WESTSHORE TERMINALS INCOME FUND

ANNUAL REPORT

2006

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)

		2006		2005
Tonnage (in thousands)		**18,958**		21,874
Revenue				
Coal	**$**	**157,854**	$	165,247
Other(1)		**3,699**		4,487
		161,553		169,734
Earnings before depreciation and income taxes		**87,418**		93,820
Cash Distributions declared		**84,809**		81,994
Cash Distributions per unit	**$**	**1.205**	$	1.165
Units outstanding at December 31		**70,381,111**		70,381,111
Trading Statistics				
High	**$**	**13.50**	$	15.19
Low	**$**	**9.25**	$	10.52
Close	**$**	**11.79**	$	11.96
Volume		**47,705,637**		56,614,902

(1) 2006 includes $7.0 million of realized gains ($4.7 million of realized gains in 2005) and a $6.5 million decrease in unrealized gains ($3.4 million decrease in unrealized gains in 2005) on forward exchange contracts.

Dear Unitholder:

For the twelve months ending December 31, 2006, Westshore Terminals Income Fund (the "Fund") declared cash distributions to Unitholders of $84.8 million ($1.205 per unit).

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 reorganization, the only cash inflows of the Fund are distributions from Westshore Terminals Limited Partnership ("Westshore").

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 2006, Westshore loaded 19.0 million tonnes of coal as compared to 21.9 million tonnes shipped in 2005.

The Fund's consolidated earnings before depreciation and income taxes decreased by 6.8% from $93.8 million in 2005 to $87.4 million in 2006. Revenues decreased 4.8% from $169.7 million in 2005 to $161.6 million in 2006. The principal reason for the decrease in revenue was a decrease in volume of 13.3%, offset by a higher average loading rate due to the higher average Canadian dollar price realized for coal shipped by Westshore in 2006 as a whole. While prices declined for the 2006/7 coal year (which commenced April 1, 2006) relative to the 2005/6 coal year, the higher prices for 2005/6 only became effective in June 2005, with the prices before that time being markedly lower. As a result the average rate for calendar 2006 was higher than for calendar 2005.

Under Westshore's arrangements with the Elk Valley Coal Partnership (the "Coal Partnership"), the loading rate for approximately half of the coal loaded by Westshore in 2006 was a function of the price in Canadian dollars realized by the Coal Partnership for that coal.

On March 21, 2007 Fording Trust announced that the Coal Partnership had completed negotiations for approximately 90% of its anticipated coal sales for the 2007 coal year commencing April 1, 2007, and that if the remainder of the contracts are settled on similar terms, the average coal price it expects to realize for the 2007 coal year will be approximately US$91 per tonne, down approximately 15% from US$107 in 2006. The weighted average price of 2007 calendar year coal sales is expected to be approximately US$96 per tonne, down from US$113 in 2006. The 2007 calendar year average price includes approximately six weeks of carryover tonnage from the 2006 coal year.

Westshore's new lease with the Vancouver Port Authority gives Westshore the right to extend the lease term to December 31, 2046, provided that Westshore proceeds with a capital upgrade to its existing equipment. Westshore received the permit approval for the upgrade on November 2, 2006 from the Vancouver Port Authority. The cost of the upgrade is anticipated to be approximately $45 million (in 2006 dollars), subject to confirmation upon receipt of bids. The upgrade will take approximately two years to complete and will increase Westshore's throughput capacity to approximately 29 million tonnes. Funding for the capital upgrade has been provided through a $20 million rights offering to unitholders and $20 million private placement. The balance of the funds required will be sourced from Westshore's cash on hand.

Audited consolidated financial statements for the Fund are attached.

For the Board of Trustees,

William W. Stinson
Chairman of the Board of Trustees

Vancouver, B.C.
March 26, 2007

Management's Discussion & Analysis of Financial Condition and Results of Operations

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 19. 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 March 26, 2007.

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").

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. Lower prices for hard coking coal resulted in Westshore's customers achieving lower average settlement prices for the 2006/07 coal year (ending March 31, 2007) compared to the 2005/06 coal year (ending March 31, 2006).

Westshore's loading rates for approximately half the throughput in 2006 were based on the prices received by the Elk Valley Coal Partnership (the "Coal Partnership"). Coal prices declined in calendar 2006, but because of higher prices from 2005/6 coal year that lasted until March 31, 2006, cash distributions for 2006 were higher than in 2005, when revenues included the effect of the significantly lower 2004/5 coal rates that carried over to May, 2005. 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 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 22.)

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.

References to "distributable cash" are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund. Cash available for distribution is a useful financial measure as an indication of the Fund's ability to make distributions. It is also a measure generally used by income funds in Canada as an indicator of financial performance. As one of the factors that may be considered relevant by investors is the cash available to be distributed by the Fund relative to the price of the Units, the Fund believes that distributable cash is a useful supplemental measure that may assist investors to assess an investment in Units. The Fund's method of determining cash available for distribution is derived from cash flows from operations (a measure recognized under GAAP).

