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Year End Report February 17, 2011

2010 Year End Report

For the year ended December 31, 2010

HIGHLIGHTS

- Keyera delivered strong results again in 2010, driven by solid performance in its business.
- Distributable cash flow[1] totaled $207.9 million ($3.05 per unit). Distributions to unitholders were $122.9 million ($1.80 per unit), resulting in a payout ratio of 59%.
- Net earnings were $125.0 million ($1.84 per unit). Cash flow from operating activities was $153.7 million ($2.26 per unit).
- Concurrent with the release of its 2010 year end financial results, Keyera announced an increase to its dividend from $0.15 per share per month to $0.16 per share per month, or $1.92 per share annually. The 6.7% increase will be effective with its March 2011 dividend, payable to shareholders on April 15.
- On January 1, 2011, Keyera converted from an income trust to a corporation called Keyera Corp. Going forward, Keyera's business strategy will not change and dividends will continue to be paid monthly to shareholders.
- In the fourth quarter, Keyera announced an agreement to provide transportation, storage and terminalling services to Husky Oil Operations for their Sunrise Oil Sands Project. The agreement will provide Keyera with secure, long-term fee-for-service cash flows, beginning in late 2014[2].
- Keyera also announced the construction of a 45 kilometre, 12 inch gathering pipeline to deliver liquids-rich gas from the Glauconite formation in the Hoadley area of Alberta to Keyera's Rimbey gas plant for processing. Construction is underway and the pipeline is expected to be in service in the second quarter of 2011.
- In November, Keyera acquired a 62.5% ownership interest in the Simonette gas plant, increasing its ownership in the facility to 100%. In addition, Keyera also acquired the remaining interests in two large gathering systems and associated compression facilities. Simonette is located in the Deep Basin region of Alberta, where producers have recently made significant gas discoveries in the Montney and Wilrich zones.
- Total capital investment was $244.6 million in 2010, of which $184.0 million was acquisitions. Keyera expects its 2011 growth capital investment, excluding acquisitions, to be between $100 million and $130 million[3].
- In January 2011, Keyera closed a $70 million private placement of notes. The notes mature in 2019 and have a coupon of 5.005%. Proceeds were used to partially fund the acquisition of the Simonette gas plant.

1 See "Non-GAAP Financial Measures" on page 40 and a reconciliation of distributable cash flow to cash flow from operating activities on page 27.
2 Assumes that construction of the new Keyera operated facilities is completed on time and that phase 1 of the Sunrise Oil Sands Project is completed and operational as planned.
3 See "Capital Expenditures and Acquisitions" on page 26 for further discussion of Keyera's capital investment program.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended December 31,** **2010**	 2009	**Twelve months ended December 31,** **2010**	 2009
Net earnings	**27,083**	39,205	**125,046**	150,324
Per unit ($/unit) – basic	**0.39**	0.60	**1.84**	2.36
Cash flow from operating activities	**78,782**	33,430	**153,734**	313,184
Distributable cash flow[1]	**65,955**	43,064	**207,889**	259,990
Per unit ($/unit)	**0.95**	0.66	**3.05**	4.08
Distributions declared	**31,251**	58,477	**122,857**	144,010
Per unit ($/unit)	**0.45**	0.90	**1.80**	2.25
- Excluding special distribution[2]	**0.45**	0.45	**1.80**	1.80
Payout ratio%[1]	**47%**	136%	**59%**	55%
- Excluding special distribution[2]	**47%**	68%	**59%**	44%
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,071**	874	**981**	907
Net processing throughput (MMcf/d)	**814**	752	**781**	769
NGL Infrastructure:				
Gross processing throughput (Mbbl/d)	**87**	94	**91**	97
Net processing throughput (Mbbl/d)	**30**	31	**27**	31
Marketing:				
Inventory value	**125,404**	78,181	**125,404**	78,181
Sales volumes (bbl/d)	**75,000**	70,000	**67,900**	65,800
Capital expenditures	**158,078**	35,305	**244,589**	100,056
Proceeds from dispositions	—	(10)	—	3,777
Long-term debt			**404,410**	258,209
Working capital (surplus) deficit[3]			**73,914**	87,897
Net debt			**478,324**	346,106
Convertible debentures			**27,903**	75,293
Net debt (including debentures)			**506,227**	421,399
Trust units outstanding – end of period			**69,891**	65,814
Weighted average number of units outstanding – basic			**68,108**	63,674
Weighted average number of units outstanding – diluted			**71,139**	68,255

Notes:

1 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.

2 A special distribution of $0.45 per unit was paid on December 15, 2009.

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

Message to Unitholders

Keyera was successful on a number of fronts in 2010. A slowdown in producer activity caused by low natural gas prices resulted in a challenging business environment. Despite this, Keyera continued to deliver strong financial results and implemented a number of strategic initiatives in both business units. Our success in varying business cycles is a testament to our clear vision, focused business strategy and team of talented employees. With our conversion to a corporation in January, we have changed our name to Keyera Corp. Although our name has changed, the attributes which have defined our success have not. Keyera's facilities and infrastructure are located in some of the most attractive areas for natural gas and oil sands development in the WCSB, where we expect significant new developments to occur. Looking ahead at 2011 and beyond, our business strategy positions us to provide value added services to customers, generate new sources of cash flow from internal growth opportunities and selectively pursue acquisitions.

Financial metrics were strong in 2010, despite being somewhat lower than 2009 when the timing of gains from Keyera's risk management program contributed to results significantly higher than usual. Fourth quarter distributable cash flow was $66.0 million ($0.95 per unit) compared to $43.1 million ($0.66 per unit) in the same period last year. Distributions to unitholders in the fourth quarter were $31.3 million ($0.45 per unit), resulting in a payout ratio for the fourth quarter of 47%.

Net earnings in 2010 were $125.0 million, compared to $150.3 million in 2009. Full year distributable cash flow was $207.9 million ($3.05 per unit), and distributions to unitholders were $122.9 million ($1.80 per unit), resulting in a payout ratio for 2010 of 59%. The cash flow available after paying distributions was used to fund the significant growth capital expenditures and acquisitions we completed this year.

As a result of this strong financial performance, low payout ratio and numerous business initiatives, we have announced a 6.7% dividend increase. Effective with the March 2011 dividend payable to shareholders on April 15, our dividend will increase from $0.15 per share per month to $0.16 per share per month, or $1.92 per share annually. The increase is consistent with our philosophy of increasing our dividend when possible, while balancing future capital needs and maintaining a prudent capital structure. Since going public in 2003, we have increased our dividend eight times, representing a 76% increase.

Gathering and Processing contribution in 2010 was $119.1 million, $5.4 million lower than 2009. Significant maintenance turnarounds at three of Keyera's larger facilities in the second quarter, and unexpected maintenance and one-time items in the fourth quarter, offset the increased contribution from new facilities acquired in the second half of 2010. The fee structures at the Strachan and Caribou gas plants, two of the facilities where turnarounds were completed this year, result in a significant reduction in gathering and processing contribution in the year the turnarounds occur.

In the Liquids Business Unit, contribution from our NGL Infrastructure segment was $63.2 million in 2010, $4.3 million higher than last year. Strong demand for storage and fractionation services throughout the year, as well as higher terminal activity during the first half of 2010, contributed to the strong results. The Marketing segment had another solid year with contribution of $79.2 million, compared to $83.5 million in 2009.

Keyera expanded its footprint significantly in 2010, strengthening its network of gathering and processing facilities. Keyera acquired interests in three additional gas plants in 2010: 21.8% of the Edson gas plant, 36.5% of the Minnehik Buck Lake gas plant, and 100% of the Simonette gas plant. Keyera is now the operator of the Minnehik Buck Lake and Simonette gas plants. These three plants have added 625 million cubic feet per day of gross processing capacity, as well as interests in several gathering pipelines and compression facilities. They have extended Keyera's reach into prime natural gas and oil development areas, particularly in the Deep Basin area of Alberta, where significant new liquids-rich gas development activity is occurring.

In addition to acquisitions, we pursued a number of internal growth projects at several facilities. Most significant was at our Caribou gas plant, where we expanded the plant capacity from 65 to 105 million cubic feet per day. We recently completed construction of a NGL delivery pipeline that allows NGLs to flow from the Strachan gas plant to our Fort Saskatchewan fractionation facility. In November, we announced the construction of a 45-kilometre, 12 inch raw gas gathering pipeline from our Rimbey gas plant into the Hoadley region, where a number of companies are actively drilling for liquids-rich gas found in the Glauconite geological formation.

The Liquids Business Unit is working on a number of initiatives. Work is underway on the condensate pipeline expansion project from Keyera's Fort Saskatchewan facility to the inlet of the Polaris diluent pipeline. The 20 inch pipeline will be approximately 21 km in length and has already received approval from regulatory authorities. All of the land required for the pipeline right of way has been acquired and construction is expected to begin in the summer of 2011.

We are also continuing work on the pipeline connection from the Enbridge Southern Lights pipeline to our Edmonton terminal. Assuming construction continues on schedule, we expect the connection to be completed in the second quarter of 2011. When operational, Keyera will be able to receive condensate from the Southern Lights pipeline and deliver it into Keyera storage or, via our pipeline network or rail terminals, to oil sands customers throughout Alberta.

As a result of the services we are able to provide customers in the Edmonton/Fort Saskatchewan area, in October we announced a long-term diluent services agreement with Husky Oil Operations for the Husky-operated Sunrise Oil Sands Project. The agreement includes diluent transportation, storage and terminalling services and is similar in nature to the agreement signed with Imperial Oil in November 2009. The services provided to Husky are expected to begin contributing to Keyera's cash flow in 2014, and because it will utilize the same infrastructure as the agreement with Imperial, will not require incremental capital expenditures. This agreement is further confirmation of the value that Keyera's condensate infrastructure network in the area provides to oil sands producers looking for long-term diluent supply and logistics options.

In Fort Saskatchewan, we have successfully completed all integrity testing on our eleventh storage cavern and are awaiting regulatory approval to begin operations. The cavern increases gross storage capacity by about 800,000 barrels to over 10.5 million barrels at our Fort Saskatchewan facility. In September, we began development of our twelfth cavern at Fort Saskatchewan. The well bore was completed by year-end and washing of the cavern is underway. Based on our previous experience, we expect the cavern to be ready for service in 2013.

In December, we established a private uncommitted debt facility with a limit up to $125 million. In January, we closed a $70 million private placement under this facility to help finance the acquisition of the Simonette gas plant. The notes mature in 2019 and bear interest at a rate of 5.005%.

Looking forward, I am excited about the opportunities I see for Keyera. Despite soft natural gas prices and reduced drilling in 2010, I am encouraged by recent strong land sale activity around many of our plants. Producers' success using horizontal drilling and multi-fracturing completion techniques have significantly strengthened the economics of liquids-rich gas development. Keyera is well-positioned to provide services to producers who are focused on drilling the many new liquids-rich resource plays that are being developed in the deep basin and foothills front regions of western Canada.

Our acquisition of the Simonette gas plant has positioned us to generate new business in the Deep Basin area, where a large number of producers are targeting the Montney, Wilrich and Duvernay zones. Our Carlos pipeline will enable us to gather gas from the Hoadley area, where drilling in the Glauconite zone is poised to deliver favorable economic results for producers. In our Liquids Business Unit, we continue to enhance our infrastructure to capture additional business from the growing oil sands sector. In 2011, we anticipate spending between $100 million and $130 million, excluding acquisitions, on attractive internal growth projects in both business lines.

The stable fee-for-service nature of a large portion of our cash flow, combined with the growth opportunities we see ahead for the business, support our vision of providing our shareholders with stable value growth built around sustainable, competitive energy facilities.

On behalf of Keyera's directors and management team, I thank you for your support and look forward to reporting on our continuing success in 2011 and beyond.

