



# **WESTSHORE TERMINALS INCOME FUND**

## **ANNUAL REPORT**

**2008**

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

## Financial Highlights

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### Westshore Terminals Income Fund (Consolidated)

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

	2008	2007
Tonnage (in thousands)	21,079	21,160
Revenue		
Coal	\$ 260,096	\$ 156,717
Other	5,005	5,239
	<b>265,101</b>	<b>161,956</b>
Earnings before depreciation, interest, foreign exchange and income taxes	163,945	82,343
Cash Distributions declared	133,650	86,131
Cash Distributions per unit	\$ 1.80	\$ 1.16
Units outstanding at December 31	74,250,016	74,250,016
Trading Statistics		
High	\$ 20.14	\$ 15.96
Low	\$ 7.80	\$ 10.53
Close	\$ 9.60	\$ 14.49
Volume	53,988,043	48,723,436



# Westshore Terminals Income Fund

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

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Dear Unitholder:

For the twelve months ending December 31, 2008, the Fund declared cash distributions to Unitholders of \$133,650,028 (\$1.80 per unit). This was more than 50% higher than the cash distributions declared in 2007. With anticipated declines in volumes and in the Canadian dollar price for coal in the 2009/10 contract year as compared to the 2008/09 contract year, the Fund expects distributions in 2009 to be significantly reduced compared to 2008.

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 2008, Westshore loaded 21.1 million tonnes of coal as compared to 21.2 million tonnes shipped in 2007.

The Fund's consolidated earnings before depreciation, interest, foreign exchange and income taxes for 2008 were \$163.9 million compared to \$82.3 million in 2007. Coal loading revenue increased 66% from \$156.7 million in 2007 to \$260.1 million in 2008. A higher average loading rate was responsible for the significant increase. Under Westshore's arrangements with its primary customer, the loading rate for 42% of the coal loaded by Westshore in 2008 was a function of the price in Canadian dollars realized by the customer for that coal. The pricing of coal for the 2009/10 coal year has not yet been concluded.

Westshore is fully underway with a capital upgrade to its existing equipment which is anticipated to cost approximately \$49 million. The upgrade is expected to be completed in late 2009 and will increase Westshore's throughput capacity to approximately 29 million tonnes per annum. Funding for the capital upgrade was provided through the issue of units which was concluded in March 2007. The balance of the funds required will be sourced from Westshore's cash on hand. At this time, the capital upgrade project remains on schedule and on budget.

Westshore has successfully defended the 2006 decision reached by an arbitrator in favour of Westshore which determined that there was no basis to change the coal loading rates under the contract for coal shipped from the Elkview mine. Accordingly, the formula for determining the loading rate, which has been in force since 2000 under the contract, continues for the remaining term to March 2010.

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 27, 2009



# Westshore Terminals Income Fund

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

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*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. Additional information and disclosure relating to the Fund can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Unless otherwise indicated, the information presented in this Annual Report is stated as at March 27, 2009.*

*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](http://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**

The cash inflows of the Fund are comprised of the distributions received by the Fund from the operations of 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. Westshore's loading rates for 42% of the throughput in 2008 were based on the prices for coal received by Teck Coal. Significantly higher prices for hard coking coal resulted in Westshore's customers achieving materially higher average settlement prices for the 2008/09 coal year (ending March 31, 2009) compared to the 2007/08 coal year (ending March 31, 2008).

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 historically and continues to 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 and continues to do so.

In accordance with CICA Accounting Guideline 15 "Consolidation of Variable Interest Entities", the Fund consolidates Westshore as the Fund will absorb Westshore's expected losses and receive its expected residual return.



# Westshore Terminals Income Fund

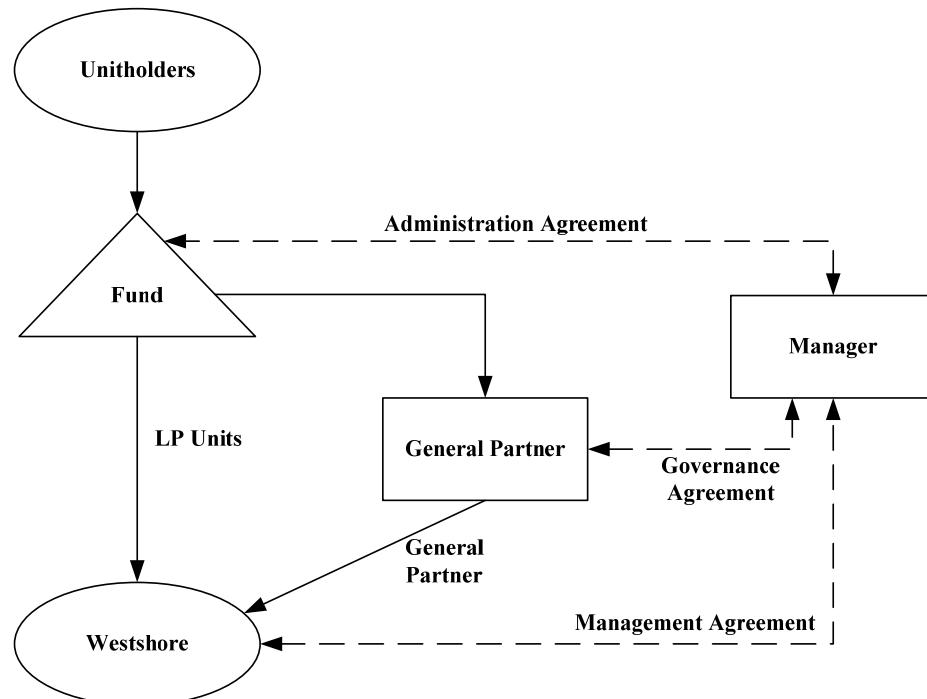
## Management's Discussion & Analysis of Financial Condition and Results of Operations

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 useful information in understanding the results of the Fund's and Westshore's operations and financial position.

### 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, nominates three of the five directors of the General Partner.





# Westshore Terminals Income Fund

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

### Selected Financial Information

The following financial data is derived from the Fund's audited consolidated financial statements for the years ended December 31, 2008, 2007 and 2006, which were prepared in Canadian dollars using Canadian GAAP.

*(In thousands of Canadian dollars except per unit amounts)*

	2008	2007	2006
Coal loading revenues	<b>260,096</b>	\$ 156,717	\$ 157,854
Other revenues	<b>5,005</b>	5,239	3,558
	<b>265,101</b>	161,956	161,412
Net Earnings	<b>124,865</b>	58,286	65,743
Net Earnings per unit <sup>(1)</sup>	<b>1.682</b>	0.792	0.934
Standardized Distributable Cash	<b>123,319</b>	80,736	82,980
Cash Distributions declared	<b>133,650</b>	86,131	84,809
Cash Distributions per unit	<b>1.800</b>	1.160	1.205
Distributions of units in lieu of cash <sup>(2)</sup>	<b>13,544</b>	-	6,194
Distributions of units in lieu of cash per unit <sup>(2)</sup>	<b>0.182</b>	-	0.088
Total Assets	<b>614,893</b>	606,300	571,762
Total Long Term Liabilities <sup>(3)</sup>	<b>29,800</b>	26,102	17,760

(1) The weighted average units outstanding for 2008 were 74,250,016 (2007 – 73,587,701, 2006 – 70,381,111)

(2) In 2008 and 2006, the Fund allocated additional taxable income to Unitholders by issuing additional units. 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](http://www.sedar.com).

(3) Refer to p. 11 for discussion of 2008 future income tax liability.

