



# Westshore Terminals Income Fund

## First Quarter Report

For the three months ended March 31, 2003

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Dear Unitholders:

Prior to February 28, 2003, Westshore Terminals Income Fund (the "Fund") derived its cash inflows solely from its investment in the subordinated notes and common shares of Westshore Terminals Ltd. ("Westshore"). Effective February 28, 2003, the Fund made a \$150 million investment in the Fording Canadian Coal Trust (the "Fording Trust"), representing approximately 9.1% of the outstanding units, and receives its pro rata share of distributions from the Fording Trust as and when they are paid, which in turn are paid to the Fund's unitholders. The earnings and distributable cash of the Fund are now wholly dependent on the results of both Westshore and the investment in Fording Trust.

### Westshore Terminals Ltd.

- Operational Review and Management Discussion and Analysis

In the first quarter of 2003, Westshore shipped 4.3 million tonnes of coal, compared with 5.1 million tonnes shipped during the same period in 2002. The reduction in tonnage is principally due to the major windstorm accident which occurred on January 2, 2003 and which rendered Berth 2 inoperative. Based on information available to it, Westshore currently anticipates that throughput in 2003 will be less than 2002 levels.

Coal loading revenue decreased to \$23.9 million in the first quarter from \$29.3 million in the first quarter of 2002. The decrease was due to a combination of lower shipment volumes resulting from the damage to Berth 2 and a lower average loading rate. For the balance of 2003, the average loading rate is anticipated to be less than the average loading rates in 2002 and the first quarter of 2003. The rate for the majority of the coal handled at Westshore will be tied to the average price in Canadian dollars realized for coal sold by Westshore's customers, subject to a floor rate.

Westshore expects that the Canadian dollar coal price in the period April 1, 2003 – March 31, 2004 will be reduced by reason of a stronger Canadian dollar and a decrease in the US dollar denominated reference price for metallurgical coal to approximately US\$42.00 per tonne. If the recent strength of the Canadian dollar is maintained, there will be a material reduction in the loading rates received by Westshore for coal from each of the Fording River, Elkview and Greenhills mines compared to the rates received in the period April 1, 2002 – March 31, 2003 for coal from those mines.

Other revenue increased principally because of the inclusion of amounts received under business interruption insurance coverage as a result of Berth 2 being inoperative. Westshore does not anticipate the same receipts on a quarterly basis. Westshore expects to receive further amounts on account of business interruption insurance but that these will not be settled until later in 2003. In addition, other income increased due to lower costs incurred for demurrage and train detention by reason of the reduced shipment volumes.

Operating expenses decreased from \$13.4 million in the first quarter of 2002 to \$11.9 million in the first quarter of 2003. This decrease was mainly due to reduced operating and lease costs associated with the decreased tonnage. Administrative costs were consistent with the prior year. As a result of the foregoing, Westshore's earnings before interest, taxes, depreciation and extraordinary item for the three months ended March 31, 2003 were \$13.1 million as compared to \$14.1 million for the same period in 2002.



## Westshore Terminals Income Fund

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Repairs are underway at Berth 2 and it is anticipated that the operations at this berth will resume in the summer of 2003. In the interim, Westshore has been working closely with its customers and the railways to maximize volume through the larger Berth 1. Westshore carries insurance which is expected to be adequate to cover both the costs of repair and most of the lost profits from reduction in shipments, net of applicable deductibles. Based on current information, the impact of the incident is not expected to have a material adverse effect (after collection of insurance proceeds) on the financial performance of the Fund.

All three-year labour agreements with International Longshore and Warehouse Union (the longshoremen, the foremen and the clerical workers) expired on January 31, 2003. Negotiations with all three locals are underway and are anticipated to be more difficult than in prior years.