Jim V. Bertram
President and CEO,
Keyera Corp. (formerly Keyera Facilities Income Fund)

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of February 17, 2011 and is a review of the results of operations and the liquidity and capital resources of Keyera Corp., Keyera Facilities Income Fund (the "Fund") and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying audited consolidated financial statements of the Fund for the years ended December 31, 2010 and 2009 and the notes thereto. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars. Additional information related to Keyera, including Keyera's Annual Information Form, is filed on SEDAR at www.sedar.com.

The MD&A contains non-GAAP measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with the Fund's disclosure under "NON-GAAP FINANCIAL MEASURES" and "FORWARD LOOKING STATEMENTS" included at the end of this MD&A.

Corporate Conversion

Effective January 1, 2011, the Fund completed its conversion from an income trust to a corporation pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) approved by the unitholders of the Fund on May 22, 2010. As a result of this conversion, units of the Fund ("Units") were converted to common shares of Keyera Corp. ("Shares") on a one-for-one basis. Keyera Corp. assumed all of the obligations of the Fund, including the Convertible Debentures and the Fund was wound up. The Shares began trading on the Toronto Stock Exchange under the symbol "KEY" on January 17, 2011 at which time the Units were delisted. The Convertible Debentures continue to trade under the symbols "KEY.DB" and "KEY.DB.A" and are now convertible into Shares.

Keyera Corp. retained the same board of directors and management team which continues to be led by Jim Bertram as President and Chief Executive Officer. There were no changes in Keyera's underlying operations or its business practices and strategy as a result of the conversion.

Because the consolidated financial statements for the year ending December 31, 2010 and this MD&A reflect the financial and operating performance for the year ended December 31, 2010, the majority of the references herein and in the financial statements are to the Fund, Units, unitholders and distributions. In the future, the consolidated financial statements and related financial information will be prepared on a continuity of interest basis, which recognizes Keyera Corp. as the successor entity.

Keyera's Business

Keyera operates one of the largest midstream businesses in Canada. Midstream entities operate in the oil and gas sector between the upstream sector, which includes oil and gas exploration and production businesses, and the downstream sector, which includes the refining, distribution and retail marketing of finished products. Keyera is organized into two integrated businesses:

1. Gathering and Processing – Keyera owns and operates raw gas gathering pipelines and processing plants, which collect and process raw natural gas, remove waste products and separate the economic components before the sales gas is injected into long-distance pipeline systems for transportation to end-use markets.

2. The Liquids Business Unit consists of the following operating segments:

   NGL Infrastructure – Keyera owns and operates a network of facilities for the processing, storage and transportation of the by-products of natural gas processing, including natural gas liquids ("NGLs") such as ethane, propane, butane and condensate.

   Marketing – Keyera markets a range of products, primarily NGLs, associated with its two infrastructure business lines, and also engages in crude oil midstream activities. The core commodities of Keyera's marketing activities are propane, butane, condensate and crude oil.

2010 Overview

Keyera delivered strong financial results in 2010 driven by the operating results from all three of its business segments. Net earnings were $125.0 million or $1.84 per unit. Cash flow from operating activities was $153.7 million and distributable cash flow was $207.9 million.

Although natural gas prices recovered somewhat in 2010 after hitting a seven year low of $1.96 per Mcf in September 2009, they remained well below their pre-recession levels throughout 2010. For the year, natural gas spot prices at AECO averaged $3.79 per Mcf. These low prices can largely be attributed to high natural gas supply levels in North America, driven in part by shale gas developments in the United States.

As a result of the low prices, natural gas drilling activity in western Canada in 2009 and 2010 declined from the high levels seen several years earlier. This decline in activity levels has resulted in reduced natural gas production across western Canada. Despite being positioned on the western side of Alberta, an area which is experiencing higher activity levels driven by liquids-rich drilling activity, throughput declined at some of Keyera's facilities. Lower throughput as a result of scheduled plant turnarounds at three of Keyera's larger facilities also reduced average throughput levels in 2010. Offsetting this was increased throughput from the new gas plants acquired in 2010.

The majority of the drilling activity that occurred in 2010 was focused on the western side of the basin, where producers are targeting liquids-rich gas resource plays in order to improve their economics. Since NGL prices are based on the price of oil, the liquids can significantly improve a producer's netback. The location of Keyera's gas plants, their extensive gathering pipeline systems and the fact that approximately 99% of their processing capacity is able to extract natural gas liquids strategically positions Keyera to benefit from many of the new resource plays developing in the region. Assuming continued producer activity, Keyera anticipates significant additional new production could be delivered to its facilities in 2011.

In the Hoadley area of Alberta, a number of producers have active drilling programs underway targeting liquids-rich natural gas reserves found in the Glauconite geological zone. In order to support this activity, Keyera has committed to construct a 45-kilometre, 12 inch raw gas gathering pipeline. This pipeline, known as the Carlos pipeline, will allow producers in the area to deliver liquids-rich gas to Keyera's Rimbey gas plant for gas processing and NGL fractionation. To support this project, Keyera has secured a long-term, fee-for-service transportation and processing agreement with a major producer in the area. Discussions are already underway with other producers in the area to evaluate a pipeline extension as the play develops further to the southwest.

Significant drilling activity is also occurring around the recently acquired Simonette gas plant. Keyera has been approached by a number of producers interested in delivering liquids-rich gas from recent Montney and Wilrich discoveries in the area. Activities such as these support Keyera's view that this facility is located in a geologically attractive area of the Deep Basin.

The area around the Strachan gas plant is also continuing to see significant drilling into a number of liquids-rich gas play types. Tie-in activity increased significantly towards the end of 2010 as producers look for liquids recovery processing options.

In the NGL Infrastructure business, Keyera secured a second long-term diluent services agreement in the Edmonton/Fort Saskatchewan area. This agreement with Husky Oil Operations will provide diluent transportation, storage and terminalling services for the Husky-operated Sunrise Oil Sands Project. These services are similar in nature to those that will be provided under the agreement with Imperial Oil Ventures Ltd. ("Imperial Oil") for the Kearl oil sands project. These agreements demonstrate Keyera's commitment to grow its oil sands services business and enhance its ability to handle the receipt, transportation and storage of diluents for oil sands producers as the oil sands sector grows.

Overall, 2010 was a very busy year for Keyera as it completed several strategic acquisitions in the Gathering and Processing business and secured long-term fee-for-service arrangements in both the Gathering and Processing and NGL Infrastructure segments. Keyera continues to take a long-term view of its business that is based on the strategic nature of the products and services provided in the NGL business as well as the location of its gathering and processing assets within the Western Canada Sedimentary Basin, where attractive geological opportunities exist.

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the years ended December 31, 2010 and December 31, 2009:

(Thousands of Canadian dollars, except per unit data)	**2010**	2009
Net earnings	**125,046**	150,324
Net earnings per unit (basic)	**1.84**	2.36
Total contribution[1]	**264,303**	266,804
Cash flow from operating activities	**153,734**	313,184
Distributable cash flow[2]	**207,889**	259,990
Distributable cash flow per unit[2] (basic)	**3.05**	4.08
Distributions declared	**122,857**	144,010
Distributions declared per unit	**1.80**	2.25

Notes:

1 Total contribution refers to total operating revenues less total operating expenses and general and administrative expenses associated with the Marketing segment. See note 21, Segmented Information, of the accompanying audited consolidated financial statements.

2 Distributable cash flow is not a standard measure under GAAP and, therefore, may not be comparable to similar measures reported by other entities. See the section titled, Unitholder Distributions: Distributable Cash Flow, for a reconciliation of distributable cash flow to its most closely related GAAP measure.

- For the year ended December 31, 2010, net earnings were $25.3 million lower than the prior year largely due to higher non-cash charges. Future income tax expense, depreciation and accretion and the foreign currency loss on U.S. debt were higher in 2010 compared to the prior year. Also contributing to lower net earnings in 2010 was a higher long-term incentive plan charge. Total contribution was $2.5 million lower in 2010 compared to the prior year primarily due to the financial effect of major maintenance turnarounds completed in the second quarter of 2010 and several one-time maintenance and other charges that occurred in the fourth quarter. Despite these items, Keyera posted strong contribution in 2010 that was largely driven by the following factors:

    - continued demand for storage and fractionation services in 2010;
    - strong margins for propane during the winter heating season, as well as steady margins for butane throughout the year; and
    - incremental Gathering and Processing revenues resulting from acquisitions completed in the year, as well as a full year of contribution from the ethane extraction facility at the Rimbey gas plant.

- Cash flow metrics for the year ended December 31, 2010 were solid. However, compared to the same period last year, cash flow from operating activities was $159.5 million lower and distributable cash flow was $52.1 million lower. Cash flow metrics reached historical highs in 2009 as a result of the settlement of risk management contracts in connection with the sale of the related inventory in the first quarter. A cash gain on these contracts of $59.3 million was realized in the first quarter of 2009 compared to a cash gain of $6.4 million in the same period of 2010. Cash flow metrics were also lower in 2010 due to the following factors:

- major plant turnarounds completed in the second quarter; and
- the realization of a loss on an interest rate financial contract of $5.1 million.

In addition, cash flow from operating activities was lower in 2010 due to a higher cash requirement to build inventory relative to the prior year. The calculation of distributable cash flow excludes changes in non-cash operating working capital. Refer to the section titled, Unitholder Distributions: Distributable Cash Flow, for more details on how distributable cash flow is calculated and a reconciliation to the closest GAAP measure.

SEGMENTED RESULTS OF OPERATIONS

Keyera's operations are organized into two integrated businesses: Gathering and Processing and the Liquids Business Unit. The Liquids Business Unit consists of the NGL Infrastructure and Marketing segments. A complete description of Keyera's businesses by segment can be found in Keyera's Annual Information Form, which is available at www.sedar.com. The discussion of the results of operations for each of the operating segments focuses on contribution. Contribution refers to operating revenues less operating expenses and general and administrative expenses associated with its Marketing business, and does not include the elimination of inter-segment transactions. 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. These segment measures of profitability for the years ended December 31, 2010 and 2009 are reported in note 21, Segmented Information, of the accompanying audited consolidated financial statements.

Gathering and Processing

Keyera has interests in 18 gas plants in western Canada, of which it operates 16, making it one of the largest gas processors in Alberta. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin. Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity.

Contribution for the Gathering and Processing segment for the years ended December 31, 2010 and 2009 were as follows:

Contribution and Throughput (Thousands of Canadian dollars)	**2010**	2009
Revenue including inter-segment transactions	**275,754**	251,634
Operating expenses	**(156,700)**	(127,204)
Contribution	**119,054**	124,430
Gross processing throughput[1] – (MMcf/d)	**981**	907
Net processing throughput[2] – (MMcf/d)	**781**	769

Notes:

1 Gross processing throughput in 2010 includes the raw gas processed at the Edson, Minnehik Buck Lake and Simonette facilities of which Keyera owns 21.8%, 36.5% and 100% interests respectively. Keyera began reporting the volumes from the Edson and Minnehik Buck Lake acquisitions in the third quarter and the Simonette acquisition in the fourth quarter of 2010.

2 Net processing throughput refers to Keyera's share of raw gas processed at its processing facilities.

Contribution from the Gathering and Processing segment for the year ended December 31, 2010 was $119.1 million, $5.4 million lower than 2009. The lower contribution was primarily due to the following factors:

- Higher operating expenses resulting from the completion of maintenance turnarounds at the Caribou and Strachan gas plants in the second quarter of 2010. Turnaround costs at the Strachan gas plant are recovered over a two year period and at the Caribou gas plant the fee structure limits the amount of turnaround costs that can be directly recovered. The combined effect of higher operating expenses and lower throughput due to the plant shutdowns resulted in lower contribution from these facilities of approximately $10 million in 2010.

- Keyera also completed a scheduled maintenance turnaround at the West Pembina gas plant in the second quarter of 2010. These costs were fully recoverable in 2010 and did not have an effect on contribution. During the turnaround, some gas was redirected to other Keyera plants in the area for processing, mitigating somewhat the effect of lost revenue on plant contribution.

