.

The following is a discussion of the accounting estimates of Westshore that are significant in determining Westshore's financial results.

Plant and equipment; Depreciation

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the unit-of-production method over the estimated useful production life of the assets. The estimated useful lives of plant and equipment range from 3 to 35 years. A change in the estimated useful lives of plant and equipment could result in either a higher or lower depreciation charge to net earnings.

Goodwill

Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired, by comparing the fair value of Westshore to its carrying value, including goodwill. If the fair value of Westshore is less than its carrying value, a goodwill impairment loss is recognized as the excess of the carrying value of the goodwill over the fair value of the goodwill. The determination of fair value requires management to make assumptions and estimates about future coal prices, operating costs, foreign exchange rates and discount rates. Changes in any of these assumptions, such as lower coal prices, an increase in operating costs or an increase in discount rates could result in an impairment of all or a portion of the goodwill carrying value in future periods.

Employee Future Benefits

Westshore has post-retirement benefit obligations under its pension plans and other post-retirement benefit plans, the costs of which are based on estimates. Actuarial calculations of benefit costs and obligations depend on Westshore's assumptions about future events. Major estimates and assumptions relate to expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs, as well as discount rates, withdrawal rates and mortality rates.

Provisions for Contingencies

Westshore makes certain provisions for contingencies, including its portion of ship demurrage and train detention costs, which are often not finally determined until well after the year-end.

Westshore's customers incur demurrage penalties if a ship being loaded with their coal is not loaded within a specified number of hours after it is ready to load at the Terminal. They also receive credits for early completion of loading, but only at half the hourly rate of the demurrage penalty. Westshore shares these penalties and credits with its customers, except in certain situations where the customer bears the entire penalty and receives the entire credit. One such situation is if the coal to be loaded on the vessel is not at the Terminal when the vessel arrives. In 2005, Westshore had demurrage income of $77,000 as a result of a $1 million reduction in the demurrage reserve from prior years. Excluding the impact of the reserve made in 2004 and released in 2005 in respect of demurrage, Westshore incurred demurrage costs of $923,000 in 2005 compared to $2.1 million in 2004.

The railways that deliver coal to the Terminal also claim detention charges from Westshore's customers in respect of any delays beyond a specified number of hours that occur between the commencement of loading at the mine and the completion of unloading at the Terminal. The railways also grant credits in respect of trains that complete the process in less than the specified number of hours. With certain exceptions, Westshore also shares these charges and credits equally with its customers. The cost to Westshore for train detention was $587,000 in 2005 (net of a $500,000 reduction in the train detention reserve from prior years) compared to $745,000 in 2004.

While Westshore endeavours to ensure that provisions for contingencies are reasonable in the circumstances, actual costs may be greater or less than the provisions made for those costs.

Disclosure Controls And Procedures

"Disclosure controls and procedures" are defined as follows in Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings:

> "Disclosure controls and procedures" means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure."

Management of the General Partner, including the President and the Vice-President and General Manager of the General Partner, has evaluated the effectiveness of the design and operation of the disclosure controls and procedures of Westshore, the General Partner and the Fund as of December 31, 2005 and has concluded that such disclosure controls and procedures provide reasonable assurance that information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

Additional information relating to the Fund and Westshore, including the Fund's most recent annual information form, is available at www.sedar.com.

Management's Report

The consolidated financial statements and other information in this annual report have been prepared by and are the responsibility of the management of the Fund. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect where necessary management's best estimates and judgments.

Management is also responsible for maintaining systems of internal and administrative controls to provide reasonable assurance that the Fund's assets are safeguarded, that transactions are properly executed in accordance with appropriate authorization and that the accounting systems provide timely, accurate and reliable financial information.

The Trustees are responsible for assuring that management fulfills its responsibility for financial reporting and internal control. The Trustees perform this responsibility at meetings where significant accounting, reporting and internal control matters are discussed and the consolidated financial statements and annual report are reviewed and approved.

The consolidated financial statements have been audited on behalf of the Unitholders by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. The Auditors' Report outlines the scope of their examination and their independent professional opinion on the fairness of these financial statements.