As shown above, cash distributions declared to Unitholders for 2008 were \$133,650,028 (\$1.80 per unit) compared to \$86,131,000 (\$1.160 per unit) for 2007, the increase resulting from higher loading rates in 2008 compared to the prior year. Distributions were made quarterly during 2008. The distributions from the Fund in 2008 to Unitholders were considered income for income tax purposes. The distributions from the Fund in 2007 to Unitholders were comprised of income of \$84,736,000 (\$1.14122 per unit) and a return of capital of \$1,395,000 (\$0.01879 per unit). The total distributions from the Fund in 2006 to Unitholders were considered income for income tax purposes.

References to "Standardized Distributable Cash" are to cash from operating activities less capital expenditures, both measures recognized under GAAP. Standardized Distributable Cash is a non-GAAP financial measure that indicates the Fund's ability to make distributions. It is a measure that has been recommended by the CICA's Canadian Performance Reporting Board for use 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 Standardized Distributable Cash is a useful supplemental measure that may assist investors to assess an investment in the Units.



# Westshore Terminals Income Fund

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

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The Standardized Distributable Cash of the Fund is substantially comprised of distributions from Westshore which are impacted by the operating results of Westshore. The following table sets out the Standardized Distributable Cash calculation for the three and twelve month periods ended December 31, 2008 and 2007 respectively.

	3 months ended Dec 31 2008	12 months ended Dec 31 2008	12 months ended Dec 31 2007
Cash flows from operating activities	42,697	23,522	106,370
Less: Capital expenditures	(3,467)	(7,641)	(25,634)
Standardized Distributable Cash	39,230	15,881	80,736
Cash Distributions declared	39,353	26,730	86,131
Basic and diluted Standardized Distributable Cash per unit	0.528	0.214	1.087
Cash Distributions per unit	0.530	0.360	1.160

For the twelve months ended December 31, 2007, cash distributions exceeded Standardized Distributable Cash as a result of significant capital expenditures on the equipment upgrade project. The equipment upgrade project has been substantially funded by proceeds of the issue of Units, not by operating cash flows, thereby allowing the Fund to make cash distributions in an amount close to cash flows from operating activities. The Fund plans cash distributions based on its annual results and expects that any particular quarterly cash distribution may vary somewhat from Standardized Distributable Cash for that quarter.

For the twelve months ended December 31, 2008, cash distributions and Standardized Distributable Cash were higher than in the prior year due to the significant increase in revenues earned in 2008 as a result of the higher coal price. Cash distributions for the twelve months ended December 31, 2008 exceeded Standardized Distributable Cash primarily because of the increase in working capital over the prior year which reduced cash flows from operating activities. Annual cash distributions will typically differ from Standardized Distributable Cash as the Fund bases its distributions on taxable income and does not adjust them for fluctuations in working capital. Without the working capital change, the cash flows from operating activities and Standardized Distributable Cash for 2008 would have been higher. However, the level of cash distributions was reduced as the Fund made a modest addition to its cash reserves during 2008 in view of uncertainties and recent volatilities in markets for metallurgical coal.

Because the Fund's investments 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 usually attempts to estimate its taxable income for the year and to make cash 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 amount of any such distributions is then added to the cost base of the units.



# Westshore Terminals Income Fund

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

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

<i>(In thousands of Canadian dollars except per unit amounts)</i>	<b>12 Months Ended</b>	<b>Three Months Ended</b>			
	Dec 31, 2008 \$	Mar 31, 2008 \$	June 30, 2008 \$	Sept 30, 2008 \$	Dec 31, 2008 \$
<b>Revenue</b>					
Coal loading	260,096	35,145	62,762	73,764	88,425
Other	5,005	968	1,036	1,055	1,946
	265,101	36,113	63,798	74,819	90,371
<b>Expenses</b>					
Operating	76,996	18,521	19,534	20,470	18,471
Administration	24,160	1,874	6,982	7,228	8,076
	101,156	20,395	26,516	27,698	26,547
<b>Earnings before the undernoted</b>	<b>163,945</b>	<b>15,718</b>	<b>37,282</b>	<b>47,121</b>	<b>63,824</b>
Interest Income	1,913	610	434	530	339
Depreciation	(22,289)	(5,572)	(5,572)	(5,572)	(5,573)
Foreign exchange gain (loss)	(16,750)	858	(66)	(1,047)	(16,495)
<b>Earnings before income taxes</b>	<b>126,819</b>	<b>11,614</b>	<b>32,078</b>	<b>41,032</b>	<b>42,095</b>
Provision for income taxes	1,954	281	190	870	613
<b>Net earnings</b>	<b>124,865</b>	<b>11,333</b>	<b>31,888</b>	<b>40,162</b>	<b>41,482</b>
<b>Net earnings per unit<sup>(1)</sup></b>	<b>1.682</b>	<b>0.153</b>	<b>0.429</b>	<b>0.541</b>	<b>0.559</b>
<b>Cash Distributions declared<sup>(2)</sup></b>	<b>133,650</b>	<b>20,790</b>	<b>34,897</b>	<b>38,610</b>	<b>39,353</b>
<b>Cash Distributions per unit</b>	<b>1.800</b>	<b>0.280</b>	<b>0.470</b>	<b>0.520</b>	<b>0.530</b>
<b>Distribution of units in lieu of cash</b>	<b>13,544</b>	<b>2,107</b>	<b>3,536</b>	<b>3,913</b>	<b>3,988</b>
<b>Distribution of units in lieu of cash per unit</b>	<b>0.182</b>	<b>0.028</b>	<b>0.047</b>	<b>0.053</b>	<b>0.054</b>

<i>(In thousands of Canadian dollars except per unit amounts)</i>	<b>12 Months Ended</b>	<b>Three Months Ended</b>			
	Dec 31, 2007 \$	Mar 31, 2007 \$	June 30, 2007 \$	Sept 30, 2007 \$	Dec 31, 2007 \$
<b>Revenue</b>					
Coal	\$ 156,717	36,553	45,790	36,937	\$ 37,437
Other	5,239	854	995	946	2,444
	161,956	37,407	46,785	37,883	39,881
<b>Expenses</b>					
Operating	71,303	17,412	18,266	16,965	18,660
Administration	8,310	1,947	1,583	1,798	2,982
	79,613	19,359	19,849	18,763	21,642
<b>Earnings before the undernoted</b>	<b>82,343</b>	<b>18,048</b>	<b>26,936</b>	<b>19,120</b>	<b>18,239</b>
Interest income	2,536	380	710	749	697
Depreciation	(22,304)	(5,553)	(5,552)	(5,553)	(5,646)
Foreign exchange gain	2,449	123	1,025	761	540
<b>Earnings before income taxes</b>	<b>65,024</b>	<b>12,998</b>	<b>23,119</b>	<b>15,077</b>	<b>13,830</b>
Provision for (recovery of) income taxes	6,738	-	6,589	413	(264)
<b>Net earnings</b>	<b>58,286</b>	<b>12,998</b>	<b>16,530</b>	<b>14,664</b>	<b>14,094</b>



# Westshore Terminals Income Fund

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

<i>(In thousands of Canadian dollars except per unit amounts)</i>	<b>12 Months Ended</b>		<b>Three Months Ended</b>		
	Dec 31, 2007 \$	Mar 31, 2007 \$	June 30, 2007 \$	Sept 30, 2007 \$	Dec 31, 2007 \$
<b>Net earnings per unit<sup>(1)</sup></b>	<b>0.792</b>	<b>0.182</b>	<b>0.223</b>	<b>0.197</b>	<b>0.190</b>
<b>Cash Distributions declared<sup>(2)</sup></b>	<b>86,131</b>	<b>19,305</b>	<b>18,563</b>	<b>21,533</b>	<b>26,730</b>
<b>Cash Distributions per unit</b>	<b>1.160</b>	<b>0.260</b>	<b>0.250</b>	<b>0.290</b>	<b>0.360</b>

(1) Weighted average units outstanding during 2008 are 74,250,016. Weighted average units outstanding for 2007 and the 2007 quarters ended June, September and December are 73,587,701 (2006 – 70,381,111). Weighted average units outstanding at March 31, 2007 are 71,498,794.