- During the fourth quarter of 2010, approximately $1.0 million of expense was incurred on maintenance and repairs of a sulphur plant at the Strachan facility. The sulphur plant was down for a significant part of the fourth quarter, resulting in lower fourth quarter volumes and revenues.

- A $1.3 million charge was recorded at the Rimbey gas plant in the fourth quarter relating to the baseline calculation of green house gas emissions for the current and prior year. These charges are expected to be recovered through higher operating fees in future periods.

- An additional $1.0 million of maintenance expenses were recorded in the fourth quarter that related to the Caribou turnaround completed earlier in the year. In addition, problems associated with start up of the plant expansion resulted in lower than expected new volumes being delivered to the plant in the second half of the year.

The lower contribution in 2010 was partly offset by the following:

- Additional contribution in 2010 from the ethane extraction facility at the Rimbey gas plant that started production in August 2009. All of the ethane produced was sold to a petrochemical producer in Alberta under a long-term contract.

- Additional contribution from the recent acquisitions of ownership interests in the Simonette, Minnehik Buck Lake and Edson gas plants.

Revenues were $24.1 million higher for the year ended December 31, 2010 compared to 2009. The higher revenues were primarily due to the following:

- incremental revenues associated with the ethane extraction facility at the Rimbey gas plant;

- higher operating fees associated with the Strachan turnaround completed in the second quarter of 2010; and

- the acquisitions of ownership interests in the Simonette and Edson facilities.

Contribution from the Minnehik Buck Lake gathering and processing assets was minimal in 2010. Contribution from the production assets associated with the Minnehik Buck Lake gas plant and the West Pembina gas plant are discussed under the heading Corporate and Other.

Gross processing throughput averaged 981 million cubic feet per day in 2010, 74 million cubic feet per day higher than 2009. Throughput was higher in 2010 due to the acquisitions of the Edson, Minnehik Buck Lake and Simonette facilities, of which Keyera owns 21.8%, 36.5% and 100% respectively. Keyera began reporting the volumes from the Edson and Minnehik Buck Lake acquisitions beginning in the third quarter and the Simonette acquisition in November 2010. Gross plant throughput in December 2010 averaged 1, 070 million cubic feet per day. The higher volumes from acquisitions were partly offset by lower throughput due to the major plant turnarounds completed this year at the Caribou, Strachan and West Pembina gas plants, three of Keyera's larger facilities, natural production declines, and additional repair and maintenance work at the Strachan gas plant. Excluding acquisitions, gross throughput averaged 856 million cubic feet per day in 2010, compared to 907 million cubic feet per day in 2009.

Keyera is proceeding with the construction of the Carlos pipeline, a 45 kilometre, 12-inch raw gas gathering pipeline from the Rimbey gas plant into the Hoadley region of central Alberta. The Hoadley area is undergoing active development, as multiple producers utilize horizontal drilling and multi-fracturing techniques to target liquids-rich natural gas reserves found in the Glauconite geological zone. When completed, producers in the region will be able to deliver this liquids-rich gas to the Rimbey gas plant, which is able to remove a high percentage of NGLs from the gas stream and fractionate the NGLs into specification ethane, propane, butane and condensate. The total cost of this pipeline is estimated to be $30 million, and the pipeline is expected to be operational in the second quarter 2011. To support this project, Keyera has secured a long-term fee-for-service transportation and processing agreement with a major producer in the area.

Also during the fourth quarter, Keyera closed two separate transactions to acquire a 100% ownership interest in the Simonette gas plant which is located in the "Deep Basin" region of Alberta. In addition to the ownership interest in the plant, Keyera also acquired interests in two sour gas gathering pipelines and additional compression equipment. The total cost of the acquisition was approximately $124 million.

Keyera completed the expansion of the Caribou gas plant in June 2010. The expansion added an additional 40 million cubic feet per day of processing capacity, increasing the total licensed capacity of the Caribou gas plant to 105 million cubic feet per day. Problems associated with startup of the new facilities resulted in an extended commissioning period, which delayed the processing of gas north of the plant. In addition, throughput at the facility was lower than anticipated, due to a slowdown in drilling activity in the region in 2010. Despite these factors, Keyera continues to be encouraged by the geology in the region. In 2010, a successful well was completed in the Montney zone north of the plant, demonstrating that the geologically prospective Montney trend extends to within Caribou's capture area.

NGL Infrastructure

The NGL Infrastructure segment provides gathering, fractionation, storage, transportation and terminalling services for NGLs and crude oil. These services are provided to customers through an extensive network of facilities, including the following assets:

- underground NGL storage caverns;
- NGL fractionation facilities;
- NGL and crude oil pipelines; and
- pipeline, rail and truck terminals.

Most of these integrated assets are located in, or connected to, the Edmonton/Fort Saskatchewan area in Alberta, one of four key energy hubs in North America. A significant portion of the NGL production from Alberta raw gas processing plants is delivered into the Edmonton/Fort Saskatchewan area via several NGL gathering systems. Keyera's underground storage caverns at Fort Saskatchewan allow products like propane and butane to be stored in the summer months in order to meet the winter season demand, as well as provide the ability to inject or withdraw condensate to meet diluent supply/demand swings in the oil sands sector. These assets also support Keyera's Marketing segment, providing the ability to source, transport, process, store and deliver products across North America. A portion of the revenues earned by this segment relate to services provided to Keyera's Marketing business.

Contribution for the NGL Infrastructure segment for the years ended December 31, 2010 and 2009 were as follows:

Contribution (Thousands of Canadian dollars)	**2010**	2009
Revenue including inter-segment transactions	**93,247**	90,310
Operating expenses	**(30,515)**	(30,555)
Unrealized gain (loss) on electricity and natural gas contracts	**478**	(851)
Total operating expenses	**(30,037)**	(31,406)
Contribution	**63,210**	58,904

Contribution for the year ended December 31, 2010 was $63.2 million, $4.3 million higher than 2009. The increase in contribution was largely due to the following factors:

- Higher revenues from the continued demand for storage and fractionation services.
- Higher rail offloading and truck loading revenues at Keyera's Fort Saskatchewan and ADT facilities, due to increased condensate demand in the first and second quarters of 2010.
- A non-cash gain of $0.5 million relating to electricity and natural gas contracts compared to an unrealized loss of $0.9 million in 2009.

The higher contribution resulting from these factors was partly offset by lower revenues from the Bonnie Glen pipeline system in 2010. Volumes on the Bonnie Glen pipeline system were lower in 2010 as a significant customer diverted volumes away from the pipeline in the second quarter of 2010. Keyera is currently working with the operator of the pipeline and attract other customers to develop new business opportunities.

Revenues for the year ended December 31, 2010 were $2.9 million higher compared to 2009 due to the same factors discussed for higher contribution in 2010.

In the first quarter of 2010, rail shipments into ADT increased due to higher demand for condensate. The strong demand for condensate continued into the early part of the second quarter, as Enbridge's Southern Lights pipeline acquired the line fill necessary to commence operations in July. The incremental supply from the start-up of Enbridge's Southern Lights pipeline in July has reduced demand for condensate rail offloading services but has increased demand for storage services. As oil sands projects currently under construction commence operations, Keyera expects the demand for condensate and rail offload services in Alberta to continue to grow.

Keyera announced in the fourth quarter that it has entered into a long-term agreement with Husky Oil Operations Limited ("Husky") to provide diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area for the proposed Husky-operated Sunrise Oil Sands Project. This agreement is expected to provide Keyera with long-term, fee-for-service revenues, beginning in 2014, and complements the diluent services agreement Keyera signed in 2009 with Imperial Oil Ventures Ltd. ("Imperial Oil") for the Kearl oil sands project.

Under the terms of the agreement, Keyera will transport diluent by pipeline from supply sources in the Edmonton area to the Polaris pipeline inlet north of Fort Saskatchewan for further delivery to the Sunrise site, located 60 kilometers northeast of Fort McMurray. Keyera will also provide diluent storage and rail offload services at ADT and the Edmonton Terminal, both owned 100% by Keyera, as well as at the Keyera-operated Fort Saskatchewan Fractionation and Storage Facility. Because Keyera is using existing facilities, or those already planned for construction, no incremental capital is required to provide these services. Phase 1 of the Sunrise project received full sanctioning in November 2010 from Husky and its partner.

Construction is underway on the pipeline connection between the Enbridge Southern Lights diluent pipeline and Keyera's Edmonton Terminal and is expected to be complete early in the second quarter of 2011. The Southern Lights system presents a long-term diluent supply source and by securing access to the system, Keyera expects to enhance the diluent receipt options available for its customers. The ability to receive diluent from multiple sources, together with Keyera's storage, terminal and delivery options, strengthens Keyera's position as the diluent service provider of choice in the Edmonton/Fort Saskatchewan area.

Washing of the eleventh underground storage cavern at Keyera's Fort Saskatchewan facility was completed in the third quarter and testing of the cavern was completed in the fourth quarter of 2010. Keyera is currently awaiting regulatory approval before the cavern can be put into service. Subject to obtaining regulatory approval, the cavern is expected to be available for service in the second quarter of 2011.

Keyera is proceeding with the development of a new underground storage cavern (cavern #12) at Fort Saskatchewan to meet the expected need for additional storage capacity. Drilling of the well bore for this new cavern was completed in the fourth quarter and washing of the cavern commenced in early 2011. The cavern is expected to be put into service in 2013.

Marketing

The Marketing segment is involved in the marketing of NGLs such as propane, butane and condensate to customers in Canada and the United States, as well as various crude oil midstream activities. Volumes of NGLs are typically purchased under short-term supply contracts, most of which have one-year terms. Keyera also has one long-term supply arrangement with a major producer that provides a base supply of NGLs. Keyera negotiates sales contracts with customers in Canada and the U.S. based on the volumes it has contracted to purchase.

In the case of butane and condensate, the majority of the product is sold to customers in Alberta shortly after it is purchased. Propane markets, on the other hand, are more seasonal and geographically diverse. Keyera sells propane in markets throughout western North America, often where the only option for delivery is via rail car or tank truck. Keyera is well positioned to serve these markets because of its extensive infrastructure. Further, since demand for propane tends to be significantly higher in the winter, Keyera can utilize its NGL storage facilities to build an inventory of propane during the summer months when prices are typically soft in order to fulfill winter term sales commitments.

Overall, the integration of Keyera's business lines means that its Marketing segment can draw on the resources available through its two facilities segments, including access to key fractionation, storage and transportation infrastructure and logistics expertise.

Keyera manages its supply and sales portfolio by monitoring its inventory position and purchase and sale commitments. Nevertheless, the Marketing business is exposed to commodity price fluctuations arising between the time contracted volumes are purchased and the time they are sold and between different geographic locations. To help manage these risks, Keyera buys and sells product at prices based on similar indices or benchmarks, and enters into physical and financial contracts including energy-related forward contracts, price swaps and forward currency contracts. A more detailed description of the risks associated with the Marketing segment is available in the Fund's Annual Information Form, which is available at www.sedar.com.

Contribution for the Marketing segment for the years ended December 31, 2010 and 2009 were as follows:

Contribution and Sales Volumes (Thousands of Canadian dollars)	**2010**	2009
Revenue	**1,628,027**	1,253,026
Operating expenses including inter-segment transactions	**(1,544,015)**	(1,165,453)
General and administrative expenses	**(4,810)**	(4,103)
Contribution	**79,202**	83,470
Sales volumes (Bbl/d)	**67,900**	65,800

Composition of Marketing Revenue (Thousands of Canadian dollars)	**2010**	2009
Physical sales	**1,628,123**	1,253,393
Realized cash gain on financial contracts[1]	**12,998**	51,116
Unrealized loss due to reversal of financial contracts existing at end of prior period	**(6,977)**	(49,136)
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	**(6,974)**	6,977
Unrealized gain (loss) - fixed price physical contracts[2]	**857**	(9,323)
Total unrealized loss on risk management contracts	**(13,094)**	(51,482)
Total loss on risk management contracts	**(96)**	(366)
Total Marketing revenue	**1,628,027**	1,253,026

Notes:
[1] Realized cash gains and losses represent actual cash settlements or receipts under the respective contracts.
[2] Unrealized gains and losses represent the change in fair value of fixed price physical contracts that meet the GAAP definition of a derivative instrument.

