



# 2008 Year End Report

*For the year ended December 31, 2008*

## HIGHLIGHTS

- Keyera delivered exceptional results in 2008, driven by record results in all three business segments.
- Net earnings for 2008 were \$165.5 million (\$2.62 per unit) compared to \$14.5 million (\$0.24 per unit) in 2007. The increase was primarily due to strong operational results in 2008 and recording \$80.2 million of non-cash future income tax expense in 2007.
- Distributions to unitholders in 2008 totaled \$105.5 million (\$1.69 per unit). Keyera raised distributions twice in 2008, a 20% increase. This is consistent with the objective of providing stable and growing distributions to unitholders. Distributions to unitholders in the fourth quarter totaled \$28.1 million (\$0.45 per unit).
- Distributable cash flow<sup>1</sup> in 2008 was \$139.4 million (\$2.23 per unit), 2.8% lower than 2007 (\$2.35 per unit). Keyera's risk management program was effective in protecting its NGL inventory from the impact of falling product prices in 2008. If the non-cash unrealized gains from the risk management program were included, Keyera's 2008 distributable cash flow would have increased by \$66.6 million (\$1.06 per unit). Fourth quarter distributable cash flow<sup>1</sup> was \$40.3 million (\$0.64 per unit).
- All three business segments recorded the highest annual results in Keyera's history, despite an uncertain business environment and a significant drop in commodity prices during the year. Contribution from Gathering and Processing was \$109.6 million, 25% higher than 2007; NGL Infrastructure contribution was \$49.9 million, 7% higher than in 2007; contribution from the Marketing business was \$102.4 million, more than double 2007 results.
- Keyera also had a record year growing its business, investing \$320 million in internal growth projects and acquisitions to significantly expand its Gathering and Processing and NGL Infrastructure businesses. These initiatives were consistent with Keyera's growth strategy and will contribute incremental cash flow in 2009.
- Keyera continues to maintain a strong balance sheet, completing a public offering of \$80 million of convertible debentures on December 1, 2008 and reducing debt levels by \$105 million since year end.

<sup>1</sup> See "Non-GAAP Financial Measures" on page 4 and a reconciliation of distributable cash flow to cash flow from operating activities on page 28.

<b>Summary of Key Measures</b> (Thousands of Canadian dollars, except where noted)	<b>Three months ended Dec. 31,</b>		<b>Twelve months ended Dec. 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Net earnings	<b>50,877</b>	40,027	<b>165,485</b>	14,479
Per unit (\$/unit) - diluted	<b>0.79</b>	0.64	<b>2.62</b>	0.24
Cash flow from operating activities	<b>115,760</b>	45,497	<b>91,302</b>	119,825
Distributable cash flow <sup>2</sup>	<b>40,325</b>	41,420	<b>139,441</b>	143,469
Per unit <sup>1</sup> (\$/unit)	<b>0.65</b>	0.68	<b>2.23</b>	2.35
Distributions declared	<b>28,141</b>	22,965	<b>105,501</b>	90,206
Per unit <sup>1</sup> (\$/unit)	<b>0.45</b>	0.38	<b>1.69</b>	1.48
Payout ratio % <sup>2</sup>	<b>69.8</b>	55.4	<b>75.7</b>	62.9
<b>Gathering &amp; Processing:</b>				
Gross processing throughput (mmcf/d)	<b>867</b>	882	<b>870</b>	843
Net processing throughput (mmcf/d)	<b>676</b>	695	<b>671</b>	654
<b>NGL Infrastructure:</b>				
Gross processing throughput (mmbbl/d)	<b>96</b>	<b>102</b>	<b>99</b>	99
Net processing throughput (mmbbl/d)	<b>35</b>	<b>30</b>	<b>32</b>	28
<b>Marketing:</b>				
Inventory	<b>53,127</b>	76,594	<b>53,127</b>	76,594
Sales volumes (bbl/d)	<b>75,700</b>	53,800	<b>60,400</b>	50,800
Capital expenditures (\$ millions)	<b>188.6</b>	9.0	<b>321.9</b>	32.0
Dispositions (\$ millions)	<b>(0.7)</b>	(0.5)	<b>(1.3)</b>	(4.7)
Long-term debt			<b>313,561</b>	333,243
Credit facilities			<b>249,000</b>	—
Cash and inventory			<b>(53,240)</b>	(92,251)
<b>Net debt</b>			<b>509,321</b>	240,992
Convertible debentures			<b>79,034</b>	21,476
<b>Net debt (including debentures)</b>			<b>588,355</b>	262,468
Trust units outstanding – end of period			<b>62,888</b>	61,264
Weighted average number of units outstanding – basic			<b>61,694</b>	61,098
Weighted average number of units outstanding – diluted			<b>63,549</b>	61,098

## Notes:

- Per unit measures are calculated using an implied number of trust units outstanding for the specified period. The implied number of trust units outstanding is calculated by using the distributions declared to unitholders and dividing by the actual distributions (on a per unit basis) paid for the specified period.
- Payout ratio is defined as distributions declared to unitholders divided by distributable cash flow. Payout ratio and distributable cash flow are not standard measures under Canadian Generally Accepted Accounting Principles and, therefore, may not be comparable to the calculations of similar measures for other companies.

## Message to Unitholders

I am pleased to report Keyera delivered exceptional results in 2008, despite a number of challenges caused by the economic slowdown and a continued decline in commodity prices during the fourth quarter. Record operating results in all three business segments contributed to this strong showing. This performance is the result of the

---

---

application of focus and discipline to our business affairs, and has allowed us to deliver stable and growing distributions to unitholders. In 2008, we increased distributions to unitholders by 20%, to our current annual distribution level of \$1.80 per unit. Since going public in 2003, we have paid distributions of \$7.69 per unit to unitholders and, including the appreciation in our unit price, at year end we had delivered a total cumulative return to investors of 154%.

In 2008, net earnings were \$165.5 million (\$2.62 per unit) compared to \$14.5 million (\$0.24 per unit) in 2007. Distributable cash flow of \$139.4 million (\$2.23 per unit) was sufficient to pay distributions to unitholders of \$105.5 million (\$1.69 per unit) and partially fund Keyera's 2008 growth capital program. Our risk management program was successful in fully offsetting a \$77.8 million reduction in the value of our NGL inventory, due to lower commodity prices in the latter half of 2008. These financial contracts produced \$116.5 million of gains, which are included in earnings. Of that total, \$66.6 million is unrealized and is excluded from Keyera's distributable cash flow until the contracts are settled, largely in the first quarter of 2009.

The Gathering and Processing segment had a record year, providing contribution of \$109.6 million, 25% higher than last year. Higher throughput in 2008 and new facilities contributed to these results. Contribution from the NGL Infrastructure segment was \$49.9 million in 2008, about 7% higher than last year. Our storage and logistics services business continued to operate efficiently, meeting the service needs of our customers and providing important support for our Marketing business. Our Marketing segment delivered very strong results in 2008, despite challenging market conditions and a significant decline in NGL prices later in 2008. Marketing contribution was \$102.4 million, more than double 2007, largely due to higher volumes and attractive margins. The higher volumes were the result of our decision, made earlier in 2008, to increase propane inventory levels and term sales to take advantage of seasonally higher prices and margins in the winter months.

This was also a record year for growth initiatives. In 2008, we invested \$320 million in growth capital projects on a number of very attractive internal growth projects and acquisitions. In our Gathering and Processing segment, we significantly expanded our processing capacity and capture area through the acquisition of interests in the West Pembina and Nevis gas plants and the purchase of additional interests in our Brazeau River and Rimbey facilities. In our NGL Infrastructure business, our investments strengthened our NGL business and contributed to the development of our oil sands growth strategy. We completed a number of projects to enhance and increase the operational flexibility of our pipeline, rail and truck infrastructure and expanded several of our rail and truck terminals to increase handling capacity. We added a fourth pipeline between Edmonton and Fort Saskatchewan and expanded our NGL gathering system in west central Alberta through the acquisition of ownership interests in the Judy Creek and Bonnie Glen pipeline systems.

Perhaps most important for the future growth of our oil sands services business was the acquisition of a rail terminal and storage facility north of our Edmonton Terminal. The Alberta Diluent Terminal, or ADT, will become a key part of Keyera's growth strategy, providing size and scale to Keyera's diluent delivery infrastructure, enabling Keyera to provide diluent services to the largest oil sands producers.

Over the past several months, we have witnessed a great deal of uncertainty in the financial markets. In addition, the oil and gas sector has been affected by the dramatic declines in the prices of crude oil, natural gas and other related commodities, as well as credit and liquidity concerns for some companies. In the short term, we are confident of our ability to execute our business strategy in all three business lines. We continue to see reasonable activity levels around most of our facilities, and our business model provides insulation from short-term changes in activity levels. Revenues from our Gathering and Processing and NGL Infrastructure businesses are fee-for-service based, without any direct link in the fee structure to commodity prices, and we recover the majority of our

---

gas processing operating expenses. As a result, the loss of revenues from any reduction in throughput that we may see will be gradual. Furthermore, in times of capital constraint, producers will focus on drilling their best prospects. Producers are currently experiencing preliminary success using horizontal drilling and multi-stage fracturing technology to target tight gas zones in the foothills area near a number of our plants, and we may see this activity continuing throughout 2009. Changes to the royalty regime in Alberta and British Columbia to deal with the current economic situation may also assist in stimulating drilling activities.

Despite the challenges in front of us, we continue to take a long-term view of our business and believe we are well positioned to weather the storm caused by these events. We base that belief on the location of our assets within the Western Canada Sedimentary Basin, the strategic nature of the products and services we provide in the NGL business and our experience gained in previous business cycles. We have a conservative balance sheet with an appropriate mix of long- and short-term debt and sufficient credit facilities in place to support our existing business. In November, we successfully issued \$80 million of convertible debentures in a difficult market, to strengthen our balance sheet and partially fund our 2008 capital program. Our recent investments are consistent with our strategic direction, and will deliver incremental cash flow in 2009.

On behalf of Keyera and its employees, I thank you for your continued support and look forward to continued success in 2009 and beyond.

Jim V. Bertram  
President and CEO  
Keyera Facilities Income Fund

## Management's Discussion and Analysis

*The following management's discussion and analysis ("MD&A") was prepared as of February 24, 2009 and is a review of the results of operations and the liquidity and capital resources of Keyera Facilities Income Fund (the "Fund") and its subsidiaries (collectively "Keyera"). It should be read in conjunction with the accompanying audited consolidated financial statements of the Fund for the year ended December 31, 2008 and the notes thereto. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars. Additional information related to the Fund, including the Fund's Annual Information Form, is filed on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **NON-GAAP FINANCIAL MEASURES**

This discussion and analysis refers to certain financial measures that are not determined in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Measures such as contribution (operating revenues minus operating expenses without elimination of inter-segment sales and costs), distributable cash flow (cash flow from operating activities adjusted for changes in non-cash working capital, maintenance capital expenditures and the distributable cash flow attributable to any non-controlling interest) and EBITDA (earnings before interest, taxes, depreciation and amortization) are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. Management believes that these supplemental measures facilitate the understanding of the Fund's results of operations, leverage, liquidity and financial position. Contribution is used to assess the performance of specific segments before general and administrative expenses and other non-operating expenses. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund distributions. EBITDA is commonly used by management, investors and creditors in the calculation of ratios for assessing leverage and financial performance.

---

---

Investors are cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP as an indication of the Fund's performance.

## **FORWARD LOOKING STATEMENTS**

Certain statements contained in this MD&A and accompanying documents contain forward-looking statements. These statements relate to future events or the Fund's future performance. Such statements are predictions only and actual events or results may differ materially. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "plan", "intend", "believe", and similar expressions, including the negatives thereof, is intended to identify forward looking statements. All statements other than statements of historical fact contained in this document are forward looking statements, including, without limitation, statements regarding: the future financial position of Keyera; business strategy and plans of management; anticipated growth and proposed activities; budgets, including future capital, operating or other expenditures and projected costs; estimated utilization rates; objectives of or involving Keyera; impact of commodity prices; treatment of Keyera under governmental regulatory regimes; the impact of the risk management program, including the approximate and maximum amount of forward sales and hedging to be employed; and expectations regarding Keyera's ability to raise capital and to add to its assets through acquisitions or internal growth opportunities.

The forward looking statements reflect management's current beliefs and assumptions with respect to such things as the outlook for general economic trends, industry trends, commodity prices, capital markets, and the governmental, regulatory and legal environment. In some instances, this MD&A and accompanying documents may also contain forward-looking statements attributed to third party sources. Management believes that its assumptions and analysis in this MD&A are reasonable and that the expectations reflected in the forward looking statements contained herein are also reasonable. However, Keyera cannot assure readers that these expectations will prove to be correct.

All forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward looking statements. Such factors include but are not limited to: general economic, market and business conditions; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; competitive action by other companies; activities of producers and other customers and overall industry activity levels; changes in gas composition; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; fluctuations in interest rates and foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on unitholders, and in particular any differential effects relating to unitholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 24, 2009 (the "Annual Information Form") filed on SEDAR and available on the Keyera website at [www.keyera.com](http://www.keyera.com).

Readers are cautioned that they should not unduly rely on the forward looking statements in this MD&A and accompanying documents. Further, readers are cautioned that the forward looking statements in this MD&A speak only as of the date of this MD&A and Keyera does not undertake any obligation to publicly update or to revise any of the forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable laws.

---

---

All forward looking statements contained in this MD&A and accompanying documents are expressly qualified by this cautionary statement. Further information about the factors affecting forward looking statements and management's assumptions and analysis thereof, is available in filings made by Keyera with Canadian provincial securities commissions, which can be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).

## INTRODUCTION

The statements of net earnings contained in the audited consolidated financial statements include the results of operations of the Fund, Keyera Energy Limited Partnership (the "Partnership"), Keyera Energy Facilities Limited ("KEFL"), Keyera Energy Ltd. ("KEL"), Keyera Energy Management Ltd. ("KEML"), Keyera Energy Inc. ("KEI") and Rimbe Pipeline Limited Partnership ("RPLP") for the year ended December 31, 2007 and the results of operations of each of those entities and Alberta Diluent Terminal Limited Partnership ("ADTLP") for the year ended December 31, 2008. The Fund and its subsidiaries are collectively referred to as "Keyera". A diagram of Keyera's organizational structure and descriptions of the Fund and its subsidiaries can be found in Keyera's Annual Information Form dated February 24, 2009 (the "Annual Information Form") filed on SEDAR and available on the Keyera website at [www.keyera.com](http://www.keyera.com).

## BUSINESS ENVIRONMENT

In 2008, companies in the oil and gas sector faced a number of challenges. Natural gas pricing was strong earlier in 2008, before softening in the second half of the year. More recently, there has been a great deal of uncertainty in the financial markets, particularly with respect to credit and liquidity concerns. In addition, the oil and gas sector has been affected by the dramatic decline in the price of crude oil and other related commodities.

North American natural gas markets continued to soften in 2008, as supply exceeded demand. This was largely attributable to a growing supply of natural gas from the United States, higher than usual gas inventory levels across North America and a reduction in demand. The AECO (Alberta natural gas trading hub) spot gas price dropped \$3.45 per mcf over the last year to \$4.59 per mcf on February 23, 2009.

As a result of these factors, the United States and western Canada are experiencing a decline in drilling activity. The current rig count for gas wells in the United States is approximately 1,100 rigs, down 320 rigs from a year ago. In western Canada, gas production has fallen more than 11%, from a peak of about 17 bcf per day in 2007 to about 15 bcf per day at present. Industry experts currently forecast that drilling activity will remain low until the overhang in supply is addressed, with a combination of lower production and an increase in demand.

### Natural Gas Drilling

Producers drilled 16,978 wells in Canada in 2008, 8.4% fewer than in 2007. Despite the drop in industry activity levels across western Canada, Keyera has not seen the same level of decline in throughputs at its gas processing plants. In particular, the areas surrounding Keyera's facilities in British Columbia and the foothills area of Alberta saw considerable drilling activity in 2008 and, as a result, throughput was about the same as experienced in 2007, not including the effect of the new plant acquisitions.

In Canada, the average depth per well drilled in 2008 increased by 9% to 1,320 metres, which is the highest average depth in the last 20 years. Producers drilled 4.44 million metres in the foothills region of Alberta, nearly 20% of all metres drilled in Canada, and producer activity remained strong around many of Keyera's plants in this area in 2008. In British Columbia, the sale of oil and gas rights totaled a record high \$2.66 billion in 2008, as producers shifted their focus to British Columbia.

---

---

The use of horizontal drilling and multi-stage fracturing technology increased in western Canada throughout 2008. These techniques have been used successfully to produce natural gas from shale formations in the United States and are being used increasingly to drill shale and tight gas formations in Canada. This is very encouraging for future development around Keyera's plants. Horizontal drilling in western Canada increased by 25% in 2008, and many of these wells should qualify for the Alberta royalty credit program, which grants royalty holidays for wells where drilling exceeds 2,500 metres. Even though the total number of wells were lower, the average depth per well increased.

### **Oil Sands Sector**

In the oil sands sector, some producers have announced budget reductions and delays in the development of some oil sands investments, particularly with respect to upgrader projects. Most forecasts, including those of the NEB and the Canadian Association of Petroleum Producers, project that bitumen production will continue to grow, albeit at a slower pace than was anticipated until recently, with production in 2009 expected to increase.

Keyera's NGL Infrastructure and Marketing business segments provide products and services to bitumen producers, primarily condensate for use as diluent, and related condensate handling and storage services. Keyera may see increased business activity if the new upgraders are delayed, since the demand for condensate and related services may increase as more bitumen leaves western Canada for upgrading.

### **Fiscal Regime**

A number of provinces in western Canada have announced changes to the fiscal regime to assist oil and gas producers through this difficult economic period.

In February 2009, the Government of Alberta announced incentives for junior and mid-sized junior oil and gas companies, although details of the plan are not expected until March 2009. This is the latest in a series of modifications made by the Alberta government to its New Royalty Framework, first announced in October 2007, by offering incentives to the oil and gas sector. In November 2008, the Alberta government announced a one-time option of selecting new transitional royalty rates to promote new drilling of natural gas or conventional oil wells of 1,000 to 3,500 metres in depth. It also launched a study to compare how Alberta's conventional oil and gas regulations and taxes fare against competing jurisdictions.

Through effective incentives, programs and royalty structures, British Columbia has become one of the most competitive oil and gas jurisdictions in North America. British Columbia improved the Deep Well Royalty Program in January 2009. The goal of the change is to increase the competitiveness and generate incremental activity in British Columbia's oil and gas sector. The program specifically targets deep wells of more than 2,500 metres for vertical wells and more than 2,300 metres for horizontal wells. The program is intended to reflect the increased costs associated with accessing deep resource plays and is designed to encourage greater exploration activity and maximize development of resources.

### **Outlook**

In January 2009, the Petroleum Services Association of Canada ("PSAC") forecast that 13,500 wells will be drilled in Canada in 2009. This represents a 21% decrease compared to the 2008 well count of 17,043. Drilling activity declines in 2009 are expected to occur in all western Canadian provinces, except British Columbia.

Land sale and drilling activity in the areas around Keyera's Caribou gas plant in northeast British Columbia is expected to continue in 2009. This success has created a processing shortage and caused producers to support

---

Keyera's decision to expand the capacity of the Caribou gas plant for the second time in three years. The expansion is expected to be completed in the second quarter of 2009, increasing the plant's inlet capacity by 40 million cubic feet per day, or over 60%, to 105 million cubic feet per day.

Producers have continued to indicate that they plan to drill in and around the catchment areas surrounding many of Keyera's plants. Keyera's gathering and processing infrastructure is well located in the foothills and west central Alberta areas of the Western Canada Sedimentary Basin ("WCSB"), where the lands are gas prone and relatively underdeveloped. In these areas, Keyera's facilities have extensive gathering pipeline systems to capture new gas. Keyera is optimistic that, as gas markets recover, advancements in drilling and completion technology and the new Alberta deep-gas royalty credit program will stimulate natural gas drilling adjacent to our facilities.

The Chair of the National Energy Board ("NEB") commented in a recent report on natural gas deliverability that the NEB had heard a great deal of enthusiasm for the resource potential on the western side of the basin. He further noted that the western side of the basin is much deeper and less developed compared to the east. The report states that advances in drilling techniques and technology in recent years have the potential to dramatically alter previous projections for the WCSB.

### **Climate Change Regulation**

Greenhouse gases, mainly carbon dioxide and methane, are components of the raw natural gas processed and handled at Keyera's oil and gas facilities. Additionally, greenhouse gases are emitted from the combustion of fossil fuels in engines, heaters and boilers used in the processing of natural gas and NGLs. Many of Keyera's facilities have the capability to capture greenhouse gases from raw gas processed, and Keyera has undertaken a variety of initiatives that have reduced greenhouse gas emissions. Keyera has compiled inventories of greenhouse gas emissions for several years since 2000, and has reported these inventories in accordance with federal and provincial programs.

In 2007, the Alberta government introduced amendments to the Climate Change and Emissions Management Act (Bill 3) and the accompanying Specified Gas Emitters Regulation (the "Regulation"). The Regulation applies to all facilities in Alberta that produce over 100,000 tonnes of carbon dioxide equivalent ("CO<sub>2</sub>e") annually and is designed to reduce the emissions intensity of greenhouse gases at applicable facilities. Emissions intensity refers to the amount of greenhouse gas, measured on a CO<sub>2</sub>e basis, emitted on a unit of production basis. The Regulation was implemented July 1, 2007.