William W. Stinson
Trustee

M. Dallas H. Ross
Trustee

Auditors' Report

To the Unitholders of Westshore Terminals Income Fund

We have audited the consolidated balance sheets of **Westshore Terminals Income Fund** (the Fund) as at December 31, 2005 and 2004 and the consolidated statements of earnings and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
February 10, 2006

Westshore Terminals Income Fund
Consolidated Balance Sheets
As at December 31, 2005 and 2004

(figures in tables are expressed in thousands of dollars, except unit amounts)

	2005 $	2004 $
Assets		
Current assets		
Cash and cash equivalents	39,904	36,000
Accounts receivable (note 12)	10,633	3,764
Inventories	6,012	5,148
Prepaid expenses	2,844	2,791
Income taxes receivable (note 7)	1,800	2,648
Other assets (note 13)	6,202	5,013
	67,395	55,364
Plant and equipment (note 4)		
At cost	463,780	458,932
Accumulated depreciation	(321,455)	(298,170)
	142,325	160,762
Employee future benefits - net (note 10)	1,754	2,236
Goodwill	365,541	365,541
Other assets (note 13)	2,092	6,678
	579,107	590,581
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	19,887	21,296
Distribution payable to unitholders (note 6)	27,097	16,891
	46,984	38,187
Future income taxes (note 7)	-	51,493
	46,984	89,680
Unitholders' equity		
Capital contributions (note 5)	663,602	663,602
Cumulative earnings	370,356	257,140
Cumulative distributions declared	(501,835)	(419,841)
	532,123	500,901
	579,107	590,581

Westshore Terminals Income Fund
Consolidated Statements of Earnings and Cumulative Earnings
For the years ended December 31, 2005 and 2004
(figures in tables are expressed in thousands of dollars, except unit amounts)

	2005 $	2004 $
Revenue		
Coal	165,247	111,420
Other (note 13)	4,487	15,269
	169,734	126,689
Expenses		
Operating	66,774	64,233
Administrative	9,140	6,286
	75,914	70,519
Earnings before depreciation, interest, income taxes and gain on sale of Fording Canadian Coal Trust units	93,820	56,170
Depreciation	23,408	23,222
Interest expense	-	1,268
Earnings before income taxes and gain on sale of Fording Canadian Coal Trust units	70,412	31,680
Gain on sale of Fording Canadian Coal Trust units (note 3)	-	11,986
Earnings before income taxes	70,412	43,666
Recovery of income taxes (note 7)	42,804	4,700
Net earnings for the year	113,216	48,366
Cumulative earnings - Beginning of year	257,140	208,774
Cumulative earnings - End of year	370,356	257,140
Basic and diluted earnings per trust unit	1.609	0.687
Weighted average number of trust units outstanding	70,381,111	70,381,111

Westshore Terminals Income Fund
Consolidated Statements of Cash Flows
For the years ended December 31, 2005 and 2004
(figures in tables are expressed in thousands of dollars, except unit amounts)

	2005 $	2004 $
Cash flows from operating activities		
Net earnings for the year	113,216	48,366
Items not affecting cash		
Movement in unrealized gain on forward exchange contracts (note 13)	3,397	(11,691)
Depreciation	23,408	23,222
Future income tax recovery (note 7)	(51,493)	(2,405)
Gain on sale of Fording Canadian Coal Trust units	-	(11,986)
Decrease (increase) in deferred employee future benefits costs	482	(80)
	89,010	45,426
(Increase) decrease in non-cash working capital	(8,347)	5,655
	80,663	51,081
Cash flows from financing activities		
Repayment of long-term debt	-	(29,374)
Distributions paid to unitholders	(71,788)	(59,632)
	(71,788)	(89,006)
Cash flows from investing activities		
Additions to plant and equipment	(4,971)	(685)
Property damage insurance proceeds received - net of disposal costs	-	5,731
Net proceeds on sale of Fording Canadian Coal Trust units	-	41,234
	(4,971)	46,280
Increase in cash and cash equivalents	3,904	8,355
Cash and cash equivalents - Beginning of year	36,000	27,645
Cash and cash equivalents - End of year	39,904	36,000
Supplemental cash flow information		
Cash paid for interest	-	1,560
Cash received for interest	372	454
Income taxes paid	7,841	1,568

1 Organization and basis of presentation

Westshore Terminals Income Fund (the Fund) is an open-ended trust created under the laws of the Province of British Columbia by a Declaration of Trust made as of December 2, 1996. The Fund was created to acquire 100% of the issued and outstanding common shares and $470 million of unsecured subordinated notes (the Notes) of Westshore Terminals Ltd. (Westshore) from Westar Group Ltd. (Westar). The acquisition of common shares and Notes was financed by the public issue of trust units of the Fund. On January 5, 2005, an additional $175 million of senior subordinated notes were issued to the Fund by Westshore.