NGL product sales volumes averaged 67,900 barrels per day in 2010, 3% higher than 2009. Total marketing revenue was $375.0 million higher in 2010 compared to the prior year due to higher average prices for all NGL products in 2010, as well as higher sales volumes.

For the year ended December 31, 2010, the Marketing segment posted strong contribution of $79.2 million that was primarily driven by the following factors:

- High demand for propane early in the first quarter and in the fourth quarter as a result of cold winter weather.
- Higher margins for propane in the third and fourth quarter of 2010 due to higher average prices. Demand for propane typically increases at the end of the third quarter as the crop drying season begins in September.
- Steady volumes and margins from the contracted term sales of butane throughout 2010.

- Higher demand for condensate in the Alberta market in the first quarter, resulting in strong sales volumes and margins. Average prices for condensate also improved in the fourth quarter of 2010 as diluent demand from oil sands projects strengthened.

Despite these factors, contribution was $4.3 million lower in 2010 compared to the prior year. The lower contribution was primarily due to unusually low NGL product cost of sales in the first quarter of 2009 relative to the same period in 2010. Cost of sales were lower in 2009 as a result of the significant inventory write-downs recorded in 2008. Also, large realized gains were recorded on risk management contracts in the first quarter of 2009 as the inventory existing at the end of 2008 was sold.

In 2010, market factors contributed to strong results for Keyera's propane business. Cold weather early in 2010 generated strong margins for propane in the first quarter. As expected, demand for propane softened during the middle of the year, resulting in softer prices. During this period, Keyera built inventory to meet the seasonal winter demand. A typical winter heating season in the fourth quarter and high average prices resulted in strong margins for propane in 2010. With anticipated seasonal demand, prices and margins are expected to remain strong during most of the first quarter of 2011.

Keyera utilizes a term sales strategy in its butane markets, effectively contracting most of its butane supply to term buyers. This strategy continued to generate strong, stable margins throughout 2010.

Demand for condensate improved in the first quarter of 2010 and remained strong into the early part of the second quarter, generating solid margins in the first half of 2010. During the middle of the year, the short-term supply/demand outlook in the condensate market remained uncertain, due to the incremental supply from Enbridge's Southern Lights pipeline that began operating in July 2010. However, condensate prices strengthened in the fourth quarter as a result of increased demand for diluents from oil sands projects. The supply/demand outlook for condensate has returned to a more balanced state in the short-term and prices are anticipated to remain strong into the first quarter of 2011.

Risk Management

Keyera typically uses crude oil financial contracts as a hedging strategy to protect its NGL inventory from fluctuations in commodity prices. However, there is basis risk between the prices of crude oil and the respective NGL products. These contracts are generally put in place as inventory builds during the second and third quarters and are settled over the winter period when products are withdrawn from inventory and sold. In general, as commodity prices fall, the increase in the fair value of the financial contracts is intended to mitigate the decline in the value of inventory.

For the year ended December 31, 2010, a loss on risk management contracts of $0.1 million was recorded compared to a loss of $0.4 million in 2009. The year over year change was relatively flat as the unrealized loss on risk management contracts virtually offset the realized cash gains in both periods.

The fair value of financial contracts existing at December 31, 2010 resulted in an unrealized loss of $7.0 million. This non-cash loss was primarily due to losses recorded for financial commodity contracts resulting from increases in the price of crude oil in the fourth quarter, partly offset by a $4.6 million unrealized gain on foreign currency financial contracts. Foreign currency financial contracts are put in place to fix the exchange rate for future U.S. dollar sales. The unrealized gain on foreign currency financial contracts resulted from a strengthening Canadian dollar in relation to the U.S. dollar at the end of 2010.

In 2009, large realized gains were recorded on risk management contracts in the first quarter of 2009 as the inventory existing at the end of 2008 was sold. The realized gain and unrealized losses relating to risk management contracts were significantly higher in 2009 due to the unprecedented volatility in crude oil prices that occurred in 2008.

Refer to note 17, Financial Instruments and Risk Management, of the accompanying audited consolidated financial statements for a summary of the financial contracts existing at December 31, 2010 and 2009 and the sensitivity to earnings resulting from changes in commodity prices.

As required by GAAP, certain fixed price commodity contracts also must be accounted for as derivative instruments. Accordingly, at the end of each period the change in the fair value of these physical contracts is recorded in marketing revenue. However, these unrealized gains or losses only represent the opportunity gained or lost relating to a fixed price physical contract and will therefore never be realized in cash. As these contracts are settled, the revenue is recorded in physical sales and the unrealized gain or loss is reversed. The unrealized gain of $0.9 million recorded for the year ended December 31, 2010 represents the change in fair value of physical fixed price contracts since the end of 2009.

CORPORATE AND OTHER

Corporate and Other (Thousands of Canadian dollars)	**2010**	2009
Other income contribution	**2,837**	—
General and administrative expenses (net of overhead recoveries on operated facilities)	**(40,733)**	(36,722)
Interest expense	**(36,131)**	(33,297)
Depreciation, amortization and accretion	**(49,974)**	(45,432)
Foreign currency gain (loss) on U.S. debt	**(5,730)**	742
Other expenses (loss on disposal, impairment expense)	**(3,617)**	(7,410)
Income tax (expense) recovery	**(7,882)**	1,536

Other Income

Keyera acquired natural gas and NGL reserves as part of the acquisition of ownership interests in the Minnehik Buck Lake and West Pembina facilities in the first half of 2010. In the third and fourth quarter, production from these reserves averaged 722 Boe/day. Keyera began reporting earnings from the production associated with these reserves in the third quarter of 2010 as Other Income.

Other income generated in 2010 before inter-segment eliminations was $2.8 million net of royalties and operating expenses.

The reserves and production from the reserves are not material to Keyera's business and do not have a material financial impact on the results of the Fund. The acquisition of these reserves was ancillary to the purchase of the facility interests, and this new income stream is not part of Keyera's core business.

General and Administrative Expenses

General and administrative ("G&A") expenses increased 11% or $4.0 million in 2010 compared to 2009, largely due to higher long-term incentive plan ("LTIP") costs. The LTIP expense was approximately $5.5 million higher in 2010 due to a 44% increase in unit price compared to the end of 2009, as well as an increase in the payout multiplier after reaching certain performance targets for the 2009 unit grants. The higher LTIP expense in 2010 was partly offset by higher overhead recoveries earned in the second quarter of 2010. As operator of most of its facilities, Keyera is compensated for its administrative work by collecting an overhead recovery fee equal to a certain percentage of operating costs. As a result of higher costs, primarily due to turnarounds completed in the second quarter of 2010, as well as new plant acquisitions, overhead recoveries were higher compared to the prior year.

Interest

Interest expense, net of interest income, was $36.1 million for the year ended December 31, 2010, $2.8 million higher than 2009. The higher interest expense in 2010 was largely due to the inclusion of a $5.1 million realized loss on an interest rate financial contract in the second quarter of 2010. This financial contract was entered into in the first quarter of 2010 to mitigate the risk of rising interest rates in anticipation of issuing long-term debt later in the year. Lower Canadian bond rates resulted in a realized loss of $5.1 million when the financial contract was settled in the second quarter. However, as a result of these favourable market rates, Keyera was able to issue debt at low interest rates. Partly offsetting the loss on the interest rate financial contract was lower interest expense on convertible debentures due to a significant number of conversions since the beginning of 2010.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion was $50.0 million for the year ended December 31, 2010, $4.5 million higher than 2009. The increase was primarily due to a higher asset base in 2010 resulting from the capital additions and acquisitions made throughout 2010.

Foreign Currency (Loss) Gain on U.S. Debt

The foreign currency (losses) gains associated with the U.S. debt for the years ended December 31, 2010 and 2009 were as follows:

	2010 **$**	2009 $
Unrealized (loss) gain resulting from:		
Translation of US$168 million long-term debt (2009 – US$ 50 million)	**7,474**	7,427
Change in fair value of the cross currency swaps-principal and interest	**(13,181)**	(9,135)
	(5,707)	(1,708)
Realized gain (loss) resulting from:		
Realized gain on cross currency swap – principal portion[1]	**779**	2,765
Realized loss on cross-currency swap-interest portion[2]	**(802)**	(315)
Foreign currency (loss) gain on U.S. debt	**(5,730)**	742

Notes:

1 Realized foreign currency gains resulted from the exchange of currencies in accordance with the currency swap agreements entered into on September 8, 2010 and May 1, 2009.

2 A realized foreign currency loss resulted from the exchange of currencies relating to the interest payment in May and November 2010 on the US$50 million debt.

In the third quarter of 2010, Keyera issued US$118 million of long-term debt. Keyera also issued US$50 million of long-term debt in the second quarter of 2009. In order to manage the foreign currency exposure on its U.S. dollar denominated debt, Keyera entered into cross currency agreements with a syndicate of Canadian banks to swap the U.S. dollar proceeds and future interest payments into Canadian dollars.

A realized gain of $0.8 million was recorded in the third quarter of 2010 resulting from the exchange of currencies in accordance with the cross currency swap agreements entered into on May 1, 2009 and September 8, 2010. The interest payment in May and November 2010 on US$50 million of debt was swapped at a rate of 1.20 and resulted in a realized loss of $0.8 million.

The cross currency agreements are accounted for as derivative instruments and are marked to market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates as well as an adjustment to reflect credit risk. See note 17(c), Financial Instruments and Risk Management, to the audited consolidated financial statements for more information on the swap agreements.

Other

During the third quarter of 2009, Keyera disposed of a portion of its interest in a non-core gathering system connected to the Rimbey gas plant. The proceeds on disposition were $0.8 million, resulting in a non-cash loss of $4.1 million. There were no asset dispositions in 2010.

Impairment

Keyera tested its property, plant and equipment for impairment as at December 31, 2010 using the guidelines prescribed by GAAP. In addition, Keyera frequently assesses whether events or changes in circumstances indicate that an asset is impaired. Accordingly, an impairment expense of $3.6 million was recorded for the year ended December 31, 2010. The impairment expense was recorded to adjust the carrying value of the Greenstreet gathering and processing facility and the Judy Creek and Nisku transportation pipelines. In 2009, an impairment expense of $2.8 million was recorded relating to the Greenstreet gas plant, the Medicine River gathering system and a small propane terminal located in the United States.

The goodwill balance of $74.3 million contains $3.0 million of goodwill that arose as a result of acquiring a 100% interest in the Simonette gas plant in the fourth quarter of 2010. The goodwill represents the excess of the total purchase price over the fair value of the net identifiable assets and liabilities acquired. The remaining goodwill of $71.3 million arose as a result of previous business acquisitions. Accounting standards require the goodwill balance to be assessed for impairment at least annually or more frequently if events or changes in circumstances indicate the balance might be impaired. If such impairment exists, it would be charged to earnings in the period in which the impairment occurs. No goodwill impairment existed as at December 31, 2010.

Refer to note 2, Summary of Significant Accounting Policies, of the accompanying audited consolidated financial statements for greater detail related to the impairment testing for property, plant and equipment and goodwill.

Taxes

Future Income Taxes

Future income taxes arise from differences between the accounting and tax basis of assets and liabilities. A future income tax expense of $8.2 million was recorded for the year ended December 31, 2010, compared to a recovery of $0.5 million in the prior year. The higher future income tax expense in 2010 compared to the prior year was largely due to recording a valuation allowance of $13.2 million in the fourth quarter relating to non-capital losses existing in Keyera's U.S. subsidiary. It was determined that the future utilization of these losses in the U.S. subsidiary was unlikely and accordingly the benefit of these losses has not been recorded by creating a valuation allowance. The valuation allowance resulted in a future income tax expense of approximately $5.0 million. The future income tax expense in 2009 was lower due to the 3% reduction in the general provincial rate (applicable to trusts in 2011) that was recorded in the first quarter of 2009.