Under the Regulation, existing large emitters must reduce net emissions intensity to 88% of the baseline emissions intensity. The baseline emissions intensity is the average emissions intensity at a facility over the period between 2003 and 2005. If the actual emissions intensity is above the net emissions intensity, then the facility licensee can bring the facility into compliance by:

- purchasing emission offsets. (classified as actions or projects which have resulted in reduced greenhouse gas emissions in Alberta on or since January 1, 2002);
- purchasing fund credits from the Climate Change and Emissions Management Fund at a cost of \$15/tonne of CO<sub>2</sub>e; and/or
- purchasing emission performance credits (such credits are reductions in greenhouse gas emissions beyond the 88% of the baseline emissions intensity).

Keyera is the operator of four facilities which are subject to the Regulation: Strachan, Rimbey, Brazeau River and Nevis gas plants. The cost of complying with the Regulation in 2008 was approximately \$387,000.

---

In January 2008, the Government of Alberta also announced its intention to cut projected emissions by 50% by 2050. The three main strategies for achieving this reduction identified in the announcement included: carbon capture and storage; energy conservation and efficiency; and developing green technology to be used in energy production. This announcement has not had a direct financial impact on Keyera at this time. Any new public policy announcements will be assessed to determine the cost or potential opportunity for Keyera.

On February 19, 2008, the Government of British Columbia announced a series of measures it intended to take as part of an overall climate change initiative aimed at reducing greenhouse gas emissions by one third by 2020. The announcement included a broad-based carbon tax which was implemented July 1, 2008. The carbon tax applies to fuel and flared gas and the cost to Keyera for the six months of 2008 that the tax was in place was \$183,000.

In addition to these provincial initiatives, on April 26, 2007, the federal government released the Regulatory Framework for Air Emissions (the “Framework”) which sets out new federal greenhouse gas and air pollutant emission reduction targets for various industrial sectors, including the oil and gas industry. The Framework forms the basis for ongoing consultations. Details of the proposed federal regulations are not yet known and additional clarity will be required before the effect on Keyera can be determined.

Keyera attempts to be proactive in anticipating the changes on the horizon and is actively engaged in identifying opportunities to mitigate its environmental footprint. As such, Keyera has developed a greenhouse gas strategy which establishes a framework for Keyera’s approach to minimizing greenhouse gas emissions while maintaining a sustainable and competitive business. The objectives of Keyera’s greenhouse gas strategy include: identifying and implementing cost effective greenhouse gas reductions in its operations; adopting economically viable conservation and energy efficient technologies; monitoring and reporting emission reductions; sharing best practices; encouraging continuous improvement in greenhouse gas inventory reporting methodologies and risk management; and identifying and evaluating business opportunities associated with carbon capture and storage/emission trading. Keyera participated in 2008 in the Carbon Disclosure Project (CDP), an organization that encourages private and public sectors to measure, manage and reduce emissions and climate change impacts through the promotion of an ongoing dialogue between institutional investors and senior corporate management. The submission and more about CDP can be found at their website at <http://www.cdproject.net/about-cdp.asp>.

Overall, Keyera is conscious that there is a risk that future international, national or provincial emission reduction requirements may require the reduction of emissions or emissions intensity from its operations and facilities. These reductions may not be technically or economically feasible and the failure to meet such emission reduction requirements may result in fines, penalties, the suspension of operations, and/or the necessity of purchasing greenhouse gas credits, all of which could materially adversely affect Keyera's business. (See “Risk Factors and Risk Management Strategies – Risks Inherent in Keyera’s Business - Environmental and Public Safety Considerations”).

## **RESULTS OF OPERATIONS**

Keyera operates one of the largest natural gas midstream businesses in Canada with three major operating segments: Gathering and Processing, NGL Infrastructure and Marketing. The Gathering and Processing segment includes natural gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin. The NGL Infrastructure segment includes: NGL and crude oil pipelines, terminals and processing and storage facilities in Edmonton and Fort Saskatchewan, Alberta, one of North America’s major NGL hubs. The Marketing segment includes activities such as the marketing of propane, butane and condensate to customers in Canada and the United States, and crude oil midstream activities.

Keyera's Gathering and Processing and NGL Infrastructure segments provide a large portion of the total contribution. Keyera benefits from the geographical diversity of its natural gas processing plants, NGL infrastructure facilities and associated assets. The revenues generated from these facilities are fee-for-service based, with minimal direct exposure to commodity prices. The remainder of Keyera's contribution is derived from its Marketing segment. Due to the integrated approach to its business, Keyera's infrastructure provides a significant competitive advantage in NGL marketing. Keyera also benefits from diversified sources of NGL supply and a diversified customer base across North America.

The following table shows the contribution from each of Keyera's operating segments and includes inter-segment transactions that are eliminated in the Fund's consolidated financial statements. Since contribution is not a standard measure under Canadian Generally Accepted Accounting Principles ("GAAP"), it may not be comparable to similar measures reported by other entities. Contribution refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions as required by GAAP. Management believes contribution provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and NGL Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. Those charges are reflected in contribution, but are eliminated in GAAP segment measures. These segment measures of profitability for the twelve months ended December 31, 2008 and December 31, 2007 are reported in note 18, Segmented Information, to the accompanying audited consolidated financial statements.

<b>Contribution by Segment<sup>1</sup></b> (Thousands of Canadian dollars)	Three months ended December 31,		Twelve months ended December 31,	
	<b>2008</b>	2007	<b>2008</b>	2007
<b>Gathering and Processing</b>				
Revenue	<b>56,906</b>	51,942	<b>226,398</b>	191,164
Operating expenses	<b>(35,988)</b>	(24,082)	<b>(116,777)</b>	(103,792)
Contribution	<b>20,918</b>	27,860	<b>109,621</b>	87,372
<b>NGL Infrastructure</b>				
Revenue	<b>22,860</b>	19,245	<b>80,450</b>	71,079
Operating expenses	<b>(7,984)</b>	(6,637)	<b>(30,513)</b>	(24,253)
Contribution	<b>14,876</b>	12,608	<b>49,937</b>	46,826
<b>Marketing</b>				
Revenue	<b>461,357</b>	373,916	<b>1,909,356</b>	1,250,541
Operating expenses	<b>(416,831)</b>	(361,243)	<b>(1,803,397)</b>	(1,205,653)
General and administrative expenses	<b>(911)</b>	(745)	<b>(3,598)</b>	(2,964)
Contribution	<b>43,615</b>	11,928	<b>102,361</b>	41,924
<b>Total Contribution</b>				
Revenue	<b>541,123</b>	445,103	<b>2,216,204</b>	1,512,784
Operating expenses	<b>(460,803)</b>	(391,962)	<b>(1,950,687)</b>	(1,333,698)
General and administrative expenses	<b>(911)</b>	(745)	<b>(3,598)</b>	(2,964)
Contribution	<b>79,409</b>	52,396	<b>261,919</b>	176,122

## Notes:

1 Revenue and operating expenses before inter-segment eliminations as shown above are both non-GAAP measures and do not consider the elimination of inter-segment sales and expenses. See note 18, Segmented Information for a reconciliation of contribution to earnings.

---

Keyera delivered exceptional financial results in 2008, achieving growth in contribution, earnings and total assets. Contribution in 2008 was \$261.9 million, \$85.8 million higher than in 2007, due primarily to the performance of the Marketing segment and the Gathering and Processing segment. Keyera was able to deliver these record results despite a slowdown in the oil and gas industry in western Canada, falling commodity prices and uncertain economic conditions.

Consolidated net earnings for the year were \$165.5 million, up \$151.0 million from 2007. The strong contribution earned in the Gathering and Processing and Marketing segments was partially offset by higher general and administrative and interest costs; these factors accounted for \$72.2 million of the increase in earnings. Income taxes accounted for the remainder of the increase since a \$1.8 million recovery was recorded in 2008 compared to a \$77.0 million expense recorded in 2007. The large expense in 2007 was primarily due to the recording of a non-cash future income tax expense to recognize the effect of the imposition of income tax on publicly traded income trusts.

Keyera significantly expanded its business in 2008, through acquisitions and organic growth projects. Capital expenditures in the year were \$321.9 million, of which \$246.8 million related to acquisitions of gas plants at West Pembina and Nevis, rail and terminal facilities in the Edmonton area, non-operated interests in the Bonnie Glen and Judy Creek pipelines, and incremental ownership in the Rimbey and Brazeau River gas plants. A further \$73.3 million was invested in internal growth projects, including the expansion of the Caribou gas plant, the construction of ethane extraction facilities at the Rimbey gas plant and the mining of incremental underground storage capacity at Fort Saskatchewan.

### **Gathering and Processing**

The Gathering and Processing segment achieved record contribution of \$109.6 million in 2008, \$22.2 million, or 25%, greater than 2007. The acquisition of ownership interests in gas plants was the largest factor. In the fourth quarter of 2008, contribution was \$20.9 million, \$6.9 million lower than the same period of 2007, as higher revenues were offset by increased operating expenses, a large portion of which were one-time items.

In the fourth quarter of 2008, average gross throughput was 867 million cubic feet per day, 2% lower than the same period in 2007. The decrease was primarily a result of:

- Lower reprocessing activity at the Paddle River gas plant; and
- Lower throughput in December, due to producer problems as a result of extreme cold weather.

On a full year basis, gross processing throughput was 870 million cubic feet per day, 3% higher than 2007. The increase was primarily a result of:

- Higher throughput from the acquisition of the West Pembina and Nevis gas plants.

Fourth quarter Gathering and Processing revenues were \$56.9 million, an increase of \$5.0 million, or 10%, compared to the same period in 2007. The increase was primarily due to:

- Contribution from the acquisitions of the Nevis and West Pembina gas plants;
- Increased ownership interests in the Rimbey and Brazeau River gas plants; partially offset by a
- Decrease in revenue at the Paddle River gas plant of approximately \$1.6 million as a result of a suspension of reprocessing activities due to equipment repairs and unfavourable price differentials; and
- Lower throughput at various gas plants in December, as cold weather created operational problems for producers.

---

In the fourth quarter of 2008, Gathering and Processing operating expenses were \$36.0 million, an increase of \$11.9 million compared to the same period in 2007. The increase was primarily a result of:

- Inclusion of costs associated with the West Pembina and Nevis gas plants;
- Increased costs from the purchase of incremental ownership interests in the Brazeau River and Rimbey gas plants;
- Costs related to unscheduled repairs at the Caribou gas plant of approximately \$2.3 million; and
- Higher electrical and other maintenance costs at various plants.

On a full year basis, Gathering and Processing revenues were \$226.4 million, an increase of \$35.2 million, or 18%, compared to 2007. This increase was primarily due to the same factors as in the fourth quarter, as well as:

- Incremental revenues from ancillary commercial activities;
- Recovery of turnaround costs at the Gilby and Nordegg River gas plants in 2008; and
- Recovery of a portion of the costs for a turnaround completed in 2007 at the Rimbey gas plant.

Gathering and Processing operating expenses for 2008 were \$116.8 million, an increase of \$13.0 million, or 13%, compared to 2007. The increase was primarily due to the same factors as in the fourth quarter.

#### *Gathering and Processing – North Central Region*

During the fourth quarter, Keyera purchased interests in two gas processing facilities in the North Central Region. The Nevis gas plant is a 150 million cubic feet per day sour gas plant located in central Alberta. The acquisition included NGL fractionation and logistics facilities that will enhance the operational flexibility of Keyera's NGL infrastructure and marketing business. Keyera also purchased an additional 10.5% interest in the Rimbey gas plant, bringing its ownership to 96.9%.

Over the past several years, Keyera has developed a number of ancillary commercial business initiatives to generate incremental cash flow from its existing facilities, particularly at the Rimbey gas plant, its largest facility. In 2008, Keyera generated increased cash flow from its sales of liquid CO<sub>2</sub> to the service industry, surplus electricity sales, NGL offload fees, and inlet compression. In addition, reprocessing revenues were higher than 2007, despite shrinking margins towards the end of 2008.

The Rimbey ethane extraction project continues to proceed on schedule and, assuming no delay with delivery of equipment or construction, is expected to be completed by mid-year 2009. Once operational, the project will have capacity to produce up to 5,000 barrels per day of ethane, for sale under a long-term contract to a petrochemical producer in Alberta.

The Caribou gas plant expansion is also proceeding on schedule and on budget. The 40 million cubic foot per day expansion is expected to be completed and commissioned late in the second quarter of 2009. The expansion will increase total capacity of the Caribou gas plant to 105 million cubic feet per day.

#### *Gathering and Processing – Foothills Region*

The Foothills Region delivered strong results in 2008, as continued drilling activity in the region resulted in new production volumes being delivered to Foothills facilities, particularly at the Strachan, Nordegg River and Brazeau River gas plants. The drilling locations are often close to Keyera gathering pipelines and processing infrastructure, enabling quick tie-ins and production. Additionally, the liquids-rich gas in the area often provides a higher netback than dry gas, making these play types attractive to producers.

---

In April, Keyera acquired a 35% interest in the West Pembina gas plant and associated gathering pipelines, and became operator. The plant is located in west central Alberta and is connected to other Keyera plants in the area. With its sour gas handling and liquids extraction, West Pembina is well suited to Keyera's business strategy.

Keyera increased its ownership interest in the Brazeau River gas plant to 92% and expanded Keyera's capture area with the addition of over 350 kilometres of gathering pipelines and compression facilities. Brazeau River is in the heart of an area that producers are targeting for tight gas plays. Keyera anticipates significant future drilling activity, as producers employ horizontal drilling and multi-packer fracturing technologies to unlock the potential of tight gas reserves.

Global demand for sulphur increased significantly during 2008, resulting in higher sulphur prices. This market environment provided an opportunity for Keyera to reduce future remediation costs associated with the sulphur block base-pad at Strachan and generate fee-for-service revenues. During the third quarter of 2008, Keyera began re-melting and selling sulphur from the base-pad using a new sulphur pit constructed on site. The re-melting and sale of sulphur at the Strachan gas plant contributed \$2.0 million of contribution in 2008.

In the fourth quarter, Keyera funded the construction of the Wolf Creek gathering pipeline northwest of the Pembina North gas plant. The six inch pipeline is approximately 24 kilometres long, was constructed by an oil and gas producer in the area, and is now owned and operated by Keyera. The pipeline was commissioned in December and began delivering 3 mmcf/d of new production to the plant.

### **NGL Infrastructure**

NGL Infrastructure contribution was \$49.9 million, \$3.1 million higher than 2007. High product demand, particularly for propane, resulted in higher rail and truck loading activity. Higher storage revenues also contributed to the increase. Fourth quarter NGL Infrastructure contribution was \$14.9 million, \$2.3 million higher than the same period in 2007.

In the fourth quarter of 2008, NGL Infrastructure revenues were \$22.9 million, or \$3.6 million higher than the same period in 2007. This was largely due to:

- Higher storage revenues at Keyera's Fort Saskatchewan facility;
- Acquisition of the Bonnie Glen Pipeline; partially offset by
- Lower volumes on the Rimbey Pipeline system.

NGL Infrastructure operating expenses in the fourth quarter of 2008 were \$8.0 million, or \$1.4 million higher than the same period in 2007. This was largely due to:

- Costs associated with the acquisition of the Bonnie Glen Pipeline; and
- Turnaround costs at the Dow Fort Saskatchewan fractionation facility of \$1.1 million.

On a full year basis, NGL Infrastructure revenues were \$80.5 million, an increase of \$9.4 million, or 13% compared to 2007. The increase was primarily due to the same factors as the fourth quarter.

NGL Infrastructure operating expenses for 2008 were \$30.5 million, an increase of \$6.3 million compared to 2007. This increase was largely due to the same factors as in the fourth quarter, as well as higher fuel costs during the year.

---

Work is continuing on the underground storage expansion at Keyera's Fort Saskatchewan facility. Drilling of the first well bore was completed in August and shaping of the cavern continues. The cavern is expected to be completed in mid-2010 and will have an approximate capacity of 750,000 barrels. This is the first of a four cavern expansion program which, when complete, will increase Keyera's capacity by 35%, to over 12 million barrels. Decisions on construction of each cavern will be made individually, depending on customer demand and other factors.

Commissioning of the Alberta Diluent Terminal ("ADT") continued during the fourth quarter and was completed in February 2009. Condensate is now being delivered by rail into ADT and via pipeline to Keyera's Edmonton Terminal, to flow to market or into storage at Fort Saskatchewan. As condensate demand develops, capacity can be increased with further modifications at ADT and pipeline connections to Keyera's Fort Saskatchewan pipeline system.

### **Marketing**

Keyera delivered record Marketing results in 2008, despite challenging market conditions throughout the year and unprecedented movements in crude oil and NGL product prices. In the first half of the year, strong market fundamentals for propane, butane and condensate created a tight supply/demand balance, which resulted in strong sales volumes and margins. In the third quarter, a number of market factors resulted in lower demand for all NGL products. At the same time, the price of crude oil and NGLs began dropping significantly, requiring careful monitoring of the risk management program in place to protect the value of NGL products held in inventory. In the fourth quarter, markets strengthened and product demand increased, particularly for propane. Throughout the year, Keyera employed a disciplined marketing plan which, when combined with its risk management program, enabled Keyera to exploit opportunities by utilizing its strategic infrastructure assets. These factors contributed to the strong results in 2008.

Fourth quarter NGL sales volumes averaged 75,700 barrels per day, compared to 53,800 barrels per day in the same period of 2007. All products achieved higher sales volumes:

- Propane accounted for most of the increase, due to Keyera's decision in early 2008 to store higher propane inventory into the winter heating season; and
- Condensate volumes increased, as Keyera utilized its rail and logistics infrastructure to import increased volumes from the United States.

On a full year basis, NGL sales volumes for 2008 averaged 60,400 barrels per day, compared to 50,800 barrels per day in 2007. Again, propane and condensate volumes accounted for most of the increase.

Fourth quarter contribution for the Marketing segment was \$43.6 million, up \$31.7 million from the same period in 2007. The increase was primarily due to significantly higher sales volumes and gains on financial contracts that offset losses on the physical sale of product and inventory write-downs.

In the fourth quarter of 2008, marketing revenues of \$461.4 and operating expenses of \$417.7 million generated \$43.6 million of contribution, \$31.7 million higher than the same period in 2007. This increase was primarily due to:

- Increased sales volumes during the period, partially offset by lower sales margins;
- Strong winter demand for propane, which kept unit margins strong;
- Higher condensate sales volumes; and
- Gains on the financial contracts used to protect inventory values and sales margins.

The Marketing segment posted contribution of \$102.4 million in 2008, the highest in its history and \$60.4 million greater than last year, due to both higher margins and higher volumes.

Marketing revenues for 2008 were \$1,909.4 million, an increase of \$658.8 million compared to 2007. The increase was primarily due to:

- Higher sales volumes;
- Higher sales prices;
- Growth in the crude oil midstream business; and
- Gains of \$116.5 million on the financial contracts Keyera used in its risk management program.

Marketing operating expenses for 2008 were \$1,807.0 million, an increase of \$598.4 million compared to 2007. The increase was due primarily to:

- Higher sales volumes;
- Higher purchase prices for a large part of the year; and
- A reduction of \$77.8 million in the value of NGLs in inventory in the second half of the year.

The table below outlines the composition of the revenues generated from Keyera's Marketing business and the changes in the fair value of the derivative financial contracts.

<b>Composition of Marketing revenue (Thousands of Canadian dollars)</b>	<b>Twelve months ended December 31, 2008</b>
Physical sales	1,792,876
Financial instruments - realized	49,347
Financial instruments - unrealized	67,133
<b>Marketing revenue</b>	<b>1,909,356</b>

<b>Changes in fair value of energy derivative contracts (Thousands of Canadian dollars)</b>	<b>Twelve months ended December 31, 2008</b>
Fair value at December 31, 2007	(9,800)
Change in the fair value of contracts on hand at Dec. 31, 2007 and the fair value of new contracts entered into in 2008	116,480
Realized gains	(49,347)
<b>Fair value at December 31, 2008<sup>1</sup></b>	<b>57,333</b>

<b>Classification of energy derivative contracts (Thousands of Canadian dollars)</b>	<b>2008</b>	<b>2007</b>
Asset held for trading included in accounts receivable	102,075	2,624
Liability held for trading included in accounts payable	(44,742)	(12,424)
<b>Fair value at December 31<sup>1</sup></b>	<b>57,333</b>	<b>(9,800)</b>

Notes:

<sup>1</sup> The fair value of the financial contracts represents an estimate of the amount that Keyera would pay or receive if those contracts were closed on December 31, 2008 and December 31, 2007 respectively.

NGL product inventories of \$53.1 million at December 31, 2008 were \$23.5 million lower than 2007. Although volumes in storage were higher compared to 2007, product prices were significantly lower. Since inventory is valued at the lower of cost or net realizable value, a reduction of \$77.8 million was recorded in the value of Keyera's NGL inventory, as a result of the significant drop in NGL prices, during the second half of 2008. Of that amount, \$49.9 million was recorded in the fourth quarter.