The Fund completed a reorganization on October 2, 2005 under which it replaced its interest in Westshore with an interest in Westshore Terminals Limited Partnership (the Partnership) which was formed under the laws of British Columbia. Following the completion of the reorganization, the Fund holds all of the limited partnership units of the Partnership. The general partner is a newly incorporated company under the laws of British Columbia, now named Westshore Terminals Ltd. (the General Partner).

The Partnership acquired and now operates the business (the Business) previously carried on by Westshore at the Westshore Terminals coal storage and loading facility located at Roberts Bank, British Columbia. The operations of the Business have not changed as a result of the reorganization and the Fund continues to own 100% of the Business. As before, the Fund carries on no business of its own, its activities being restricted to the ownership of properties including securities of other entities.

These consolidated financial statements include the accounts of the Fund and its variable interest entity, the Partnership. All significant inter-entity transactions and balances have been eliminated on consolidation of the Partnership.

2 Significant accounting policies

Accounting principles

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(figures in tables are expressed in thousands of dollars, except unit amounts)

Variable interest entities

In September 2004, CICA issued Accounting Guidelines 15, "Consolidation of Variable Interest Entities" (AcG-15) relating to the accounting for Variable Interest Entities (VIEs). A VIE is any type of legal structure not controlled by voting equity but rather by or through contractual or other financial arrangements. This guideline requires the Fund to identify VIEs in which it has an interest, determine whether it is the primary beneficiary of such entities and, if so, to consolidate the VIE. A primary beneficiary is an enterprise that will absorb a majority of the VIE's expected losses, receive a majority of its expected residual return, or both. AcG-15 is effective for annual and interim periods beginning on and after November 1, 2004. It was determined that the Fund's investments in the Partnership and Westshore meet the criteria for being a VIE and that the Fund is the primary beneficiary of the entities. As a result, the Fund must consolidate the Partnership and Westshore.

The Fund elected to early adopt this standard effective for the year ended December 31, 2004. Historically, the Fund accounted for its investment in Westshore using the equity method. The adoption of this standard resulted in the Fund's investment in Westshore at December 31, 2004 being replaced by the net assets of Westshore as detailed below:

	$
Current assets	38,830
Plant and equipment	160,762
Other long-term assets	8,914
Goodwill	365,541
Current liabilities	(21,184)
Future income taxes	(51,493)
Investment in Westshore	501,370

This adoption did not result in a change in the net assets of the Fund as at December 31, 2004. The Fund's net earnings for the year ended December 31, 2004 have not been affected by this change.

Financial instruments

The Fund uses forward exchange contracts to mitigate its exposure to fluctuations in foreign exchange rates. Effective January 1, 2004, the Fund adopted the CICA Guideline 13, "Hedging Relationships". This guidance addresses the identification, designation, documentation and effectiveness of hedging relations for purposes of applying hedge accounting. Under the new guideline, any hedging transactions that do not qualify for hedge accounting must be marked to market at each period end with any resulting gains or losses recorded in earnings. The Fund's forward exchange contracts do not qualify for hedge accounting.

Asset retirement obligations

Effective January 1, 2004, the Fund has adopted the CICA Handbook Section 3110, "Asset Retirement Obligations". Under this accounting recommendation, the fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred assuming a credit-adjusted risk-free rate. In subsequent periods, an accretion expense is charged to earnings to increase the liability due to the passage of time. The asset retirement cost is capitalized as part of the related long-lived asset's carrying amount and amortized over the asset's useful life.

The Partnership's terminal site is leased from the Vancouver Port Authority (the VPA). The current lease runs until February 29, 2012 and may be extended at the Partnership's option for a further 10 years. At the expiry of the lease in 2022, assuming the Partnership has not been successful in further extending the lease, the VPA has the option to acquire the assets of the terminal at fair value or require the Partnership to return the site to its original condition. The Partnership believes that the probability that the VPA will elect to enforce site restoration is negligible and therefore no liability has been recorded as at December 31, 2005.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest-bearing securities with maturities at their purchase date of three months or less.

Inventories

Inventories of spare parts and supplies are valued at average cost less a provision for obsolescence.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the unit-of-production method over the estimated useful production life of the assets. The estimated useful lives of plant and equipment range from 3 to 35 years.