Current Income Taxes

A current income tax recovery of $0.3 million was recorded for the year ended December 31, 2010 compared to a recovery of $1.0 million in the prior year. The completion and filing of the 2009 income tax return for the Fund resulted in $nil current income taxes. As a result, $0.3 million of current tax expense recorded at the end of 2009 relating to the Fund was reversed in the first quarter of 2010. The current income tax recovery of $1.0 million in

2009 primarily resulted from carrying back approximately $3.5 million of non-capital losses to a prior taxation year. This resulted in the recovery of approximately $1.2 million of income taxes paid in 2007.

Keyera estimates its tax pools at December 31, 2010 were approximately $700 million consisting primarily of class 41 undepreciated capital costs.

SUMMARY FOURTH QUARTER RESULTS

Fourth Quarter Financial and Operational Highlights (Thousands of Canadian dollars, except per unit and volumetric information)	**Three Months Ended December 31, 2010**	2009
Contribution		
Gathering and Processing	**26,948**	28,154
NGL Infrastructure	**18,067**	15,397
Marketing	**29,619**	26,456
Other	**834**	—
Net earnings	**27,083**	39,205
Net earnings per unit (basic)	**0.39**	0.60
Cash flow from operating activities	**78,782**	33,430
Distributable cash flow	**65,955**	43,064
Distributable cash flow per unit (basic)	**0.95**	0.66
Distributions declared	**31,251**	58,477
Distributions declared per unit	**0.45**	0.90
Distributions declared per unit (excluding special distribution)	**0.45**	0.45
Capital expenditures	**158,078**	35,305
Dispositions	**—**	(10)
Volumetric Information		
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,071**	874
Net processing throughput (MMcf/d)	**814**	752
NGL Infrastructure:		
Gross processing throughput (Mbbl/d)	**87**	94
Net processing throughput (Mbbl/d)	**30**	31
Marketing:		
Sales volumes (bbl/d)	**75,000**	70,000

Contribution for the Gathering and Processing business decreased by $1.2 million in the fourth quarter of 2010 compared to the same period in 2009. Contribution in the fourth quarter of 2010 was unusually low as a result of the following factors:

- Repair and maintenance costs associated with work completed in the fourth quarter at several of Keyera's facilities. At the Strachan gas plant, maintenance of a sulphur plant in the fourth quarter also resulted in a small reduction in throughput and revenues.

- A $1.3 million charge was incurred at the Rimbey gas plant relating to the baseline calculation of green house gas emissions for the current and prior year. These charges will be recovered through higher operating fees in future periods.

- The final costs relating to the Caribou turnaround completed in the second quarter of 2010 were higher than initially estimated. Approximately $1.0 million of additional costs relating to the turnaround were recorded in the fourth quarter of 2010.

These factors were partly offset by incremental contribution from the Simonette facility that was acquired in the fourth quarter.

The NGL Infrastructure segment continued to see strong demand for storage and fractionation services in the fourth quarter of 2010. The demand for both services is expected to continue into 2011.

Contribution from the Marketing segment was $3.2 million higher in the fourth quarter of 2010 compared to the same period last year. An unrealized loss of $11.6 million on risk management contracts was recorded in the fourth quarter compared to an unrealized gain of $7.5 million in the same period last year. Excluding the effect of these non-cash gains and losses in both periods, contribution from the Marketing segment increased by $22.3 million as a result of higher margins for propane, butane and condensate. Refer to the section titled, Segmented Results of Operations: Marketing, for more details on the market factors that resulted in higher margins for these products in the fourth quarter of 2010.

Net earnings for the fourth quarter of 2010 were $12.1 million lower than the same period in 2009 largely due to several non-cash charges. Higher depreciation and accretion expense as well as a higher future income tax expense resulted in lower net earnings in the fourth quarter of 2010. Depreciation expense was unusually low in the fourth quarter of 2009 due to a revision to the useful lives of Keyera's gathering and processing facilities. These revisions resulted in longer useful life estimates and lowered the depreciation rates for these assets. Refer to the section titled, Corporate and Other, for more details relating to the higher depreciation, accretion and future income tax charges in 2010.

Cash flow metrics were strong in the fourth quarter largely due to the exceptional operating results from the Marketing segment and the steady performance from the NGL Infrastructure business.

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:

Operating Revenues

Gathering and Processing and NGL Infrastructure:

For each month, actual volumes processed and fees earned from the Gathering and Processing and NGL Infrastructure assets are not known at the end of the month. 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, 2010, operating revenues and accounts receivable for the Gathering and Processing and NGL Infrastructure segments contained an estimate of $34.3 million primarily for December 2010 operations.

Marketing:
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, 2010, the Marketing sales and accounts receivable contained an estimate for December 2010 revenues of $74.3 million.

Operating Expenses and Product Purchases

Gathering and Processing and NGL Infrastructure:
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, 2010, operating expenses and accounts payable contained an estimate of $18.1 million primarily for December 2010 operations.

Marketing:
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 $100.0 million at December 31, 2010.

Equalization Adjustments

Much of the revenue from the Gathering and Processing 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 segment, an equalization adjustment of $6.3 million was included in revenue and accounts receivable at December 31, 2010. Operating expenses and accounts payable contained an equalization adjustment of $14.6 million.

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 2013 and 2040.

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. Ultimately, all medium and large facilities will be independently assessed in accordance with regulatory requirements. Keyera has estimated the net present value of its total asset retirement obligations to be approximately $76.7 million compared to $51.2 million at December 31, 2009. The increase in the liability since the end of 2009 largely relates to the acquisition of the Simonette facility as well as the acquisition of ownership interests in the Minnehik Buck Lake and Edson gas plants. Refer to note 11, Asset Retirement Obligation, of the accompanying audited consolidated financial statements for a reconciliation of the beginning and ending carrying amount of the decommissioning liability. Additional information related to decommissioning, abandonment and reclamation costs is also provided in Keyera's Annual Information Form, which is available on SEDAR.

Derivative Financial Instruments

Keyera utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimate of future commodity prices or foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spreads. Refer to note 17 (d), Financial Instruments and Risk Management, of the accompanying audited consolidated financial statements for a summary of the fair value of derivative financial instruments existing at December 31, 2010.

Allowance for Doubtful Accounts

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. The allowance for doubtful accounts was $3.2 million as at December 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the years ended December 31, 2010 and December 31, 2009:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Years ended December 31, 2010	2009	Increase (decrease)	Explanation
Operating	**153,734**	313,184	(159,450)	Decrease in cash was largely due to a cash outflow from changes in operating working capital resulting from a higher cash requirement to fund the purchase of inventory. Inventory in 2010 was higher due to higher volumes and higher average prices compared to 2009. Decrease in cash was also due to lower cash gains on Marketing risk management contracts in 2010 ($13.0 million in 2010 compared to $51.1 million in 2009).
Investing	**(236,198)**	(106,460)	(129,738)	Higher capital spending in 2010 primarily related to the acquisition of a 100% interest in the Simonette facility, as well as ownership interests in the Minnehik Buck Lake, Edson and other facilities. In addition, expenditures were incurred to complete the expansion of the Caribou gas plant and other internal growth projects. Capital spending in 2009 primarily related to internal growth projects, including the ethane extraction project at the Rimbey gas plant, integration of ADT and the expansion of the Caribou gas plant.
Financing	**98,218**	(207,614)	305,832	In 2010, cash receipts generated from the issuance of $32 million and US$118 million of long-term debt were used to repay $52.5 million of long-term notes that matured in August. In 2009, cash receipts generated from operating activities and the distribution reinvestment plans were used in part to repay Keyera's bank credit facilities and fund capital expenditures.

Cash flow from operating activities in 2010 decreased by $159.5 million compared to the prior year. Cash flow from operating activities was unusually high in 2009 due to the settlement of Marketing risk management contracts. A cash gain of $13.0 was generated in 2010 from the settlement of these financial contracts compared to a cash gain of $51.1 million in 2009. As a result of the unprecedented volatility in NGL prices in 2008, large cash gains were realized in the first quarter of 2009 as the inventory existing at the end of 2008 was sold. Risk management contracts are discussed in further detail in the section titled, Segmented Results of Operations: Marketing.

In addition, cash generated from changes in operating working capital decreased by $121.7 million in 2010 compared to the prior year. This decrease in cash was primarily due to the following factors:

- Cash required to build inventory was higher in 2010 compared to the prior year due to higher volumes and higher average prices for NGL products.
- A cash outflow of approximately $39 million resulted from an increase in accounts receivable largely due to higher sales volumes and significantly higher prices for condensate in December 2010 compared to December 2009.

Working capital requirements are strongly influenced by the amount 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. Typically, inventory levels are at their lowest after the winter season and reach their peak by the third quarter in order to meet the demand for propane in the upcoming winter season.

A working capital deficit (current assets less current liabilities) of $73.9 million existed at December 31, 2010 compared to a working capital deficit of $87.9 million at December 31, 2009. The deficit in both years largely resulted from capital expenditures made late in the year that were funded by drawing on Keyera's credit facilities. A $70 million repayment was made on the credit facility in early January 2011 from the proceeds of long-term debt issued pursuant to a private shelf agreement. The working capital deficit results from Keyera classifying all of its bank credit facilities as short term debt. Keyera has extended the term of its revolving credit facility to April 21, 2014. As a result, Keyera may continue to utilize its credit facility for longer term financing or may repay it with other forms of long term debt or equity.

Distribution Reinvestment Plans

Beginning with the May 2009 distribution, Keyera implemented a Premium Distribution™ ("Premium DRIP™") and Distribution Reinvestment Plan ("DRIP"), collectively referred to as the Plan. The DRIP component allowed eligible Unitholders of Keyera to direct their cash distributions to be reinvested in additional units issued from treasury at a 5% discount to the Average Market Price (as defined in the Plan) on the applicable distribution payment date. The Premium DRIP™ component permitted eligible Unitholders to elect to have these additional units delivered to the designated Plan Broker in exchange for a premium cash payment equal to 102% of the regular, declared cash distribution that was reinvested on their behalf under the Plan.

The Plan generated cash of $38.7 million for the year ended December 31, 2010 ($33.8 million was generated in 2009). Beginning with the April 2010 distribution (payable in May 2010), Keyera suspended the Premium DRIP™ component of the Plan. The DRIP component remains in effect; however, the discount on the reinvestment units was reduced from 5% to 3% of the Average Market Price. While the Premium DRIP™ provided Keyera with additional capital to fund growth opportunities during difficult economic times when access to the debt and equity markets was expensive, Keyera believes that more recent trends in the debt and credit markets present a number of lower cost financing alternatives.

Credit Facilities

Keyera has extended its credit facilities consisting of a $300 million committed unsecured revolving term facility, such that it matures on April 30, 2014. In addition, the Royal Bank of Canada has provided a $10 million unsecured revolving demand facility and the Toronto Dominion Bank has provided a further $15 million unsecured revolving demand facility. 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, 2010 the balance outstanding on the unsecured revolving term facility was $211 million and $3.962 million on the unsecured revolving demand facility compared to $134.0 million drawn at December 31, 2009. The credit facility agreement contains a number of covenants, all of which were met as at December 31, 2010. This agreement is available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends.

Long-term Debt

On January 4, 2011, Keyera issued CDN $70.0 million of notes at an interest rate of 5.005% and a maturity of January 4, 2019. These notes were issued pursuant to an uncommitted private shelf agreement with Prudential Capital Group. The private shelf agreement allows for the issuance of up to US$125 million of notes. Proceeds from the issuance of these notes were used to repay Keyera's existing bank credit facility.

On September 8, 2010, Keyera issued $32 million and US$118 million of medium and long-term senior unsecured notes to a group of institutional investors in Canada and the U.S.