---

---

In 2008, propane was a significant contributor to Keyera's strong marketing results. Demand was normal throughout much of the year, before strengthening in the fourth quarter as cold weather increased demand in rural heating markets. Early in 2008, Keyera adopted a strategy of increasing its propane supply and inventories to meet increased term sales commitments later in the year. As winter demand increased in the fourth quarter, Keyera utilized its rail car fleet, loading facilities and United States sales terminals to deliver propane into profitable niche markets in western Canada and the United States.

Keyera's butane strategy for 2008 was to commit contracted supply to term sales contracts, providing a steady market and secure margins, and opportunistically pursue spot purchases and sales when market conditions permitted. Keyera's rail car fleet was used to source butane from the United States for delivery to the new offload portion of the rail rack at the Edmonton Terminal. In the third quarter, operational problems at customers' facilities created a supply surplus in western Canada, resulting in a significant drop in the price of butane and an accumulation of inventory. Using its loading facilities and rail car fleet, Keyera was able to move some butane to United States markets during the second half of the year until demand recovered in western Canada.

Condensate also contributed to the strong results in 2008. Throughout the year, Keyera used its rail cars, offloading facilities and storage at Fort Saskatchewan to deliver condensate from U.S. supply sources into Alberta. Demand and prices were strong throughout the first half of 2008. In the second half of the year, demand for diluent lessened, resulting in lower sales volumes and lower margins. Condensate in inventory was hedged using crude oil price swaps to mitigate the effect of price declines.

Keyera's crude oil midstream business continued to develop in 2008. Market fundamentals were strong throughout the year, enabling the business to contribute increased margins compared to 2007.

The effectiveness of Keyera's risk management program was demonstrated in 2008. As a result of the significant drop in crude oil and NGL prices in the second half of the year, Keyera recorded a \$116.5 million gain from financial contracts put in place to hedge the value of its NGL inventory position. This more than offset the \$77.8 million reduction in the value of Keyera's NGL inventory.

Of the \$116.5 million gain, \$49.3 million was realized in 2008, as financial contracts settled as the inventory was sold. Of the remaining \$67.1 million, \$50.1 million was the portion of the unrealized gain which offset the \$49.9 million of inventory value reduction in the fourth quarter. The remainder of the unrealized gain was related to the reversal of the unrealized loss at December 31, 2007, the valuation of future physical fixed-price contracts and foreign exchange forward contracts. The financial contracts in place at year-end will be settled in 2009 as inventory is sold.

At December 31, 2008, the fair market value of these financial contracts represented a liability of \$44.7 million and an asset of \$102.1 million, based on estimates of the amounts that Keyera would pay or receive if these instruments had been closed out at the end of the period. The estimated fair value of all derivatives held for trading is based on quoted market prices and, if not available, on estimates from third party brokers or dealers.

Keyera's risk management program employs a multi-faceted approach to managing its supply and sales portfolio, including: monitoring its inventory position and its purchase and sale commitments, actively participating in various hub markets and using financial contracts, such as energy-related forward sales, price swaps, physical exchanges and options. (See "Liquidity and Capital Resources – Marketing Risk Management").

---

---

To the extent the contracts used to protect inventory from fluctuations in the prices of NGL products are effective (i.e., the change in the market price of crude oil is correlated to the change in the prices of the underlying physical NGL products), gains and losses on these financial contracts will be offset by gains and losses in the proceeds that will be realized upon the sale of the products.

### **2009 Outlook**

Despite the uncertainty in the oil and gas sector, Keyera benefits from having three established business lines, as well as geographic and customer diversity.

Benefiting Keyera in 2009 will be incremental revenue from the acquisitions and projects completed in 2008, particularly the gas plant acquisitions completed late in the year. Other projects initiated in 2008 and commissioned in 2009 will also generate incremental revenues.

In the fourth quarter, sulphur prices declined dramatically and, as a result, re-melting is not expected to generate significant revenues in 2009. The Strachan remelt pit and facilities can, however, be used in the future to generate third party revenues.

In the first quarter of 2009, market conditions are expected to be strong and, when combined with the settlement of financial contracts, should result in strong contribution for the Marketing segment. Early in 2009, demand for propane was high, as cold weather in many United States regional markets added to the normal winter demand, resulting in higher sales prices and strong margins. Many of the operational problems affecting the western Canadian butane market during the last quarter of 2008 have been resolved, and this is expected to bring supply and demand more into balance in the coming months. Early in 2009 condensate margins have recovered as crude prices have stabilized.

In 2009, Keyera anticipates investing between \$80 million and \$100 million on growth capital projects. Approximately \$45 million of this program relates to projects currently underway. The remainder of the program has not been committed, and the investment of these funds will depend upon a number of factors, including producer activity and suitable economic terms.

Keyera's capital structure remains strong, with sufficient capacity to support operations and fund the anticipated capital expenditure program. As of February 24, 2009, Keyera had repaid \$105 million of the revolving credit facility outstanding at December 31, 2008. These repayments have reduced the balance outstanding on its revolving credit facilities to \$144 million, leaving \$186 million available to support daily operations, working capital requirements and capital expenditures.

Unsecured senior notes in the amount of \$90 million mature on October 1, 2009. Keyera expects to re-finance this debt upon maturity. However, if the credit and financial crisis continues or worsens, Keyera would consider scaling back its capital program and utilizing its existing credit facilities to repay the notes.

As at January 1, 2009, Keyera estimates that it has approximately \$580 million of tax pools, consisting of mostly class 41 undepreciated capital costs, available for deduction by the Fund's subsidiaries.

**Non-operating expenses and other earnings**

<b>Non-operating expenses</b> (Thousands of Canadian dollars)	<b>For the year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Contribution	<b>261,919</b>	176,122
General and administrative	<b>26,195</b>	18,918
Interest	<b>25,763</b>	20,176
Depreciation, amortization and accretion	<b>43,735</b>	44,522
Other (impairment, loss on disposal and non-controlling interest)	<b>2,506</b>	1,034
Income tax	<b>(1,765)</b>	76,993
<b>Net earnings</b>	<b>165,485</b>	14,479

General and administrative expenses for 2008 were \$26.2 million, up \$7.3 million from 2007. The increase was partially due to \$3.1 million of higher long-term incentive plan costs, reflecting the effect of two distribution increases in 2008. Excluding the long-term incentive plan, general and administrative expenses increased by \$4.2 million. This increase was due to a combination of higher short-term incentive plan costs accrued for 2008 and costs associated with higher staffing levels to accommodate growth.

Keyera has adopted a different performance metric for newly granted LTIP performance awards. Starting with the 2008 LTIP performance awards, the payout multiplier will be based on the average pre-tax distributable cash flow per unit over the three-year vesting period (July 1, 2008 through June 30, 2011). There was no change to the payout multiplier for the LTIP performance awards previously granted. The relationship between the three year average annual pre-tax distributable cash flow per unit and the payout multiplier for the 2008 LTIP performance awards is described in the table below:

<b>Average Annual Pre-Tax Distributable Cash Flow Per Unit</b>	<b>Payout Multiplier</b>
Less than \$2.50	Nil
\$2.50 – \$2.82	50% – 99%
\$2.83 – \$3.49	100% – 199%
\$3.50 and greater	200%

Interest expense, net of interest revenue, was \$25.8 million for 2008, \$5.6 million greater than in 2007. The increase was the result of incurring a full year of interest expense related to the \$120 million of unsecured senior notes issued in late 2007.

Depreciation, amortization and accretion expenses were \$43.7 million for 2008, \$0.8 million less than 2007. Although Keyera's asset base has increased significantly from 2007, the decrease in depreciation and amortization expense of \$1.7 million was largely due to revisions of the useful lives of Keyera's existing assets, resulting in longer useful life estimates and lowering the depreciation rates. Offsetting this decrease was a \$0.9 million increase to accretion expense, as a result of asset retirement obligations related to the assets acquired in 2008.

An impairment expense of \$1.1 million was recorded in 2008, to adjust the carrying value of the Tomahawk gas plant, a non-core facility that was sold in the third quarter of 2008. A gas gathering line at the Rimbeby gas plant was sold in December 2008, resulting in a loss on the sale of \$1.4 million.

---

A total income tax recovery of \$1.8 million was recorded for 2008, primarily due to non-cash future income taxes. For 2007, a future income tax expense of \$72.6 million was recorded, resulting in a \$74.5 million decrease in expense on a year over year basis. This significant decrease was primarily due to recording \$80.2 million of future income tax expense in 2007 related to the tax on publicly traded income trusts enacted in the second quarter of 2007. The impact of recording future income taxes associated with the new tax legislation was partially offset by a reduction in Federal income tax rates that was substantively enacted in the fourth quarter of 2007. For 2008, the future income tax recovery of \$1.8 million was primarily due to the exclusion of unrealized gains on financial instruments that are excluded from the calculation of taxable income. These gains are included in taxable income only when they are realized. As a result of excluding these unrealized gains from taxable income as well as the internal reorganization that was completed in the first quarter of 2008, the utilization of tax shelter was minimized, resulting in a future income tax recovery for 2008.

Current income tax expense for 2008 was virtually \$nil compared to a current tax expense of \$4.3 million in the prior year. This decrease was due to the acquisition of assets in certain corporate subsidiaries of the Fund. These acquisitions created sufficient tax shelter to reduce current taxes to virtually \$nil for 2008.

### **Critical Accounting Estimates**

The Fund's consolidated financial statements have been prepared in accordance with GAAP. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Management reviews its assumptions and estimates regularly, but new information and changes in circumstances may result in actual results or revised estimates that differ materially from current estimates. The most significant estimates are those indicated below:

#### *Estimation of Gathering and Processing and NGL Infrastructure revenues:*

For each month, actual volumes processed and fees earned from the Gathering and Processing and NGL Infrastructure assets are not known at the month end. Accordingly, the financial statements contain an estimate of one month's revenue based upon a review of historic trends. This estimate is adjusted for events that are known to have a significant effect on the month's operations such as non-routine maintenance projects.

At December 31, 2008, operating revenues and accounts receivable for the Gathering and Processing and NGL Infrastructure segments contained an estimate of \$26.5 million primarily for December 2008 operations.

#### *Estimation of Gathering and Processing and NGL Infrastructure operating expenses:*

The period in which invoices are rendered for the supply of goods and services necessary for the operation of the Gathering and Processing and NGL Infrastructure assets is generally later than the period in which the goods or services were provided. Accordingly, the financial statements contain an estimate of one month's operating costs based upon a review of historical trends. This estimate is adjusted for events that are known to have a significant effect on the month's operations such as non-routine maintenance projects.

At December 31, 2008, operating expenses and accounts payable contained an estimate of \$13.1 million primarily for December 2008 operations.

#### *Estimation of Gathering and Processing and NGL Infrastructure equalization adjustments:*

Much of the revenue from the Gathering and Processing and NGL Infrastructure assets includes a recovery of operating costs. Under this method, the operating component of the fee is a pro rata share of the operating costs for the facility, calculated based upon total throughput. Users of each facility are charged a fee per unit based upon

---

---

estimated costs and throughput, with an adjustment to actual throughput completed after the end of the year. Each quarter, throughput volumes and operating costs are reviewed to determine whether the estimated unit fee charged during the quarter properly reflects the actual volumes and costs, and the allocation of revenues and operating costs to other plant owners is also reviewed. Appropriate adjustments to revenue and operating expenses are recognized in the quarter and allocations to other owners are recorded.

For the Gathering and Processing and NGL Infrastructure segments, operating revenues and accounts receivable contained an equalization adjustment of \$6.9 million at December 31, 2008. Operating expenses and accounts payable contained an estimate of \$11.2 million.

*Estimation of Marketing revenues:*

The majority of the Marketing sales revenue is recorded based upon actual volumes and prices; however, in many cases actual product lifting volumes have not yet been confirmed and sales prices that are dependent on other variables are not yet known. Accordingly, the financial statements contain an estimate for these sales. Estimates are prepared based upon contract quantities and known events. The estimates are reviewed and compared to expected results to verify their accuracy. They are reversed in the following month and replaced with actual results.

At December 31, 2008, the Marketing sales and accounts receivable contained an estimate for December 2008 revenues of \$41.1 million.

*Estimation of Marketing product purchases:*

NGL mix feedstock and specification products such as propane, butane and condensate are purchased from facilities located throughout western Canada and in some locations in the United States. The majority of NGL mix purchases are estimated each month as actual volume information is generally not available until the next month. The estimates are prepared based upon a three month rolling average of production volumes for each facility and an estimate of price based upon historical information. Specification product volumes and prices are based upon contract volumes and prices. Accordingly, these financial statements contain an estimate for one month of these purchases.

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of \$49.5 million at December 31, 2008.

*Estimation of Asset Retirement Obligation:*

Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its facilities at the end of their economic life. The determination of the estimate of these obligations is based upon settlement between 2018 and 2038. Keyera utilizes a documented process to estimate the future liability and the anticipated cost of the decommissioning, abandonment and reclamation of its facilities.

The process, overseen by the Health, Safety and Environment Committee, is undertaken by professionals involved in activities that deal with the design, construction, operation and decommissioning of assets. Specialists with knowledge and assessment processes specific to environmental and decommissioning activities and costs are also utilized in the process. The process requires Keyera to obtain third party environmental liability assessments for major sites, which are updated on a five year frequency. These assessments typically utilize a Monte Carlo statistical simulation to develop a liability cost range, from which the median is used. The decommissioning and abandonment component is derived from a matrix of third-party cost quotations for a range of facilities, then adjusted for known and pertinent factors at each site, such as construction style, plant processes and site

---

---

condition. Ultimately, all medium and large facilities will be independently assessed in accordance with regulatory requirements.

Keyera has estimated that, at December 31, 2008, the total undiscounted amount required to settle the asset retirement obligations is \$316.4 million, compared to \$183.0 million at December 31, 2007. The discounted net present value of this obligation at December 31, 2008 is \$52.1 million, compared to \$37.8 million at December 31, 2007. The increase in the discounted amount is primarily due to the significant assets acquired in 2008.

It is not possible to predict these costs with certainty since they will be a function of regulatory requirements at the time of decommissioning, abandonment and reclamation and the actual costs may exceed the current estimates which are the basis of the asset retirement obligation shown in Keyera's financial statements.

Additional information related to decommissioning, abandonment and reclamation costs is provided in Keyera's 2009 Annual Information Form, which is available on SEDAR.

*Impairment testing:*

Keyera tested its property, plant and equipment and goodwill for impairment as at December 31, 2008. The impairment test for property, plant and equipment is a two-step test. Step one involves a comparison of the undiscounted future cash flows of an asset to its carrying value. If the undiscounted cash flows are lower than the carrying value of an asset, step two requires the asset to be written down to its fair value. The impairment test for goodwill involves comparing the fair value of an operating segment with its carrying amount, including the goodwill allocated to that operating segment. Fair value of an operating segment is based on discounted future cash flows. Keyera also compares its market capitalization to the carrying value of its net assets as of the date of the impairment test. The impairment tests performed did not result in any impairment loss for any property, plant and equipment or goodwill existing at December 31, 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

*Cash flow from operating activities*

Cash flow from operating activities during the fourth quarter of 2008 was \$115.8 million. Before changes in non-cash working capital, cash flow from operating activities was \$41.0 million. From this cash flow, Keyera paid \$28.0 million of distributions to its unitholders, leaving \$13.0 million of cash. Keyera received \$76.3 million of net proceeds from the issuance of convertible debentures, \$20.0 million from short-term credit facilities, \$1.1 million from the issuance of trust units under the distribution reinvestment plan ("DRIP") and \$74.8 million from the reduction in non-cash working capital, bringing cash available to \$185.2 million. From this cash, Keyera paid \$186.9 million for capital expenditures, resulting in a net cash outflow of \$1.7 million for the quarter.

For the full year, cash flow from operating activities was \$91.3 million, after the use of \$49.9 million to fund an increase in non-cash working capital, primarily due to higher accounts receivable arising from the risk management program. Cash flow from operating activities before changes in non-cash working capital was \$141.2 million. From this cash flow, Keyera paid \$102.5 million of distributions to its unitholders, leaving \$38.7 million of cash. Keyera received \$76.3 million of net proceeds from the issuance of convertible debentures, \$249.0 million from short-term credit facilities and \$5.8 million from the issuance of trust units under the DRIP, bringing cash available to \$369.8 million. From this cash, Keyera repaid \$20.0 million of long-term borrowings, invested \$315.4 million in capital expenditures, including acquisitions, and financed the \$49.9 million increase in non-cash working capital, resulting in a \$15.5 million net cash outflow for the year which, when combined with an opening cash balance of \$15.6 million, left a cash balance of \$0.1 million.

The cash and working capital deficit at December 31, 2008 was \$149.0 million at December 31, 2008, compared to a surplus of \$75.7 million at December 31, 2007. Included in the deficit at December 31, 2008 was \$90.0 million resulting from the reclassification of maturing long-term debt, leaving a deficit of \$59.0 resulting from the use of short-term debt to finance growth capital expenditures and accounts receivable. Keyera expects to re-finance the long-term debt maturity and utilize the net proceeds from the collection of accounts receivable and the sale of inventories to reduce the deficit. Management believes that Keyera's existing credit facilities will be adequate to provide the funds necessary for operations in 2009.

### *Capital expenditures*

<b>Capital additions and acquisitions (Millions of Canadian dollars)</b>	<b>Twelve months ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Growth capital expenditures	<b>320.1</b>	23.9
Maintenance capital expenditures	<b>1.8</b>	1.4
Total capital expenditures	<b>321.9</b>	25.3
Acquisitions of non-controlling interest	—	6.7
Total capital additions and acquisitions	<b>321.9</b>	32.0

In the fourth quarter of 2008, additions to property, plant and equipment including acquisitions amounted to \$188.6 million, consisting of \$0.6 million of maintenance capital and \$188.0 million of growth capital. Keyera incurred maintenance and repair expenses of \$9.6 million that were included in operating costs during the fourth quarter of 2008.

Keyera invested in the following significant growth projects for the fourth quarter of 2008:

- \$129.0 million for the acquisition of an additional 40% interest in the Brazeau River gas plant, including extensive gathering pipeline systems, compression and other facilities; and the purchase of a 100% interest in the Nevis gas plant;
- \$21.7 million for the acquisition of an additional 10.5% interest in the Rimbey gas plant;
- \$9.5 million for the integration of the Alberta Diluent Terminal in the Edmonton area to increase Keyera's ability to import and deliver condensate and other hydrocarbon products; and
- \$4.9 million for the Wolf Creek pipeline system in the Pembina North area.

Total capital additions and acquisitions amounted to \$321.9 million in 2008, consisting of \$1.8 million of maintenance capital and \$320.1 million of growth capital. In addition to maintenance capital expenditures, Keyera incurred maintenance and repair expenses of \$26.1 million that were included in operating costs in 2008.

In 2008, in addition to expenditures incurred in the fourth quarter, Keyera invested in the following significant growth projects:

- \$47.1 million for the acquisition and integration of the Alberta Diluent Terminal in the Edmonton area to increase Keyera's capability to import and deliver condensate and other hydrocarbon products, including the acquisition of adjacent land to enhance operational flexibility;
- \$27.1 million for the acquisition of a 35.6% working interest in the West Pembina gas plant;

- 
- \$21.9 million for the acquisition of ownership interests in the Bonnie Glen and Judy Creek pipeline systems, to create additional operational flexibility with respect to Keyera's current infrastructure and marketing strategies;
  - \$16.6 million for the Caribou gas plant expansion, to increase plant capacity from 65 million cubic feet per day to 105 million cubic feet per day, and to complete construction of the North Trutch pipeline to expand the capture area of the Caribou gas plant;
  - \$10.9 million to construct facilities at the Rimbey gas plant to extract ethane from the natural gas processed at the plant;
  - \$9.9 million for the creation of incremental underground NGL storage capacity at Fort Saskatchewan;
  - \$8.3 million related to the expansion of the truck loading facility at Fort Saskatchewan to increase capacity and for the acquisition of land near Keyera's Fort Saskatchewan facility for future infrastructure development;
  - \$6.6 million related to the construction of acid gas injection facilities and other upgrades at the Brazeau River gas plant and for the acquisition of pipelines in the West Pembina region to expand capture areas; and
  - \$5.2 million to complete the construction of the NGL pipeline between the Edmonton and Fort Saskatchewan facilities to enhance deliverability and operational flexibility.

During 2008, Keyera disposed of two non-core gas plants, Northstar and Tomahawk, along with a gas gathering line at the Rimbey gas plant, for total proceeds of \$1.3 million.

In the fourth quarter of 2008, Keyera issued \$80 million of 8.25% convertible unsecured subordinated debentures due December 31, 2013. The proceeds from this public offering were used to fund acquisitions and growth capital projects. In 2009, Keyera anticipates investing between \$80 million and \$100 million on growth capital projects, but the actual level of growth capital investment is dependent upon a number of factors, including available opportunities, timing of regulatory approvals and agreements with customers. The 2009 growth capital investment includes projects begun in 2008 and for which contractual commitments are in place. Sufficient capacity is expected to be available in the current credit facilities and from operating cash flows to fund the 2009 expenditures.