Goodwill

Effective January 1, 2002, goodwill arising on the acquisition of Westshore is not amortized. Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Revenue recognition

Coal handling revenue is recognized when a customer's coal is loaded onto a ship and ready for export from the terminal site.

Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. During 2005 and 2004, all taxable income of the Fund has been allocated to the unitholders. Income tax obligations relating to distributions from the Fund are the obligations of the unitholders (see note 7).

Employee future benefits

The Partnership accrues its obligations under employee benefit plans, net of plan assets, and applies the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected accrued benefit method pro-rated on length of service and best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Significant areas requiring the use of management estimates relate to the determination of net recoverable value of assets, useful lives of plant and equipment, insurance proceeds receivable, train detention and ship demurrage costs, determination of actuarial assumptions and provision for contingencies. Actual results could differ from those estimates.

3 Investment in Fording Canadian Coal Trust

During 2004, the Fund sold its remaining interest in Fording Trust for $41.2 million resulting in a gain of $12.0 million.

(figures in tables are expressed in thousands of dollars, except unit amounts)

4 Plant and equipment

			2005	2004
	Cost $	**Accumulated amortization $**	**Net $**	**Net $**
Buildings and land improvements	33,153	23,759	9,394	10,268
Machinery and equipment	423,013	295,243	127,770	149,489
Deferred preproduction costs	2,663	2,453	210	319
Construction in progress	4,951	-	4,951	686
	463,780	321,455	142,325	160,762

5 Trust units

The Declaration of Trust provides that an unlimited number of trust units may be issued. Each unit represents an equal and undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or windup. All units are of the same class with equal rights and privileges. Units may be issued for consideration payable in instalments, with such units being held as security for unpaid instalments.

As part of the reorganization, Westshore Terminals Holdings Trust (the Trust) has been established as an unincorporated open-ended limited purpose trust under the laws of British Columbia with the Fund as the sole holder of trust units of the Trust. The Fund, the Trust and the Partnership have entered into an exchange agreement (the Exchange Agreement) under which the Fund will have the right to transfer Partnership units to the Trust in consideration for the issuance by the Trust of Trust notes.

Trust units are redeemable at the holders' option at amounts related to market prices at the time, subject to a maximum of $250,000 in cash redemptions by the Fund in any particular month. This limitation can be waived at the discretion of the Trustees. Redemptions in excess of $250,000, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro-rata number of Trust notes.

Capital contributions as at December 31, 2005 and 2004 are as follows:

	Number of units	**$**
Capital contributions	70,381,111	663,602

(figures in tables are expressed in thousands of dollars, except unit amounts)

6 Distributions to unitholders

Distributions to unitholders are made quarterly.

During the year ended December 31, 2005, the Fund declared cash distributions to unitholders of $81,994,000 (2004 - $57,712,000) or $1.165 (2004 - $0.820) per unit. The amounts and record dates of the distributions were as follows:

	2005		2004	
	Total $	**Per unit** $	**Total** $	**Per unit** $
March 31	14,076	0.200	21,115	0.300
June 30	14,076	0.200	9,853	0.140
September 30	26,745	0.380	9,853	0.140
December 31	27,097	0.385	16,891	0.240
	81,994	1.165	57,712	0.820

The distribution of $27,097,000 ($0.385 per unit) payable to unitholders of record on December 31, 2005 was paid on or before January 15, 2006.

An additional non-cash distribution of $0.022 per unit was made to allocate the income of the Fund that exceeded the cash distributions declared during the year. As provided by the Fund's Declaration of Trust, the distribution automatically occurred on December 31, 2005 by way issuance of additional trust units with the same value. These units were immediately consolidated so that each unitholder continued to hold the same number of units that existed before the distribution.

The distributions declared in 2005 and 2004 have been allocated as follows for income tax purposes:

	2005		2004	
	Total $	**Per unit** $	**Total** $	**Per unit** $
Cash distributions				
Income and capital gains	72,906	1.036	48,813	0.694
Return of capital	9,088	0.129	8,899	0.126
Total cash distributions	81,994	1.165	57,712	0.820
Non-cash distributions	1,540	0.022	-	-
Total distributions	83,534	1.187	57,712	0.820

(figures in tables are expressed in thousands of dollars, except unit amounts)

7 Income taxes

During the year, Westshore transferred its operating assets (the "Business") to the Partnership, another subsidiary of the Fund. As a result of the reorganization, the income of the Partnership is taxed directly in the hands of its partners. It is expected that the Fund and the Partnership will operate so that substantially all net income of the Business will be taxed in the hands of the unitholders. Future income tax liabilities recorded in the accounts of Westshore and the Fund have been eliminated and included in the consolidated net income of the Fund. As a result, a recovery of future income taxes payable in the amount of $42,458,000 was realized for the year ended December 31, 2005.