(2) Refer to page 6 for a comparison of Cash Distributions to Standardized 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 from mines in the north-western United States. Coal shipped from the mines owned by Teck Coal, which is Westshore’s largest customer, accounted for 79% of Westshore’s volumes in 2008.

Coal is delivered to the Terminal in unit trains operated by the Canadian Pacific, CN and BNSF Railways, and by Union Pacific 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:

<b>Shipments by Destination</b>					
<i>(Expressed in thousands of metric tonnes)</i>					
	<b>2008</b>	<b>2007</b>	<b>2006</b>		
	Tonnes	%	Tonnes	%	Tonnes
Asia	14,591	69	13,004	61	12,246
Europe	5,488	26	7,144	34	5,928
S. America	628	3	747	4	639
Other	372	2	265	1	146
<b>Total</b>	<b>21,079</b>	<b>100</b>	<b>21,160</b>	<b>100</b>	<b>18,959</b>
					100

During 2008, 82% of Westshore’s volume was metallurgical coal (88% in 2007), with the remaining 18% being thermal coal (12% in 2007). There continues to be an emphasis on both the quality and blending of coal at the Terminal to ensure that the end-customer receives the contractually specified type of coal.



# Westshore Terminals Income Fund

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

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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 2005/06 coal year, which declined somewhat in the 2006/07 coal year, but as a result of a combination of factors, the price for metallurgical coal for 2008/09 coal year increased significantly to US\$300 per tonne levels. The seaborne metallurgical coal market was in tight supply at the end of 2007 because of growing demand and lower-than-expected growth in exports from Australian suppliers. Global supply was further reduced as a result of flooding in Australia that disrupted production for several metallurgical coal producers. For the 2009/10 coal year, it is anticipated, due to a world wide economic slow down, that the price for metallurgical coal will be materially reduced from last year's pricing. Based on information from its customers, Westshore also anticipates that its throughput volumes will be lower.

With its five mines in British Columbia and one in Alberta, four of which are covered by contracts with Westshore, Teck Coal is by far Westshore's largest customer. It is the second largest supplier of seaborne hard coking coal in the world. Because of the exclusivity provisions in its contractual arrangements with Teck Coal, Westshore expects to benefit from increased sales which Teck Coal is able to realize from the mines covered by Westshore's contracts. The variable rates based on coal prices for which these contracts provide have benefited the Fund in most years since 2005.

Westshore has contracts relating to four of the six metallurgical coal mines that are owned by Teck Coal. The other two mines are Cardinal River and Line Creek, which ship through Neptune or, under a swap tonnage arrangement, through Westshore. Westshore's contract relating to the Elkview mine runs to March 31, 2010, and the Port Services Contract, which covers the Fording River, Greenhills and Coal Mountain mines, runs to February 29, 2012. 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 Teck Coal for that coal. If the Elkview contract is not renewed, or is renewed on different terms, the portion of the coal that Westshore handles at rates tied to the price of coal could be reduced.

In 2006, Teck Coal's predecessor sent notice to Westshore requesting a review of the charges under the Port Services Contract effective April 1, 2007. To date the matter has not been resolved and if future negotiations are unsuccessful, the matter would be determined by arbitration. The legal proceedings relating to the contract that governs coal from the Elkview Mine have been concluded in Westshore's favour. The formula for determining the loading rate which has been in force under the contract since 2000, continues for the remaining term of the contract to March 2010.

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 2008, 2.2 million tonnes of thermal coal for the Coal Valley mine were shipped through the Terminal compared to 2.1 million tonnes in 2007. Westshore also has a contract with Grande Cache Coal Corporation for handling coal production from its Grande Cache operations in Alberta, which expires on March 31, 2013. Westshore loaded 1.1 million tonnes under this contract in 2008, compared to 1.3 million tonnes in 2007. The contracts with Coal Valley Resources Ltd. and Grande Cache Coal Corporation each have a pricing mechanism based on fixed rates (with escalation clauses).

Since late 2007, Westshore has experienced renewed interest from US coal producers (primarily of thermal coal) in making shipments through Westshore, and has entered into a number of short term contracts with such producers. Shipments under those contracts accounted for 5% of Westshore's volume in 2008. As a result of these volumes the



# Westshore Terminals Income Fund

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

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percentage of Westshore's overall shipments that were comprised of thermal coal increased from 12% in 2007 to 18% in 2008.

### *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 and new four year collective term agreements were successfully reached later in the year with the longshoremen and clerical workers expiring January 31, 2011. Negotiations with the foremen were successfully concluded in February 2008 resulting in an agreement for the same four year term.

### *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 \$49 million. In conjunction with these expenditures, Westshore negotiated and signed a new lease of the Terminal site with Vancouver Fraser Port Authority ("VFPA"), the renewal terms of 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 is capable of extension to December 31, 2046. The prior VFPA Lease, including the final 10-year renewal, would have expired on February 28, 2022.

In 2005, Westshore conducted an assessment of the Terminal's throughput capacity. Part of the stimulus for the review were the announcements by Canadian Pacific Railway ("CPR") and Fording Canadian Coal 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 mines were 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 being undertaken. As part of this equipment upgrade project, Westshore has converted the second barrel of the tandem rotary dumper to accommodate the shorter "US style" aluminum rail cars, the use of which has become the industry norm. 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 through the rights offering and private placement which were completed in March 2007, with the remainder funded from cash on hand. The upgrades are expected to be complete in late 2009. Westshore expects that it will be able to complete the upgrades without any material disruption of its throughput capacity in the implementation phase. To date, Westshore has experienced no material impact to throughput volumes from the equipment upgrade.



# Westshore Terminals Income Fund

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

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### Taxation on Trusts in Canada

Bill C-52 *Budget Implementations Act*, 2007 which contains legislative provisions to implement the proposals to tax publicly traded income trusts in Canada became law on June 22, 2007. Under these rules, distributions declared by the Fund after January 1, 2011 will be taxed at a rate of 27.5% (2012 – 26%) and the distributions will be treated as taxable dividends in the hands of unitholders. Unitholders will be entitled to a dividend tax credit which will give credit for the level of taxation incurred by the Fund.

The Fund has not provided for current income taxes in 2008 as the income of the Fund is distributed to and taxed in the hands of unitholders. The future taxation of distributions makes relevant for accounting purposes the timing differences between the recognition of certain tax assets and tax liabilities for accounting purposes. For the quarter ended June 30, 2007, the Fund provided for a future income tax expense of \$6.6 million. This was a non-cash item and was a one time charge to set up the provision for future taxes. An additional non-cash provision of \$2.0 million has been recorded in the year ended December 31, 2008 to reflect changes in assets and liabilities and their expected recognition for tax purposes. This future income tax expense does not affect current distributions.

### Results of Operations

Westshore loaded 21.1 million tonnes of coal during 2008 as compared to 21.2 million tonnes during 2007. Coal loading revenue increased by 66% to \$260.1 million in 2008 compared with \$156.7 million in 2007. The significant increase was due to an increase of 66% in the average loading rate for the year as a whole.

In 2008, the loading rates for 42% of the coal handled at Westshore were tied to the average price in Canadian dollars realized by Teck Coal for that coal. The average Canadian dollar coal price realized by Teck Coal for shipments through Westshore in the fourth quarter of 2008 was \$340 per tonne, which was up from \$89 per tonne in the fourth quarter of 2007. For the calendar year of 2008, the average realized coal price was \$235 per tonne which was up from \$105 per tonne in 2007. In the fourth quarter of 2008, loading revenue was \$88.4 million as compared to \$37.4 million in the fourth quarter of 2007, on shipments of 5.2 million tonnes in the fourth quarter of 2008, as compared to 5.6 million tonnes in the fourth quarter of 2007.