The notes were issued in the following four tranches:

- US$15 million bearing interest at 3.91% and maturing on September 8, 2015;
- $30 million bearing interest at 4.66% and maturing on September 8, 2015;
- US$103 million bearing interest at 5.14% and maturing on September 8, 2020; and
- $2 million bearing interest at 5.68% and maturing on September 8, 2020.

Net proceeds from the issuance of the above notes were used to repay $52.5 million of long-term debt that matured in August 2010 and reduce short-term bank debt. Concurrent with this transaction, Keyera entered into an agreement with a syndicate of Canadian banks to swap the U.S. dollar proceeds and future interest payments into Canadian dollars at a foreign exchange rate of 1.0425. The cross currency agreement is accounted for as a derivative instrument and is marked to market at the end of each period.

As at December 31, 2010, Keyera had an additional $207.5 million and US$50.0 million of unsecured senior notes as follows:

- $52.5 million bearing interest at 6.16% and maturing in August 2013;
- $35 million bearing interest at 7.87% and maturing in May 2016;
- US$50 million bearing interest at 8.40% and maturing in May 2016;
- $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 note agreements contain a number of covenants, all of which were met as at December 31, 2010. These agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans.

In order to manage the foreign currency exposure on the US$50 million maturing in May 2016, Keyera entered into a cross currency agreement to swap the U.S. dollar proceeds and future interest payments into Canadian dollars at a foreign exchange rate of 1.2425. This cross currency agreement has also been accounted for as a derivative instrument and is marked to market at the end of each period.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the years ended December 31, 2010 and 2009:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	**2010**	2009
Growth capital expenditures	**58,433**	65,110
Acquisitions	**184,021**	33,677
Maintenance capital expenditures	**2,135**	1,269
Total capital expenditures	**244,589**	100,056

Capital additions amounted to $244.6 million for the year ended December 31, 2010. Of the total amount invested in 2010, $184.0 million, net of purchase price adjustments, related to acquisitions. Growth capital expenditures, excluding acquisitions, were $58.4 million or $21.6 million lower than our estimates. The shortfall was largely attributable to delays in the timing of expenditures related to projects in progress at year end.

Significant acquisitions made in 2010 included the following:

- 100% interest in the Simonette gas plant, two gathering pipelines and a compressor station;
- 36.5% ownership interest in the Minnehik Buck Lake gas plant and various interests in associated assets;
- 21.8% ownership interest in the Edson gas plant;
- additional 7.0 % ownership interest in the Nordegg River gas plant;
- additional 7.0% ownership interest in the West Pembina gas plant and various ancillary assets;
- additional 1.7% ownership interest in various components of the Gilby gas plant;
- additional 1.0% ownership interest in the Brazeau River gas plant; and
- acquisition of an ownership interest in a raw gas transportation pipeline at the Strachan gas plant.

The remaining significant capital expenditures in 2010 related to the following internal growth projects:

- $12.7 million for the Caribou plant expansion and extension of a gathering line;
- approximately $12.3 million for expenditures to construct and convert new and existing pipelines into NGL service;
- $11.8 million for enhancements at the ADT facility;
- $4.4 million for the construction of the Carlos pipeline; and
- $4.2 million for the construction of a propane terminal in the U.S.

Both the Minnehik Buck Lake and West Pembina facility acquisitions included ownership interests in related natural gas and NGL reserves. The acquisition of these reserves was ancillary to the purchase of the facility interests.

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. Keyera incurred maintenance and repair expenses of $38.2 million for the year ended December 31, 2010 that were included in operating costs. These costs included approximately $12.0 million of expenditures related to the major plant turnarounds completed in the second quarter of 2010. For the year ended December 31, 2009, $23.7 million of maintenance and repair expenses were included in operating costs. The majority of repair and maintenance expenditures will be recovered over varying periods of time, depending upon the fee structure at each facility.

Keyera has committed to construct additional pipeline connections and pumping and metering facilities in order to provide diluent transportation, storage and rail offload services to Imperial Oil and Husky in connection with the long-term diluent handling agreements that Keyera has entered into in support of their oil sands projects. The expected capital cost is approximately $60 million. Additional enhancements will also be made at the ADT site in order to provide solvent handling services to Imperial and are expected to cost approximately $10 million. These capital expenditures are anticipated to be funded by cash flow from operating activities and existing credit facilities. Subject to the regulatory approvals associated with these projects, the majority of the expenditures to complete these projects will be incurred throughout 2011.

Keyera's ongoing operations are not heavily dependent on capital expenditures in order to maintain current levels of cash flow. However, to grow future cash flow, Keyera must invest capital to expand its current asset base and capture new opportunities. A number of growth opportunities are underway. In 2011, growth capital investment, excluding acquisitions, is expected to be between $100 million and $130 million. This growth capital is expected to be funded primarily by cash flow from operating activities, the DRIP program and Keyera's credit facilities. Incremental debt and equity financing will be evaluated if required. Access to debt and equity financing is dependent on Keyera's ongoing financial performance and general market conditions. Readers are referred to the section of the MD&A titled, Forward Looking Information, for a further discussion of the assumptions and risks that could affect future performance and plans.

Unitholder Distributions

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.

Distributable Cash Flow	**Years ended December 31,**	
(Thousands of Canadian dollars)	**2010**	2009
Cash flow from operating activities	**153,734**	313,184
Add (deduct):		
Changes in non-cash working capital	**82,415**	(39,238)
Long-term incentive plan	**(18,225)**	(12,687)
Inventory write-down	**(7,900)**	—
Maintenance capital	**(2,135)**	(1,269)
Distributable cash flow	**207,889**	259,990
Distributions declared to Unitholders	**122,857**	144,010

Distributions declared of $122.9 million in 2010 represented 59% of distributable cash flow. Keyera generated strong distributable cash flow of $207.9 million due to the solid performance of all operating segments.

Distributable cash flow was $52.1 million lower in 2010 compared to the prior year as a result of the following factors:

- A lower cash gain was realized on financial contracts used as part of Keyera's Marketing risk management program. A cash gain of $13.0 million was realized in 2010 compared to a cash gain of $51.1 million realized in 2009. See the section titled, Segmented Results of Operations: Marketing, for a more detailed discussion of risk management contracts.

- Lower contribution from the Gathering and Processing business resulting from the completion of major turnarounds during the second quarter of 2010. The combination of higher operating expenses and lower throughput due to the plant shutdowns resulted in lower contribution of approximately $10 million in 2010.

- The inclusion of a $5.1 million realized loss on an interest rate financial contract in the second quarter of 2010.

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 and the long-term incentive plan expense that are funded from current operating cash flow.

The following table illustrates the excess (shortfall) of net earnings and cash flow from operating activities in relation to distributions paid:

Distributions Paid	Years ended December 31,		
(Thousands of Canadian dollars)	**2010**	2009	2008
Cash flow from operating activities	**153,734**	313,184	91,302
Net earnings	**125,046**	150,324	165,485
Cash distributions paid	**122,245**	128,973	102,501
Excess (shortfall) of cash flow from operating activities over distributions paid	**31,489**	184,211	(11,199)
Excess (shortfall) of net earnings over distributions paid	**2,801**	21,351	62,984

A measure of sustainability is the comparison of net earnings to distributions. However, due to the inclusion of non-cash charges in net earnings, distributions paid may exceed net earnings. Net earnings include certain non-cash charges such as depreciation and amortization that 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.

Net earnings also include non-cash unrealized gains and losses on risk management contracts resulting from Keyera's use of 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.

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.

Dividend Policy

On January 1, 2011, the Fund completed its conversion from an income trust to a corporation pursuant to a Plan of Arrangement approved by unitholders of the Fund on May 11, 2010. The conversion to a corporate structure does not result in any change to Keyera's business practices or strategy. Payments to shareholders are in the form of a monthly dividend, that were maintained into 2011 at $0.15 per share per month, or $1.80 per share annually. Effective with the March 2011 dividend payable to shareholders on April 15, Keyera will increase its dividend from $0.15 per share per month to $0.16 per share per month, or $1.92 per share annually.

Keyera expects to pay dividends from distributable cash flow. In determining the level of cash dividends, Keyera's Board of Directors will ensure all statutory solvency tests are satisfied. In addition to the satisfaction of the solvency tests, the Board of Directors will consider current and expected future levels of cash flow from operating activities, capital expenditures, borrowings and debt repayments, change in working capital requirements and other factors.

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 dividends to its shareholders, these dividends are not guaranteed.

Contractual Obligations

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2010, the obligations that represent known future cash payments that are required under existing contractual arrangements were as follows:

Payments Due by Period

Contractual obligations	Total $	2011 $	2012 $	2013 $	2014 $	2015 $	After 2015 $
Long-term debt[1, 5]	424,640	—	—	52,500	—	45,638	326,502
Asset retirement obligations[2]	76,723	—	—	1,226	—	—	75,497
Operating leases[3]	26,370	10,889	8,254	5,172	1,656	399	—
Purchase obligations[4]	—	—	—	—	—	—	—
Total contractual obligations	527,733	10,889	8,254	58,898	1,656	46,037	401,999

Notes:

1 Long-term debt obligations do not include interest payments.

2 The majority of these obligations are expected to be settled between 2013 and 2040. No assets have been legally restricted for settlement of the liability.

3 Keyera has lease commitments relating to railway tank cars, vehicles, computer hardware, office space, terminal lease space and natural gas transportation.

4 Keyera is involved in various contractual agreements with ConocoPhillips and other producers to purchase NGLs. These agreements range from one to eight years and in general obligate Keyera to purchase all products 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.

5 Long-term debt includes US$50,000 and US$118,000 unsecured senior notes converted at a foreign exchange rate of 1.2425 and 1.0425 respectively as a result of cross currency swap agreements.

RISK FACTORS

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 segments 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.

The most significant exposure faced by the Marketing business is the fluctuation in the prices of the commodities that Keyera buys and sells.

For a further discussion of the risks identified in this MD&A, other risks and trends that could affect Keyera's performance 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, which is available on SEDAR at www.sedar.com.

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 particular, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on Keyera's business.

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 at www.sedar.com.

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. 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.

Keyera regularly monitors accounts receivable for collection purposes and reviews exposure to customers and counterparties. A $3.2 million provision for non-recoverable accounts receivable was recorded in 2010. Despite Keyera's efforts in the monitoring and collection of accounts receivable, actual losses from defaults may be greater than that provided for.

For a discussion of the risks that could affect Keyera's liquidity and working capital and the steps Keyera takes to mitigate these risks, readers are referred to note 17, Financial Instruments and Risk Management, to the accompanying audited consolidated financial statements and to Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

Marketing Risk

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. In 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.

Operational Risk

Keyera's cash flows may 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 provides training to its employees, 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. For a further discussion of operational risks and the steps that Keyera takes to mitigate these risks, readers are referred to Keyera's Annual Information Form which is available on SEDAR at www.sedar.com.

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. The Gathering and Processing and NGL Infrastructure segments are not subject to foreign currency risk as all sales and virtually all purchases are denominated in Canadian dollars. In the Marketing business, approximately US$475,565 million of sales were priced in U.S. dollars in 2010. Foreign currency risk is actively managed by using forward currency contracts and cross currency swaps. Management monitors the exposure to foreign currency risk and regularly reviews its risk management strategies and all outstanding positions.

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt. To manage this currency exposure, Keyera has entered into cross currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt. These cross currency swap contracts are discussed further in the Liquidity and Capital Resources section of this MD&A.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

Greenhouse gases, mainly carbon dioxide and methane, are components of the raw natural gas processed and handled at Keyera's 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 large emitters (facilities in Alberta that produce over 100,000 tonnes of carbon dioxide equivalent ("CO2e") annually), and is designed to reduce the emissions intensity of greenhouse gases at applicable facilities. 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 CO2e; 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 large emitter facilities which are subject to the Regulation: the Strachan, Rimbey, Brazeau River and Nevis gas plants. The cost of compliance paid in 2010 was approximately $1.3 million, including $0.1 million of earned emission performance credits**.** In 2010 the Regulation was amended, lowering the reporting levels to 50,000 tonnes of CO2e. Keyera will therefore have five additional facilities that it will report 2010 emissions for: the Gilby, Chinchaga, West Pembina, Minnehik Buck Lake and Simonette gas plants.