Working capital requirements are strongly influenced by the volume of NGLs held in storage and their related commodity prices. NGL inventories are required to meet seasonal demand patterns and will vary depending on the time of year. Historically, the largest allocation of working capital to fund inventory has been approximately \$192 million, which occurred at September 30, 2008 during a period of unusually high product prices. At current commodity prices, the working capital required to support Keyera's inventory levels will be significantly less than that amount. In addition to the working capital required to fund NGL inventory, Keyera typically utilizes approximately \$25 to \$45 million to finance the other components of working capital.

### *Risks*

Historically, the majority of Keyera's cash flow is derived from the Gathering and Processing and NGL Infrastructure business segments. The contribution generated from gathering and processing facilities is not significantly exposed to changes in operating costs, due to the nature of most fee structures, which provide a mechanism for the recovery of operating costs.

The most significant exposure faced by the Gathering and Processing and NGL Infrastructure businesses over the long-term is related to declines in throughput volumes. Without reserve additions, third party production will decline over time, as reserves are depleted. Declining production volumes may translate into lower throughput and revenues at Keyera's plants and facilities; however, the effect of any reduction in throughput would likely be

gradual. Keyera's facilities are located in significant natural gas supply areas of the Western Canada Sedimentary Basin and capital costs present barriers to entry for new competitors.

Keyera's cash flows may also be adversely affected by the occurrence of common hazards and environmental risks related to the natural gas gathering, processing and pipeline transportation business, such as the failure of equipment, systems or processes, operator error, labour disputes, disputes with owners of interconnected facilities, catastrophic events or acts of terrorism. To mitigate these operational and environmental risks, Keyera maintains written standard operating practices, formally assesses and documents employee competency, and maintains formal inspection, maintenance, safety and environmental programs. In addition, Keyera carries casualty and business interruption insurance, although there can be no assurance that the proceeds of such insurance will compensate Keyera fully for any losses, nor can it be assured that such insurance will be available in the future.

The most significant exposure faced by the Marketing business is the fluctuation in the prices of the commodities that Keyera buys and sells. (See "Marketing Risk Management" in this MD&A.)

For a further discussion of the risks identified in this MD&A, other risks and trends that could affect the performance of the Fund and the steps that Keyera takes to mitigate these risks, readers are referred to the descriptions in this MD&A and Keyera's Annual Information Form available on SEDAR.

Keyera's future debt levels are primarily dependent on operating cash flows, working capital requirements and capital investment programs. Management expects the Fund's 2009 capital expenditures and distributions to be funded by cash flow from operations and borrowing on available debt facilities.

#### *Debt covenants*

Keyera has established credit facilities consisting of a \$300 million committed unsecured revolving term facility that matures on April 21, 2011, and \$30 million of unsecured revolving demand facilities. These credit facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. base rate loans, Libor loans or Bankers' Acceptances. As of December 31, 2008, \$249 million were drawn under these credit facilities. As at February 24, 2009, the amount drawn under these credit facilities had been reduced to \$144 million.

The bank credit facilities contain a covenant that the Fund and its subsidiaries will not distribute in any twelve month period more than 105% of the distributable cash flow attributable to that twelve month period. For the year ended December 31, 2008, Keyera distributed 68% of its distributable cash flow, using the definitions in the bank credit facilities. Those facilities are also subject to two major financial covenants: "Debt to EBITDA" and "Debt to Capitalization". The calculation for each ratio is based on specific definitions, is not in accordance with GAAP and cannot be readily replicated by referring to the Fund's financial statements. The definitions in the credit agreements provide for the deduction of net working capital items in the calculation of debt. The following are the ratios as calculated in accordance with the covenants as at December 31, 2008:

<b>Covenant</b>	<b>Position as at December 31, 2008</b>
Debt to EBITDA not to exceed 3.5	2.06
Debt to Capitalization not to exceed 0.55	0.37

Keyera has \$315 million of long-term senior unsecured notes as follows: \$90 million bearing interest at 5.23% and maturing in October 2009; \$52.5 million bearing interest at 5.79% and maturing in August 2010; \$52.5 million bearing interest at 6.155% and maturing in August 2013; \$60 million bearing interest at 5.89% and maturing in December 2017; and \$60 million bearing interest at 6.14% and maturing in December 2022. These

notes are subject to three major financial covenants: “Consolidated Debt to Consolidated EBITDA”, “Consolidated EBITDA to Consolidated Interest Charges” and “Priority Debt to Consolidated Total Assets”.

The calculations for each of these ratios are based on specified definitions. The following are the ratios calculated in accordance with the covenants as at December 31, 2008 for the notes maturing in 2009, 2010 and 2013:

<b>Covenant</b>	<b>Position as at December 31, 2008</b>
Debt to EBITDA not to exceed 3.5	3.07
EBITDA to Interest Charges not less than 3.0	7.79
Priority Debt to Total Assets not to exceed 15%	0%

The following are the ratios calculated in accordance with the covenants as at December 31, 2008 for the notes maturing in 2017 and 2022:

<b>Covenant</b>	<b>Position as at December 31, 2008</b>
Debt to EBITDA not to exceed 5.0	2.06
EBITDA to Interest Charges not less than 2.0	7.02
Priority Debt to Total Assets not to exceed 15%	0%

Failure to adhere to the covenants described above may impair Keyera’s ability to pay distributions. Management expects that upon maturity of the credit facilities, adequate replacement facilities will be established.

#### *Regulatory risk*

Keyera is subject to a range of laws and regulations imposed by various levels of government and regulatory bodies in the jurisdictions in which it operates. In 2008, regulatory changes related to the environment have had the most direct impact on Keyera. (See “Business Environment”).

While these laws and regulations affect all dimensions of Keyera’s activities, Keyera does not believe that they affect its operations in a manner materially different from other comparable businesses operating in the same jurisdictions. A more complete discussion of regulatory risks can be found in the Annual Information Form available on SEDAR.

#### *Credit risk*

Keyera assumes credit risk with respect to its fee for service business, the purchase and sale of commodities in its Marketing business, the hedging of commodity price changes and the other financial contracts into which it enters. In particular, Keyera is exposed to credit-related losses in the event that counterparties to contracts become insolvent or otherwise fail to fulfill their present or future financial obligations to Keyera. The majority of Keyera’s accounts receivable are due from entities in the oil and gas business and are subject to normal industry credit risks. Concentration of credit risk is mitigated to some degree by having a broad based domestic and international customer base. However, due to recent declines in commodity prices, Keyera has a higher degree of concentration in accounts receivable related to financial instruments compared to historic levels.

Keyera regularly monitors accounts receivable for collection purposes and reviews exposure to customers and counterparties. With respect to counterparties for financial instruments used for economic hedging purposes, Keyera limits its credit risk by dealing with recognized futures exchanges, or investment grade financial institutions, or by adherence to credit policies that significantly reduce overall counterparty credit risk.

---

---

Management believes these measures reduce Keyera's overall credit risk; however, there can be no assurance that these processes will protect against all losses from non-performance.

#### *Marketing risk management*

Keyera enters into contracts to purchase and sell natural gas, NGLs and crude oil. Most of these contracts are priced at floating market prices. These activities expose Keyera to market risks resulting from movements in commodity prices between the time volumes are purchased and the time they are sold and from fluctuations in the margins between purchase prices and sales prices.

The prices of the products that are marketed by Keyera are subject to fluctuations as a result of such factors as seasonal demand changes, changes in crude oil and natural gas markets and other factors. In many circumstances, particularly in NGL marketing, purchase and sale contracts are not perfectly matched as they are entered into at different times, locations and values. Further, Keyera normally has a long position in most of the NGL products that it markets and may store NGLs in order to meet seasonal demand and take advantage of seasonal pricing differentials, resulting in inventory price risk. Since crude oil margins are earned by capturing spreads between different qualities of crude oil, Keyera's crude oil midstream business is subject to variability in price differentials between crude oil streams. In both Keyera's NGL and crude oil marketing businesses, margins can vary significantly from period to period and volatility in the markets for these products may cause distortions in financial results from period to period that are not replicable.

To some extent, Keyera reduces elements of risk exposure through the integration of its Marketing business with its facilities businesses. In spite of this integration, Keyera remains exposed to market and commodity price risk. Keyera manages this commodity risk in a number of ways, including the use of financial contracts and by offsetting some physical and financial contracts in terms of volumes, timing of performance and delivery obligations. For example, in the context of NGL marketing, because NGL product prices are related to the price of crude oil, crude oil financial contracts are one of the more common hedging strategies that Keyera uses. This strategy is subject to basis risk between the prices of crude oil and the NGL products, between the quantities hedged and sold and sometimes between the U.S. dollar and Canadian dollar. Therefore, Keyera's hedging strategies cannot be expected to precisely offset future propane, butane and condensate price movements. Further, there is no guarantee that hedging and other efforts to manage the marketing and inventory risks will generate profits or mitigate all the market and inventory risks associated with these activities. To the extent that Keyera engages in these kinds of hedging activities, it is also subject to credit risks associated with the counterparties with whom it contracts.

#### *Foreign currency risk*

The Gathering and Processing and NGL Infrastructure segments generated 61% of 2008 contribution and are not subject to foreign currency risk. All sales and virtually all purchases are denominated in Canadian dollars. In the Marketing business, approximately US \$373.9 million of sales were priced in U.S. dollars in 2008. Foreign currency risk is actively managed by using forward currency contracts and swaps.

### Commitments

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2008, the obligations that represent known future cash payments that are required under existing contractual arrangements are as follows:

Contractual obligations	Payments Due by Period						After
	Total	2009	2010	2011	2012	2013	2013
	\$	\$	\$	\$	\$	\$	\$
Long-term debt <sup>1</sup>	315,000	90,000	52,500	—	—	52,500	120,000
Operating leases <sup>2</sup>	34,708	11,685	9,209	6,393	4,934	2,487	—
Purchase obligations <sup>3</sup>	—	—	—	—	—	—	—
Total contractual obligations	349,708	101,685	61,709	6,393	4,934	54,987	120,000

Notes:

- 1 Long-term debt obligations do not include interest payments.
- 2 Keyera has lease commitments relating to railway tank cars, vehicles, computer hardware, office space, terminal lease space and natural gas transportation.
- 3 Keyera is involved in various contractual agreements with ConocoPhillips and other producers to purchase NGLs. These agreements range from one to ten years and in general obligate Keyera to purchase all product produced at specified locations on a best efforts basis. The purchase prices are based on then current market prices. The future volumes and prices for these contracts cannot be reasonably determined.

### Unitholder Distributions

#### Comparison of distributions paid to cash flow from operating activities and net earnings

The following table presents a comparison of distributions paid to net earnings and cash flow from operating activities:

(Thousands of Canadian dollars)	Three months ended		Twelve months ended	
	December 31, 2008	December 31, 2008	2007	2006
Cash flow from operating activities	115,760	91,302	119,825	110,656
Net earnings	50,877	165,485	14,479	68,078
Cash distributions paid	27,985	102,501	89,799	86,509
Excess (shortfall) of cash flow from operating activities over distributions paid	87,775	(11,199)	30,026	24,147
Excess (shortfall) of net earnings over distributions paid	22,892	62,984	(75,320)	(18,431)

In 2008, cash flow from operating activities was \$91.3 million, \$11.2 million less than distributions paid. Included in the calculation of cash flow from operating activities was \$49.9 million for a temporary increase in non-cash working capital. The shortfall in cash flow was primarily due to the inclusion of a \$49.9 million charge related to the write-down of inventory and the exclusion of a \$50.1 million non-cash unrealized gain related to the financial instruments used as hedges against such adverse price changes. In subsequent months as the physical products are sold, the financial contracts will settle and the gains inherent in these contracts will be realized and included in cash flow from operating activities.

In the fourth quarter of 2008, cash flow from operating activities was \$115.8 million, including \$74.8 million generated from a decrease in non-cash working capital. Much of the \$74.8 million decrease in non-cash working capital was due to the realization of hedge gains during the quarter. Cash flow from operating activities in the fourth quarter of 2008 was sufficient to fund cash distributions paid.

In 2008, net earnings of \$165.5 million exceeded cash distributions paid of \$102.5 million by \$63.0 million. The surplus is attributable to the inclusion of non-cash items for unrealized gains on financial instruments (\$66.6 million) and future income tax recoveries (\$1.8 million), more than offsetting non-cash charges for depreciation, amortization and accretion (\$43.7 million) and disposal and impairment losses (\$2.5 million) in the calculation of net income. In the fourth quarter of 2008, net earnings of \$50.9 million exceeded cash distributions by \$22.9 million.

Future income taxes can fluctuate from period to period as a result of changes in tax laws and rates (such as the enactment in the second quarter of 2007 of the tax on distributions of flow-through entities or the reduction of income tax rates in 2006 and 2007) or changes in the operating results of the underlying operating entities of Keyera. These items do not affect cash flow generated in the current period.

Non-cash charges such as depreciation and amortization are based upon the historical cost of Keyera's property, plant and equipment. These charges do not accurately represent the fair market value or the replacement cost of the assets in today's economic environment, nor do they affect cash flow generated in the current period.

Non-cash unrealized gains and losses on financial instruments result from Keyera's use of financial contracts, such as energy-related forward sales, price swaps, physical exchanges and options to manage the commodity price risk inherent in the marketing business. Their fair value is determined based upon estimates of future prices. The change in fair value of these contracts during the current period has no effect on cash flow generated. Upon settlement in future periods, the unrealized estimate is reversed and the realized gain or loss is included in earnings.

Due to the inclusion of such non-cash charges in net earnings, distributions paid may exceed net earnings. Although non-cash charges do not affect current period cash generation, any excess of distributions over net earnings would be a return of unitholders' capital.

#### *Distributable Cash Flow*

Distributable cash flow is not a standard measure under GAAP and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund distributions.

The following is a reconciliation of distributable cash flow to its most closely related GAAP measure, cash flow from operating activities.

<b>Distributable Cash Flow</b> <b>(Thousands of Canadian dollars)</b>	<b>Three months ended</b> <b>December 31,</b>		<b>Twelve months ended</b> <b>December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cash flow from operating activities	<b>115,760</b>	45,497	<b>91,302</b>	119,825
Add (deduct):				
Changes in non-cash working capital	<b>(74,827)</b>	(3,884)	<b>49,921</b>	25,450
Maintenance capital	<b>(608)</b>	(192)	<b>(1,782)</b>	(1,437)
Non-controlling interest distributable cash flow	—	—	—	(369)
<b>Distributable cash flow</b>	<b>40,325</b>	41,421	<b>139,441</b>	143,469
<b>Distributions declared to unitholders</b>	<b>28,141</b>	22,965	<b>105,501</b>	90,206

Distributable cash flow of \$40.3 million in the fourth quarter of 2008, and \$139.4 million for the year, exceeded distributions declared to unitholders of \$28.1 million and \$105.5 million in the respective periods.

---

---

Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of seasonal fluctuations in product inventories or other temporary changes and are generally funded with short-term debt. Also deducted from distributable cash flow are maintenance capital expenditures that are funded from current operating cash flow. These expenditures are necessary on an ongoing basis to maintain the current productive capacity of the facilities.

#### *Distribution policy*

In determining the level of cash distributions to unitholders, Keyera's Board of Directors takes into consideration current and expected future levels of distributable cash flow (including income tax), capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

Changes in non-cash working capital are primarily the result of seasonal fluctuations in product inventories or other temporary changes and are generally funded with short-term debt. These changes in non-cash working capital are therefore excluded in the determination of distributable cash flow.

Over the long-term, Keyera expects to pay distributions from distributable cash flow. Growth capital expenditures will be funded from retained operating cash flow, along with proceeds from additional debt or equity, as required. Although Keyera intends to continue to make regular monthly cash distributions to its unitholders, these distributions are not guaranteed.

#### *Sustainability of productive capacity*

Keyera's Gathering and Processing and NGL Infrastructure segments operate long-life infrastructure assets consisting of natural gas processing plants and gathering systems, NGL processing plants, storage facilities and transportation facilities. These facilities provide services to numerous energy producers over a wide geographic area. Throughput at each natural gas processing plant is dependent upon the natural gas production of third party producers within the capture area of the plant. Demand for fractionation, storage and transportation services is dependent upon the supply of NGL mix obtained from the processing of third party raw natural gas and the market demand for end-use products (propane, butane and condensate).

Keyera has comprehensive inspection, monitoring and maintenance programs in place. The objectives of these programs are to keep the facilities in good working order and to maintain their ability to operate reliably for many years. These maintenance and repair expenditures totaled \$10.2 million in the fourth quarter of 2008 and \$27.9 million for the year. Of these amounts, \$9.6 million and \$26.1 million were included in operating costs and will be recovered through the fee structure over varying periods of time, depending upon the fee structure. At these levels of maintenance and repair, Keyera's plants and facilities can continue to operate safely for decades to come. Significant capital expenditures are not normally required to maintain the existing productive capacity, but may be required if significant changes are made in regulatory requirements.

Several of Keyera's sour gas plants rely on acid gas injection to dispose of the hydrogen sulphide and other waste products removed during processing. Acid gas injection involves the injection and sequestration of carbon dioxide and hydrogen sulphide into depleted underground reservoirs. The sustainability of this process is dependent upon the availability of suitable reservoirs. If suitable reservoirs were not available, alternate processes would be required, the capacity of the plant could be reduced or expenditures required to replace the lost capacity would be necessary. These alternatives would have an adverse effect on cash flow.

Cash flows from operating activities are determined primarily by the quantity and composition of product throughput at the facility and the fee structure. Throughput is influenced by the ongoing development activities of

---

numerous third parties who may increase production volumes by drilling new wells, tying in previously drilled wells, completing new zones in existing wells or enhancing production volumes through stimulation or enhanced recovery techniques. If third parties are unsuccessful in their development activities, Keyera's cash flow could be adversely affected despite having physical capacity available. Growth capital expenditures are generally undertaken to expand capture areas, add new capacity or introduce new services. If Keyera is unsuccessful in extending capture areas or adding new capacity and services, cash flow from operating activities may be reduced.

Standard and Poor's has assigned the Fund an SR-3 stability rating, indicating the expectation of a high-level of stability in distributions.

Additional information on the capacities and constraints related to Keyera's plants, other risks and trends that could affect the financial performance of Keyera and the steps taken to mitigate these risks, readers are referred to the descriptions in this MD&A and to Keyera's 2008 Annual Information Form, which are available on SEDAR.

### **Units and Convertible Debentures**

During 2008, \$16.0 million of the 2004 convertible debentures (before adjustment for deferred financing costs) were converted into 1,332,570 trust units and 291,342 trust units were issued under the DRIP in consideration of \$5.8 million, bringing the total units outstanding at December 31, 2008 to 62,888,284. Of the 2004 convertible debentures, only \$5.8 million remained outstanding at December 31, 2008.

On December 1, 2008, the Fund issued convertible unsecured subordinated debentures in the principal amount of \$80.0 million. The convertible debentures bear interest at 8.25% per annum, payable semi-annually in arrears on June 30, and December 31, each year. These debentures will mature on December 31, 2013 and are convertible into trust units of the Fund at the option of the holders at any time prior to the maturity date at a conversion price of \$19.50 per unit.

Financing costs consisting of an underwriters' commission of \$3.2 million and issuance costs of \$0.5 million have been deferred, and are being amortized over the term of debt using the effective interest rate method. At December 31, 2008, \$80.0 million of the 2008 convertible debentures were outstanding.

Subsequent to December 31, 2008, a further \$0.1 million of the 2004 convertible debentures were converted into 11,749 trust units and 49,470 trust units were issued to unitholders enrolled in the DRIP in consideration for \$0.8 million, bringing the total units outstanding at February 20, 2009 to 62,949,503. As at February 20, 2009, \$5.7 million of 2004 and \$80 million of 2008 convertible debentures were outstanding.

### **FUND REORGANIZATION**

In June 2007, Unitholders approved an internal reorganization of Keyera's legal structure (the "Reorganization"). Due to interpretation issues surrounding the SIFT Legislation, Keyera amended certain elements of the Reorganization prior to implementation. On January 2, 2008, upon receipt of a favourable advance ruling from the Canada Revenue Agency and the final order from the Alberta Court of Queen's Bench, approving the plan of arrangement for the amended Reorganization, the Reorganization was completed. The Reorganization is described in detail in the Material Change Report filed on SEDAR ([www.sedar.com](http://www.sedar.com)) on January 11, 2008.

The Reorganization streamlined Keyera's legal structure and simplified accounting, legal reporting and income tax compliance, all of which is expected to reduce the general and administrative costs associated with these activities. As a result of the amendments to the Reorganization, there were not any significant immediate tax savings within Keyera's structure, but the new structure does permit Keyera to defer the utilization of some tax

---

---

pools until after January 1, 2011. This enhanced tax planning flexibility should enable Keyera to minimize the amount of cash taxes payable in 2011, when Keyera is expected to become taxable under the SIFT Legislation.

Keyera is looking at a variety of options to continue to enhance its tax planning flexibility. (See “Business Environment – New Tax on Flow-through Entities”). As well, Keyera plans to reduce the use of its available tax deductions from 2008 through 2010, thereby increasing deductions available after 2010.

## **ACCOUNTING MATTERS AND CONTROLS**

### **Changes in accounting policies**

Effective January 1, 2008, the Fund adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”):

- Section 1535, Capital Disclosures;
- Section 3031, Inventories;
- Section 3862, Financial Instruments – Disclosures; and
- Section 3863, Financial Instruments – Presentation.