The distributable cash of the Fund is solely comprised of distributions from Westshore which are impacted by the operating results of Westshore. A comparison of the operating results to cash distributions paid is as follows:

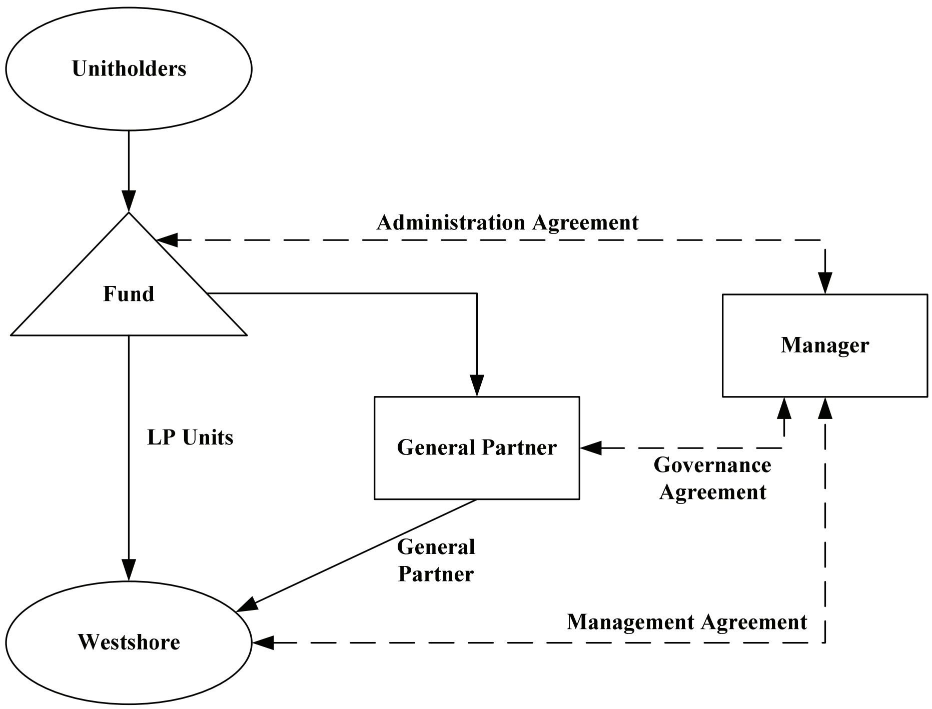
Distributable Cash Reconciliation
(In thousands of dollars)

		2006	2005
A	Cash flows from operating activities (distributable cash)	**$ 86,964**	$ 80,663
B	Net income excluding non-cash items	**93,483**	89,010
C	Actual cash distributions paid	**84,809**	81,994
D	Excess (shortfall) of cash flows from operating activities over cash distributions paid (A-C)	**2,155**	(1,331)
E	Excess of net income excluding non-cash items over cash distributions paid (B-C)	**8,674***	7,016*

* Net income excluding non-cash items is cash flow from operating activities adding back non-cash working capital changes. This measure is generally expected to exceed cash distributions paid as cash is required for such items as regular capital expenditures and discharge of previously accrued liabilities.

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.



Selected Financial Information

The following financial data is derived from the Fund's audited consolidated financial statements for the years ended December 31, 2006, 2005 and 2004, which were prepared in Canadian dollars using Canadian GAAP.

(In thousands of dollars except per unit amounts)

	2006	2005	2004
Coal revenues	**$ 157,854**	$ 165,247	$ 111,420
Other revenues	**3,699**	4,487	15,269
	161,553	169,734	126,689
Net Earnings	**65,743**	113,216[2]	48,366
Net Earnings per unit	**0.934**	1.609	0.687
Distributable cash	**86,964**	80,663	51,081
Cash Distributions declared	**84,809**	81,994	57,712
Cash Distributions per unit	**1.205**	1.165	0.820
Distributions of units in lieu of cash[1]	**6,194**	1,540	-
Distributions of units in lieu of cash per unit[1]	**0.088**	0.022	-
Total Assets	**571,762**	594,914	590,581
Total Long Term Liabilities[2]	**-**	-	51,493

(1) On December 31, 2006, the Fund allocated additional taxable income to Unitholders by issuing additional units with a value of $6,194,000 ($0.088 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 2006/2005 was due to the elimination of future income tax liabilities, resulting in a non-cash future tax recovery of $51,493,000 which was included in net earnings in 2005.

As shown above, cash distributions declared to Unitholders for 2006 were $84,809,000 ($1.205 per unit) compared to $81,994,000 ($1.165 per unit) for 2005. Distributions were made quarterly during 2006. The total distributions from the Fund in 2006 to Unitholders were considered income for income tax purposes. 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).