In 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.

In 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 2010 was $0.8 million. Additionally, progress continues towards implementing a Cap & Trade system through the Western Climate initiative with reporting from 2006 to 2010 required in 2011.

The current Government of Canada is committed to reducing total greenhouse gas emissions by 17% from 2005 levels by 2020 and to working with the United States on respective climate and energy policies. In 2008, Canada and other G8 countries adopted a long-term global goal of reducing greenhouse gas emissions by at least 50% by 2050. Canada continues to play a role in United Nations negotiations on climate change and will work towards implementing the Copenhagen Accord and to complete the negotiations post-Cancun under the United Nations Framework Convention on Climate Change for a comprehensive, legally binding post-2012 agreement.

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; and identifying and evaluating business opportunities associated with carbon capture and storage/emission trading.

Keyera participated in the 2010, 2009 and 2008 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 .

Overall, the outcome and impact of climate change and other environmental regulations remain uncertain. Keyera remains conscious that there is a risk that future international, national, provincial or municipal 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 have a material adverse affect on Keyera's business.

For a more detailed discussion of environmental regulations that affect Keyera and the risks associated therewith, refer to Keyera's Annual Information Form which is available at www.sedar.com.

SELECTED FINANCIAL INFORMATION

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

(Thousands of Canadian dollars, except per unit information)	**2010**	2009	2008
Operating revenues			
- Gathering and Processing	**265,330**	243,077	221,683
- NGL Infrastructure	**48,083**	48,944	44,234
- Marketing	**1,628,027**	1,253,026	1,909,356
- Other	**1,028**	-	-
Contribution			
- Gathering and Processing	**119,054**	124,430	109,621
- NGL Infrastructure	**63,210**	58,904	49,937
- Marketing	**79,202**	83,470	102,361
- Other	**2,837**	-	-
Net earnings	**125,046**	150,324	165,485
Net earnings per unit ($/unit):			
- Basic	**1.84**	2.36	2.68
- Diluted	**1.81**	2.29	2.62
Distributions to unitholders	**122,857**	144,010	105,501
Distributions to unitholders per unit (basic)	**1.80**	2.26	1.71
Trust units outstanding (thousands)			
- Weighted average (basic)	**68,108**	63,674	61,694
- Weighted average (diluted)	**71,139**	68,255	63,549
Total assets	**1,972,004**	1,657,901	1,693,278
Total long-term financial liabilities	**687,525**	545,098	503,674

Results from all three business segments continued to perform well in 2010 despite completing three major plant turnarounds in the second quarter. Incremental contribution from the Rimbey ethane facility that started operations in August 2009 combined with continued producer activity in the areas around the Rimbey, Strachan and Gilby facilities have contributed to steady earnings from the Gathering and Processing business. Demand for storage and fractionation services were strong in 2009 and continued to be strong in 2010. Contribution from the Marketing segment was solid in both 2010 and 2009 largely due to strong margins for propane during the winter heating season as well as steady margins for butane for the past two years. Contribution from the Marketing segment in 2008 was exceptionally high as a result of strong margins for all products and an effective risk management program. For a discussion of the factors affecting variations over the 2010 and 2009 periods, refer to the section titled, Segmented Results of Operations.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009
Operating revenues:								
Gathering and Processing	**67,298**	65,233	69,197	63,602	62,498	61,813	60,266	58,500
NGL Infrastructure	**12,565**	11,467	12,337	11,714	12,556	12,178	13,085	11,125
Marketing	**436,022**	338,156	377,530	476,319	381,199	271,008	290,018	310,801
Other	**(1,041)**	2,069	—	—	—	—	—	—
Contribution:								
Gathering and Processing	**26,948**	35,511	25,183	31,412	28,154	35,291	31,693	29,292
NGL Infrastructure	**18,067**	14,718	14,696	15,729	15,397	14,849	15,004	13,654
Marketing	**29,619**	12,726	16,144	20,713	26,456	14,390	8,436	34,188
Other	**834**	2,004	—	—	—	—	—	—
Net earnings[1]	**27,083**	32,085	29,137	36,741	39,205	35,702	21,057	54,360
Net earnings per unit ($/unit)								
Basic	**0.39**	0.47	0.43	0.55	0.60	0.56	0.33	0.86
Diluted	**0.39**	0.46	0.42	0.54	0.59	0.54	0.33	0.83
Weighted average units (basic)	**69,355**	68,613	67,894	66,532	64,825	63,788	63,127	62,934
Weighted average units (diluted)	**71,539**	71,349	71,131	70,524	69,303	68,281	67,643	67,514
Distributions to unitholders	**31,251**	30,918	30,650	30,038	58,477	28,765	28,438	28,330

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.

Results from operations for all three business segments have remained strong over the past eight quarters. The Gathering and Processing segment has continued to grow as a result of acquisitions completed in 2008 and 2010. Contribution from the Gathering and Processing business was lower in the second quarter of 2010 due to the completion of three scheduled major plant turnarounds in the quarter. Contribution from the Gathering and Processing segment was also lower in the fourth quarter of 2010 due to the completion of repair and maintenance work at several of the Keyera facilities as well as recording a $1.3 million expense relating to the calculation of green house gas emmisions. Strong demand for storage and fractionation services has contributed to steady earnings from the NGL Infrastructure segment. Contribution from the Marketing segment is typically lower in the second and third quarters as the demand for propane softens due to warmer weather. An earlier start to the winter heating season resulted in high demand and strong contribution from Keyera's propane business in the fourth quarter of 2009. The demand for propane continued into the early part of 2010. A typical winter heating season and high average prices resulted in strong propane margins in the fourth quarter of 2010. Butane margins have remained steady in 2009 and 2010 as a result of an effective term sale strategy.

CHANGES IN ACCOUNTING STANDARDS

Current Year Accounting Changes

Business Combinations

In the fourth quarter of 2010, Keyera early adopted CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. This new standard requires assets and liabilities acquired in a business combination and any contingent consideration to be measured at their fair values as of the date of acquisition and subsequently re-measured at fair value with changes recorded through earnings each period until settled. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are expensed to the income statement. Any negative goodwill is required to be recognized immediately in earnings. Section 1582, Business Combinations, is now converged with International Financial Reporting Standards. This standard has been prospectively applied to record Keyera's business combination relating to the Simonette area midstream assets acquisition. Refer to note 5 of the audited consolidated financial statements for further details regarding the Simonette business acquisition.

Concurrent with the adoption of CICA Handbook Section 1582, the Fund has adopted CICA Handbook Sections 1601 and 1602 as described below, which together replace CICA Handbook Section 1600, Consolidated Financial Statements.

CICA Handbook Section 1601, Consolidated Financial Statements, establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard did not have any impact on the Fund's Consolidated Financial Statements.

CICA Handbook Section 1602, Non-Controlling Interests, establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard did not have any impact on the Fund's Consolidated Financial Statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards.

Future Changes in Accounting Policies

Transition to International Financial Reporting Standards ("IFRS")

Canadian publicly accountable enterprises must transition to IFRS for fiscal years beginning on or after January 1, 2011. As a result, Keyera will publish its first consolidated financial statements, prepared in accordance with IFRS, for the quarter ending March 31, 2011. Upon adoption, the fiscal 2010 comparative financial information will also be prepared in accordance with IFRS.

Keyera commenced its IFRS conversion project in early 2008, and established a formal project governance structure to monitor the transition. Keyera is currently completing the final steps in the implementation phase of the project.

The transition requirements to IFRS are set out in IFRS 1, "First Time Adoption of International Financial Reporting Standards", which generally requires that changes from Canadian GAAP be applied retrospectively and reflected in the opening January 1, 2011 comparative IFRS consolidated balance sheet.

IFRS 1 provides entities with a number of optional exemptions and mandatory exemptions to mitigate the full retrospective application of IFRS. The most significant of these exemptions are currently expected to be as follows:

- Keyera will elect to not restate past business combinations occurring prior to January 1, 2010.

- Keyera will elect to not capitalize borrowing costs on qualifying assets where active development commenced prior to January 1, 2010.

- Keyera will elect to not adopt the full retrospective application of measuring decommissioning liabilities. This exemption allows Keyera to measure decommissioning liabilities at the date of transition and assumes the same liability existed when the asset was first acquired or constructed.

Summary of key accounting policy differences

The areas of accounting differences with the highest impact on Keyera are property, plant and equipment ("PP&E"), impairment testing, asset retirement obligations ("ARO") and income taxes. The impacts of adopting IFRS are reflected through opening balance sheet transitional entries, the majority of which are expected to be offset to retained earnings. The following discussion provides an overview of the key differences between existing Canadian GAAP and IFRS that will affect Keyera's financial reporting, as well as some of the exemptions available under IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1").

Property, plant and equipment

- Under Canadian GAAP major overhauls and inspection costs are expensed as incurred. All turnaround costs associated with Keyera's Gathering and Processing facilities are currently expensed in the period they are incurred.

- IFRS specifically requires that major overhauls and inspections be capitalized as a separate component of PP&E and depreciated over the period to the next major inspection or overhaul.

  IFRS 1 does not have an election to adopt this policy prospectively; therefore the accounting policy will be implemented retrospectively.

Expected Impact

- Under IFRS, Keyera will capitalize and depreciate turnaround costs associated with its Gathering and Processing facilities. This will likely result in lower operating expenses for the Gathering and Processing segment and increase depreciation expense. The calculation of Distributable Cash Flow will not be affected.

  Upon transition to IFRS, a portion of previously expensed turnaround costs will be capitalized to PP&E and will increase opening retained earnings. Keyera has identified approximately $13 million in previously expensed turnaround costs that will be capitalized on January 1, 2010. The capitalized costs will be depreciated over the period to the next scheduled plant shutdown.

Asset Retirement Obligations (Decommissioning Liability under IFRS)

- Under Canadian GAAP, asset retirement obligations ("ARO") are accounted for by recognizing a liability calculated by estimating the future cash outflows and discounting them using a credit adjusted risk free rate. Changes in the net present value of the future retirement obligation are included as accretion expense.

- Under IFRS, ARO are included as part of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and are referred to as decommissioning liabilities. Decommissioning liabilities are calculated using risk-adjusted future cash flows discounted using the risk free rate at each reporting period. Changes in the net present value of the future retirement obligation are expensed and included in finance expenses.

  IFRS 1 has an election to simplify the adoption of this policy retrospectively. Keyera has chosen this election.

Expected Impact

- Keyera anticipates that discounting the decommissioning liability using a risk free rate rather than a credit adjusted rate will result in an increase in the value of the liability. It has been determined that the decommissioning liability will increase by approximately $64 million and PP&E will increase by approximately $48 million on January 1, 2010. The difference will be charged to opening retained earnings. The increase in the carrying value of PP&E is subject to the impairment test on transition to IFRS (discussed below).

Impairment testing

- Under Canadian GAAP, the impairment test for goodwill and PP&E generally involves using a two-step test. Step one compares the asset's carrying value with undiscounted future cash flows to determine whether an impairment exists. If an impairment does exist, step two requires the impairment amount to be determined by comparing the asset's carrying value with the discounted future cash flows. Impairment charges cannot be reversed under Canadian GAAP.

- Under IFRS, the impairment test is a one step process in which the carrying value of a cash generating unit ("CGU") is compared to its recoverable amount. The recoverable amount is the greater of i) fair value less cost to sell and ii) value in use. Value in use is calculated by discounting future cash flows. If an impairment exists, it is first charged to reduce any goodwill allocated to a CGU and then to the assets within the CGU. Impairment charges related to PP&E may be reversed if circumstances change. Impairments related to goodwill cannot be reversed.