Section 1535, Capital Disclosures, requires entities to provide users of financial statements with information to evaluate the entity’s objectives, policies and processes for managing capital. Adoption of this new standard did not have an effect on the statements of financial position, net earnings or cash flows of the Fund. The new disclosure requirements have been included in the notes to the audited annual consolidated financial statements.

Section 3031, Inventories, requires the measurement of inventories at the lower of cost and net realizable value and the consistent use of either first-in, first-out or a weighted-average cost formula to measure cost. The reversal of previous net realizable value write-downs is required when there is a subsequent increase to the value of inventories. The Fund adopted this standard prospectively on January 1, 2008, in accordance with the transitional provisions. Inventory is measured at the lower of cost and net realizable value. Cost is determined on a weighted-average cost formula. There was no material impact upon adoption of this standard.

Section 3862, Financial Instruments – Disclosures, requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments to the entity’s financial position and performance. It also requires that entities disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3863, Financial Instruments – Presentation, establishes standards for presentation of financial instruments and non-financial derivatives and deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Adoption of sections 3862 and 3863 did not have an effect on the statements of financial position, net earnings or cash flows of the Fund. The new disclosure requirements have been included in the notes to the audited annual consolidated financial statements.

---

---

## **Future changes in accounting policies**

### *Transition to International Financial Reporting Standards (“IFRS”)*

In April 2008, the CICA published the exposure draft “Adopting IFRS in Canada”. The exposure draft proposes to incorporate IFRS into the CICA Accounting Handbook effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and, as a result, the final impact of adopting IFRS on the Fund will only be known once all the applicable IFRS are issued. The Fund is currently reviewing the differences between Canadian GAAP and IFRS and identifying key conversion issues.

Keyera commenced its IFRS conversion project in early 2008, and has established a formal project governance structure to monitor the transition. This structure includes a steering committee and a stakeholder working group consisting of senior levels of management from the finance, information technology, investor relations and operation areas. Regular reporting to senior executive management, the Audit Committee and the Board of Directors has commenced to ensure appropriate monitoring and governance.

Keyera has determined that the areas of accounting differences with the highest potential impact are the accounting for fixed assets, impairment testing, presentation of trust units as equity or debt and the initial adoption of IFRS under the provisions of IFRS 1, *First-time Adoption of IFRS*.

Keyera has developed the following IFRS changeover plan:

<b>Key Milestones</b>	<b>Target completion</b>	<b>Status as at December 31, 2008</b>
<b>Financial Statements</b>		
<ul style="list-style-type: none"> <li>• Identification of significant differences between Canadian GAAP and IFRS. Identification of key conversion issues.</li> </ul>	Q4 2008	Completed
<ul style="list-style-type: none"> <li>• Analysis of conversion issues (e.g., identification of significant components for fixed asset accounting, determination of cash generating units for impairment testing).</li> </ul>	Q3 2009	Analysis of issues underway
<ul style="list-style-type: none"> <li>• Selection of IFRS 1 exemptions and accounting policy choices.</li> </ul>	Q3 2009	Analysis of policy choices underway
<ul style="list-style-type: none"> <li>• Preparation of the opening balance sheet reconciliation under IFRS.</li> </ul>	Q1 2010	To commence in Q1 2010
<ul style="list-style-type: none"> <li>• Determination of new financial statement note disclosure requirements.</li> </ul>	Q3 2010	Analysis of disclosure requirements underway
<ul style="list-style-type: none"> <li>• Development of financial statement format.</li> </ul>	Q3 2010	To commence in Q2 2009
<b>Information Technology</b>		
<ul style="list-style-type: none"> <li>• Implementation of fixed asset system.</li> </ul>	Q3 2009	Scoping study underway
<ul style="list-style-type: none"> <li>• Implementation of general ledger for 2010 dual reporting under IFRS and Canadian GAAP.</li> </ul>	Q1 2010	Scoping study underway
<b>Business Policy Assessment</b>		
<ul style="list-style-type: none"> <li>• Identification of impact on debt covenants, compensation arrangements and other agreements.</li> </ul>	Q1 2010	Identification of impact underway
<ul style="list-style-type: none"> <li>• Completion of necessary renegotiations of covenants, compensation arrangements and other agreements. Execution of required changes to agreements.</li> </ul>	Q2 2010	To commence in Q3 2009
<b>Control Environment</b>		
<ul style="list-style-type: none"> <li>• For all accounting policy changes, assess impact on internal controls over financial reporting and disclosure controls. Implement appropriate changes.</li> </ul>	Q2 2010	To commence in Q3 2009

### *Goodwill and Intangible Assets*

In February 2008, the Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing existing guidance (Sections 3062 and 3450) for these areas. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new section will be effective for the Fund for periods ending after January 1, 2009. The Fund is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

---

---

### *Business Combinations, Consolidated Financial Statements, and Non-controlling Interests*

In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The adoption of section 1582 will affect the accounting for business combinations, if any, by the Fund on or after January 1, 2011.

In January 2009, the AcSB issued CICA Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Fund does not expect the adoption of this standard to have a material impact on its results of operations or financial position.

### **Control Environment**

#### *Disclosure Controls and Procedures*

As of December 31, 2008, the Chief Executive Officer and the Chief Financial Officer together with Keyera's management have evaluated the design and effectiveness of Keyera's disclosure controls and procedures. They concluded that, as of the end of the period covered by this report, Keyera's disclosure controls and procedures were adequate and effective in providing reasonable assurance that material information relating to the Fund and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period which this report was being prepared and that all material information has been appropriately and timely disclosed.

#### *Internal Control Over Financial Reporting*

As of December 31, 2008, the Chief Executive Officer and the Chief Financial Officer together with Keyera's management have evaluated the design and effectiveness of Keyera's internal controls over financial reporting. They concluded that, as of the end of the period covered by this report, Keyera's internal controls over financial reporting were adequate and effective in providing reasonable assurance over the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. During the quarter ended December 31, 2008, there have been no material changes in internal control over financial reporting.

## SELECTED FINANCIAL INFORMATION

The following table presents selected annual financial information for the Fund:

(Thousands of Canadian dollars, except per unit information)	2008	2007	2006
Operating revenues			
- Marketing	1,909,356	1,250,541	1,161,899
- Gathering and Processing	221,683	187,490	166,736
- NGL Infrastructure	44,234	41,110	39,888
Net earnings	165,485	14,479	68,078
Net earnings per unit (\$/unit):			
- Basic	2.68	0.24	1.12
- Diluted	2.62	0.24	1.10
Distributions to unitholders	105,501	90,206	86,605
Distributions to unitholders per unit (\$/unit)	1.69	1.48	1.43
Trust Units outstanding (thousands)			
- Weighted average (basic)	61,694	61,098	60,604
- Weighted average (diluted)	63,549	61,098	62,794
Total assets	1,693,278	1,330,999	1,223,012
Total long-term financial liabilities	499,118	517,740	338,499

### 2008 compared to 2007

For 2008, revenues from Marketing were \$1,909.4 million, an increase of \$658.8 million or 53% compared to 2007. Higher NGL prices, combined with significantly higher volumes, and the \$116.5 million of gains related to the settlement and change in fair value of financial contracts that were part of Keyera's risk management program contributed to the increase.

Gathering and Processing revenue for 2008 was \$221.7 million, an increase of \$34.2 million, or 18%, compared to 2007. The increase was due primarily to higher throughput resulting from the gas plants acquired in 2008 and the recovery of costs for turnarounds completed at the Gilby and Nordegg River gas plants in 2008 and at the Rimbeigh gas plant in 2007.

NGL Infrastructure revenue for 2008 was \$44.2 million, an increase of \$3.1 million, or 8%, compared to 2007. The increase was primarily due to the acquisition of a 50% ownership interest in the Bonnie Glen Pipeline in the fourth quarter of 2008 and higher storage fees at Keyera's Fort Saskatchewan facility.

Consolidated net earnings for 2008 were \$165.5 million, an increase of \$151.0 million from 2007. The increase was due primarily to the recording of a \$72.6 million non-cash future income tax expense in 2007 and stronger 2008 contribution in all segments, partially offset by higher general and administrative costs and interest expense.

The Fund declared \$105.5 million of distributions to unitholders in 2008, an increase of \$15.3 million due to increases in distributions paid per unit in February 2008 and August 2008, as well as a greater number of units outstanding resulting from conversions of debentures and the DRIP.

## 2007 compared to 2006

For 2007, revenues from Marketing were \$1,250.5 million, an increase of \$88.6 million compared to the previous year. Higher prices, partially offset by lower volumes, and the growing contribution from the crude oil midstream business accounted for the increase. Also included in 2007 revenues, were \$20.0 million of charges related to the settlement and change in fair value of financial contracts that were part of Keyera's risk management program.

Gathering and Processing revenue for 2007 was \$187.5 million, an increase of \$20.8 million, or 12%, compared to the previous year. The increase was due primarily to higher throughput in the Foothills Region, the flow through of turnaround costs incurred at the Rimbey, Brazeau River and Bigoray gas plants, the conversion of fixed fee arrangements to flow-through arrangements and incremental fees from the new compression added at the Rimbey gas plant in late 2006 and early 2007.

NGL Infrastructure revenue for 2007 was \$41.1 million, an increase of \$1.2 million, or 3%, compared to the previous year. The increase is primarily due to higher storage revenues at Keyera's Fort Saskatchewan facility.

Consolidated net earnings for 2007 were \$14.5 million, a decrease of \$53.6 million from 2006. The decrease was due primarily to non-cash future income tax expense, higher general and administrative costs, interest expense and depreciation charges, partially offset by strong contribution in all segments.

The Fund declared \$90.2 million of distributions to unitholders in 2007, an increase of \$3.6 million due to an increase in the distributions paid per unit in May 2007, as well as a greater number of units outstanding resulting from conversions of debentures and the DRIP.

The following table presents selected quarterly financial information for the Fund:

<b>Three months ended (Thousands of Canadian dollars)</b>								
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
Operating revenues								
- Marketing	307,342	292,326	276,957	373,916	493,334	459,574	495,091	<b>461,357</b>
- Gathering and Processing	41,949	44,277	50,744	50,520	48,573	58,679	58,612	<b>55,819</b>
- NGL Infrastructure	9,692	9,525	10,044	11,849	10,870	11,113	9,282	<b>12,969</b>
Net earnings <sup>1</sup>	19,012	(59,870)	15,310	40,027	55,502	22,729	36,377	<b>50,877</b>
Net earnings per unit (\$/unit)								
- Basic	0.31	(0.98)	0.25	0.65	0.91	0.37	0.59	<b>0.81</b>
- Diluted	0.31	(0.95)	0.25	0.64	0.88	0.36	0.58	<b>0.79</b>
Trust units outstanding (thousands)								
- Weighted average (basic)	60,972	61,061	61,136	61,219	61,295	61,411	61,607	<b>62,456</b>
- Weighted average (diluted)	62,918	62,967	63,011	63,059	63,105	63,156	63,246	<b>64,681</b>
Distributions to unitholders	21,773	22,538	22,931	22,965	25,661	24,882	26,817	<b>28,141</b>

### Notes

1 Since the adoption of the new accounting standards effective January 1, 2007, Keyera has had no transactions that required the use of other comprehensive income and therefore comprehensive income equals net earnings.

## December 31, 2008 compared to September 30, 2008

For the fourth quarter of 2008, Marketing revenues of \$461.4 million decreased by \$33.7 million over the prior quarter. The decline was due to significantly lower sales prices, partially offset by higher sales volumes and the gains recognized on financial contracts used in Keyera's risk management program.

---

---

NGL Infrastructure revenues of \$13.0 million increased \$3.7 million over the prior quarter primarily due to the acquisition of the Bonnie Glen Pipeline and higher storage revenues.

Net earnings were \$50.9 million, an increase of \$14.5 million from the previous quarter. The increase was primarily due to strong contribution generated in the Marketing segment and a reduction in depreciation and amortization expenses resulting from changes to the useful lives of Keyera's asset base. Offsetting this positive variance was the recording of a \$1.4 million loss on disposal of capital assets and an \$11.6 million unfavourable variance in future income tax expense related to higher CCA claims by one of the Fund's subsidiaries.

### **September 30, 2008 compared to June 30, 2008**

For the third quarter of 2008, Marketing revenues of \$495.1 million increased by \$35.5 million over the prior quarter. The primary reason for the increase was the recording of a \$38.6 million unrealized gain on financial contracts offset by lower revenues resulting from lower NGL prices.

Net earnings were \$36.4 million, an increase of \$13.7 million from the previous quarter. A \$20.7 million positive variance related to future income taxes, partially offset by lower contribution, higher general and administrative costs and interest expense were the primary factors for the increase.

### **June 30, 2008 compared to March 31, 2008**

Marketing revenues were \$459.6 million, representing a decrease of \$33.8 million from the prior quarter. This decrease in revenues was due primarily to a seasonal decline in sales volumes and the recording of a \$7.3 million unrealized loss on financial contracts.

Gathering and Processing revenue of \$58.7 million increased \$10.1 million over the first quarter. Higher operating fees charged at the Gilby and Nordegg River gas plants to recover turnaround costs incurred in the second quarter and incremental revenue from the West Pembina gas plant acquired in May 2008, strong performance from NGL re-processing activity and a \$2.8 million equalization adjustment were contributing factors to the increase.

Net earnings were \$22.7 million, a decrease of \$32.8 million from the prior quarter. The decrease was the result of lower Marketing contribution that typically occurs when demand declines in the summer months and a future income tax expense of \$14.9 million.

### **March 31, 2008 compared to December 31, 2007**

Marketing revenues for the first quarter of 2008 were \$493.3 million, an increase of \$119.4 million over the prior quarter. The increase in revenue was due to higher NGL sales volumes and higher prices in addition to strong demand for propane and condensate during the winter season.

Net earnings were \$55.5 million, an increase of \$15.5 million from the last quarter of 2007. The increase in earnings was primarily attributable to stronger Marketing contribution compared to the fourth quarter of 2007.

### **December 31, 2007 compared to September 30, 2007**

Marketing revenues of \$373.9 million in the fourth quarter of 2007 increased from the third quarter of 2007 by \$96.9 million. This increase was due to the seasonal increase in sales volumes and higher prices.

Net earnings were \$40.0 million, an increase of \$24.7 million, due primarily to the strong contribution earned in the Marketing segment and the recognition of a \$11.7 million future income tax recovery.

---

---

**September 30, 2007 compared to June 30, 2007**

Third quarter Marketing revenues of \$277.0 million decreased from the prior quarter by \$15.4 million. This decrease was due to a combination of lower NGL volumes, particularly in butane and condensate, and the effect of the \$5.7 million of unrealized loss on financial instruments.

Gathering and Processing revenue of \$50.7 million increased by \$6.5 million due to higher throughput at most plants and higher fees at the Bigoray and Brazeau River gas plants. Furthermore, volumes at the Rimbey gas plant improved over the previous quarter as it was taken offline for a 17-day turnaround in the second quarter.

Net earnings were \$15.3 million, an increase of \$75.2 million from previous quarter. This increase was primarily due to the recording of \$80.2 million of future income taxes in the second quarter, as a result of the Canadian government enacting taxation on publicly traded income trusts. Without the effect of this non-cash future income tax expense, net earnings for the third quarter decreased by \$5.1 million from the second quarter, largely due to lower Marketing contribution.

**June 30, 2007 compared to March 31, 2007**

For the second quarter of 2007, Marketing revenues of \$292.3 million decreased by \$15.0 million from the prior quarter. This decrease in revenues was due primarily to a seasonal decline in sales volumes.

Gathering and Processing revenue of \$44.3 million increased by \$2.3 million primarily due to higher throughput volumes in the Foothills Region, despite maintenance turnarounds at the Rimbey gas plant, Keyera's largest facility, and the Brazeau North gas plant.

NGL Infrastructure revenue of \$9.5 million remained relatively unchanged from the first quarter of 2007, reflecting the long-term storage contracts established in early 2007.

A net loss of \$59.9 million was recorded, a decrease of \$78.9 million from the prior quarter. This loss was due to the recording of an \$80.2 million provision for future income tax expense resulting from the enactment of the Canadian government's tax on publicly traded income trusts starting in 2011.

---

---

## Investor Information

### DISTRIBUTIONS TO UNITHOLDERS

Distributions to unitholders were \$1.709 per unit in 2008, including a special distribution of \$0.023529 per unit paid to unitholders on January 2, 2008 as part of Keyera's internal reorganization. Keyera increased its distributions twice in 2008, from \$0.125 per unit to \$0.15 per unit per month, an increase of 20%. Since inception in 2003, Keyera has increased its distributions to unitholders seven times, a 65% increase in distributions per unit, representing a 8% compound annual growth rate. Current distributions are \$0.15 per unit per month, or \$1.80 per unit annually.

### TAXABILITY OF DISTRIBUTIONS

For income tax purposes, distributions paid and declared to Canadian residents in 2008 were 99.3647% ordinary income and 0.6353% return of capital. The special distribution of \$0.023529 per unit paid to unitholders on January 2, 2008 is a return of capital. Additional information is available on Keyera's website under "Investor Information". Both Canadian and non-resident unitholders should seek independent tax advice in respect of the consequences to them of acquiring, holding and disposing of units.

Keyera currently anticipates distributions will be largely or fully taxable for Canadian non-exempt unitholders in 2009. This outlook is affected by Keyera's organizational structure and is subject to change, depending on the levels of profitability and capital expenditures in each of Keyera's operating entities. Both Canadian and non-resident unitholders should seek independent tax advice in respect of the consequences to them of acquiring, holding and disposing of units. Factors that could affect the performance of the Fund and the taxability of the distributions are discussed in the Fund's Annual Information Form.

### SUPPLEMENTARY INFORMATION

A breakdown of Keyera's operational and financial results, including volumetric and contribution information by major business unit, is available on our website at [www.keyera.com](http://www.keyera.com) under "Investor Information, Financial Information".

### YEAR END 2008 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss its year end 2008 results at 8:00 a.m. (10:00 a.m. eastern) on February 25, 2009. Callers may participate by dialing either 800-733-7571 or 416-644-3414. A recording of the call will be available for replay until midnight, March 4, 2009 by dialing 877-289-8525 or 416-640-1917 and entering pass code 21293231 followed by the pound (#) key.

Internet users can listen to the call live on Keyera's website at [www.keyera.com](http://www.keyera.com) under "Investor Information, Webcasts". Shortly after the call, an audio archive will be posted on the website for 90 days.

### QUESTIONS

We welcome questions from interested parties. Calls should be directed to Keyera's Investor Relations Department at 403-205-7670, toll free at 888-699-4853 or via email at [ir@keyera.com](mailto:ir@keyera.com). Information on Keyera can also be found on our website at [www.keyera.com](http://www.keyera.com).