Other income was consistent with that of the prior year and consists mostly of wharfage income. Operating and administrative expenses increased from \$79.6 million in 2007 to \$101.2 million in 2008, resulting from higher maintenance costs and an increase in the incentive fee of \$15.9 million payable to the Manager. This fee is determined under the Management Agreement pursuant to a pre-set formula and in 2008 was based on significantly higher cash distributions to Unitholders. Interest income for the year decreased by \$0.6 million because the Fund has spent some of the funds on hand from the equity financings undertaken in 2007 to cover the cost of the equipment upgrade project.

Foreign exchange gains, which includes both realized gains/losses and changes in the mark-to-market adjustment for unrealized gains/losses, decreased to a \$16.8 million loss in 2008 from a \$2.4 million gain in 2007. This decrease was mainly caused by significant reductions in the mark-to-market adjustment of the value of the foreign exchange contracts (see Currency Fluctuations), and by realized foreign exchange gains decreasing by \$8.2 million from the prior year.

Earnings before depreciation, interest, foreign exchange and income taxes were significantly higher in 2008, at \$163.9 million as compared to \$82.3 million in 2007. Earnings before depreciation, income, foreign exchange and income taxes for the fourth quarter of 2008 were \$63.8 million, compared to \$18.2 million for the fourth quarter of 2007.



# Westshore Terminals Income Fund

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

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### Currency Fluctuations

Westshore expects that in 2009 the loading rates for approximately 45% of the coal loaded at Westshore will depend on the Canadian dollar price realized for coal. Coal sales by Westshore's customers are priced on an annual basis in U.S. dollars, with the result that the Canadian dollar price received fluctuates within the year because of exchange rate movements. To mitigate the resulting risk, Westshore has engaged in periodic hedging activities. Westshore has adopted a policy under which it expects to hedge by April 30 of each year a portion of its anticipated US dollar related revenues for that coal year, based on the annual budget. Westshore will continue to review the need and opportunity for additional future hedging.

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 foreign exchange. As 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, foreign exchange losses for the year ended December 31, 2008 included \$12.6 million in unrealized losses on forward exchange contracts, compared to \$1.5 million in unrealized gains for 2007. Unrealized hedging gains or losses are non-cash items. The cash effect of the hedging activities is recognized in foreign exchange gains as the forward exchange contracts mature.

### 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.

Because of a combination of probable variations in tonnage, the US dollar denominated coal price and fluctuations in exchange rates, it is not possible for the Fund to predict accurately the level of its distributions for 2009. The variance year over year will be ultimately impacted by the average coal price settled by Teck Coal and total volumes shipped through the Terminal. Based on the information currently available to it, Westshore is anticipating lower volumes in 2009 as compared to 2008, and a lower average loading rate. If cash distributions for the calendar year 2009 exceed \$1.035 per unit, incentive fees will be payable by Westshore to the Manager under the Management Agreement.

### Liquidity and Capital Resources

The Fund is obliged to distribute to Unitholders its income (net of 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 significant ongoing replacement 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 primarily from funds raised from issuing equity, which will assist in avoiding any liquidity concerns with debt service. As a result, the Fund does not anticipate any liquidity concerns with the ongoing operations of Westshore.



# Westshore Terminals Income Fund

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

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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 2008 and remained undrawn at December 31, 2008. 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.

Westshore has post-retirement benefit obligations under its pension plan and other post-retirement benefit plans which it is required to fund each year. As a result of the downturn in financial markets, Westshore is anticipating its funding requirements to increase by approximately \$4.5 million in 2009. Westshore does not anticipate any problems in meeting these funding obligations as the contributions are deductible from taxable income and therefore funded by operating cash flows, although this will result in reduction of cash distributions to Unitholders.

Obligations under operating leases for the years ending December 31 are as follows:

	Terminal lease \$	Other \$	Total \$
2009	11,701	457	12,158
2010	11,701	457	12,158
2011	11,701	-	11,665
2012	11,701	-	11,665
2013	11,701	-	11,665
Thereafter to 2026	152,113	-	152,113

Westshore has a commitment of approximately \$13,815,000 with respect to commitment purchases that are to be paid in 2009.

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

### Transactions with Related Parties

In 2008, Westshore paid \$18,302,000 (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), an amount unchanged since 1997, and an incentive fee of \$17,552,000 (excluding GST) (2007: base fee of \$750,000 and \$1,643,000 incentive fee).

The Management Agreement provides for incentive fees to be payable by Westshore to the Manager in the event that distributions exceed certain amounts. Those contingent fees (established in 1997) 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 2008, 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 (an amount also set and unchanged since 1997). Under the Amended Governance Agreement dated September 29, 2005, the Manager is entitled to appoint a majority of the directors of the General Partner.



# Westshore Terminals Income Fund

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

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### Changes In Accounting Policies

The Fund's changes in accounting policies are found in note 2 of Westshore's financial statements beginning on page 23.

#### *Inventories*

On January 1, 2008, the Fund adopted the new requirements of CICA Handbook Section 3031 for inventories. The standard provides more comprehensive guidance on the determination of costs and the cost formulas that are used to assign costs to inventories. Inventories are required to be valued at the lower cost and net realizable value.

The adoption of this standard did not have a material impact on the consolidated financial statements of the Fund.

#### *Financial Instruments*

On January 1, 2008, the Fund adopted the new requirements of the CICA Handbook Section 3862 and 3863 for financial instruments. The Standard requires additional disclosure on the Fund's risks with respect to financial instruments and how the Fund manages these risks. This information is presented in Note 12 to the accompanying financial statements.

#### *Capital Disclosures*

On January 1, 2008, the Fund adopted the new requirements of CICA Handbook Section 1535 for capital disclosures. The standard requires additional disclosure about the Fund's capital and how it is managed along with external requirements or restrictions on that capital. This information is provided in Note 13 to the accompanying consolidated financial statements.

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*. This new accounting standard, which applies to the Fund commencing January 1, 2009, replaces Section 3062, *Goodwill and Other Intangible Assets*. Section 3064 expands on the standards for recognition, measurement, and disclosure of goodwill and intangible assets. The Fund does not expect that the adoption of this new standard will have any impact on its financial statements, disclosure, or results of operations.

#### *Credit Risk and the Fair Value of Financial Assets and Liabilities*

On January 23, 2009, the CICA Emerging Issues Committee (EIC) issued EIC-173, *Credit Risk and Fair Value of Financial Assets and Liabilities*. EIC-173 is effective for interim and annual financial statements ending on or after January 20, 2009. EIC-173 provides guidance that an entity's own credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities. Adoption of this guidance is to be applied retrospectively without restatement to prior periods. The Fund will adopt this guidance in its March 31, 2009 interim financial statements and it is currently evaluating the impact on its consolidated financial statements.



# Westshore Terminals Income Fund

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

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### 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



# Westshore Terminals Income Fund

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

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if the coal to be loaded on the vessel is not at the Terminal when the vessel arrives. In 2008, Westshore incurred demurrage costs of \$0.5 million as compared to \$0.6 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 \$0.6 million in 2008 compared to \$0.7 million in 2007.

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.

### International Financial Reporting Standards (IFRS)

The use of IFRSs for financial reporting in Canada will become applicable for the year beginning January 1, 2011. The Fund has developed an implementation strategy which established a timeline for the identification of significant differences between Canadian GAAP and IFRS and the implementation of business process changes needed to support IFRS. The Fund is currently in the process of identifying material changes to the financial statements that will occur with the conversion to IFRS.

### Internal Controls Over Financial Reporting

The Fund maintains a system of internal controls over financial reporting, as defined by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, in order to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of financial information for external purposes in accordance with Canadian GAAP.