### Fording Trust

On February 28, 2003, the formation of the Fording Trust was completed. Under this transaction, the Fund invested \$150 million and acquired a 9.1% interest in the Fording Trust. In addition, Westshore secured a long-term handling contract, which expires February 29, 2012, covering the three mines previously owned by Fording Inc., two of the contracts for which expired in 2002. The Elk Valley Coal Partnership (the "Coal Partnership"), which was formed with the Fording Trust and in which the Fording Trust holds a 65% interest, now owns mines which in 2002 shipped 97% of Westshore's throughput.

The completion of this transaction and the long-term handling contract covering the three former Fording mines will increase the impact on the Fund's financial results of the Canadian dollar price realized for coal handled by Westshore. While Westshore is not a vendor of coal, in the past the Fund's financial results were indirectly affected by the Canadian dollar price realized, because that price affects the competitiveness of Westshore's customers in world markets.

As a result of Westshore's arrangements with the Coal Partnership covering the former Fording mines and the Elkview mine, the loading rate for a majority of the coal loaded by Westshore in future years will be a function of the Canadian dollar price realized by the Coal Partnership for that coal. Accordingly that portion of Westshore's revenues will be directly affected by changes in the US dollar denominated coal price achieved by the Coal Partnership and by the US-Canadian dollar exchange rate. The expected effects on the Fund's distributable cash caused by changes in Westshore's revenues because of changes in the coal price are as follows. For every US\$1.00 change in the US dollar denominated coal price, the Fund's distributable cash can be expected to increase or decrease, as the case may be, by \$0.02 per unit. For every US\$0.01 change in the value of the Canadian dollar, the Fund's distributable cash can be expected to be impacted by \$0.01 per unit. In April, 2003 Westshore entered into limited hedging arrangements, the impact of which will be recognized for the first time in the second quarter of 2003.

In addition, the distributions that the Fund will receive from the Fording Trust will be substantially dependent on the profitability of the Coal Partnership which in turn is significantly affected by the strength of the Canadian dollar.



# Westshore Terminals Income Fund

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## Quarterly Distributions

On April 15, 2003, the Fund distributed \$14,428,128 (\$0.205 per trust unit) in cash for the first quarter of 2003 to Unitholders of record on March 31, 2002 as compared with \$9,853,335 (\$0.14 per trust unit) in cash for the first quarter of 2002. The distributions of \$0.205 per unit are provisionally comprised for income tax purposes of income of \$0.182470 per trust unit, and a return of capital of \$0.022530 per trust unit. These amounts may vary when calculated for the year as a whole.

At the time that the April distribution was declared, based on then current information the Fund anticipated making approximately similar distributions in subsequent quarters of 2003, but noted that variations in distributions could arise due to various factors, including the distribution level from the Fording Trust and throughput levels at the Terminal. In view of the unexpected rise in the value of the Canadian dollar relative to the US dollar, the Trustees will consider the appropriate level of distribution for the second and subsequent quarters when declaring the next quarterly distribution.

The Fording Trust made a special distribution of \$0.74 per unit of the Fording Trust (the "Fording Units") in respect of the first quarter of 2003 and a regular first quarter distribution of \$0.26 per Fording Unit. The Fording Trust's First Quarter Report continues to anticipate a further special distribution of \$0.74 per Fording Unit in July 2003, but estimates combined regular distributions of \$2.76 per Fording Unit for the last three-quarters of 2003, down from the earlier estimate of \$3.55 per Fording Unit. Since the Fund holds 4,285,714 Units of the Fording Trust, if all of these distributions are made the Fund will receive in aggregate approximately \$19.3 million in distributions from the Fording Trust in 2003 (before debt service on the \$150 million loan used to make the investment). Information concerning the Fording Trust can be found in its public disclosure documents, which are available at [www.sedar.com](http://www.sedar.com) under the company profiles for "Fording Inc." and "Fording Canadian Coal Trust". The Fund also received an expense payment on the closing of its investment in the Fording Trust the net amount of which, after deducting external costs, was approximately \$8 million.