The tax bases of the Fund's consolidated assets and liabilities are less than, on a net basis, the carrying amounts by $115,925,000.

A reconciliation of income taxes at the statutory tax rate to actual income taxes is as follows:

	2005 $	2004 $
Income tax expense at statutory Canadian rate	(24,574)	(15,554)
Future income tax balance reversed through income	42,458	-
Large corporations tax	-	(126)
Reduction in future income tax rate	1,737	-
Prior year tax recoveries at higher tax rate	-	470
Fund distributions deductible for tax purposes	25,956	17,387
Non-taxable income	-	2,446
Non-deductible expenses	(225)	-
Temporary differences not recorded through future income tax expense	(2,539)	-
Other	(9)	77
Income tax recovery	42,804	4,700
Represented by:		
Current income tax (provision) recovery	(8,689)	2,295
Future income tax recovery	51,493	2,405
	42,804	4,700

8 Bank operating facility

The Partnership has a $1 million (2004 - $10 million) secured operating facility. No amounts were outstanding on this facility as at December 31, 2005 and 2004. The Partnership has various interest options under the operating facility that are based on the lender's prime lending rate. The lender charges a standby fee of 0.25% per annum on the undrawn portion of the facility.

9 Related party transactions

Administration agreement

Previously, the Fund had entered into an administration agreement with Westar. As a result of the reorganization, the rights and obligations of Westar under the original administration agreement have been assigned to an affiliate, Westar Management Ltd. (Westar Management). Under the terms of the agreement, Westar Management is responsible for administering and managing the Fund. Westar Management earns a fee of $250,000 per annum plus reimbursement of certain out-of-pocket costs for providing these services, and if the costs of administering the Fund exceed $400,000 in any year, Westar Management will also be reimbursed for such excess costs. The agreement can be terminated on 180 days' notice, or immediately under certain circumstances.

Westar and Westar Management earned a fee of $250,000 for the year ended December 31, 2005 (2004 - $250,000) under the administration agreement. These fees are included in administrative expenses on the consolidated statements of earnings and cumulative earnings.

Management agreement

Previously, Westshore had entered into a management agreement with Westar effective February 1, 1997. As a result of the reorganization, the rights and obligations of Westshore under the original management agreement have been assigned to the Partnership. In addition, Westar has assigned its rights and obligations under the original management agreement to Westar Management. Under the terms of the agreement, Westar Management is responsible for providing executive management and other services to the Partnership. The initial term of the agreement is 15 years, and the agreement is renewed thereafter for successive five-year terms unless the Partnership gives notice of non-renewal at least 12 months before the end of the relevant term. The management agreement may be terminated by the Partnership in certain circumstances, and Westar Management can terminate the agreement at any time on 12 months' notice. Westar Management earns a fee of $750,000 per annum plus reimbursement of reasonable out-of-pocket expenses for providing these services. In addition, as an incentive to Westar Management to enhance the cash flow of the Partnership, Westar Management is entitled to earn incentive fees that will be payable annually when the per-unit cash distributions to unitholders exceed certain defined levels.

Westar and Westar Management earned a base management fee of $750,000 and an incentive fee of $1,654,000 for the year ended December 31, 2005 (2004 - $750,000 and $nil respectively) under the management agreement. These fees are included in administrative expenses on the consolidated statements of earnings and cumulative earnings.

(figures in tables are expressed in thousands of dollars, except unit amounts)

10 Employee future benefits

The Partnership has two defined benefit pension plans (the Retirement Plan and the Pension Plan) and provides other retirement and post-employment benefits for most of its employees. Other retirement and post-employment benefits include a severance benefit plan, life insurance, dental, extended health and medical services plan.