Until the fourth quarter of 2005, the Fund could easily predict its exact taxable income for each period, as it was determined solely by the interest on the subordinated debt of Westshore Terminals that was then held by the Fund and any dividends paid by Westshore Terminals. Because the Fund's investments now consist of substantially all the limited partnership units of Westshore Terminals Limited Partnership, virtually all of the taxable income of Westshore for any year is automatically allocated to the Fund. While the Fund attempts both to estimate its taxable income for the year and to make distributions for the year as close as possible to that taxable income, it is normal for there to be some discrepancy between the taxable income of the Fund and cash distributions by the Fund. In order to deal with the situation where the taxable income of the Fund exceeds cash distributions, the Declaration of Trust provides that an amount equal to the excess will be distributed to unitholders in the form of additional trust units, which are then consolidated.

The discrepancies in 2006 resulted principally from a combination of better than expected performance and a number of year-end adjustments. The year-end adjustments amounted to approximately $3 million or less than 2% of the Fund's consolidated revenues for 2006. This was the first full year of the direct inclusion of Westshore's income in the Fund's taxable income, and also saw a continuation of historic high revenues for the Fund, all of which made the dollar amount of the adjustments higher than anticipated. Accordingly, the Fund does not expect the discrepancy between the taxable income distributed to unitholders and cash distributions to be as pronounced in future years.

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	Three Months Ended			
	Dec 31, 2006	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006
Revenue					
Coal	$ 157,854	$ 38,463	$ 41,583	$ 36,741	$ 41,067
Other	3,699	858	2,869	1,184	(1,212)
	161,553	39,321	44,452	37,925	39,855
Expenses					
Operating	65,262	15,739	15,256	17,980	16,287
Administration	8,873	1,739	2,577	1,857	2,700
	74,135	17,478	17,833	19,837	18,987
Earnings before depreciation and income taxes	**87,418**	**21,843**	**26,619**	**18,088**	**20,868**
Depreciation	21,684	5,405	5,404	5,405	5,470
Earnings before income taxes	**65,734**	**16,438**	**21,215**	**12,683**	**15,398**
Recovery of income taxes	9	-	-	9	-
Net earnings	**65,743**	**16,438**	**21,215**	**12,692**	**15,398**
Net earnings per unit	**$ 0.934**	**$ 0.234**	**$ 0.301**	**$ 0.180**	**$ 0.219**
Cash Distributions declared[(1)]	**84,809**	**20,410**	**19,003**	**21,818**	**23,578**
Cash Distributions per unit	**$ 1.205**	**$ 0.290**	**$ 0.270**	**$ 0.310**	**$ 0.335**
Distributions of units in lieu of cash	**$ 6,194**	**-**	**-**	**-**	**$ 6,194**
Distributions of units in lieu of cash per unit	**$ 0.088**	**-**	**-**	**-**	**$ 0.088**

(In thousands of dollars except per unit amounts)	12 Months Ended	Three Months Ended			
	Dec 31, 2005	Mar 31, 2005	Jun 30, 2005	Sep 30, 2005	Dec 31, 2005
Income					
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 and income taxes	**93,820**	**13,982**	**23,548**	**29,382**	**26,908**
Depreciation	23,408	5,728	5,728	5,728	6,224
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[(1)]	**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**

(1) Refer to page 5 for a comparison of cash distributions to distributable cash.

General

Westshore operates a 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, together with changes in customers' mine output, 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 owned by the Coal Partnership, which is by far Westshore's largest customer, accounted for 92% of Westshore's coal revenues in 2006.

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.

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)

	2006 Tonnes	%	2005 Tonnes	%	2004 Tonnes	%
Asia	12,246	65	12,631	58	11,947	56
Europe	5,928	31	7,135	33	6,371	30
S. America	639	3	1,651	7	2,464	12
Other	146	1	457	2	463	2
Total	18,959	100	21,874	100	21,245	100

During 2006, 87% of Westshore's volume was metallurgical coal (91% in 2005), with the remaining 13% being thermal coal (9% in 2005). 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.

All of Westshore's customers compete with other suppliers of coal throughout the world. Australian coal mines are the most significant competitors. The last few years have seen significant variations in the supply-demand balance in seaborne metallurgical coal. Following a period of oversupply and consolidation, constrained supply in 2004 led to sharply higher prices in the 2005/6 coal year, which declined somewhat in the 2006/7 coal year. Higher prices have resulted in new production of metallurgical coal coming on stream in both Australia and Canada. Where the supply-demand balance will settle and the resulting effect on coal prices are unpredictable.

With its five mines in British Columbia and one in Alberta, the Coal Partnership is by far Westshore's largest customer. It is the world's second largest exporter of metallurgical coal. Because of the exclusivity provisions in 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. In addition, the variable rates based on coal prices for which these contracts provide have benefited the Fund since 2005.