The Chief Executive Officer and Chief Financial Officer of the Fund have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Fund's internal controls over financial reporting as of December 31, 2008. Based on that assessment, it was determined that the Fund's internal controls over financial reporting were appropriately designed and were operating effectively. No material changes were identified in the Fund's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

It should be noted that a control system, including the Trust's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.



# Westshore Terminals Income Fund

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

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### 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 tested the operation of the disclosure controls and procedures of Westshore, the General Partner and the Fund as of December 31, 2008 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](http://www.sedar.com).



# Westshore Terminals Income Fund

## Financial Reporting

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### 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 KPMG 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

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## AUDITORS' REPORT

To the Unitholders of  
Westshore Terminals Income Fund

We have audited the consolidated balance sheet of Westshore Terminals Income Fund (the Fund) as at December 31, 2008 and the consolidated statements of earnings, comprehensive earnings and cumulative earnings and cash flows for the year 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 audit.

We conducted our audit 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated March 18, 2008.

*KPMG LLP*

Chartered Accountants

Vancouver, Canada

February 13, 2009

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

# WESTSHORE TERMINALS INCOME FUND

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)

December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 75,034	\$ 72,742
Accounts receivable (note 11)	29,313	11,181
Inventories	6,478	6,162
Prepaid expenses	672	972
Other assets (note 12(c))	-	38
	111,497	91,095
Plant and equipment (note 3)	114,552	128,689
Employee future benefits (note 9)	23,303	20,975
Goodwill	365,541	365,541
	\$ 614,893	\$ 606,300
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,293	\$ 27,826
Distribution payable to unitholders (note 5)	39,353	26,730
Other liabilities (note 12(c))	12,590	-
	68,236	54,556
Employee future benefits (note 9)	21,108	19,364
Future income taxes (note 6)	8,692	6,738
Unitholders' equity:		
Capital contributions (note 4)	704,032	704,032
Cumulative earnings	619,250	494,385
Cumulative distributions declared (note 5)	(806,425)	(672,775)
	516,857	525,642
Contingencies and commitments (note 10)		
Subsequent events (notes 5 and 7)		
	\$ 614,893	\$ 606,300

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees

William W. Stinson, Trustee

Dallas H. Ross, Trustee

# WESTSHORE TERMINALS INCOME FUND

Consolidated Statements of Earnings, Comprehensive Earnings and Cumulative Earnings  
(Expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

	2008	2007
<b>Revenue:</b>		
Coal loading	\$ 260,096	\$ 156,717
Other	5,005	5,239
	<u>265,101</u>	<u>161,956</u>
<b>Expenses:</b>		
Operating	76,996	71,303
Administrative (note 8)	24,160	8,310
	<u>101,156</u>	<u>79,613</u>
Earnings before the undernoted	163,945	82,343
Depreciation	(22,289)	(22,304)
Interest income	1,913	2,536
Foreign exchange gain (loss)	(16,750)	2,449
Earnings before income taxes	126,819	65,024
Income taxes (note 6)	1,954	6,738
Net earnings and comprehensive earnings for the year	124,865	58,286
Cumulative earnings, beginning of year	494,385	436,099
Cumulative earnings, end of year	<u>\$ 619,250</u>	<u>\$ 494,385</u>
Basic and diluted earnings per trust unit	\$ 1.682	\$ 0.792
Weighted average number of trust units outstanding	74,250,016	73,587,701

See accompanying notes to consolidated financial statements.

# WESTSHORE TERMINALS INCOME FUND

Consolidated Statements of Cash Flows  
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2008 and 2007

	2008	2007
<b>Cash flows provided by (used in) operating activities:</b>		
Net earnings for the year	\$ 124,865	\$ 58,286
Items not affecting cash:		
Unrealized loss on foreign exchange contracts (note 12)	12,628	1,808
Depreciation	22,289	22,304
Future income tax provision (note 6)	1,954	6,738
Increase (decrease) in employee future benefits asset/liability	(584)	536
	<u>161,152</u>	<u>89,672</u>
<b>Changes in non-cash working capital:</b>		
Accounts receivable	(18,132)	4,030
Inventories	(316)	(60)
Prepaid expenses	300	3,003
Accounts payable and accrued liabilities	(11,533)	9,725
	<u>131,471</u>	<u>106,370</u>
<b>Cash flows provided by (used in) financing activities:</b>		
Distributions paid to unitholders	(121,027)	(82,979)
Issuance of units, net of unit issuance costs	-	40,430
	<u>(121,027)</u>	<u>(42,549)</u>
<b>Cash flows used in investing activities:</b>		
Additions to plant and equipment	(8,152)	(25,634)
Increase in cash and cash equivalents	2,292	38,187
Cash and cash equivalents, beginning of year	72,742	34,555
<b>Cash and cash equivalents, end of year</b>	<b>\$ 75,034</b>	<b>\$ 72,742</b>
<b>Supplemental cash flow information:</b>		
Cash received for interest	\$ 1,913	\$ 2,536
Non-cash activities:		
Increase in accounts payable related to additions to plant and equipment	-	733

See accompanying notes to consolidated financial statements.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

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## 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 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 subsidiaries, including its variable interest entity, the Partnership. All significant inter-entity transactions and balances have been eliminated on consolidation of the Fund.

## 2. Significant accounting policies:

### (a) Accounting principles:

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

### (b) Variable interest entities:

Under Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15), it was determined that the Fund's investment in the Partnership meets the criteria for being a Variable Interest Entity (VIE) and that the Fund is the primary beneficiary of this entity. 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. As a result, the Fund consolidates the Partnership.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

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## 2. Significant accounting policies (continued):

### (c) Financial instruments:

The Fund's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and distributions payable to unitholders. The carrying amounts of these financial instruments recorded on the consolidated balance sheets are reasonable estimates of their fair values due to the relatively short periods to maturity and commercial terms of these instruments.

Cash and cash equivalents are classified as held-for-trading and are recorded at fair value on the consolidated balance sheets. Accounts receivable are classified as loans and receivables and are recorded at amortized cost. Accounts payable and distributions payable to unitholders are classified as other financial liabilities and are recorded at amortized cost.

The Fund's financial instruments also include foreign exchange contracts, which are derivative instruments that are classified as held-for-trading and are recorded at fair value. Fair value is determined based on valuations obtained from the counterparty. The mark-to-market value is determined by the counterparty by multiplying the notional amount of the trade with the difference between the forward rate and the contract rate and discounting the resultant asset or liability by an applicable discount factor. The changes in fair value fluctuations are recorded in foreign exchange.

### (d) Embedded derivatives:

Certain contractual terms are considered to behave in a similar fashion to a derivative contract and parties to the contracts are therefore required to separate the accounting for these embedded derivatives from the accounting for the host contract. Once separated, these embedded derivatives are subject to the general derivative accounting guidelines outlined in CICA Section 3855. For the Fund, these terms typically relate to the currency in which the contract is denominated. There are exemptions for contracts that are written in a currency that is not the functional currency of one of the substantial parties to the contract but which is a currency in common usage in the economic environment of one of the contracting parties. The Fund has elected to use this exemption available in accounting for certain purchase agreements.

### (e) Asset retirement obligations:

An asset retirement obligation is a legal obligation associated with the retirement of an owned or leased, tangible, long-lived asset. The Fund recognizes the fair value of an estimated asset retirement obligation when a legal obligation is present and a reasonable estimate of fair value can be made.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

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## 2. Significant accounting policies (continued):

### (e) Asset retirement obligations (continued):

The Partnership's terminal site is leased from the Vancouver Fraser Port Authority (the VFPA). A new lease agreement was signed on November 2, 2006, which is effective as of January 1, 2007. The current 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 VFPA 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 VFPA will elect to enforce site restoration is negligible and any liability related to an asset retirement obligation would not be material as at December 31, 2008.