At the current time, the Fund anticipates distributions by the Fund for 2003 as a whole to be higher than in 2002 principally as a result of the distributions (net of the Fund's debt service) from the Fording Trust. Distributions in subsequent years will be based on both the performance and distributions in those years by Westshore and the Fording Trust.

On behalf of the Trustees,

William W. Stinson  
Chairman  
May 16, 2003



# Westshore Terminals Income Fund

## Statements of Earnings and Unitholders' Equity

(in thousands of dollars, except per unit amounts)

	Three months ended March 31	
	2003 (Unaudited)	2002 (Unaudited)
<b>INCOME</b>		
Interest	\$ 9,743	\$ 8,100
Fording Canadian Coal Trust distribution	1,114	-
Equity in earnings of Westshore Terminals Ltd.	10,564	2,040
Amortization of purchase price discrepancy	(1,519)	(1,989)
	19,902	8,151
<b>EXPENSES</b>		
Interest expense	802	-
Administration costs	124	63
	926	63
<b>Net earnings before extraordinary loss</b>	18,976	8,088
<b>Extraordinary loss (Note 3)</b>	3,116	-
<b>Net earnings for the period</b>	15,860	8,088
<b>Unitholders' equity, beginning of period</b>	510,136	515,152
<b>Cash distributions declared during the period</b>	(14,428)	(9,853)
<b>Unitholders' equity, end of period</b>	\$ 511,568	\$ 513,387
<b>Net earnings per trust unit</b>	\$ 0.225	\$ 0.115
<b>Weighted average number of trust units outstanding</b>	70,381,111	70,381,111

## Statements of Distributable Cash

(in thousands of dollars, except per unit amounts)

	Three months ended March 31	
	2003 (Unaudited)	2002 (Unaudited)
<b>Net earnings for the period</b>	\$ 15,860	\$ 8,088
<b>Add (deduct):</b>		
Extraordinary loss (Note 3)	3,116	-
Equity in earnings of Westshore Terminals Ltd.	(10,564)	(2,040)
Amortization of purchase price discrepancy	1,519	1,989
Fording Canadian Coal Trust Special Distribution	3,171	-
Fording Canadian Coal Trust Special Receipt	7,711	-
<b>Distributable cash</b>	\$ 20,813	\$ 8,037
<b>Distributions declared during the period</b>	\$ 14,428	\$ 9,853
<b>Distributions declared per trust unit</b>	\$ 0.205	\$ 0.140
<b>Weighted average number of trust units outstanding</b>	70,381,111	70,381,111

**Statements of Cash Flows**
*(in thousands of dollars)*

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2003</b>	<b>2002</b>
	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities</b>		
Distributable cash	\$ 20,813	\$ 8,037
Change in non-cash working capital	(4,029)	(63)
	16,784	7,974
<b>Cash flows from financing activities</b>		
Increase in long-term debt (Note 2)	150,000	-
Distributions paid to unitholders	(10,979)	(15,100)
	139,021	(15,100)
<b>Cash flows from investing activities</b>		
Investment in Fording Canadian Coal Trust (Note 2)	(150,000)	-
	(150,000)	-
<b>Increase (decrease) in cash and cash equivalents</b>	5,805	(7,126)
<b>Cash and cash equivalents, Beginning of period</b>	10,858	15,688
<b>Cash and cash equivalents, End of period</b>	\$ 16,663	\$ 8,562
<b>Supplemental cash flow information</b>		
Cash received for interest	\$ 9,743	\$ 8,100

**Balance Sheets**
*(in thousands of dollars)*

	<b>March 31,</b>	<b>December 31,</b>
	<b>2003</b>	<b>2002</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 16,663	\$ 10,858
Accounts receivable	4,826	-
Prepaid expenses	208	235
	21,697	11,093
Investment in Fording Canadian Coal Trust (Note 2)	139,118	-
Investment in Westshore Terminals Ltd.	516,065	510,136
	\$ 676,880	\$ 521,229
<b>LIABILITIES &amp; UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 884	\$ 114
Distribution payable to unitholders	14,428	10,979
	15,312	11,093
Long-term debt (Note 2)	150,000	-
<b>Unitholders' Equity</b>	511,568	510,136
	\$ 676,880	\$ 521,229



## Notes to Financial Statements

### 1. Accounting Policies

These interim financial statements should be read in conjunction with the financial statements and notes included in the Fund's Annual Report for the year ended December 31, 2002.