From April 1, 2007 Westshore has contracts relating to four of the six metallurgical coal mines that are owned by the Coal Partnership. The other two mines are the Cardinal River/Cheviot mine and the Line Creek mine, which ship through Neptune or Westshore at the option of the Coal Partnership. In connection with the creation of the Coal Partnership, Westshore's 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 runs 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 four mines through West Coast ports must be shipped through Westshore. The loading rates for coal shipped from the Elkview mine and for a portion of the tonnage from the Fording River and Greenhills mines are linked to the price in Canadian dollars realized by the Coal Partnership for that coal. In late August 2006, the Coal Partnership sent notice to Westshore requesting a review of the charges under the Port Services Contract effective April 1, 2007. Negotiations concerning the possibility of a change in rate have commenced, as is provided for under the agreement. If negotiations are unsuccessful, the matter would be determined by arbitration, likely to be held in late 2007 or 2008.

Under the contract that governs coal from the Elkview mine (the "Elkview Contract"), the Coal Partnership gave notice on September 30, 2004 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 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 Port Services Contract. The matter was heard before an arbitrator, as provided for in the Elkview Contract, and a decision was made in favour of Westshore in July 2006 confirming that there would be no changes to the formula for determining the loading rate which will remain in effect through the end of the contract term on March 31, 2010. The Supreme Court of British Columbia granted the Coal Partnership leave to appeal the arbitrator's decision to the Supreme Court of British Columbia. Westshore has appealed that decision, and its appeal is expected to be heard later in 2007.

Westshore's contract for Line Creek coal expires March 31, 2007 and covered only a portion of the coal produced at that mine, with the Coal Partnership being entitled to ship the balance of the tonnage through Neptune, in which the Coal Partnership holds a 46% interest.

Westshore has a contract with Coal Valley Resources Ltd. (formerly Luscar Ltd.) which covers thermal coal from the Coal Valley mine and runs to 2017. During 2006, 1.9 million tonnes of thermal coal were shipped compared to 0.9 million tonnes in 2005. 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 loaded 0.7 million tonnes in 2006, the same amount as in 2005. The contracts with Coal Valley Resources Ltd. and Grande Cache Coal Corporation each have a pricing mechanism based on fixed rates (with escalation clauses).

Labour

Labour agreements with all three locals of the International Longshore and Warehouse Union (the longshoremen, foreman and the clerical workers) expired on January 31, 2007. Negotiations are underway with all three union locals.

Equipment Addition and Upgrade

Westshore has commenced the upgrade of certain existing equipment and the addition of new equipment at the Terminal site, at an anticipated total cost of approximately $45 million (in 2006 dollars) subject to confirmation upon receipt of bids. In conjunction with these expenditures, Westshore has negotiated and signed a new lease of the Terminal site with VPA, the renewal terms under which are conditional upon the planned equipment upgrades being completed. The new lease provides for a 20-year term from the commencement date on January 1, 2007, with two 10-year renewal terms at the option of Westshore, and thus would be capable of extension to December 31, 2046. The prior VPA Lease, including the final 10-year renewal, would have expired on February 28, 2022.

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 was 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. In 1997, Westshore's record year to date, the Terminal handled 23.5 million tonnes, and the Terminal handled 23.3 million tonnes in 2001.

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" aluminum rail cars, the use of which has become more prevalent. (The first barrel of the tandem dumper was converted for that purpose in 1998.) 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 the anticipated increase in shipments. 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 will be funded principally by $40 million in equity raised though the rights offering and private placement which completed in March, 2007, with the remainder funded from cash on hand. The upgrades are expected to take approximately two years to complete. 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 any anticipated increase in throughput.

Equity Offering

After considering various funding options, Westshore raised approximately $20 million from the issuance of units of the Fund by a rights offering to existing unitholders. The rights offering was backstopped by Jim Pattison Developments Ltd. ("Jim Pattison Developments"), a member of The Jim Pattison Group and an affiliate of the Manager. Another affiliate of Jim Pattison Developments also subscribed directly for approximately $20 million worth of units of the Fund. No soliciting dealer was retained in connection with the exercise of rights, and no commissions or standby fees were paid in connection with the placement of the securities or the commitment of Jim Pattison Developments to take down any units not subscribed for.

The issue price for the units under both the private placement and under the rights offering was $10.45 per unit, being the weighted average trading price of the units on the Toronto Stock Exchange for the five day period ended December 18, 2006, less a discount of approximately 10% as required by the Toronto Stock Exchange. Upon completion of the rights offering and private placement, a total of approximately 3.9 million additional units of the Fund were issued, representing 5.5% of the outstanding number of units prior to the issue.

Results of Operations

Westshore loaded 19.0 million tonnes of coal during 2006 as compared to 21.9 million tonnes during 2005. Coal loading revenue decreased by 4.5% to $157.9 million in 2006 compared with $165.2 million in 2005. The decrease was due to a decrease of 13% in volumes, which was largely offset by an increase of 10% in the average loading rate.