### (f) 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.

### (g) Inventories:

Inventories of spare parts and supplies are valued at the lower of cost less a provision for obsolescence and net realizable value. Cost is determined using the weighted average cost method and includes the invoiced cost and other directly attributable costs of acquiring the inventory.

### (h) Plant and equipment:

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

Asset	Term
Automobiles	3 years
Conveyor belts	5 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

Plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount for the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

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## 2. Significant accounting policies (continued):

### (i) 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. Any excess of the carrying value over fair value is charged to earnings in the period in which the impairment is determined.

### (j) Revenue recognition:

Coal loading revenue is recognized when a customer's coal is loaded onto a ship and ready for export from the terminal site. Coal loading revenue is recorded based on contract specific loading rates. Other revenue consists primarily of wharfage fees which are recorded based upon the period of time a ship is at the port.

### (k) Income taxes:

The income of the Partnership is taxed directly in the hands of the Fund and the General Partner. It is expected that the Fund and the Partnership will operate so that substantially all net income of the Business will be allocated to and taxed in the hands of the unitholders.

Legislative provisions under Bill C-52 Budget Implementation Act 2007, which requires tax to be paid by publicly traded income trusts in Canada, became law on June 22, 2007. Under these rules, distributions declared by the Fund after January 1, 2011, will be taxed at a rate of 27.5% (2012 - 26.0%) and the distributions will be treated as taxable dividends in the hands of unitholders.

The Fund has measured future income tax assets and liabilities associated with the change in legislation. Future income tax assets and liabilities have been recognized for temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. These balances are calculated using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. The amounts of future income tax assets is limited to the amount that is more likely than not to be realized.

### (l) Employee future benefits:

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

- The measurement date used for accounting purposes is December 31, 2008 and 2007, respectively.
- 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 future health care costs.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

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## 2. Significant accounting policies (continued):

### (l) Employee future benefits (continued):

- 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 the amendments.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees.
- The discount rate used to value liabilities is based on AA Corporate bond yields.
- The expected weighted average remaining service life of employees covered by the defined benefit pension plan is ten years (2007 - nine years).

### (m) Foreign exchange:

The functional and reporting currency of the Fund and its subsidiaries is the Canadian dollar. Transactions which are denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. The carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at each balance sheet date to reflect exchange rates prevailing at that date.

### (n) 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of net recoverable value of assets, useful lives of plant and equipment, asset retirement obligations, train detention and ship demurrage costs and accruals at period end, determination of actuarial assumptions, provision for contingencies and future income tax amounts. Actual results could differ from those estimates.

### (o) New accounting standards:

#### (i) Inventories:

On January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, *Inventories*. Section 3031 provides more extensive guidance on the measurement and disclosure of inventory. The adoption of this standard did not have a material impact on the consolidated financial statements for the Fund.

# WESTSHORE TERMINALS INCOME FUND

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## 2. Significant accounting policies (continued):

### (o) New accounting standards (continued):

#### (i) Financial instruments:

On January 1, 2008, the Fund adopted the CICA Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments - Disclosure* and Section 3863, *Financial Instruments - Presentation*. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Sections 3862 and 3863 revise disclosure and presentation of financial instruments and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed. See notes 12 and 13 for additional disclosures.

### (p) Future accounting standards:

#### (i) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*. This new accounting standard, which applies to fiscal years beginning on or after October 1, 2008, replaces Section 3062, *Goodwill and Other Intangible Assets*. Section 3064 expands on the standards for recognition, measurement, and disclosure of goodwill and intangible assets. The Fund does not expect that the adoption of this new standard will have any impact on its financial statements, disclosures, or results of operations.

#### (ii) International Financial Reporting Standards:

In January 2006, the Canadian Accounting Standards Board announced its decision that requires all publicly accountable entities to report under International Financial Reporting Standards (IFRS). The Fund's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The Fund is currently evaluating the impact of these new standards.

#### (iii) Credit risk and the fair value of financial assets and liabilities:

On January 23, 2009, the CICA Emerging Issues Committee (EIC) issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*. EIC-173 is effective for interim and annual financial statements ending on or after January 20, 2009. EIC-173 provides guidance that an entity's own credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities. Adoption of this guidance is to be applied retrospectively without restatement to prior periods. The Fund will adopt this guidance in its March 31, 2009 interim financial statements and it is currently evaluating the impact on its consolidated financial statements.

### (q) Comparative figures:

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

# WESTSHORE TERMINALS INCOME FUND

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## 3. Plant and equipment:

2008	Cost	Accumulated depreciation	Net book value
Buildings and land improvements	\$ 34,041	\$ 27,154	\$ 6,887
Machinery and equipment	454,346	356,512	97,834
Construction in progress	9,831	-	9,831
\$ 498,218		\$ 383,666	\$ 114,552

2007	Cost	Accumulated depreciation	Net book value
Buildings and land improvements	\$ 34,255	\$ 26,026	\$ 8,229
Machinery and equipment	447,806	335,511	112,295
Construction in progress	8,165	-	8,165
\$ 490,226		\$ 361,537	\$ 128,689

## 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.

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 of a pro-rata number of Trust notes.

During 2007, the Fund completed a \$20,000,000 private placement and \$20,000,000 rights offering. The Fund issued 3,868,905 units and received \$40,430,000 in proceeds.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

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## 4. Trust units (continued):

Capital contributions are as follows:

	Number of units	Capital contributions
December 31, 2008	74,250,016	\$ 704,032
December 31, 2007	74,250,016	704,032

## 5. Distributions to unitholders:

Cumulative distribution declared to unitholders:

Cumulative distributions to December 31, 2006	\$ 586,644
Distributions declared in 2007	86,131
Cumulative distributions to December 31, 2007	672,775
Distributions declared in 2008	133,650
<u>Cumulative distributions to December 31, 2008</u>	<u>\$ 806,425</u>

Distributions to unitholders are made quarterly.

During the year ended December 31, 2008, the Fund declared cash distributions to unitholders of \$133,650,000 (2007 - \$86,131,000) or \$1.80 per unit (2007 - \$1.16 per unit). The amounts and record dates of the cash distributions declared were as follows:

	2008		2007	
	Total	Per unit	Total	Per unit
March 31	\$ 20,790	\$ 0.28	\$ 19,305	\$ 0.26
June 30	34,897	0.47	18,563	0.25
September 30	38,610	0.52	21,533	0.29
December 31	39,353	0.53	26,730	0.36
	<u>\$ 133,650</u>	<u>\$ 1.80</u>	<u>\$ 86,131</u>	<u>\$ 1.16</u>

The distribution of \$39,353,000 (\$0.53 per unit) payable to unitholders of record on December 31, 2008 was paid on or before January 16, 2009.

In 2008, additional non-cash unit distributions totalling \$0.182 per unit were 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 units were immediately consolidated so that each unitholder continued to hold the same number of units that existed before the distribution.

# WESTSHORE TERMINALS INCOME FUND

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## 5. Distributions payable to unitholders (continued):

The non-cash distribution of units for the year ended December 31, 2008 were as follows:

	Total	Per Unit
March 31	2,107	\$ 0.028
June 30	3,536	0.047
September 30	3,913	0.053
December 31	3,988	0.054
	13,544	\$ 0.182

The distributions declared in 2008 and 2007 have been allocated as follows for income tax purposes:

	2008		2007	
	Total	Per unit	Total	Per unit
<b>Cash distributions:</b>				
Income	\$ 133,650	\$ 1.800	\$ 84,736	\$ 1.141
Return of capital	-	-	1,395	0.019
Total cash distributions	133,650	1.800	86,131	1.160
Non-cash distributions	13,544	0.182	-	-
<b>Total distributions</b>	<b>\$ 147,194</b>	<b>\$ 1.982</b>	<b>\$ 86,131</b>	<b>\$ 1.160</b>

## 6. Income taxes:

At December 31, 2008, the tax bases of the Fund's consolidated assets and liabilities are less than, on a net basis, the carrying amounts by \$51,600,237 (2007 - \$70,942,637).