Information about the Partnership's defined benefit pension plans and other benefit obligations using a measurement date of December 31, 2005 is as follows:

	Pension plan benefits		Other benefits	
	2005 $	2004 $	2005 $	2004 $
Accrued benefit obligation				
Balance - Beginning of year	56,797	51,862	21,265	19,070
Current service cost	839	809	542	473
Interest cost	3,233	3,253	1,224	1,207
Benefits paid	(2,444)	(2,955)	(767)	(1,162)
Actuarial losses	4,661	3,828	2,271	1,677
Balance - End of year	63,086	56,797	24,535	21,265
Plan assets				
Fair value - Beginning of year	57,476	51,860	-	-
Actual return on assets	7,875	5,909	-	-
Employer contributions	2,201	2,662	767	1,162
Benefits paid	(2,444)	(2,955)	(767)	(1,162)
Fair value - End of year	65,108	57,476	-	-
Balances - December 31				
Funded status - plan surplus (deficit)	2,022	679	(24,535)	(21,265)
Unamortized net actuarial losses	12,898	12,599	7,524	5,627
Unamortized past service costs	2,641	3,112	1,204	1,484
Accrued benefit asset (liability)	17,561	16,390	(15,807)	(14,154)

All pension plans are fully funded by the Partnership. The other benefit plans have no assets.

(figures in tables are expressed in thousands of dollars, except unit amounts)

The financial information with respect to the defined benefit pension plans and other benefit obligations is based on the following valuations and extrapolations:

	Most recent valuation date	Date of next required valuation
Pension plan	January 1, 2005	January 1, 2006
Retirement plan	January 1, 2004	January 1, 2007
Other benefit obligations	January 1, 2004	-

The significant actuarial assumptions adopted in measuring the Partnership's accrued benefit obligations (and costs) are as follows (weighted average assumptions as of December 31):

	2005		2004	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Benefit obligations				
Discount rate	5.00	5.00	5.75	5.75
Rate of increase in future compensation	3.00	3.00	3.75	3.75
Benefit costs				
Discount rate	5.75	5.75	6.25	6.25
Rate of increase in future compensation	3.00	3.00	3.75	3.75
Expected long-term rate of return on plan assets	7.50	-	7.50	-

The average rate of compensation increase is expected to be inflation with an adjustment for merit and productivity gains.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered extended health care benefits was assumed over the first ten years and 6% thereafter. The annual rates of increase in the per capita cost of MSP and dental benefits are 0% and 3%, respectively.

The impact of a 1% point change in assumed drug and other health benefit costs would have the following effects:

	1% decrease	1% increase
Effect on benefit costs	(228)	295
Effect on benefit obligation	(2,593)	3,222

(figures in tables are expressed in thousands of dollars, except unit amounts)

The Partnership's defined benefit plans' weighted-average asset allocations at the measurement date, by asset category, are as follows:

	2005 %	2004 %
Cash and fixed income	33	31
Canadian equities	26	25
Foreign equities	41	44
	100	100

The Partnership's contributions for the year ended December 31:

	2005 $	2004 $
Westshore/Partnership contributions to funded pension plans	2,201	2,662
Benefits paid directly to beneficiaries for other non-funded post-employment benefits	767	1,162
	2,968	3,824

The Partnership's net benefit plan expense (income) for the years ended December 31, 2005 and 2004 is as follows:

	2005			2004		
	Incurred in year $	Matching adjustments(1) $	Recognized in year $	Incurred in year $	Matching adjustments(1) $	Recognized in year $
Pension plan benefits						
Current service cost	839	-	839	809	-	809
Interest cost	3,233	-	3,233	3,253	-	3,253
Expected return on plan assets	(7,875)	3,574	(4,301)	(5,909)	2,031	(3,878)
Net actuarial losses	4,661	(3,873)	788	3,828	(2,995)	833
Past service costs	-	471	471	2,212	(1,741)	471
	858	172	1,030	4,193	(2,705)	1,488
Other benefits						
Current service cost	542	-	542	473	-	473
Interest cost	1,224	-	1,224	1,207	-	1,207
Net actuarial losses	2,271	(1,897)	374	1,677	(1,381)	296
Past service costs	-	280	280	-	280	280
	4,037	(1,617)	2,420	3,357	(1,101)	2,256

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

(figures in tables are expressed in thousands of dollars, except unit amounts)

11 Commitments

The Partnership is committed under operating leases to the rental of property, facilities, and equipment.

The Partnership's terminal site is leased (the Lease) from the Vancouver Port Authority (the VPA). Charges payable by the Partnership under the Lease comprise an annual base land and waterlot rental fee and an annual participation rental based on the volume of coal shipped. A minimum participation rental per tonne is charged based on a minimum annual tonnage (MAT) of 17.6 million tonnes. A higher participation rental per tonne is charged on tonnage in excess of the MAT.