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 after April 1, 2006 decreased to approximately CDN$127 per tonne. In the fourth quarter of 2006, loading revenue was $41.1 million as compared to $43.5 million in the fourth quarter of 2005, on shipments of 5.2 million tonnes in the fourth quarter of 2006, as compared to 5.1 million tonnes in the fourth quarter of 2005.

Other income decreased to $3.7 million in 2006 from $4.5 million in 2005. Realized and unrealized hedging gains were the main factors affecting other income in 2006. Realized hedging gains increased by $2.3 million from $4.7 million in 2005 to $7.0 million in 2006, but this was more than offset by the reduction in unrealized hedging gains as at December 31, 2006, which reduced other income for 2006 by $6.5 million, as compared to a reduction of $3.4 million for 2005. The other elements included in other income, including a modest provision for demurrage costs, offset each other.

Operating and administrative expenses decreased from $75.9 million in 2005 to $74.1 million in 2006. The decrease in lease costs because of lower throughput was offset by higher maintenance costs and an increase in the incentive fee of $0.7 million payable to the Manager (based on higher cash distributions to Unitholders).

Earnings before depreciation and income taxes decreased 6.8% in 2006, from $93.8 million in 2005 to $87.4 million in 2006. Earnings before depreciation and income taxes for the fourth quarter of 2006 were $20.9 million, compared to $26.9 million for the fourth quarter of 2005.

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 pricing-based 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 2006, 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, 2006 was reduced by a $6.5 million decrease in unrealized gains on forward exchange contracts, compared to a reduction in unrealized gains of $3.4 million for 2005. 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 2006, other revenue included a realized gain of $1.7 million and a decrease in unrealized gain of $3.3 million, compared to a realized gain of $1.6 million and an unrealized gain of $2.0 million for the fourth quarter of 2005.

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.

On March 21, 2007 Fording Trust announced that the Coal Partnership has completed negotiations for approximately 90% of its anticipated coal sales for the 2007 coal year commencing April 1, 2007, and that if the remainder of the contracts are settled on similar terms, the average coal price it expects to realize for the 2007 coal year will be approximately US$91 per tonne, down approximately 15% from US$107 in 2006. The weighted average price of 2007 calendar year coal sales is expected to be approximately US$96 per tonne, down from US$113 in 2006. The 2007 calendar year average price includes approximately six weeks of carryover tonnage from the 2006 coal year. For 2007, tonnages shipped at fixed rates are expected to account for approximately 22% 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 32% of throughput; and finally, tonnages shipped at full variable rates are expected to account for approximately 46% 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 2007. The distribution for the first quarter was based on performance in this quarter, which was affected by adverse weather conditions but had the benefit of the 2006/7 coal year pricing. Performance in subsequent quarters will determine the level of distributions. Based on the information currently available to it, Westshore is budgeting for approximately similar volumes in 2007 as compared to 2006, and a lower average loading rate. If distributions for the calendar year 2007 exceed $1.035 per unit, incentive fees will be payable by Westshore to the Manager under the Management Agreement, as was the case in 2006 and 2005.

There are many variables that will affect Westshore's EBITDA and the Fund's distributable cash in 2007, most of which are outside the control of Westshore or the Fund. The Fund has assessed the likely sensitivity of its distributable cash, in respect of the twelve months of 2007 as a whole to changes in tonnage shipped, the US dollar coal price and the US/Canadian dollar exchange rate. Based on an aggregate tonnage for a twelve month period of 19.0 million tonnes, US dollar coal price received by the Coal Partnership of US$116 per tonne and exchange rates of US$0.88 per CDN$1.00 (which reflected the experience in 2006) and assuming no incentive fees are payable to the Manager:

- for every 1,000,000 tonnes difference in throughput, the effect on distributable cash of the Fund is expected to be approximately 6.5¢ per unit;

- for every US$5.00 reduction in the US dollar denominated coal price received by the Coal Partnership, the effect on distributable cash of the Fund is expected to be approximately 6¢ per unit; and

- for every US$0.01 change in the value of the Canadian dollar, the effect on distributable cash of the Fund is expected to be approximately 1¢ per unit.

The above sensitivities factor in the anticipated effects of Westshore's hedges currently in place but not the effect of any incentive fee if distributions should exceed $1.035 per unit. These sensitivities are expected to be applicable only for the 2007 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. It is not anticipated that the Fund will require significant capital resources to maintain its investment in Westshore on an ongoing basis. Westshore's facility is a mature facility which does not require additional periodic replacements of equipment. The cost of ongoing maintenance and refurbishment of the equipment is well within Westshore's financial capacity based solely on revenues less expenses without any need for financing. The current equipment addition and upgrade is being funded almost entirely from equity, which will avoid any liquidity concerns with debt service. As a result, the Fund does not anticipate any liquidity concerns with the ongoing operations of Westshore.