**Keyera Facilities Income Fund**  
**Consolidated Statements of Financial Position**
**As at December 31,**  
 (Thousands of Canadian dollars)

	2008 \$	2007 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	113	15,657
Accounts receivable (note 14)	350,496	243,889
Inventory (note 3)	53,127	76,594
Other current assets	5,134	2,299
	<b>408,870</b>	<b>338,439</b>
Property, plant and equipment (note 4)	1,207,190	914,087
Intangible assets (note 5)	4,092	6,394
Goodwill (note 5)	71,234	71,234
Future income tax assets (note 9)	1,892	845
	<b>1,693,278</b>	<b>1,330,999</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	209,472	235,124
Distributions payable (note 12)	9,433	7,658
Credit facilities (note 6)	249,000	—
Current portion of long-term debt (note 6)	90,000	20,000
	<b>557,905</b>	<b>262,782</b>
Long-term debt (note 6)	223,561	313,243
Convertible debentures (note 7)	79,034	21,476
Asset retirement obligation (note 8)	52,070	37,807
Future income tax liabilities (note 9)	144,453	145,214
	<b>1,057,023</b>	<b>780,522</b>
<b>Unitholders' equity</b>		
Unitholders' capital (note 10)	704,627	681,925
Equity portion of convertible debentures (note 7)	3,092	—
Deficit	(71,464)	(131,448)
	<b>636,255</b>	<b>550,477</b>
	<b>1,693,278</b>	<b>1,330,999</b>

See accompanying notes to the consolidated financial statements

Commitments and contingencies (note 16)

Approved on behalf of the Fund by its administrator, Keyera Energy Management Ltd.:

 (Signed) Wesley R. Twiss  
 Director

 (Signed) Jim V. Bertram  
 Director

**Keyera Facilities Income Fund**  
**Consolidated Statements of Net Earnings, Comprehensive Income and Deficit For the Year Ended**  
**December 31,**

(Thousands of Canadian dollars, except unit information)

	2008 \$	2007 \$
<b>Operating revenues</b>		
Marketing	1,909,356	1,250,541
Gathering and Processing	221,683	187,490
NGL Infrastructure	44,234	41,110
	<b>2,175,273</b>	<b>1,479,141</b>
<b>Operating expenses</b>		
Marketing	1,762,466	1,172,010
Gathering and Processing	116,777	103,792
NGL Infrastructure	30,513	24,253
	<b>1,909,756</b>	<b>1,300,055</b>
	<b>265,517</b>	<b>179,086</b>
General and administrative	29,793	21,882
Interest expense on long-term indebtedness	21,065	16,077
Other interest expense	4,698	4,099
Depreciation and amortization	40,319	42,040
Accretion expense (note 8)	3,416	2,482
Loss on disposal of capital assets	1,393	—
Impairment expense (note 4)	1,113	728
	<b>101,797</b>	<b>87,308</b>
<b>Earnings before income tax and non-controlling interest</b>	<b>163,720</b>	<b>91,778</b>
Income tax (recovery) expense (note 9)	(1,765)	76,993
<b>Earnings before non-controlling interest</b>	<b>165,485</b>	<b>14,785</b>
Non-controlling interest	—	306
<b>Net earnings</b>	<b>165,485</b>	<b>14,479</b>
Other comprehensive income	—	—
<b>Comprehensive income</b>	<b>165,485</b>	<b>14,479</b>
<b>Deficit, beginning of year</b>	<b>(131,448)</b>	<b>(55,721)</b>
Distributions to unitholders (note 12)	(105,501)	(90,206)
<b>Deficit, end of year</b>	<b>(71,464)</b>	<b>(131,448)</b>
Weighted average number of units (in thousands) (note 11)		
- basic	61,694	61,098
- diluted	63,549	61,098
Net earnings per unit (note 11)		
- basic	2.68	0.24
- diluted	2.62	0.24

See accompanying notes to the consolidated financial statements

**Keyera Facilities Income Fund**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31,**  
(Thousands of Canadian dollars)

	2008	2007
	\$	\$
Net inflow (outflow) of cash:		
<b>Operating activities</b>		
Net earnings	165,485	14,479
Items not affecting cash:		
Depreciation and amortization	40,319	42,040
Accretion expense	3,416	2,482
Impairment expense	1,113	728
Loss on disposal of capital assets	1,393	245
Unrealized (gain) loss on financial instruments	(66,551)	12,563
Future income tax (recovery) expense (note 9)	(1,808)	72,645
Non-controlling interest	—	306
Asset retirement obligation expenditures (note 8)	(2,144)	(213)
Changes in non-cash operating working capital (note 17)	(49,921)	(25,450)
	<b>91,302</b>	<b>119,825</b>
<b>Investing activities</b>		
Capital expenditures	(285,901)	(25,313)
Acquisitions (note 19)	(36,000)	(6,716)
Proceeds on sale of assets	1,266	4,704
Changes in non-cash working capital (note 17)	5,217	(1,114)
	<b>(315,418)</b>	<b>(28,439)</b>
<b>Financing activities</b>		
Issuance (repayment) of debt under credit facilities (note 6)	249,000	(107,984)
Issuance of convertible debentures (note 7)	80,000	—
Financing costs related to convertible debentures (note 7)	(3,705)	—
Repayment of long-term debt (note 6)	(20,000)	—
Issuance of long-term debt (note 6)	—	120,000
Financing costs related to long-term debt (note 6)	—	(1,105)
Issuance of trust units (note 10)	5,778	3,255
Distributions paid to unitholders (note 12)	(102,501)	(89,799)
	<b>208,572</b>	<b>(75,633)</b>
<b>Net cash (outflow) inflow</b>	<b>(15,544)</b>	<b>15,753</b>
<b>Cash (bank indebtedness), beginning of year</b>	<b>15,657</b>	<b>(96)</b>
<b>Cash, end of year</b>	<b>113</b>	<b>15,657</b>

See accompanying notes to the consolidated financial statements

See note 17 for cash interest and taxes paid

---

---

**Keyera Facilities Income Fund**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)

**1. Structure of the Fund**

Keyera Facilities Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of the Province of Alberta pursuant to the Fund Declaration of Trust dated April 3, 2003. The Fund has a 100% direct and indirect interest in Keyera Energy Limited Partnership (the "Partnership").

The Partnership is involved in the business of natural gas gathering and processing, as well as natural gas liquids ("NGLs") and crude oil processing, transportation, storage and marketing in Canada and the U.S. Its operating subsidiaries include Keyera Energy Facilities Ltd. ("KEFL"), Keyera Energy Ltd. ("KEL"), Keyera Energy Inc. ("KEI"), Rimbey Pipeline Limited Partnership ("RPLP") and Alberta Diluent Terminal Limited Partnership ("ADTLP").

**2. Summary of significant accounting policies****Principles of consolidation**

These consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The consolidated financial statements include the accounts of the Fund and all controlled entities. All material intercompany accounts and transactions have been eliminated upon consolidation.

**Measurement uncertainty**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The recognized amounts of such items are based on management's best information and judgment. Actual results could differ from those estimates. Examples of significant estimates include and assumptions:

- the key economic assumptions used to determine the future cash flows used in testing long-lived assets and goodwill for impairment;
- the estimated useful lives of assets and the resulting estimates for depreciation expense and the fair value of the asset retirement costs;
- the asset retirement obligations and associated accretion expense;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- the allowance for doubtful accounts;
- the fair values of certain fixed price physical derivative instruments and financial contracts;
- the volumes for one month of purchases and sales for the marketing segment; and
- equalization adjustments under flow-through revenue arrangements.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange in effect at the transaction date. Exchange gains and losses are recorded in earnings in the period they are incurred.

**Revenue recognition***Marketing revenue*

Revenue from marketing NGLs and natural gas as well as from crude oil midstream activities is recognized based on volumes delivered to customers at contracted delivery points and rates and when collection is reasonably assured.

#### *Gathering and Processing revenue*

Gathering and Processing revenue is generated through fixed fee arrangements or flow-through arrangements that are designed to recover operating costs and provide a return on capital. Under fixed fee arrangements, the fee is a fixed charge per unit transported or processed. Under the flow-through method, the operating costs for the facility are recovered from each customer based upon that customer's pro rata share of total throughput. Users of each facility are charged a fee per unit based upon estimated operating costs and throughput, with an adjustment to actual costs and throughput completed after the end of the year. Each quarter, throughput volumes and operating costs are reviewed to determine whether the estimated unit fee charged during the quarter properly reflects the actual volumes and costs, and the allocation of revenues and operating costs to other plant owners is also reviewed. Amounts collected in excess of the recoverable amounts under flow-through arrangements are recorded as a current liability. Recoverable amounts in excess of the amounts collected under flow-through arrangements are recorded as a current receivable.

Revenue from take or pay arrangements is recognized as service is provided or upon expiry of the commitment, whichever occurs later.

Revenue is recognized when services have been performed and collection is reasonably assured.

#### *NGL Infrastructure revenue*

Revenue from transportation, processing and storage of NGLs is recognized through fee-for-service arrangements. The fee is comprised of a fixed charge per unit transported or processed. Revenue is recognized when services have been performed and collection is reasonably assured.

#### **Joint ventures**

Most gathering and processing and NGL infrastructure activities are conducted jointly with others, and accordingly these financial statements reflect only the Fund's proportionate interest in such activities.

#### **Cash and cash equivalents**

Cash may include cash equivalents such as short-term investments with maturities of three months or less when purchased.

#### **Inventory**

Inventory is comprised primarily of NGL product for sale through the Marketing operations. Inventory is measured at the lower of cost and net realizable value. Cost is determined on a weighted-average cost formula. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventories.

#### **Property, plant and equipment**

Property, plant and equipment consist primarily of natural gas processing and gathering systems, NGL infrastructure facilities and marketing storage facilities, which were recorded at cost. Depreciation of these facilities is provided for on a straight-line basis over the estimated useful life of each facility. The depreciation periods remaining range from 10 to 30 years for Gathering and Processing, 15 to 39 years for NGL Infrastructure, 22 years for Marketing and one to 20 years for corporate assets.

Impairment on property, plant and equipment is measured in a two-step process. Step one calculates the net recoverable amount, determined by the undiscounted future cash flows of the asset or asset group. Step two determines the impairment amount, equal to the difference between the carrying amount and fair value. Fair value is determined by discounting future estimated cash flows.

#### **Intangible assets**

##### *Goodwill*

Goodwill resulted from business combinations and represents the portion of the purchase price that was in excess of the fair value of net identifiable assets acquired. Goodwill is recorded at cost and is not

subject to amortization. It is tested at least annually for impairment. The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on one or more fair value measures, including present value calculations of estimated future cash flows and estimated amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties. The Fund also considers its market capitalization as of the date of the impairment test. If the carrying amount of the reporting unit exceeds its fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net earnings.

#### *Other intangible assets*

Other intangible assets consist of the marketing business contributed by the partners upon formation of the Partnership and Marketing business contracts acquired on business combinations and asset purchases. These assets were recorded at fair market value upon initial recognition and are being amortized over their estimated economic life. The unamortized balance of these intangible assets is assessed periodically for impairment based on management's best estimates of future net revenues from the Marketing business.

#### **Financial Instruments**

All financial instruments must initially be recognized at fair value on the balance sheet. Subsequent measurement of the financial instruments is based on their classification. The Fund has classified each financial instrument into one of the following categories:

- Financial assets and financial liabilities held for trading;
- Loans or receivables;
- Financial assets held to maturity;
- Financial assets available for sale; and
- Other financial liabilities.

The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in very limited circumstances, the classification of financial instruments is not changed subsequent to initial recognition.

#### *Held for trading*

Financial assets and financial liabilities classified as held for trading are measured at fair value and changes in those fair values are recognized in net earnings. Derivative instruments and cash have been classified as held for trading. Gains and losses related to derivative instruments are recognized in revenue in the period in which they arise. The estimated fair value of assets and liabilities held for trading is determined by reference to quoted market prices and, if not available, to estimates from third-party brokers or dealers. Transaction costs related to financial assets and financial liabilities classified as held for trading are charged to earnings as incurred.

#### *Available for sale*

Financial assets available for sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Currently, the Fund does not have any financial assets classified as available for sale. Transaction costs related to financial assets classified as available for sale would be charged to earnings as they occur.

*Held to maturity*

Financial assets held to maturity are measured at amortized cost using the effective interest rate method of amortization. Currently, the Fund does not have any financial assets classified as held to maturity. Transaction costs related to financial assets held to maturity would be charged to earnings as they occur.

*Loans or receivables*

Loans or receivables are measured at amortized cost using the effective interest rate method of amortization. Trade accounts receivables have been classified in this category. The related transaction costs would be charged to earnings as they arise.

The Fund assesses at each balance sheet date whether a financial asset carried at cost is impaired. If there is objective evidence that an other than temporary impairment loss exists, the amount of the loss is measured as the difference between the carrying amount of the asset and its fair value. The carrying amount of the asset is reduced and the amount of the loss is recognized in earnings.

*Other financial liabilities*

Other financial liabilities include accounts payable, accrued liabilities, distributions payable, short-term debt, convertible debentures and long-term debt. With the exception of derivative instruments, the Fund has classified all financial liabilities as other financial liabilities. Transaction costs relating to short-term liabilities are charged to earnings as they occur. For long-term liabilities, the transaction costs that are directly attributable to the issuance of a financial liability are included with the fair value initially recognized for that financial instrument. These costs are amortized to earnings using the effective interest rate method.

*Derivatives and embedded derivatives*

Derivative instruments include financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. The Fund uses derivative instruments such as commodity price swaps, electricity price swaps, foreign exchange forward contracts, and interest rate swaps to manage its risks.

Natural gas, NGL and crude oil contracts that require physical delivery at fixed prices and do not meet the Fund's expected purchase, sale or usage requirements are accounted for as derivative instruments.

Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Embedded derivatives are accounted for as derivative instruments.

Derivative instruments, including embedded derivatives, are classified as held for trading and are recorded on the consolidated statements of financial position at fair value. Changes in the fair value of these financial instruments are recognized in earnings in the period in which they arise.

**Comprehensive income**

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the changes in the fair value of the effective portion of derivatives used as hedging items in a cash flow hedge, changes in the fair value of any available for sale financial instruments and foreign currency translation adjustments of self-sustaining foreign operations. Accumulated other comprehensive income ("AOCI") is an equity category comprised of the cumulative amounts of OCI. No amounts have been recorded in OCI or AOCI.

**Asset retirement obligation**

The asset retirement cost, deemed to be the fair value of the asset retirement obligation at its inception, is capitalized as part of the cost of the related long-lived asset and allocated to expense on a basis consistent with depreciation and amortization. Amortization of asset retirement costs is included in depreciation and amortization in the consolidated statement of net earnings. The amount of the liability is revised periodically in accordance with changes in the cash flow estimates underlying the calculations,

resulting in increases or decreases to the asset retirement obligation. The asset retirement obligation is increased at each reporting period resulting from the passage of time and is recorded as accretion expense in the consolidated statement of net earnings, over the estimated time period until settlement of the obligation. Actual expenditures incurred are charged against the asset retirement obligation.

#### **Income taxes**

Under the Canadian Income Tax Act, the Fund is considered to be a “mutual fund trust” and, until December 31, 2010, is taxable only to the extent that its income is not distributed or distributable to its unitholders. The Fund intends to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in its hands.

All subsidiaries of the Fund follow the liability method of accounting for income taxes. Under this method, these subsidiaries record the future income tax basis of an asset or liability, using the enacted or substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect a change in the income tax rates and the adjustment is recognized in earnings in the period in which the change occurs.

#### **Unit-based compensation**

The Fund has a Long-Term Incentive Plan (“LTIP”), which is disclosed in note 13. The LTIP is a stock appreciation right as defined by the Canadian Institute of Chartered Accountants. The amount recognized in compensation expense is determined by multiplying the number of units deemed to have been earned by the current market price of the units. Fluctuations in the price of the trust units will change the accrued compensation expense and are recognized when they occur.

#### **Net earnings per unit**

Basic net earnings per unit are calculated by dividing net earnings, by the weighted average number of units outstanding during the period. For the calculation of the weighted average number, trust units are determined to be outstanding from the date they are issued. Diluted net earnings per unit are calculated by adding the weighted average number of units outstanding during the period to the additional units that would have been outstanding if potentially dilutive units had been issued, using the “if-converted” method.

#### **Distributions to unitholders**

The monthly amount of the distributions to unitholders of the Fund is defined in the Fund Declaration of Trust. The computation of the distributions to unitholders is comprised of cash amounts received or receivable as distributions or interest income from subsidiaries of the Fund. The monthly amount of the distributions to unitholders of the Fund is defined in the Fund Declaration of Trust. The computation of the distributions to unitholders is comprised of cash amounts received or receivable as distributions or interest income from subsidiaries of the Fund. In 2008, as part of the internal reorganization of certain of the Fund's subsidiaries, \$1,225 (\$0.02 per unit) in securities of certain subsidiaries of the Fund was issued as a special distribution.

Certain of the comparative figures in prior periods have been reclassified to conform to the presentation in the current period.

### **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

Effective January 1, 2008, the Fund adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”):

- Section 1535, Capital Disclosures;
- Section 3031, Inventories;
- Section 3862, Financial Instruments – Disclosures; and
- Section 3863, Financial Instruments – Presentation.

Section 1535, Capital Disclosures, requires entities to provide users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. Adoption of

this new standard did not have an effect on the consolidated statements of financial position, net earnings or cash flows of the Fund. The required disclosure has been included in note 15 to the audited consolidated financial statements.

Section 3031, Inventories, requires the measurement of inventories at the lower of cost and net realizable value and the consistent use of either first-in, first-out or a weighted-average cost formula to measure cost. The reversal of previous net realizable value write-downs is permitted when there is a subsequent increase to the value of inventories. The Fund adopted this standard prospectively on January 1, 2008 in accordance with the transitional provisions. Inventory is measured at the lower of cost and net realizable value. Cost is determined on a weighted-average cost formula. There was no material impact upon adoption of this standard.

Section 3862, Financial Instruments – Disclosures, requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments to the entity's financial position and performance. It also requires that entities disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3863, Financial Instruments – Presentation, establishes standards for presentation of financial instruments and non-financial derivatives and deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Adoption of sections 3862 and 3863 did not have an effect on the consolidated statements of financial positions, net earnings or cash flows of the Fund. The required disclosure has been included in these notes to the audited consolidated financial statements.

#### ***Future accounting and reporting changes***

##### **Convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”)**

In April 2008, the CICA published the exposure draft “Adopting IFRSs in Canada”. The exposure draft proposes to incorporate IFRS into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The International Accounting Standard Board (“IASB”) will also continue to issue new accounting standards during the conversion period, and, as a result, the final impact of adopting IFRS on the Fund will only be known once all the applicable IFRS are issued. The Fund is currently reviewing the differences between Canadian GAAP and IFRS and identifying key conversion issues.

##### **Goodwill and Intangible Assets**

In February 2008, the Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing existing guidance (Sections 3062 and 3450) for these areas. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new section will be effective for the Fund beginning January 1, 2009. The Fund is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

##### **Business Combinations, Consolidated Financial Statements, and Non-controlling Interests**

In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The adoption of section 1582 will affect the accounting for business combinations, if any, by the Fund on or after January 1, 2011.

In January 2009, the AcSB issued CICA Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. The Fund does not expect the adoption of this standard to have a material impact on its results of operations or financial position.

### 3. Inventory

The total carrying amount and classification of inventory is as follows:

<b>As at</b>	<b>December 31, 2008</b>	December 31, 2007
	\$	\$
NGLs	52,946	76,112
Natural gas	—	162
Other	181	320
<b>Total inventory</b>	<b>53,127</b>	<b>76,594</b>

For the period ended December 31, 2008, \$1,262 of inventory was carried at cost and \$51,865 was carried at net realizable value which included a \$77,767 charge to write-down the cost of NGL inventory to net realizable value. The cost of inventory expensed for the year ended December 31, 2008 was \$1,738,727.

### 4. Property, plant and equipment

<b>As at December 31, 2008</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Gathering and Processing	1,099,865	(195,854)	904,011
NGL Infrastructure	344,458	(55,252)	289,206
Marketing	12,914	(1,300)	11,614
Corporate	9,642	(7,283)	2,359
<b>Total</b>	<b>1,466,879</b>	<b>(259,689)</b>	<b>1,207,190</b>

<b>As at December 31, 2007</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Gathering and Processing	878,425	(174,410)	704,015
NGL Infrastructure	240,053	(45,132)	194,921
Marketing	12,761	(771)	11,990
Corporate	9,311	(6,150)	3,161
<b>Total</b>	<b>1,140,550</b>	<b>(226,463)</b>	<b>914,087</b>

Costs associated with assets under development, excluded from costs subject to depreciation, totaled \$67,244 as at December 31, 2008 (2007 – \$7,461).

In 2008, a non-core gas plant was written down to its net realizable value, recognizing a \$1,113 impairment expense. This gas plant along with another non-core gas plant was sold during the year for proceeds equal to their net book value resulting in no gain or loss.

A gathering pipeline was sold during 2008 for proceeds of \$816 resulting in a loss on disposal of \$1,393.

## 5. Intangible assets and goodwill

<b>As at December 31, 2008</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gathering and Processing (a)	39,219	—	39,219
NGL Infrastructure (a)	32,015	—	32,015
Marketing (b)	19,290	(15,198)	4,092
<b>Total</b>	<b>90,524</b>	<b>(15,198)</b>	<b>75,326</b>

<b>As at December 31, 2007</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gathering and Processing (a)	39,219	—	39,219
NGL Infrastructure (a)	32,015	—	32,015
Marketing (b)	19,290	(12,896)	6,394
<b>Total</b>	<b>90,524</b>	<b>(12,896)</b>	<b>77,628</b>

(a) Intangible assets for the Gathering and Processing and NGL Infrastructure segments consist of goodwill.

(b) Intangible assets for the Marketing segment consist of the marketing business contributed by the Partners when the Partnership was first formed and the marketing business of EnerPro acquired in 2004. These assets are being amortized over the remaining economic life of five years. Amortization expense for the year ended December 31, 2008 was \$2,302 (2007 – \$2,673).

## 6. Credit facilities and long-term debt

<b>As at</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Bank credit facilities (a)	<b>249,000</b>	—
Current portion of long-term debt (b)	<b>90,000</b>	20,000
Long-term debt (b)	<b>225,000</b>	315,000
Financing costs	<b>(1,439)</b>	(1,757)
<b>Total long-term debt</b>	<b>313,561</b>	<b>333,243</b>

(a) The Partnership has a \$300,000 unsecured revolving credit facility with certain Canadian financial institutions led by the Royal Bank of Canada. The facility has a three-year revolving term and matures on April 21, 2011, unless extended. In addition, the Royal Bank of Canada has provided a \$15,000 revolving demand facility and the Toronto Dominion Bank has provided a \$15,000 revolving demand facility. The revolving credit facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. Base rate loans, Libor loans or Bankers' Acceptances. The weighted average interest rate for the year ended December 31, 2008 was 4.73% (2007 – 5.74%). As at December 31, 2008, the balance outstanding on the bank credit facilities was \$249,000 (2007 – \$nil).

(b) In 2003, \$125,000 of unsecured senior notes were issued by the Partnership and KEFL in three parts: \$20,000 bearing interest at 5.42% due and repaid in August 2008, \$52,500 due in 2010 bearing interest at 5.79% and \$52,500 due in 2013 bearing interest at 6.16%. Interest is payable monthly. Financing costs of \$1,215 have been deferred and are amortized using the effective interest rate method over the remaining terms of the related debt. The effective interest rates for the year ended December 31, 2008 were 5.93% and 6.26% for the notes due in 2010 and 2013 respectively (2007 – 5.95% and 6.29%).

In 2004, \$90,000 of unsecured senior notes were issued by KEFL and guaranteed by the Partnership. The notes bear interest at 5.23% and mature on October 1, 2009. Interest is payable semi-annually.