A reconciliation of income taxes at the statutory tax rate of 31.0% (2007 - 34.12%) to actual income taxes is as follows:

	2008	2007
Income tax expense at statutory Canadian rate	\$ 39,314	\$ 22,186
Tax effect of deduction for net income of the Fund distributed to Unitholders	(39,314)	(22,186)
Tax effect of change in temporary difference expected to reverse after 2010	2,427	6,738
Change in future income tax rate	(473)	-
<b>Income tax provision</b>	<b>\$ 1,954</b>	<b>\$ 6,738</b>

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

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## 6. Income taxes (continued):

	2008	2007
Represented by:		
Current income tax provision	\$ -	\$ -
Future income tax provision	1,954	6,738
	<hr/> \$ 1,954	<hr/> \$ 6,738

The temporary differences are as follows:

	2008	2007
Future income tax liability:		
Plant and equipment	\$ 16,240	\$ 21,897
Pension assets	6,107	5,970
Other assets (liabilities)	(3,293)	11
Non-pension post-retirement liability	(5,532)	(5,512)
Accounts payable and accrued liabilities	-	(2,173)
	<hr/> 13,522	<hr/> 20,193
Expected reversal of temporary differences prior to January 2011	(4,830)	(13,455)
<b>Total</b>	<b>\$ 8,692</b>	<b>\$ 6,738</b>

Based on a current estimate of the income tax liability at the beginning of 2011, the Fund has recorded a future income tax liability and corresponding non-cash future tax expense. The future income tax liability is based on temporary differences between the accounting and tax basis of the assets and liabilities estimated to exist at January 1, 2011 and reverse thereafter.

## 7. Bank operating facility:

The Partnership has a \$1,000,000 (2007 - \$1,000,000) operating facility which is secured by an unconditional guarantee by the Fund. No amounts were outstanding on this facility as at December 31, 2008 and 2007. 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. The term of the credit facility was extended to February 11, 2010 subsequent to December 31, 2008.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

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## 8. Related party transactions:

### (a) Administration agreement:

The Fund has an administration agreement with 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 by the Fund on 180 days' notice, or immediately under certain circumstances.

Westar Management earned a fee of \$250,000 for the year ended December 31, 2008 (2007 - \$250,000) under the administration agreement. These fees are included in administrative expense on the consolidated statements of earnings, comprehensive earnings and cumulative earnings.

### (b) Management agreement:

The Partnership has a management agreement with 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 up to January 30, 2012, 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 flows 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 Management earned a base management fee of \$750,000 and an incentive fee of \$17,552,000 for the year ended December 31, 2008 (2007 - \$750,000 and \$1,643,000 respectively) under the management agreement.

These fees are included in administrative expense on the consolidated statements of earnings, comprehensive earnings and cumulative earnings.

### (c) The Partnership paid \$240,000 to an entity related to Westar Management under the terms of market-based automobile leases.

# WESTSHORE TERMINALS INCOME FUND

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## 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, 2008 and 2007 respectively is as follows:

	Pension plan benefits		Other benefits	
	2008	2007	2008	2007
<b>Accrued benefit obligation:</b>				
Balance, beginning of year	\$ 67,061	\$ 64,562	\$ 26,694	\$ 26,139
Current service cost	1,062	995	941	982
Interest cost	3,794	3,246	1,507	1,403
Benefits paid	(3,777)	(3,077)	(1,412)	(1,671)
Actuarial gains	(10,156)	(2,807)	(4,941)	(663)
Plan improvements	1,836	4,142	-	504
<b>Balance, end of year</b>	<b>\$ 59,820</b>	<b>\$ 67,061</b>	<b>\$ 22,789</b>	<b>\$ 26,694</b>
<b>Plan assets:</b>				
Fair value, beginning of year	\$ 73,949	\$ 74,676	\$ -	\$ -
Actual return on assets	(18,792)	1,754	-	-
Employer contributions	3,127	596	1,412	1,671
Benefits paid	(3,777)	(3,077)	(1,412)	(1,671)
<b>Fair value, end of year</b>	<b>\$ 54,507</b>	<b>\$ 73,949</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Balances, December 31:</b>				
Funded status - plan surplus (deficit)	\$ (5,313)	\$ 6,888	\$ (22,789)	\$ (26,694)
Unamortized net actuarial losses	21,814	8,012	925	6,238
Unamortized past service costs	6,802	6,075	756	1,092
<b>Accrued benefit asset (liability)</b>	<b>\$ 23,303</b>	<b>\$ 20,975</b>	<b>\$ (21,108)</b>	<b>\$ (19,364)</b>

The pension plans are entirely funded by the Partnership. The Partnership's contributions to the pension plans are based on independent actuarial valuations. The other benefit plans have no assets and an annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation.

# WESTSHORE TERMINALS INCOME FUND

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## 9. Employee future benefits (continued):

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

	Most recent valuation date	Date of next required valuation
Pension plan	January 1, 2008	January 1, 2009
Retirement plan	January 1, 2007	January 1, 2010

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):

	2008		2007	
	Pension benefits	Other benefits	Pension benefits	Other benefits
	%	%	%	%
<b>Benefit obligations:</b>				
Discount rate at December 31	7.25	7.25	5.50	5.50
Rate of increase in future compensation	3.00	3.00	3.00	3.00
<b>Benefit costs:</b>				
Discount rate at January 1	5.50	5.50	5.00	5.00
Rate of increase in future compensation	3.50	3.50	3.00	3.00
Expected long-term rate of return on plan assets	7.00	-	7.25	-

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 seven years and 5% thereafter. The annual rates of increase in the per capita cost of medical service plan 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	\$ (297)	\$ 384
Effect on benefit obligation	(2,026)	2,494

# WESTSHORE TERMINALS INCOME FUND

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## 9. Employee future benefits (continued):

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

	2008	2007
	%	%
Cash and fixed income	43	34
Canadian equities	25	22
Foreign equities	32	44
	100	100

The Partnership's contributions for the years ended December 31 are as follows:

	2008	2007
Contributions to funded pension plans	\$ 3,127	\$ 596
Benefits paid directly to beneficiaries for other non-funded post-employment benefits	1,412	1,671
	\$ 4,539	\$ 2,267

The Partnership's net benefit plan expense (income) for the years ended December 31, 2008 and 2007 is as follows:

	2008			2007		
	Incurred in year	Deferral and amortization adjustments ( <sup>1</sup> )	Recognized in year	Incurred in year	Deferral and amortization adjustments ( <sup>1</sup> )	Recognized in year
<b>Pension plan benefits:</b>						
Current service cost	\$ 1,062	\$ -	\$ 1,062	\$ 995	\$ -	\$ 995
Interest cost	3,794	-	3,794	3,246	-	3,246
Expected return on plan assets	18,792	(24,130)	(5,338)	(1,754)	(3,570)	(5,324)
Net actuarial losses (gains)	(10,156)	10,328	172	(2,807)	2,887	80
Past service costs	-	1,109	1,109	-	531	531
	<b>\$ 13,492</b>	<b>\$ (12,693)</b>	<b>\$ 799</b>	<b>\$ (320)</b>	<b>\$ (152)</b>	<b>\$ (472)</b>

# WESTSHORE TERMINALS INCOME FUND

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## 9. Employee future benefits (continued):

	2008			2007		
	Incurred in year	Deferral and amortization adjustments ( <sup>1</sup> )	Recognized in year	Incurred in year	Deferral and amortization adjustments ( <sup>1</sup> )	Recognized in year
<b>Other benefits:</b>						
Current service cost	\$ 941	\$ -	\$ 941	\$ 982	\$ -	\$ 982
Interest cost	1,507	-	1,507	1,403	-	1,403
Net actuarial losses (gains)	(4,941)	5,313	372	(663)	1,217	554
Past service costs	-	336	336	-	336	336
	<b>\$ (2,493)</b>	<b>\$ 5,649</b>	<b>\$ 3,156</b>	<b>\$ 1,722</b>	<b>\$ 1,553</b>	<b>\$ 3,275</b>

<sup>(1)</sup> The net impact of deferral and amortization adjustments is to recognize the long-term nature of employee future benefits.