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, 2006. 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 are as follows:

	Terminal lease $	**Other $**	**Total $**
2007	11,665	2,557	14,222
2008	11,665	362	12,027
2009	11,665	362	12,027
2010	11,665	362	12,027
2011	11,665	-	11,665
Thereafter to 2026	174,975	-	174,975

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

Transactions with Related Parties

In 2006, Westshore paid $3,108,000 (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 an incentive fee of $2,358,000 (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. Those fees are computed on the following basis: 15% of cash distributions between $1.035 - $1.125 per unit; 25% of cash distributions between $1.125 - $1.260 per unit; and 35% of cash distributions above $1.260 per unit.

In 2006, 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 19.

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 Estimated Liabilities

Westshore makes certain provisions , 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 2006, Westshore incurred demurrage costs of $1.2 million as compared to $0.9 million in the prior year.

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 $334,000 in 2006 (net of a $400,000 reduction in the train detention reserve from prior years) compared to $587,000 in 2005.

While Westshore endeavours to ensure that provisions 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."

The Chief Executive Officer and the Chief Financial Officer of the Fund, in conjunction with management of the General Partner, have 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, 2006 and have 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*	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, 2006 and 2005 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, 2006 and 2005 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.
March 13, 2007

Consolidated Balance Sheets

As at December 31, 2006 and 2005
(figures in tables are expressed in thousands of dollars, except unit amounts)

	2006 $	2005 $
Assets		
Current assets		
Cash and cash equivalents	34,555	39,904
Accounts receivable (note 11)	15,211	10,633
Inventories	6,102	6,012
Prepaid expenses	3,975	2,844
Income taxes receivable (note 6)	-	1,800
Other assets (note 12)	1,845	6,202
	61,688	67,395
Plant and equipment (note 3)		
At cost	466,831	463,780
Accumulated depreciation	(342,205)	(321,455)
	124,626	142,325
Employee future benefits (note 9)	19,907	17,561
Goodwill	365,541	365,541
Other assets (note 12)	-	2,092
	571,762	594,914
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	17,367	19,887
Distribution payable to unitholders (note 5)	23,578	27,097
	40,945	46,984
Employee future benefits (note 9)	17,760	15,807
	58,705	62,791
Unitholders' equity		
Capital contributions (note 4)	663,602	663,602
Cumulative earnings	436,099	370,356
Cumulative distributions declared	(586,644)	(501,835)
	513,057	532,123
	571,762	594,914

Consolidated Statements of Earnings and Cumulative Earnings

For the years ended December 31, 2006 and 2005
(figures in tables are expressed in thousands of dollars, except unit amounts)

	2006 $	2005 $
Revenue		
Coal	157,854	165,247
Other (note 12)	3,699	4,487
	161,553	169,734
Expenses		
Operating	65,262	66,774
Administrative	8,873	9,140
	74,135	75,914
Earnings before depreciation and income taxes	87,418	93,820
Depreciation	21,684	23,408
Earnings before income taxes	65,734	70,412
Recovery of income taxes (note 6)	9	42,804
Net earnings for the year	65,743	113,216
Cumulative earnings - Beginning of year	370,356	257,140
Cumulative earnings - End of year	436,099	370,356
Basic and diluted earnings per trust unit	0.934	1.609
Weighted average number of trust units outstanding	70,381,111	70,381,111

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005
(figures in tables are expressed in thousands of dollars, except unit amounts)

	2006 $	2005 $
Cash flows from operating activities		
Net earnings for the year	65,743	113,216
Items not affecting cash		
Movement in unrealized gain on forward exchange contracts (note 12)	6,449	3,397
Depreciation	21,684	23,408
Future income tax recovery (note 6)	-	(51,493)
Decrease (increase) in deferred employee future benefits costs	(393)	482
	93,483	89,010
Increase in non-cash working capital	(6,519)	(8,347)
	86,964	80,663
Cash flows from financing activities		
Distributions paid to unitholders	(88,329)	(71,788)
	(88,329)	(71,788)
Cash flows from investing activities		
Additions to plant and equipment	(3,984)	(4,971)
	(3,984)	(4,971)
Increase (decrease) in cash and cash equivalents	(5,349)	3,904
Cash and cash equivalents - Beginning of year	39,904	36,000
Cash and cash equivalents - End of year	34,555	39,904
Supplemental cash flow information		
Cash received for interest	1,103	372
Income taxes (recovered) paid	(1,809)	7,841

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.

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.

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

Financial instruments

The Fund utilizes derivative financial instruments in the normal course of operations as a means to manage its foreign exchange risk. From time to time, the Fund purchases foreign exchange contracts to hedge anticipated sales to customers and the related accounts receivable. The Fund has not elected to use 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). A new lease agreement was signed on November 2, 2006, which is effective January 1, 2007. The lease runs until December 31, 2026, and may be extended at the Partnership's option for a further 20 years. At the expiry of the lease in 2046, 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, 2006.

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.