Financing costs of \$568 have been deferred and are amortized using the effective interest rate method over the remaining term of the debt. The effective interest rate for the year ended December 31, 2008 was 5.36% (2007 – 5.37%).

In 2007, \$120,000 of unsecured senior notes were issued by KEFL in two tranches and guaranteed by the Partnership and the Fund: \$60,000 due in 2017 bearing interest at 5.89% and \$60,000 due in 2022 bearing interest at 6.14%. Interest is payable semi-annually. Financing costs of \$1,116 have been deferred and are amortized using the effective interest rate method over the remaining terms of the related debt. The effective interest rates for the year ended December 31, 2008 were 5.95% and 6.18% for the notes due in 2017 and 2022 respectively (2007 – 5.94% and 6.18%).

## 7. Convertible debentures

	June 30, 2011 (a)	December 31, 2013 (b)	Total
Maturing	\$	\$	\$
Principal Amount	100,000	80,000	<b>180,000</b>
Equity portion	—	(3,092)	<b>(3,092)</b>
Financing costs	—	(3,705)	<b>(3,705)</b>
Conversions to date	(94,169)	—	<b>(94,169)</b>
<b>As at December 31, 2008</b>	<b>5,831</b>	<b>73,203</b>	<b>79,034</b>

	June 30, 2011 (a)	December 31, 2013 (b)	Total
Maturing	\$	\$	\$
Principal Amount	100,000	—	<b>100,000</b>
Financing costs	(346)	—	<b>(346)</b>
Conversions to date	(78,178)	—	<b>(78,178)</b>
<b>As at December 31, 2007</b>	<b>21,476</b>	<b>—</b>	<b>21,476</b>

- (a) In 2004, the Fund issued convertible unsecured subordinated debentures in the principal amount of \$100,000. The convertible debentures bear interest at 6.75% per annum, payable semi-annually in arrears on June 30 and December 31 each year. Interest expense of \$1,288 has been accrued for the twelve months ended December 31, 2008 (2007 – \$1,613). These debentures will mature on June 30, 2011 and are convertible into trust units of the Fund at the option of the holders at any time prior to maturity at a conversion price of \$12.00 per unit.

Financing costs consisting of underwriters' commission of \$4,000 and issuance costs of \$332 have been deferred, and are being amortized over the term of the debt using the effective interest rate method. Upon conversion of the debentures, the financing cost related to the principal amount of debt converted is adjusted and is recognized as a charge to unitholders' equity. As a result of debentures converted to date as at December 31, 2008, \$3,149 has been reclassified to unitholders' equity (2007 – \$2,857). As at December 31, 2008, no financing costs remain. The effective interest rate for the year ended December 31, 2008 was 7.07% (2007 – 7.27%).

- (b) On December 1, 2008, the Fund issued convertible unsecured subordinated debentures in the principal amount of \$80,000. The convertible debentures bear interest at 8.25% per annum, payable semi-annually in arrears on June 30 and December 31 each year. Interest expense of \$550 has been accrued for the month of December. These debentures will mature on December 31, 2013 and are convertible into trust units of the Fund at the option of the holders at any time prior to the maturity date at a conversion price of \$19.50 per unit.

The equity portion of convertible debentures amounted to \$3,092 and was recorded to unitholders' equity. Upon conversion of the debentures, the equity portion related to the principal amount of debt converted is adjusted and recognized as a change to unitholders' equity. Convertible debentures are accreted to face value over the term of the debt using the effective interest rate method.

Financing costs consisting of an underwriters' commission of \$3,200 and issuance costs of \$505 have been deferred, and are being amortized over the term of debt using the effective interest rate method. Upon conversion of the debentures, the financing costs related to the principal amount of debt converted is adjusted and recognized as a charge to unitholders' equity. The effective interest rate for the year ended December 31, 2008 was 8.25%.

## 8. Asset retirement obligation

The following table presents the reconciliation between the beginning and ending aggregate carrying amount of the obligation associated with the retirement of the Fund's facilities.

	2008	2007
	\$	\$
<b>For the year ended December 31,</b>		
Asset retirement obligation, beginning of year	37,807	34,533
Liabilities acquired	9,842	644
Liabilities disposed	(917)	—
Liabilities settled	(2,144)	(213)
Revisions in estimated cash flows	4,066	361
Accretion expense	3,416	2,482
Asset retirement obligation, end of year	<b>52,070</b>	37,807

The total undiscounted amount of cash flows required to settle the asset retirement obligations is \$316,352 which has been discounted using a credit-adjusted risk-free rate of 7% (2007 – \$183,042). The majority of these obligations are expected to be settled between 2018 and 2047. No assets have been legally restricted for settlement of the liability.

## 9. Income taxes

On June 22, 2007, Bill C-52 Budget Implementation Act, 2007 was enacted by the Canadian federal government. As a result of this legislation, a new tax will be applied to distributions from publicly traded trusts in Canada. The new tax is not expected to apply to the Fund until 2011, as the government has provided a transition period for publicly traded trusts that existed prior to November 1, 2006.

The following is a reconciliation of income taxes, calculated at the combined federal and provincial income tax rate, to the income tax provision included in the consolidated statements of net earnings.

	2008	2007
	\$	\$
Earnings before tax and non-controlling interest	163,720	91,778
Income from the Fund distributable to unitholders	(101,720)	(38,351)
Income before taxes – operating subsidiaries	62,000	53,427
Income tax at statutory rate of 29.50% (2007 – 32.12%)	18,290	17,160
Impact of recording temporary differences of the Partnership	—	80,844
Non deductible items excluded from income for tax purposes	(2,926)	4,104
Rate adjustments and changes in estimates	(13,855)	(21,281)
Benefit of financing fees previously not recorded	(1,853)	—
Benefit of non-capital losses previously not recorded	—	(786)
Adjustments to tax pool balances	225	(3,239)
Other	(1,646)	191
	(1,765)	76,993
Classified as:		
Current	43	4,348
Future	(1,808)	72,645
Income tax (recovery) expense	(1,765)	76,993

For income tax purposes, the Fund and its subsidiaries have non-capital losses carried forward of approximately \$10,141 at December 31, 2008 (2007 – \$2,981) which are available to offset income of specific entities of the consolidated group in future periods. The benefit of these losses has been recorded at December 31, 2008.

The future income tax (liabilities) assets relate to losses and to the (taxable) deductible temporary differences in the carrying values and tax bases as follows:

	2008	2007
	\$	\$
Property, plant and equipment	(157,252)	(152,747)
Asset retirement obligation	14,138	9,992
Long-term incentive plan	1,703	1,954
Intangible assets	(130)	(941)
Non-capital losses	1,128	(38)
Other	(4,040)	(3,434)
Future income tax liabilities	(144,453)	(145,214)
Property, plant and equipment	(807)	(444)
Asset retirement obligation	90	78
Non-capital losses	2,609	832
Intangible assets	—	379
Future income tax assets	1,892	845

## 10. Unitholders' capital

The Declaration of Trust provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, and represents an equal undivided beneficial interest in any distribution from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. All trust units are of the same class with equal rights and privileges.

The Declaration of Trust also provides for the issuance of an unlimited number of special trust units that will be used solely for providing voting rights to persons holding securities that are directly or indirectly exchangeable for units and that, by their terms, have voting rights in the Fund.

The trust units are redeemable at the holder's option at an amount equal to the lesser of: (i) 90% of the weighted average price per unit during the period of the last 10 trading days during which the trust units were traded on the Toronto Stock Exchange; and (ii) an amount equal to (a) the closing market price of the units; (b) an amount equal to the average of the highest and lowest prices of units if there was trading on the date on which the units were tendered for redemption; or (c) the average of the last bid and ask prices if there was no trading on the date on which the units were tendered for redemption.

Redemptions are subject to a maximum of \$50 cash redemptions in any particular month. Redemptions in excess of this amount will be paid by way of a distribution in specie of assets of the Fund that may include notes issued by the Fund.

The Fund has a Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP") that permits unitholders to reinvest cash distributions for additional units. This plan allows eligible participants an opportunity to reinvest distributions into trust units at a 3% discount to a weighted average market price, so long as units are issued from treasury under the DRIP. The Fund has the right to notify participants that units will be acquired in the market, in which case units will be purchased at the weighted average market price. Eligible unitholders can also make optional unit purchases under the optional unit purchase component of the plan at the weighted average market price.

<b>Trust units issued and unitholders' capital</b>	<b>Number of Units</b>	<b>\$</b>
<b>Balance, January 1, 2007</b>	<b>60,930,753</b>	<b>677,025</b>
Units issued on conversion of convertible debentures	143,321	1,645
Units issued pursuant to DRIP	190,298	3,255
<b>Balance, December 31, 2007</b>	<b>61,264,372</b>	<b>681,925</b>
Units issued as part of reorganization (note 20)	—	1,225
Units issued on conversion of convertible debentures	1,332,570	15,699
Units issued pursuant to DRIP	291,342	5,778
<b>Balance, December 31, 2008</b>	<b>62,888,284</b>	<b>704,627</b>

## 11. Net earnings per unit

Basic per unit calculations for the years ended December 31, 2008 and 2007 were based on the weighted average number of units outstanding for the related period. Convertible debentures contributed to the increase in diluted weighted average number of units for the period ended December 31, 2008.

	<b>2008</b>	2007
	<b>\$</b>	<b>\$</b>
Net earnings - basic	<b>165,485</b>	14,479
Effect of convertible debentures (net of tax) <sup>1</sup>	<b>1,258</b>	—
Net earnings - diluted	<b>166,743</b>	14,479

<sup>1</sup> The effect of convertible debentures has been excluded for 2007 as it was anti-dilutive.

<b>(in thousands)</b>	<b>2008</b>	2007
Weighted average number of units - basic	<b>61,694</b>	61,098
Additional units if debentures converted <sup>1</sup>	<b>1,855</b>	—
Weighted average number of units - diluted	<b>63,549</b>	61,098

<sup>1</sup> The effect of convertible debentures has been excluded for 2007 as it was anti-dilutive.

**12. Accumulated distributions to unitholders**

	\$
<b>Balance, January 1, 2007</b>	<b>217,988</b>
Unitholders' distributions declared and paid	82,548
Unitholders' distributions declared	7,658
<b>Balance, December 31, 2007</b>	<b>308,194</b>
Unitholders' distributions declared and paid	94,627
Unitholders' distributions declared	9,433
Unitholders' special distribution – non-cash portion ( <i>note 20</i> )	1,225
Unitholders' special distribution – cash portion ( <i>note 20</i> )	216
<b>Balance, December 31, 2008</b>	<b>413,695</b>

Pursuant to the Fund Declaration of Trust dated April 3, 2003 and its subsequent amendments, the Fund makes monthly distributions to holders of record on the last day of each month. Payments are made on or about the 15<sup>th</sup> day of the following month.

Distributions are paid from "Cash Flow of the Trust", a term that is defined in the Fund Declaration of Trust dated April 3, 2003. The Board of Directors of the Fund's administrator may, on or before each Distribution Record Date, declare payable all or any part of the Cash Flow of the Trust for the Distribution Period. The amount and level of distributions to be made for each Distribution Period is determined at the discretion of the Board of Directors. In determining the Fund's distribution policy, the Board of Directors considers several factors, including the Fund's current and future cash flow, capital requirements, debt repayments and other factors.

**13. Compensation plans**

The Long-Term Incentive Plan (the "LTIP" or the "Plan") compensates officers and key employees by delivering units of the Fund or paying cash in lieu of units. Participants in the LTIP are granted rights ("unit awards") to receive units of the Fund on specified dates in the future. Grants of unit awards are authorized by the Board of Directors. Units are acquired in the marketplace under the plan and placed in a trust account established for the benefit of the participants.

The Plan consists of two types of unit awards, which are described below. Unit awards and the delivery of units under the Plan are accounted for in accordance with the intrinsic value method of accounting for stock-based compensation. The aggregate compensation cost recorded for the Plan was \$8,592 for the year ended December 31, 2008 (2007 - \$5,519).

During the year ended December 31, 2008, 197,799 units at a cost of \$4,372 were purchased on the market and delivered to the participants and 127,826 units were settled in cash for \$2,831. At December 31, 2008, 54,000 units were still held in trust, purchased at a cost of \$925 and are recorded in other current assets.

**(a) Performance Unit Awards**

Performance Unit Awards vest 100% on the third anniversary of the effective date of each award, July 1, 2006, July 1, 2007 and July 1, 2008. The number of units to be delivered will be determined by the financial performance of the Fund over the three-year period. The number of units to be delivered will be calculated by multiplying the number of unit awards by an adjustment ratio and a payout multiplier. The adjustment ratio adjusts the number of units to be delivered to reflect the per unit cash distributions paid by the Fund to its unitholders during the term that the unit award is outstanding. For the July 1, 2006 and July 1, 2007 unit grants, the payout multiplier is based on the average annual cash distributions per unit of the Fund over the three-year vesting period. For the July 1, 2008 unit grant, the payout multiplier is based on the average annual pre-tax distributable cash flow per unit over the three-year vesting period. The table below describes the determination of the payout multiplier.

	Three-year annual cash distributions per unit		Three-year annual pre-tax distributable cash flow per unit	
	July 1, 2006 Grant	July 1, 2007 Grant	July 1, 2008 Grant	Payout Multiplier
	Less than 1.42	Less than 1.44	Less than 2.50	Nil
First range	1.42 – 1.51	1.44 – 1.51	2.50 – 2.82	50% – 99%
Second range	1.52 – 1.71	1.52 – 1.67	2.83 – 3.49	100% – 199%
Third range	1.72 and greater	1.68 or greater	3.50 and greater	200%

As of December 31, 2008, 577,063 Performance Unit Awards (2007 – 485,105) were outstanding: 139,200 effective July 1, 2006, 178,850 effective July 1, 2007 and 259,013 effective July 1, 2008. The compensation cost recorded for these units for the year ended December 31, 2008 was \$7,180 (2007 – \$4,485) using the applicable closing market price of \$17.95 per unit.

(b) Time Vested Unit Awards (“Restricted Unit Awards”)

Restricted Unit Awards will vest automatically, over a three-year period from the effective date of the award on July 1, 2006, July 1, 2007 and July 1, 2008, regardless of the performance of the Fund. The number of units to be delivered will be modified by an adjustment ratio which reflects the per unit distributions paid by the Fund to its unitholders during the term that the unit award is outstanding.

As of December 31, 2008, 160,797 Restricted Unit Awards (2007 – 92,275) were outstanding: 12,018 effective July 1, 2006, 34,864 effective July 1, 2007 and 113,915 effective July 1, 2008. The compensation cost recorded for these units for the year ended December 31, 2008 was \$1,412 (2007 – \$1,034) using the Fund’s closing market price of \$17.95 per unit.

#### 14. Financial instruments and risk management

Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, distributions payable, credit facilities, long-term debt, convertible debentures and derivatives held for trading (derivative financial instruments such as foreign exchange contracts, oil price contracts, natural gas price contracts, power price contracts and physical fixed commodity contracts).

Derivative instruments and cash are classified as held for trading and are measured at fair value. Accounts receivable are classified as other receivables and are measured at amortized cost. With the exception of derivative instruments held for trading, all financial liabilities are classified as other financial liabilities and are recorded at amortized cost.

##### **Market risk and derivative instruments**

Subsidiaries of the Fund enter into contracts to purchase and sell primarily NGLs, as well as natural gas and crude oil. These contracts are exposed to commodity price risk between the times contracted volumes are purchased and sold and foreign currency risk for those sales denominated in U.S. dollars. These risks are actively managed by balancing physical and financial contracts which include energy related forwards, swaps and forward currency contracts and swaps. A risk management committee meets regularly to review and assess the risks inherent in existing contracts and the effectiveness of the risk management strategies. This is achieved by modeling future sales and purchase contracts to monitor the sensitivity of changing prices and volumes.

Significant amounts of electricity and natural gas are consumed by the operating entities at their facilities. Due to the fixed fee nature of some service contracts with customers, these entities are unable to flow increases in the cost of electricity and natural gas to customers in all situations. In order to mitigate this

exposure to fluctuations in the price of electricity and natural gas, price swap agreements may be used. These agreements are accounted for as derivative instruments.

Certain natural gas, NGL and crude oil contracts that require physical delivery at fixed prices are accounted for as derivative instruments.

On occasion, subsidiaries of the Fund will enter into NGL purchase and sale contracts that are settled in a currency other than the currency that is routinely denominated for such commercial transactions. In these instances, the Fund records these non-financial contracts as embedded derivatives. Embedded derivatives are accounted for as derivative instruments.

Derivative instruments held for trading are recorded on the consolidated statement of financial position at fair value. Changes in the fair value of these financial instruments are recognized in earnings in the period in which they arise.

As at December 31, 2008, \$102,236 of assets held for trading were included in accounts receivable and \$45,139 of liabilities held for trading were included in accounts payable and accrued liabilities (2007 – \$3,112 included in accounts receivable and \$12,566 included in accounts payable and accrued liabilities). Unrealized (losses) gains, representing the change in fair value of derivative contracts, are recorded in Marketing operating revenue and NGL Infrastructure operating expense.

The change in fair value relating to derivative contracts were as follows:

	<b>2008</b>	2007
	<b>\$</b>	<b>\$</b>
<b>Unrealized gain (loss)</b>		
Marketing	<b>67,133</b>	(12,007)
NGL Infrastructure	<b>(582)</b>	(556)

The fair value of the derivatives are listed below and represent an estimate of the amount that the Fund would receive (pay) if these instruments were closed out at the end of the period.

<b>As at December 31, 2008</b>	<b>Carrying Amount \$</b>	<b>Fair Value \$</b>	<b>Weighted Average Price \$</b>	<b>Notional Volume<sup>1</sup></b>
<b>Natural gas:</b>				
Buyer of fixed price swaps (maturing by October 31, 2009)	(390)	(390)	7.90/Gj	280,000 Gjs
<b>Electricity:</b>				
Buyer of fixed price swaps (maturing by December 31, 2011)	154	154	78.54/MWh	65,700 MWhs
<b>NGLs:</b>				
Seller of fixed price swaps (maturing by March 31, 2010)	91,414	91,414	104.49/bbl	1,983,709 bbls
Buyer of fixed price swaps (maturing by August 31, 2010)	(41,333)	(41,333)	90.93/bbl	860,540 bbls
<b>Currency:</b>				
Seller of forward contracts (maturing by March 1, 2010)	(945)	(945)	1.22/USD	US\$136,660,000
<b>Physical contracts:</b>				
Seller of fixed price forward contracts (maturing by August 31, 2010)	8,197	8,197	74.16/bbl	255,716 bbls
<b>As at December 31, 2007</b>				
<b>Natural gas:</b>				
Buyer of fixed price swaps (maturing by October 31, 2008)	(98)	(98)	6.90/Gj	198,000 Gjs
<b>Electricity:</b>				
Buyer of fixed price swaps (maturing by December 31, 2008)	444	444	55/MWh	21,960 MWhs
<b>NGLs:</b>				
Seller of fixed price swaps (maturing by March 31, 2008)	(11,984)	(11,984)	77.97/bbl	717,345 bbls
Buyer of fixed price swaps (maturing by March 31, 2008)	2,489	2,489	78.43/bbl	153,999 bbls
<b>Currency:</b>				
Seller of forward contracts (maturing by January 25, 2008)	111	111	1.0199/USD	US\$6,500,000
<b>Physical contracts:</b>				
Seller of fixed price forward contracts (maturing by March 31, 2008)	(417)	(417)	53.67/bbl	54,584bbls

Notes:

1 All notional amounts represent actual volumes and are not expressed in thousands.

The estimated fair value of all derivatives held for trading is based on quoted market prices and, if not available, on estimates from third-party brokers or dealers.

**Foreign currency risk**

Foreign currency risk arises on financial instruments that are denominated in a foreign currency. The Fund's functional currency is the Canadian dollar. All of the Fund's debt is denominated in Canadian dollars and is, therefore, not exposed to foreign currency risk. The Gathering and Processing and NGL Infrastructure segments are also not subject to foreign currency risk as all sales and virtually all purchases are denominated in Canadian dollars. In the Marketing business, approximately US\$373,922 of sales were priced in U.S. dollars for the year ended December 31, 2008 (2007 - \$240,149). Foreign currency risk is actively managed by using forward currency contracts and swaps. Management monitors the exposure to foreign currency risk and regularly reviews its financial instrument activities and all outstanding positions.

The Fund recorded \$3,739 of unrealized foreign currency gains relating to U.S. dollar denominated cash, accounts receivable and accounts payable in Marketing operating expenses for the year ended December 31, 2008 (2007 – \$446 unrealized foreign currency gains).

As at December 31, 2008, portions of the Fund's cash, accounts receivable and accounts payable were denominated in U.S. dollars. Based on these U.S. dollar financial instrument balances, net earnings and comprehensive income for the period ended December 31, 2008 would have increased/decreased by approximately \$132 for every \$0.01 decrease/increase in the value of the U.S./Canadian dollar exchange rate.