## 10. Contingencies and commitments:

In August 2006, the Elk Valley Coal Partnership (the Coal Partnership) sent notice to the Partnership requesting a review of the loading rate charged under the Port Services Contract that governs coal from the Fording, Greenhills and Coal Mountain mines, effective April 1, 2007. Discussions concerning the possibility of changes in the loading rate commenced as provided for under the agreement. If the matter cannot be resolved between the parties, the matter would be determined by arbitration. No amounts have been recorded in respect of this matter as the final outcome, and financial impact, if any, is not currently determinable.

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 VFPA. Charges payable by the Partnership under the Lease comprise an annual base land and waterlot rental fee of \$5,206,531 (2007 - \$5,206,531) and an annual participation rental based on the volume of coal shipped. A minimum participation rental of \$6,494,400 (2007 - \$6,494,400) 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 2008, the Partnership paid \$3,358,586 (2007 - \$3,436,818) in relation to the higher participation rental.

# WESTSHORE TERMINALS INCOME FUND

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## 10. Contingencies and commitments (continued):

In 2006, the Partnership signed a new lease with the VFPA effective January 1, 2007. The term of the lease is until December 31, 2026, with the Partnership having further options to extend the term to December 31, 2046. Unless the Partnership completes an equipment upgrade within 36 months of the permit issuance at a cost of at least \$42,000,000, the VFPA has the right to cancel the renewal options. The Partnership commenced this equipment upgrade in 2007 and it has continued throughout 2008.

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

	Terminal lease	Other	Total
2009	\$ 11,701	\$ 457	\$ 12,122
2010	11,701	457	12,122
2011	11,701	-	11,665
2012	11,701	-	11,665
2013	11,701	-	11,665
Thereafter to 2026	152,113	-	151,645

The Partnership has a commitment of approximately \$13,815,000 with respect to equipment purchases that are to be paid in 2009.

## 11. Significant customers:

Teck Cominco Limited holds a 100% interest in the Coal Partnership. During the year ended December 31, 2008, approximately 90% (2007 - 89%) of the Partnership's revenue was earned from the mines owned by the Coal Partnership. As at December 31, 2008, the receivable from the Coal Partnership was \$22,100,000 (2007 - \$6,900,000).

# WESTSHORE TERMINALS INCOME FUND

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## 12. Financial instruments:

The Fund is exposed to various risks associated with its financial instruments, which include credit risk, liquidity risk, and market risk.

### (a) Credit risk:

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from accounts receivable and cash and cash equivalents. Credit risk can also arise on foreign currency contracts entered into.

The Fund's exposure to credit risk is influenced by the profitability of coal mining companies, which are heavily impacted by the price of the coal. The accounts receivable are concentrated with one customer, The Coal Partnership, as this customer represented approximately 90% of Westshore's revenues in 2008 (2007 - 89%). Westshore does not have any collateral or security over receivables. Westshore monitors the financial health of its customers and regularly reviews its accounts receivable for impairment. As at December 31, 2008, there were no trade accounts receivable past due which were considered uncollectible and no reserve in respect of doubtful accounts was recorded.

The Fund limits its exposure to credit risk arising from cash equivalents by only investing in money market funds with a major Canadian financial institution. The Fund does not expect any credit losses in the event of non-performance by counterparties to its foreign exchange contracts as the counterparties are major Canadian financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is:

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Cash and cash equivalents	\$ 75,034
Accounts receivable	29,313
<hr/>	
	\$ 104,347

### (b) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Fund continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due. The Fund's distribution obligation to unitholders is funded from operating income and the current equipment upgrade has been funded with additional equity raised in 2007.

The financial liabilities of the Fund, which include accounts payable and accrued liabilities and distributions payable have a contractual maturity of less than one year. The Fund's foreign exchange contracts have maturities ranging from one month to sixteen months at December 31, 2008.

# WESTSHORE TERMINALS INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

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## 12. Financial instruments (continued):

### (b) Liquidity risk (continued):

Westshore also maintains a \$1,000,000 operating facility that can be drawn down to meet short-term financing needs. No amounts were outstanding on this facility at December 31, 2008.

### (c) Market risk:

The significant market risk exposures affecting the financial instruments held by the Fund are those related to foreign currency exchange rates and interest rates:

#### (i) Foreign currency exchange rates:

The fair value of the Fund's outstanding foreign currency contracts at December 31, 2008 is a liability of \$12,590,000 (2007 - asset of \$38,000). The fair market value of the Fund's foreign currency contracts has decreased by \$12,628,000 in 2008. The Fund is exposed to foreign currency exchange rate risk on its foreign currency contracts. The value of these financial instruments fluctuate with changes in the CAD/US dollar exchange rate and the CAD/Euro exchange rate. A \$0.01 increase in the US/Canadian exchange rate at December 31, 2008 would have reduced the value of the US dollar foreign exchange contracts by approximately \$900,000 and a \$0.01 increase in the Euro/Canadian exchange rate at December 31, 2008 would have increased the value of the Euro foreign exchange contracts by approximately \$20,000. The net impact would have resulted in a reduction in net earnings and comprehensive earnings by \$880,000. From the beginning of 2008 to December 31, 2008, the Euro has strengthened by approximately 2% against the Canadian dollar and the US dollar has strengthened by approximately 7% against the Canadian dollar.

#### (ii) Interest rates:

The Fund has limited exposure to interest rate risk on the cash equivalents (short-term investments). Money market fund returns are correlated with Canadian T-bills and Bankers' Acceptances of major Canadian financial institutions. Based on the cash balance at December 31, 2008, a 1% change in interest rates would have impacted net earnings and comprehensive earnings by approximately \$750,000.

# WESTSHORE TERMINALS INCOME FUND

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(Tabular amounts expressed in thousands of Canadian dollars, except unit amounts)

Years ended December 31, 2008 and 2007

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## **13. Capital disclosure:**

The capital of the Fund consists solely of unitholders' equity which includes issued trust units and cumulative earnings less cumulative distributions.

The objective of the Fund is to maintain a stable capital base and ensure that the capital structure does not interfere with the Fund's ability to meet its distribution requirements on the trust units. The Fund's Declaration of Trust provides that an amount equal to the net income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's net income. To the extent that the net income of the Fund exceeds the cash distributed during the year, the Fund will allocate non-cash distribution of units to Unitholders which will be immediately consolidated so that each Unitholder continues to hold the same number of Trust Units that existed before the distribution. In 2009, the Fund expects that its quarterly distributions to unitholders will be funded by earnings and operating cash flows.

The trust units are governed by the Second Amended and Restated Declaration of Trust dated September 29, 2005, which provides that non-residents of Canada may not own more than 49% of the trust units at any time. The Fund continually monitors the non-resident ownership levels to the best of its ability given the practical limitations regarding beneficial ownership interest. The Fund believes that it has always had substantially less than 49% non-Canadian ownership.

The Fund is not subject to externally imposed capital requirements. There have been no changes in how the Fund manages its capital during the period ended December 31, 2008.



## 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*

## KPMG 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*

The Toronto Stock Exchange

*Trading Symbol*

WTE.UN

*Annual General Meeting*

The Annual General Meeting of Unitholders will be held on Tuesday, June 16, 2009 at 9:00 a.m. at the Marriott Pinnacle 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