These interim financial statements follow the same accounting policies and methods of computation as used in the 2002 financial statements.

### 2. Investment in Fording Canadian Coal Trust

Effective February 28, 2003, the Fund along with Teck Cominco Limited (Teck), Luscar Ltd. (Luscar), Sherritt International Corporation and the Ontario Teacher's Pension Plan agreed with Fording Inc. (Fording) to proceed under a plan of arrangement to convert Fording into an income trust. As part of the plan of arrangement, existing Fording shareholders were able to elect to receive cash or units (or both) of the Fording Canadian Coal Trust (Fording Trust). As part of the transaction, the Fund paid \$150 million in cash for a 9.1% investment in the newly formed Fording Trust. This investment has been accounted for as a long-term investment using the cost method. The Fund financed this investment through loans of \$120 million from several Canadian chartered banks and \$30 million from an affiliate of Westar Group Ltd. The \$120 million term bank loans bear interest at the Banker's Acceptance rate plus 1.75% to 3.00% and are due on February 28, 2006. The \$30 million loan bears interest at the Bank of Nova Scotia prime rate plus 1.00% to 2.25% and is due on February 28, 2007. These loans are secured by a general security agreement covering all the assets of the Fund and Westshore Terminals Ltd. (Westshore). Fording Trust will hold 65% of the Canadian Coal Partnership (the Partnership) and 100% interest in Fording's industrial minerals business. The Partnership acquired all the metallurgical coal assets of Fording, Teck and Luscar. Westshore's coal handling contracts previously negotiated with Fording, Teck, and Luscar, including exclusivity agreements, will continue in effect.

### 3. Ship Loader Accident

On January 2, 2003, high winds caused the two ship loaders at Berth 2 at Westshore's terminal site to collapse. Both ship loaders were severely damaged. The ship loader at Berth 1 was undamaged by the storm. Westshore's insurers have confirmed Westshore's coverage under the All Risk Property Policy, including business interruption compensation for the accident (net of applicable deductions). Westshore anticipates that the operations at Berth 2 will resume in the summer of 2003.

For accounting purposes, Westshore is recording an extraordinary gain, which represents the estimated insurance proceeds of \$16.6 million to replace the damaged equipment net of the carrying value of the damaged equipment of \$0.5 million which has been written off and taxes of \$6.1 million. The estimated insurance proceeds may change as repairs and replacements are undertaken. Insurance proceeds of \$5.0 million have been received to date. The cost of replacement equipment is being capitalized to plant and equipment and depreciated consistent with Westshore's depreciation policy. Proceeds from business interruption insurance of \$2 million have been included in other income on Westshore's statement of operations and deficit.

The Fund has recorded an extraordinary loss which represents the portion of its purchase price discrepancy that has been written off relating to the damaged equipment.

**Statements of Operations and Deficit**
*(in thousands of dollars)*

	Three months ended March 31	
	2003 (Unaudited)	2002 (Unaudited)
<b>REVENUE</b>		
Coal	\$ 23,922	\$ 29,307
Other income (Note 3)	2,357	(309)
	26,279	28,998
<b>EXPENSES</b>		
Operating	11,896	13,379
Administrative	1,259	1,551
	13,155	14,930
<b>Earnings before depreciation, interest, income taxes, and extraordinary gain</b>	13,124	14,068
Depreciation	2,515	2,550
Interest expense	9,743	8,100
<b>Earnings before income taxes and extraordinary gain</b>	866	3,418
Provision for income taxes	326	1,378
<b>Earnings before extraordinary gain</b>	540	2,040
<b>Extraordinary gain (Note 3)</b>	10,024	-
<b>Net earnings for the period</b>	10,564	2,040
<b>Deficit - beginning of period</b>	(569,135)	(569,966)
<b>Deficit - end of period</b>	\$ (558,571)	\$ (567,926)