**Interest rate risk**

The majority of the Fund's interest rate risk is attributed to its fixed and floating rate debt, which is used to finance operations. The Fund's remaining financial instruments are not significantly exposed to interest rate risk. The floating rate debt creates exposure to interest rate cash flow risk, whereas the fixed rate debt creates exposure to interest rate price risk. At December 31, 2008, fixed rate borrowings comprised 61% of total debt outstanding (2007 – 100%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is the Fund's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

If the interest rates applicable to floating rate borrowings were to have increased/decreased by 1%, it is estimated that net earnings and comprehensive income for the year ended December 31, 2008 would have decreased/increased by approximately \$1,058 respectively based on weighted average debt balances.

**Credit risk**

The majority of accounts receivable are due from entities in the oil and gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad domestic and international customer base. However, due to the recent decline in commodity prices, the Fund currently has a higher degree of concentration in accounts receivable related to financial instruments compared to historic levels. The Fund evaluates and monitors the financial strength of its customers in accordance with its credit policy. Revenue from the two largest customers amounted to 11.1% and 7.9% of operating revenue for the year ended December 31, 2008 (2007 – 7.8% and 7.0%).

The Fund's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by the Fund, is \$350,496 at December 31, 2008. The Fund does not typically renegotiate the terms of trade accounts receivable; however, if a renegotiation does take place, the outstanding balance is included in the accounts receivable analysis below based on the original payment terms. There were no significant renegotiated balances outstanding at December 31, 2008. With respect to counterparties for derivative financial instruments, the credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions or by adherence to credit policies that significantly reduce overall counterparty credit risk.

The allowance for credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter party.

<b>Accounts receivable</b>	<b>December 31, 2008</b>
<b>As at</b>	<b>\$</b>
Neither impaired nor past due	218,161
Impaired	2,578
Not impaired but past due in the following periods:	
31 to 60 days	20,365
61 to 90 days	3,950
Over 90 days	5,784
Trade accounts receivable	250,838
Derivatives held for trading (all current)	102,236
Allowance for credit losses	(2,578)
<b>Total accounts receivable</b>	<b>350,496</b>

<b>Allowance for credit losses</b>	<b>December 31, 2008</b>
<b>As at</b>	<b>\$</b>
Allowance for credit losses, beginning of year	(1,121)
Impairment expense	(1,457)
<b>Allowance for credit losses, end of year</b>	<b>(2,578)</b>

### **Liquidity risk**

Liquidity risk is the risk that suitable sources of funding for the Fund's business activities may not be available. The Fund manages liquidity risk by maintaining bank credit facilities, continuously managing forecast and actual cash flows and monitoring the maturity profiles of financial assets and financial liabilities. The Fund has access to a wide range of funding at market rates through capital markets and banks to meet the immediate and ongoing requirements of the business.

The following table shows the contractual maturities for financial liabilities of the Fund:

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>After 2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	209,472	—	—	—	—	—
Distributions payable	9,433	—	—	—	—	—
Long-term debt <sup>1</sup>	90,000	52,500	—	—	52,500	120,000
Credit facilities <sup>1</sup>	249,000	—	—	—	—	—
Convertible debentures <sup>1,2</sup>	—	—	5,831	—	80,000	—

Notes:

1 Amounts represent principal only and exclude interest.

2 Convertible debentures maturing in 2011 are convertible into trust units of the Fund at the option of the holders at any time prior to maturity. Convertible debentures maturing in 2013 are convertible into trust units of the Fund at the option of the holders at any time prior to maturity.

### **Fair value**

The carrying values of accounts receivable, accounts payable and accrued liabilities and distributions payable approximate their fair values because the instruments are near maturity or have no fixed repayment terms. The fair value of the credit facilities approximates fair value due to their floating rates of interest. The fair value of the senior fixed rate debt at December 31, 2008 was \$295,082 (2007 – \$337,589) based on third party estimates. The fair value of the Fund's unsecured convertible debentures

at December 31, 2008 was \$84,590 (2007 – \$32,078) as determined by reference to quoted market prices for the Fund's debentures.

## 15. Capital Management

The Fund's objectives when managing capital are:

- to safeguard the Fund's ability to continue as a going concern;
- to maintain financial flexibility in order to fund investment opportunities and meet financial obligations; and
- to distribute to unitholders a significant portion of the current cash flow of its subsidiaries, after
  - I. satisfaction of debt service obligations (principal and interest) and income tax expenses,
  - II. satisfaction of any reclamation funding requirements,
  - III. providing for maintenance capital expenditures and
  - IV. retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and capital expenditures as may be considered appropriate.

The Fund defines its capital as follows:

- Unitholders' equity;
- long-term debt, including working capital;
- credit facilities; and
- cash.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to unitholders, issue new units, issue new debt or replace existing debt with new debt having different characteristics.

The Fund monitors its capital structure primarily based on its consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio. This ratio is calculated as consolidated debt divided by a twelve-month trailing EBITDA, which are non-GAAP measures.

For the year ended December 31, 2008, the Fund's capital management strategy was unchanged from the prior year. The Fund currently intends to maintain a consolidated debt to consolidated EBITDA ratio of less than 3.5.

<b>Consolidated Debt</b>	<b>December 31, 2008</b>
<b>As at</b>	<b>\$</b>
Long-term debt	225,000
Working capital deficit <sup>2</sup>	149,035
<b>Consolidated debt</b>	<b>374,035</b>

  

<b>Consolidated EBITDA</b>	<b>December 31, 2008</b>
<b>Twelve months ended</b>	<b>\$</b>
Operating revenues	2,175,273
Operating expenses	(1,909,756)
Unrealized gain on derivative instruments	(66,551)
General and administrative expenses	(29,793)
<b>Consolidated EBITDA</b>	<b>169,173</b>

<b>Consolidated debt to consolidated EBITDA</b>	<b>Guideline<sup>1</sup></b>	<b>2.21</b>
	<b>&lt; 3.5</b>	

Notes:

1 The Fund currently intends to maintain a consolidated debt to consolidated EBITDA ratio of less than 3.5.

2 Working capital is defined as current assets less current liabilities.

Consolidated debt to consolidated EBITDA is also a measure used as a financial covenant for the Fund's credit facilities and long-term debt agreements. The Fund is also subject to the following financial covenants:

- Debt to capitalization
- Consolidated EBITDA to consolidated interest charges; and
- Priority debt to consolidated total assets

The calculation for each financial covenant is based on specific definitions, is not in accordance with GAAP and cannot be directly derived from the financial statements. The Fund was in compliance with all financial covenants as at December 31, 2008.

As a result of the Canadian trust taxation legislation passed in June 2007, the Fund is subject to certain limitations on the issuance of new equity referred to as "normal growth" limitations. The amount of new equity that can be issued by the Fund for the current and following two years, based on the Fund's market capitalization on October 31, 2006, is approximately as follows:

<b>Normal growth capital allowed in:</b>	<b>Annual Incremental Growth Remaining \$</b>
2009	<b>957,191</b>
2010	<b>262,000</b>

If the normal growth limitations were exceeded, the Fund may be subject to taxation on its distributions prior to 2011. As at December 31, 2008, the normal growth limitations have not been exceeded.

## 16. Commitments and contingencies

The Fund, through its operating entities, has assumed various contractual obligations and agreements in the normal course of its operations. The agreements range from one to eleven years and relate to the processing of a major oil and gas producer's natural gas and the purchase of NGL production in the areas specified in the agreements. The purchase prices are based on current period market prices.

There are operating lease commitments relating to railway tank cars, vehicles, computer hardware, office space, terminal space and natural gas transportation. The estimated annual minimum operating lease rental payments from these commitments are as follows:

	\$
2009	<b>11,685</b>
2010	<b>9,209</b>
2011	<b>6,393</b>
2012	<b>4,934</b>
2013	<b>2,487</b>
Thereafter	—
	<b>34,708</b>

There are legal actions for which the ultimate results cannot be ascertained at this time. Management does not expect the outcome of any of these proceedings to have a material effect on the financial position or results of operations.

**17. Supplemental cash flow information*****Changes in non-cash working capital***

	As at December 31, 2008	As at December 31, 2007
	\$	\$
<b>Cash provided by (used in):</b>		
Accounts receivable	(39,684)	(92,743)
Inventory	23,467	(22,655)
Other current assets	(2,835)	2,028
Accounts payable and accrued liabilities	(25,652)	86,806
<b>Changes in non-cash working capital</b>	<b>(44,704)</b>	<b>(26,564)</b>
<b>Relating to:</b>		
Operating activities	(49,921)	(25,450)
Investing activities	5,217	(1,114)
<b>Other cash flow information:</b>		
Interest paid	26,042	17,381
Taxes paid	4,857	1,839

**18. Segmented information**

The Fund has three reportable operating segments: Gathering and Processing, and NGL Infrastructure and Marketing. Gathering and Processing includes natural gas gathering and processing. NGL Infrastructure includes NGL and crude oil processing, transportation and storage. The Marketing business consists of marketing NGLs, natural gas, sulphur and crude oil. The accounting policies of the segments are the same as that described in the summary of significant accounting policies. Inter-segment sales and expenses are recorded at current market prices.

The following table shows the contribution from each of the Fund's operating segments and includes inter-segment transactions. Contribution is a key measure used by management to monitor profitability by segment. The inter-segment transactions are eliminated in order to arrive at earnings in accordance with GAAP.

<b>Year ended December 31, 2008</b>	<b>Marketing \$</b>	<b>Gathering and Processing \$</b>	<b>NGL Infrastructure \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Segmented revenue before intersegment eliminations	1,909,356	226,398	80,450	—	2,216,204
Segmented expenses before intersegment eliminations	(1,803,397)	(116,777)	(30,513)	—	(1,950,687)
Marketing general and administrative expenses	(3,598)	—	—	—	(3,598)
Contribution	102,361	109,621	49,937	—	261,919
Inter-segment revenue eliminations	—	(4,715)	(36,216)	—	(40,931)
Inter-segment expenses eliminations	40,931	—	—	—	40,931
Marketing general and administrative expenses	3,598	—	—	—	3,598
	146,890	104,906	13,721	—	265,517
General and administrative, and interest					(55,556)
Depreciation and amortization					(40,319)
Accretion expense					(3,416)
Loss on disposal of capital assets					(1,393)
Impairment expense					(1,113)
<b>Earnings before income tax</b>	<b>146,890</b>	<b>104,906</b>	<b>13,721</b>	<b>—</b>	<b>163,720</b>
Income tax recovery					1,765
<b>Earnings</b>	<b>146,890</b>	<b>104,906</b>	<b>13,721</b>	<b>—</b>	<b>165,485</b>
Identifiable assets	324,623	1,022,144	333,266	13,245	1,693,278
Capital expenditures	153	222,499	98,918	331	321,901

<b>Year ended December 31, 2007</b>	<b>Marketing</b> \$	<b>Gathering and Processing</b> \$	<b>NGL Infrastructure</b> \$	<b>Corporate</b> \$	<b>Total</b> \$
Segmented revenue before intersegment eliminations	1,250,541	191,164	71,079	—	1,512,784
Segmented expenses before intersegment eliminations	(1,205,653)	(103,792)	(24,253)	—	(1,333,698)
Marketing general and administrative expenses	(2,964)	—	—	—	(2,964)
Contribution	41,924	87,372	46,826	—	176,122
Inter-segment revenue eliminations	—	(3,674)	(29,969)	—	(33,643)
Inter-segment expenses eliminations	33,643	—	—	—	33,643
Marketing general and administrative expenses	2,964	—	—	—	2,964
	78,531	83,698	16,857	—	179,086
General and administrative, and interest					(42,058)
Depreciation and amortization					(42,040)
Accretion expense					(2,482)
Impairment expense					(728)
<b>Earnings before income tax and non-controlling interest</b>	<b>78,531</b>	<b>83,698</b>	<b>16,857</b>	<b>—</b>	<b>91,778</b>
Income tax expense					(76,993)
<b>Earnings before non-controlling interest</b>	<b>78,531</b>	<b>83,698</b>	<b>16,857</b>	<b>—</b>	<b>14,785</b>
Identifiable assets	256,459	782,079	270,160	22,301	1,330,999
Capital expenditures	550	19,585	8,150	694	28,979 <sup>1</sup>

Notes:

1 Total capital expenditures include \$3,666 relating to the amount allocated to property, plant and equipment as a result of the acquisition of RPLP (see note 19).

	<b>2008</b> \$	<b>2007</b> \$
Marketing revenue derived from export sales to the U.S.	<b>89,459</b>	77,583
Property, plant and equipment located in the U.S.	<b>11,614</b>	11,990

## 19. Acquisitions

On December 1, 2008, the Fund acquired a 100% interest in the Nevis gas plant for cash consideration of \$36 million. The acquisition was funded through the issuance of \$80,000 of convertible debentures (see note 7). The purchase of the Nevis gas plant was accounted for as an acquisition of a business and the transaction was recorded using the purchase method of accounting. The purchase price of \$36 million was applied to property, plant and equipment. There was no goodwill or intangibles resulting from this acquisition. The operating results of this acquisition have been included in the consolidated net earnings from the date of the acquisition.

In 2007, Rimbey Pipe Line Co. Ltd. was converted to a limited partnership (RPLP) and a subsidiary of the Fund acquired the remaining interest in RPLP, bringing the Fund's ownership in RPLP to 100%. The difference between the fair value of the transactions and the carrying value of RPLP's net assets resulted in a difference of \$3,666 which was applied to property, plant and equipment. A future tax liability and corresponding increase to goodwill was recorded in the amount of \$520.

---

---

## 20. Internal reorganization

On January 2, 2008, the Fund completed an internal reorganization of certain of its subsidiaries. As part of the reorganization, a special distribution in the aggregate amount of \$1,441 (\$0.023529 per unit) was declared. These special distributions consisted of cash in the amount of \$216 (\$0.003529 per unit) and securities of certain subsidiaries of the Fund having an aggregate value of \$1,225 (\$0.02 per unit). Each of these securities were redeemed for one special non-voting unit of the Fund ("Fund special units"). These Fund special units were then converted into regular units which were consolidated such that, upon completion of the reorganization, each unitholder continued to hold the same number of units as was held immediately prior to the reorganization.

After completion of the reorganization, the Partnership is directly owned by the Fund, and Keyera Energy Management Ltd. ("KEML") no longer has an interest in the Partnership. The future income tax rate applicable to the Fund is 2.5% higher than that of KEML which resulted in a future income tax expense of approximately \$3,500. As a result of the new organizational structure, the Fund is able to reduce current taxes and preserve some tax shelter within its operating entities for the next two years. Based on earnings projections as at December 31, 2008, a portion of taxable temporary differences relating to property, plant and equipment are expected to reverse at a 0% tax rate which resulted in an approximately \$3,300 future income tax recovery. The net effect of the internal reorganization for 2008 was an approximately \$200 future income tax expense.

## Additional Information (unaudited)

### Fourth Quarter Results

Statement of Net Earnings (Thousands of Canadian dollars)	(unaudited) Three months ended December 31,		(unaudited) Twelve months ended December 31,	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Operating revenues</b>				
Marketing	461,357	373,916	1,909,356	1,250,541
Gathering and Processing	55,819	50,520	221,683	187,490
NGL Infrastructure	12,969	11,849	44,234	41,110
	<b>530,145</b>	436,285	<b>2,175,273</b>	1,479,141
<b>Operating expenses</b>				
Marketing	405,853	352,425	1,762,466	1,172,010
Gathering and Processing	35,988	24,082	116,777	103,792
NGL Infrastructure	7,984	6,636	30,513	24,253
	<b>449,825</b>	383,143	<b>1,909,756</b>	1,300,055
	<b>80,320</b>	53,142	<b>265,517</b>	179,086
General and administrative	7,462	6,614	29,793	21,882
Interest expense	7,823	5,507	25,763	20,176
Depreciation and amortization	7,531	10,579	40,319	42,040
Accretion expense	1,289	386	3,416	2,482
Loss on disposal of assets	1,393	—	1,393	—
Impairment expense	—	361	1,113	728
	<b>25,498</b>	23,447	<b>101,797</b>	87,308
<b>Earnings before income tax and non-controlling interest</b>	<b>54,822</b>	29,695	<b>163,720</b>	91,778
Income tax (recovery) expense	3,945	(10,332)	(1,765)	76,993
<b>Earnings before non-controlling interest</b>	<b>50,877</b>	40,027	<b>165,485</b>	14,785
Non-controlling interest	—	—	—	306
<b>Net earnings</b>	<b>50,877</b>	40,027	<b>165,485</b>	14,479

Statements of Cash Flows (Thousands of Canadian dollars)	(unaudited) Three months ended December 31,		(unaudited) Twelve months ended December 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net inflow (outflow) of cash:				
<b>Operating activities</b>				
Net earnings	50,877	40,027	165,485	14,479
Items not affecting cash:				
Depreciation and amortization	7,531	10,579	40,319	42,040
Accretion expense	1,289	386	3,416	2,482
Impairment expense	—	361	1,113	728
Unrealized (gain) loss on financial instruments	(23,651)	1,784	(66,551)	12,563
Loss on disposal of capital assets	1,393	245	1,393	245
Future income tax (recovery) expense	3,935	(11,712)	(1,808)	72,645
Non-controlling interest	—	—	—	306
Asset retirement obligation expenditures	(441)	(57)	(2,144)	(213)
	40,933	41,613	141,223	145,275
Changes in non-cash operating working capital	74,827	3,884	(49,921)	(25,450)
	115,760	45,497	91,302	119,825
<b>Investing activities</b>				
Capital expenditures	(152,555)	(8,963)	(285,901)	(25,313)
Acquisitions	(36,000)	—	(36,000)	(6,716)
Proceeds on sale of assets	723	504	1,266	4,704
Changes in non-cash working capital	984	560	5,217	(1,114)
	(186,848)	(7,899)	(315,418)	(28,439)
<b>Financing activities</b>				
Issuance (repayment) of debt under credit facilities	20,000	(40,000)	249,000	(107,984)
Issuance of convertible debentures	80,000	—	80,000	—
Financing costs related to convertible debentures	(3,705)	—	(3,705)	—
Repayment of long-term debt	—	—	(20,000)	—
Issuance of long-term debt, net of financing costs	—	40,000	—	120,000
Financing costs related to long-term debt	—	(418)	—	(1,105)
Issuance of trust units	1,085	819	5,778	3,255
Distributions paid to unitholders	(27,985)	(22,952)	(102,501)	(89,799)
	69,395	(22,551)	208,572	(75,633)
<b>Net cash (outflow) inflow</b>	<b>(1,693)</b>	<b>15,047</b>	<b>(15,544)</b>	<b>15,753</b>
<b>Cash (bank indebtedness), beginning of period</b>	<b>1,806</b>	<b>610</b>	<b>15,657</b>	<b>(96)</b>
<b>Cash, end of period</b>	<b>113</b>	<b>15,657</b>	<b>113</b>	<b>15,657</b>

## Corporate Information

### Board of Directors

**E. Peter Lougheed** <sup>(1)(3)</sup>  
Counsel  
Bennett Jones LLP  
Calgary, Alberta

**Jim V. Bertram**  
President and CEO  
Keyera Energy Management Ltd.  
Calgary, Alberta

**Robert B. Catell**  
Executive Director and Deputy Chairman  
National Grid plc  
New York, New York

**Michael B.C. Davies** <sup>(2)</sup>  
Principal  
Davies & Co.  
Banff, Alberta

**Nancy M. Laird** <sup>(3)(4)</sup>  
Corporate Director  
Calgary, Alberta

**Donald J. Nelson** <sup>(4)</sup>  
President  
Fairway Resources Inc.  
Calgary, Alberta

**H. Neil Nichols** <sup>(2)(3)</sup>  
Management Consultant  
Smiths Cove, Nova Scotia

**William R. Stedman** <sup>(3)(4)</sup>  
Chairman and CEO  
ENTx Capital Corporation  
Calgary, Alberta

**Wesley R. Twiss** <sup>(2)</sup>  
Corporate Director  
Calgary, Alberta

### Officers

**Jim V. Bertram**  
President and Chief Executive Officer

**David G. Smith**  
Executive Vice President, Liquids Business Unit

**Graham Balzun**  
Vice President, Engineering and Corporate Responsibility

**Marzio Isotti**  
Vice President, Foothills Region

**Steven B. Kroeker**  
Vice President, Corporate Development

**Bradley W. Lock**  
Vice President, North Central Region

**David A. Sentes**  
Vice President, Comptroller

**C. Dean Setoguchi**  
Vice President & Chief Financial Officer

### Stock Exchange Listing

The Toronto Stock Exchange  
Trading Symbols KEY.UN; KEY.DB; KEY.DB.A

### Unit Trading Summary Q4 2008

TSX:KEY.UN – Cdn \$	
High	\$21.00
Low	\$14.05
Close December 31, 2008	\$17.81
Volume	12,306,836
Average Daily Volume	195,347

### Auditors

Deloitte & Touche LLP  
Chartered Accountants  
Calgary, Canada

### Investor Relations

Contact:  
John Cobb or Bradley White  
Toll Free: 1-888-699-4853  
Direct: 403-205-7670  
Email: ir@keyera.com

### Head Office

Keyera Facilities Income Fund  
Suite 600, Sun Life Plaza West Tower  
144 – 4<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3N4  
Main phone: 403-205-8300  
Website: www.keyera.com

<sup>(1)</sup> Chairman of the Board

<sup>(2)</sup> Member of the Audit Committee

<sup>(3)</sup> Member of the Compensation and Governance Committee

<sup>(4)</sup> Member of the Health, Safety and Environment Committee