Conveyor belts	5 years
Automobiles	3 years
Computer software	3 years to 5 years
Mobile equipment	5 years to 25 years
Land improvements	15 years to 30 years
Buildings	8 years to 35 years
Fixed machinery	8 years 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 2006 and 2005, 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 6).

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.

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

3 Plant and equipment

			2006
	Cost $	Accumulated amortization $	Net $
Buildings and land improvements	33,345	24,906	8,439
Machinery and equipment	428,243	314,735	113,508
Deferred preproduction costs	2,663	2,564	99
Construction in progress	2,580	-	2,580
	466,831	342,205	124,626

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

4 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.

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

Capital contributions as at December 31, 2006 and 2005 are as follows:

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

5 Distributions to unitholders

Distributions to unitholders are made quarterly.

During the year ended December 31, 2006, the Fund declared cash distributions to unitholders of $84,809,000 (2005 - $81,994,000) or $1.205 (2005 - $1.165) per unit. The amounts and record dates of the distributions were as follows:

	2006		2005	
	Total $	Per unit $	Total $	Per unit $
March 31	20,410	0.290	14,076	0.200
June 30	19,003	0.270	14,076	0.200
September 30	21,818	0.310	26,745	0.380
December 31	23,578	0.335	27,097	0.385
	84,809	1.205	81,994	1.165

The distribution of $23,578,000 ($0.335 per unit) payable to unitholders of record on December 31, 2006 was paid on or before January 16, 2007.

An additional non-cash distribution of $0.088 (2005 - $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, 2006 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.

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

The distributions declared in 2006 and 2005 have been allocated as follows for income tax purposes:

	2006		2005	
	Total $	**Per unit $**	**Total $**	**Per unit $**
Cash distributions				
Income	84,809	1.205	72,906	1.036
Return of capital	-	-	9,088	0.129
Total cash distributions	84,809	1.205	81,994	1.165
Non-cash distributions	6,194	0.088	1,540	0.022
Total distributions	91,003	1.293	83,534	1.187

6 Income taxes

During the prior 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 $92,695,042 (2005 - $115,925,000).

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

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

	2006 $	2005 $
Income tax expense at statutory Canadian rate	(28,430)	(24,574)
Future income tax balance reversed through income	-	42,458
Reduction in future income tax rate	-	1,737
Fund distributions deductible for tax purposes	39,445	25,956
Non-deductible expenses	(129)	(225)
Temporary differences not recorded through future income tax expense	(10,877)	(2,539)
Other	-	(9)
Income tax recovery	9	42,804
Represented by:		
Current income tax recovery (provision)	9	(8,689)
Future income tax recovery	-	51,493
	9	42,804

7 Bank operating facility

The Partnership has a $1 million (2005 - $1 million) operating facility which is secured by an unconditional guarantee by the Income Fund. No amounts were outstanding on this facility as at December 31, 2006 and 2005. 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.

8 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, 2006 (2005 - $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 $2,358,000 for the year ended December 31, 2006 (2005 - $750,000 and $1,654,000 respectively) under the management agreement. These fees are included in administrative expenses on the consolidated statements of earnings and cumulative earnings. The incentive fee of $2,358,000 is included in accounts payable and accrued liabilities on the consolidated balance sheets.

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

9 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, 2006 is as follows:

	Pension plan benefits		Other benefits	
	2006 **$**	**2005** **$**	**2006** **$**	**2005** **$**
Accrued benefit obligation				
Balance - Beginning of year	63,086	56,797	24,535	21,265
Current service cost	1,000	839	698	542
Interest cost	3,152	3,233	1,266	1,224
Benefits paid	(3,250)	(2,444)	(909)	(767)
Actuarial losses	243	4,661	549	2,271
Plan Improvements	331	-	-	-
Balance - End of year	64,562	63,086	26,139	24,535
Plan assets				
Fair value - Beginning of year	65,108	57,476	-	-
Actual return on assets	9,752	7,875	-	-
Employer contributions	3,066	2,201	909	767
Benefits paid	(3,250)	(2,444)	(909)	(767)
Fair value - End of year	74,676	65,108	-	-
Balances - December 31				
Funded status - plan surplus (deficit)	10,114	2,022	(26,139)	(24,535)
Unamortized net actuarial losses	7,329	12,898	7,455	7,524
Unamortized past service costs	2,464	2,641	924	1,204
Accrued benefit asset (liability)	19,907	17,561	(17,760)	(15,807)

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, 2006	January 1, 2007
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):

	2006		2005	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Benefit obligations				
Discount rate	5.00	5.00	5.00	5.00
Rate of increase in future compensation	3.00	3.00	3.00	3.00
Benefit costs				
Discount rate	5.00	5.00	5.75	5.75
Rate of increase in future compensation	3.00	3.00	3.00	3.00
Expected long-term rate of return on plan assets	7.25	-	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	(267)	343
Effect on benefit obligation	(3,038)	3,786

(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:

	2006 %	2005 %
Cash and fixed income	33	33
Canadian equities	22	26
Foreign equities	45	41
	100	100

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

	2006 $	2005 $
Westshore/Partnership contributions to funded pension plans	3,066	2,201
Benefits paid directly to beneficiaries for other non-funded post-employment benefits	909	767
	3,975	2,968

The Partnership's net benefit plan expense (income) for the years ended December 31, 2006 and 2005 is as follows:

	2006			2005		
	Incurred in year $	Matching adjustments(1) $	Recognized in year $	Incurred in year $	Matching adjustments(1) $	Recognized in year $
Pension plan benefits						
Current service cost	1,000	-	1,000	839	-	839
Interest cost	3,152	-	3,152	3,233	-	3,233
Expected return on plan assets	(9,752)	5,038	(4,714)	(7,875)	3,574	(4,301)
Net actuarial losses	243	531	774	4,661	(3,873)	788
Past service costs	-	508	508	-	471	471
	(5,357)	6,077	720	858	172	1,030
Other benefits						
Current service cost	698	-	698	542	-	542
Interest cost	1,266	-	1,266	1,224	-	1,224
Net actuarial losses	549	69	618	2,271	(1,897)	374
Past service costs	-	280	280	-	280	280
	2,513	349	2,862	4,037	(1,617)	2,420

(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)

10 Commitments

Elk Valley Coal Partnership has given notice to Westshore Terminals under the contract for one of its operations requesting a review of the loading rate effective April 1, 2005. Under the terms of the contract, the loading rate is linked to the Canadian dollar price received for coal. In 2006, an arbitrator decided in favour of Westshore confirming that there would be no changes to the loading rate in the contract. The Supreme Court of British Columbia granted Elk Valley Coal leave to appeal the decision. Westshore has appealed that decision and the appeal is expected to be heard later in 2007.

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.

In 2006, the Partnership signed a new lease with the VPA effective January 1, 2007. The term of the lease is until December 31, 2026, with further options to extend the term to December 31, 2046. The new lease was granted on the condition that the Partnership complete an equipment upgrade within 36 months of the permit issuance costing approximately $45 million. The Partnership will commence this equipment upgrade in 2007.

During 2006, the Partnership committed $2,440,000 to complete an upgrade to their security system and industrial infrastructure. The project will be completed by the end of 2007 with $2,195,000 remaining to be spent in 2007. The Partnership received pre-approval from the government for a 75% recovery of the costs incurred for the security system project if the project is completed by the end of 2007. Of the total project cost, approximately $1,300,000 is expected to be recovered from the government.

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 $**
2007	11,665	2,557	14,222
2008	11,665	362	12,027
2009	11,665	362	12,027
2010	11,665	362	12,027
2011	11,665	-	11,665
Thereafter to 2026	174,975	-	174,975

11 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, 2006, approximately 92% (2005 - 95%) of the Partnership's revenue was earned from the mines acquired by the Coal Partnership. As at December 31, 2006, the receivable from the Coal Partnership was $12.4 million (2005 - $8.7 million).

12 Financial instruments

Foreign exchange risk

The loading rate for approximately half of the Coal Partnership's coal handled by the Partnership in 2006 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, 2006. Other revenue on the consolidated statements of earnings and cumulative earnings includes a marked to market loss of $6,510,000 (2005 – $3,397,000).

13 Subsequent Event

The Fund completed a $20 million private placement and $20 million rights offering. The $40 million will fund its equipment upgrade.

The issue price for the units under both the private placement and the rights offering was $10.45 per unit. Upon completion of the rights offering and private placement, the Fund had 74,250,016 units outstanding.

The private placement units were subscribed to by an affiliate of Jim Pattison Developments Ltd., another affiliate of the company that provides management services to Westshore and administrative services to the Fund (Note 8). Upon completion of the rights offering and private placement, Jim Pattison Developments Ltd. and the affiliated company hold in aggregate approximately 15.27% of the Fund's outstanding units.

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

Dallas H. Ross
Partner
Kinetic Capital Partners

Jim G. Gardiner
Corporate Director

Executive Officers

William W. Stinson
Chief Executive Officer

Doug Souter
Chief Financial Officer

Secretary

Nick Desmarais
Managing Director, Legal Services
The Jim Pattison Group

Auditors

PricewaterhouseCoopers LLP
Vancouver, British Columbia

Principal Office

1800 – 1067 West Cordova Street
Vancouver, British Columbia V6C 1C7
Telephone: 604.488.5295
Facsimile: 604.687.2601

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)

Officers

William W. Stinson
President

Denis Horgan
Vice-President and General Manager

Nick Desmarais
Secretary

Directors

Glen Clark
Executive Vice President
The Jim Pattison Group

Nick Desmarais
Managing Director, Legal Services
The Jim Pattison Group

Dallas H. Ross
Partner, Kinetic Capital Partners

Doug Souter
Corporate Director

William W. Stinson
Corporate Director