**Statements of Cash Flows**
*(in thousands of dollars)*

	Three months ended March 31	
	2003 (Unaudited)	2002 (Unaudited)
<b>Cash flows from operating activities</b>		
Net earnings for the period	\$ 10,564	\$ 2,040
Items not affecting cash		
Depreciation	2,515	2,550
Future income tax recovery	(466)	(418)
Extraordinary gain (Note 3)	(10,024)	-
	2,589	4,172
Increase in non-cash working capital	(10,463)	(2,688)
Increase in deferred employee future benefits costs	(147)	(171)
	(8,021)	1,313
<b>Cash flows from investing activities</b>		
Additions to plant and equipment	(2,877)	(379)
Insurance proceeds (Note 3)	5,000	-
<b>Increase (decrease) in cash and cash equivalents</b>	(5,898)	934
<b>Cash and cash equivalents, Beginning of period</b>	4,293	12,202
<b>Cash and cash equivalents (Bank indebtedness), End of period</b>	\$ (1,605)	\$ 13,136
<b>Supplemental cash flow information</b>		
Cash paid for interest	9,743	8,100
Cash received for interest	15	71
Income taxes paid	-	1,472

**Balance Sheets**
*(in thousands of dollars)*

	<b>March 31, 2003</b>	<b>December 31, 2002</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ -	\$ 4,293
Accounts receivable	31,084	10,432
Inventories	4,751	5,736
Prepaid expenses	2,138	2,333
Income taxes receivable	1,081	1,873
	<u>39,054</u>	<u>24,667</u>
<b>Plant and equipment</b>		
At cost	266,618	265,465
Accumulated depreciation	(179,562)	(178,240)
	<u>87,056</u>	<u>87,225</u>
<b>Employee future benefits</b>	<u>1,208</u>	<u>1,061</u>
	<u>\$ 127,318</u>	<u>\$ 112,953</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 1,605	\$ -
Accounts payable and accrued liabilities	11,866	15,249
	<u>13,471</u>	<u>15,249</u>
Notes payable	470,000	470,000
Future income taxes	24,454	18,875
	<u>507,925</u>	<u>504,124</u>
<b>SHAREHOLDER'S DEFICIENCY</b>		
Share capital	177,964	177,964
Deficit	(558,571)	(569,135)
	<u>(380,607)</u>	<u>(391,171)</u>
	<u>\$ 127,318</u>	<u>\$ 112,953</u>

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### **2. Coal Partnership**

On February 28, 2003, the Fund paid \$150 million in cash for a 9.1% investment in the newly formed Fording Trust. The Fund financed this investment through loans of \$120 million from several Canadian chartered banks and \$30 million from an affiliate of Westar Group Ltd. These loans are guaranteed by the Company and are secured by all the assets of the Company. The Company guarantees the due and punctual payment, whether at stated maturity or otherwise, of all indebtedness of the Fund to the lenders. Fording Trust will hold 65% of the Canadian Coal Partnership (the Partnership) and 100% interest in Fording's industrial minerals business. The Partnership acquired all the metallurgical coal assets of Fording, Teck and Luscar. The Company's coal handling contracts previously negotiated with Fording, Teck and Luscar, including the exclusivity agreements, will continue in effect.

### **3. Ship Loader Accident**

On January 2, 2003, high winds caused the two ship loaders at Berth 2 at the Company's terminal site to collapse. Both ship loaders were severely damaged. The ship loader at Berth 1 was undamaged by the storm. The Company's insurers have confirmed the Company's coverage under the All Risk Property Policy, including business interruption compensation for the accident (net of applicable deductions). The Company anticipates the operations at Berth 2 will resume in the summer of 2003.

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#### **Corporate Office**

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