The original term of the Lease expired on February 28, 2002. Westshore exercised the first of two options to renew the Lease for an additional 10-year period, commencing March 1, 2002. The VPA did not increase the land and waterlot rental rate or the participation rates upon renewal. For the next rental term, being March 1, 2005 to February 29, 2008, there has been no change to the land and waterlot rental rate and the participation rates. The VPA has the right to change the lease rates every three years during the renewal period. Westshore has the right to seek redetermination of any increased rental by invoking an arbitration process.

Future minimum operating lease payments for the years ending December 31 (assuming the VPA does not exercise its right to adjust the lease rates) are as follows:

	Terminal lease $	Other $	Total $
2006	11,665	374	12,039
2007	11,665	358	12,023
2008	11,665	358	12,023
2009	11,665	358	12,023
2010	11,665	358	12,023
Thereafter to 2012	13,609	-	13,609

12 Significant customers

Fording Trust holds a 60% interest in the Elk Valley Coal Partnership (the Coal Partnership) and a 100% interest in Fording Inc.'s (Fording) industrial minerals business. On February 28, 2003, the Coal Partnership acquired all the metallurgical coal assets of Fording, Teck Cominco Limited (Teck), and the Luscar/CONSOL Joint Ventures (Luscar). Westshore's coal handling contracts previously negotiated with Fording, Teck, and Luscar, including exclusivity agreements, will continue in effect. During the year ended December 31, 2005, approximately 95% (2004 - 93%) of the Partnership's revenue was earned from the mines acquired by the Coal Partnership. As at December 31, 2005, the receivable from the Coal Partnership was $8.7 million (2004 - $2.9 million).

13 Financial instruments

Foreign exchange risk

The loading rate for approximately half of the Coal Partnership's coal handled by the Partnership in 2005 was a function of the Canadian dollar price realized by the Coal Partnership for its coal. As the Coal Partnership's coal is sold to its customers based on a U.S. dollar selling price, the Partnership's revenues will be affected by the conversion of the U.S. dollar sales to Canadian dollars.

The Partnership uses forward exchange contracts to mitigate exposure to fluctuations in the relative exchange rates.

Fair value of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, income taxes receivable, accounts payable and accrued liabilities and distribution payable to unitholders approximate fair values based on the short-term maturity of these instruments.

Fair value estimates for foreign exchange contracts are based on quoted market prices for comparable contracts and represent the amount the Partnership would have received from or paid to, a counterparty to unwind the contracts at the market rate in effect at December 31. The Partnership's forward exchange contracts were marked to market at December 31, 2005. Consequently, the Partnership has recorded an asset of $8,294,000 (2004 - $11,691,000) on the consolidated balance sheet. Other revenue on the consolidated statements of earnings and cumulative earnings includes a loss due to a $3,397,000 reduction in unrealized gains on forward exchange contracts (2004 - gain of $11,691,000).

Corporate Information

Westshore Terminals Income Fund

Trustees

William W. Stinson
Chairman
Corporate Director

Gordon Gibson
Corporate Director

Michael J. Korenberg
Managing Director, Vice Chairman
The Jim Pattison Group

M. Dallas H. Ross
Partner
Kinetic Capital Partners

Jim G. Gardiner
Corporate Director

Secretary

Nick Desmarais
Managing Director, Legal Services
The Jim Pattison Group

Auditors

PricewaterhouseCoopers LLP
Vancouver, British Columbia

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Registrar and Transfer Agent

Computershare Trust Company of Canada
Vancouver and Toronto

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol

WTE.UN

Annual General Meeting

The Annual General Meeting of Unitholders will be held on Tuesday, June 13, 2006 at 9:00 a.m. at the Fairmont Hotel, Vancouver, British Columbia

Westshore Terminals Ltd. (general partner of Westshore Terminals Limited Partnership)

Directors

Glen Clark
Executive Vice President
The Jim Pattison Group

Nick Desmarais
Managing Director, Legal Services
The Jim Pattison Group

M. Dallas H. Ross
Partner, Kinetic Capital Partners

Doug Souter
Corporate Director

William W. Stinson
Corporate Director

Officers

William W. Stinson
President

Denis Horgan
Vice-President and General Manager

Nick Desmarais
Secretary