  IFRS 1 does not have an election to adopt this policy prospectively; therefore the accounting policy will be implemented retrospectively.

Expected Impact

- Impairment tests are required to be performed on initial transition to IFRS. Keyera anticipates that moving to a one step test that involves the comparison of the carrying value of a CGU to its discounted cash flows may result in more frequent impairment charges. As a result of a more rigorous test and due to increasing the carrying value of PP&E to reflect a higher decommissioning cost, Keyera expects that certain CGUs within the Gathering and Processing and NGL Infrastructure operating segments will be impaired at the transition date. Keyera has determined that the impairment charge on January 1, 2010 will be approximately $100 million for PP&E and approximately $26 million for goodwill with the offset recorded to opening retained earnings.

Convertible debentures

In 2008, Keyera issued convertible debentures that are convertible into trust units of the Fund at the option of the holders. Under an income trust structure, units of the Fund are redeemable by Unitholders.

- Under Canadian GAAP, the liability and equity components of convertible debentures are separated. The liability is accreted up to face value through the income statement as interest expense over the term of the debt.

- Under IFRS, Keyera's trust units are puttable instruments as they are redeemable by Unitholders. As such, the entire instrument is considered to be a liability and the conversion option must be separately accounted for as a derivative liability. The conversion option is marked to market each quarter with changes in fair value flowing through the income statement.

Expected Impact

- As at January 1, 2010, the fair value of the conversion option or derivative liability is expected to be significant, as Keyera's unit price was higher than the conversion price. Accordingly, on transition to IFRS, Keyera expects that the convertible debenture liability will increase with an offsetting adjustment to opening retained earnings. For the 2010 comparative financial statements, non-cash gains and losses will be recorded through the income statement to reflect changes in the fair value of the conversion option. As Keyera converted to a corporation on January 1, 2011, the conversion option or derivative liability will only be marked to market in the comparative 2010 financial statements. With the conversion to a corporation, the derivative liability will be reclassified to a shareholders' equity account (similar to contributed surplus) and no gain or loss will be recorded as a result of this conversion. Keyera has determined that approximately $21 million will be recorded to the derivative liability relating to the conversion option on transition to IFRS with the offset recorded to opening retained earnings.

Income Taxes

Keyera's future tax assets and liabilities will be affected by the difference in tax and accounting basis resulting from the IFRS changes discussed above.

- Under Canadian GAAP, future (deferred) income tax is calculated based on a corporate average rate.

- Under IFRS, as distributions to unitholders under an income trust structure are deductible for tax purposes, the rate used in the deferred income tax calculation is based on the undistributed rate. This rate is approximately 14% higher than the corporate rate.

Expected Impact

- As at January 1, 2010, the deferred income tax liability will increase due to the higher income tax rate. As Keyera converted to a corporation on January 1, 2011, the initial charge will reverse and be recovered through income in 2011. Keyera has determined that the deferred income tax liability will increase by approximately $18 million on January 1, 2010 with the offset recorded to opening retained earnings.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of December 31, 2010, Keyera's disclosure controls and procedures have provided reasonable assurance that material information relating to the Fund and its consolidated subsidiaries has been brought to their attention and that information required to be disclosed pursuant to applicable securities legislation has been recorded, processed, summarized and reported in an appropriate and timely manner.

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer are satisfied that Keyera's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made in Keyera's internal controls over financial reporting for the period beginning October 1, 2010 and ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, Keyera's internal controls over financial reporting.

UNITS AND CONVERTIBLE DEBENTURES

During 2010, $1.2 million of the 2004 convertible debentures and $47.2 million of the 2008 convertible debentures (before adjustment for deferred financing costs) were converted into 2,575,188 trust units. There were an additional 1,502,492 trust units issued under the Premium DRIP™ and DRIP in consideration of $38.7 million, bringing the total units outstanding at December 31, 2010 to 69,891,237. At December 31, 2010, $2.7 million of the 2004 and $29.4 million of the 2008 convertible debentures were outstanding.

Subsequent to December 31, 2010, a further $0.2 million of the 2004 convertible debentures were converted into 18,635 trust units and $0.8 million of the 2008 convertible debentures were converted into 40,255 trust units. In addition, 98,169 trust units were issued to unitholders enrolled in the Premium DRIP™ and DRIP in consideration of $3.4 million, bringing the total units outstanding at February 16, 2011 to 70,048,296. As at February 16, 2011, $2.5 million of the 2004 and $28.6 million of the 2008 convertible debentures were outstanding.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with Canadian GAAP. Measures such as contribution (operating revenues minus operating expenses without elimination of inter-segment sales and costs) and distributable cash flow (cash flow from operating activities adjusted for changes in non-cash working capital, long-term incentive plan costs, inventory write-down and maintenance capital expenditures) 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 Keyera's results of operations, leverage, liquidity and financial position. Contribution is used to assess the performance of specific segments. 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. 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 Keyera'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 Keyera'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.

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; access to capital and debt markets; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities and actions taken by counterparties to agreements; 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; availability of construction crews and materials; 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 17, 2011, all of which are available on Sedar at www.sedar.com and the Keyera website at www.keyera.com.

Proposed construction and completion schedules and budgets for capital projects are subject to many variables, including weather; availability and prices of materials; labour; customer project approvals and expected in service dates; regulatory approvals; and macro socio-economic trends. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions in this MD&A.

The discussion of Keyera's IFRS changeover plan and the potential impacts on its financial reporting are based on management's assumptions and expectations with respect to international standards, accounting policies, regulations and economic conditions. In addition, the changeover to IFRS will impact internal controls over financial reporting, disclosure controls and procedures, and IT systems and processes. As international standards and accounting policies are continuing to evolve, the expected impacts and associated accounting policy choices associated with the changeover to IFRS may differ from those described in this MD&A.

Any statements relating to "reserves" are deemed to be forward looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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*.

Investor Information

DIVIDENDS TO SHAREHOLDERS

Distributions to unitholders were $1.80 per unit in 2010. With its conversion from an income trust to a corporation on January 1, 2011, Keyera will now pay dividends monthly to its shareholders. Effective with the March 2011 dividend payable to shareholders on April 15, Keyera will increase its dividend from $0.15 per share per month to $0.16 per share per month, or $1.92 per share annually. Since going public in 2003, Keyera has increased dividends eight times, representing a 76% increase. Keyera is focused on stable long-term dividends that grow over time.

TAXABILITY OF DISTRIBUTIONS

For income tax purposes, distributions paid and declared to Canadian residents in 2010 were 100% ordinary income. In 2011, Keyera expects its dividends will qualify for the enhanced dividend tax credit for Canadian shareholders.

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 under "Investor Information, Financial Information".

YEAR END 2010 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss its 2010 results at 8:00 am mountain time (10:00 am eastern) on Friday, February 18, 2011. Callers may participate by dialing either 888-231-8191 or 647-427-7450. A recording of the call will be available for replay until midnight, February 25, 2011 by dialing 1-800-642-1687 or 1-416-849-0833 and entering pass code 39425802.

Internet users can listen to the call live on Keyera's website at 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. Information on Keyera can also be found on our website at www.keyera.com.

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

	2010	2009
	$	$
ASSETS		
Current assets		
Cash	**14,977**	—
Accounts receivable *(note 17)*	**260,864**	222,280
Derivative financial instruments *(note 17)*	**19,228**	20,448
Inventory *(note 4)*	**125,404**	78,181
Other current assets	**5,050**	5,558
	425,523	326,467
Derivative financial instruments *(note 17)*	**2,752**	101
Property, plant and equipment *(note 6)*	**1,467,534**	1,253,517
Intangible assets *(note 7)*	**1,943**	2,609
Goodwill *(note 8)*	**74,252**	71,234
Future income tax assets *(note 12)*	—	3,973
	1,972,004	1,657,901
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	—	777
Accounts payable and accrued liabilities	**245,958**	205,464
Distributions payable *(note 15)*	**10,484**	9,872
Derivative financial instruments *(note 17)*	**29,299**	15,751
Credit facilities *(note 9)*	**211,000**	130,000
Current portion of long-term debt *(note 9)*	—	52,500
Current portion of convertible debentures *(note 10)*	**2,696**	—
	499,437	414,364
Derivative financial instruments *(note 17)*	**22,849**	9,170
Long-term debt *(note 9)*	**404,410**	258,209
Convertible debentures *(note 10)*	**27,903**	75,293
Long-term incentive plan *(note 16)*	**5,880**	4,902
Asset retirement obligation *(note 11)*	**76,723**	51,207
Future income tax liabilities *(note 12)*	**149,760**	146,317
	1,186,962	959,462
Unitholders' equity		
Unitholders' capital *(note 13)*	**846,252**	760,604
Equity portion of convertible debentures *(note 10)*	**1,751**	2,985
Deficit	**(62,961)**	(65,150)
	785,042	698,439
	1,972,004	1,657,901

See accompanying notes to the consolidated financial statements.
Commitments and Contingencies (note19)
Approved on behalf of the Fund by its administrator, Keyera Energy Management Ltd.:

(Signed) H. Neil Nichols
Director

(Signed) Jim V. Bertram
Director

Keyera Facilities Income Fund
Consolidated Statements of Net Earnings, Comprehensive Income and Deficit
For the Years Ended December 31,
(Thousands of Canadian dollars, except unit information)

	2010	2009
	$	$
Operating revenues		
Marketing	**1,628,027**	1,253,026
Gathering and Processing	**265,330**	243,077
NGL Infrastructure	**48,083**	48,944
Other	**1,028**	—
	1,942,468	1,545,047
Operating expenses		
Marketing	**1,486,213**	1,115,530
Gathering and Processing	**156,700**	127,204
NGL Infrastructure	**30,037**	31,406
Other	**405**	—
	1,673,355	1,274,140
	269,113	270,907
General and administrative	**40,733**	36,722
Interest expense on long-term debt	**32,802**	30,496
Other interest expense	**3,329**	2,801
Depreciation and amortization	**44,955**	42,070
Accretion expense *(note 11)*	**5,019**	3,362
Foreign currency loss (gain) on U.S. debt *(note 17)*	**5,730**	(742)
Impairment expense *(note 6)*	**3,617**	2,778
Loss on disposal of capital assets	**—**	4,632
	136,185	122,119
Earnings before income tax	**132,928**	148,788
Income tax expense (recovery) *(note 12)*	**7,882**	(1,536)
Net earnings	**125,046**	150,324
Other comprehensive income	**—**	—
Comprehensive income	**125,046**	150,324
Deficit, beginning of year	**(65,150)**	(71,464)
Distributions to unitholders *(note 15)*	**(122,857)**	(144,010)
Deficit, end of year	**(62,961)**	(65,150)
Weighted average number of units (in thousands) *(note 14)*		
- basic	**68,108**	63,674
- diluted	**71,139**	68,255
Net earnings per unit		
- basic	**1.84**	2.36
- diluted	**1.81**	2.29

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)

Net inflow (outflow) of cash:	**2010** **$**	2009 $
Operating activities		
Net earnings	**125,046**	150,324
Items not affecting cash:		
Depreciation and amortization	**44,955**	42,070
Accretion expense	**5,019**	3,362
Accretion of financing costs and debt discount related to convertible debentures and long-term debt	**1,295**	1,684
Impairment expense *(note 6)*	**3,617**	2,778
Inventory write-down *(note 4)*	**7,900**	—
Loss on disposal of assets	**—**	4,632
Unrealized loss on financial instruments *(note 17)*	**25,797**	61,468
Unrealized gain on foreign exchange	**(2,984)**	(2,248)
Long-term incentive plan expense *(note 16)*	**18,225**	12,687
Future income tax expense (recovery) *(note 12)*	**8,157**	(540)
Asset retirement obligation expenditures *(note 11)*	**(878)**	(2,271)
Changes in non-cash working capital *(note 20)*	**(82,415)**	39,238
	153,734	313,184
Investing activities		
Business combination *(note 5)*	**(123,708)**	—
Capital expenditures	**(120,881)**	(100,056)
Proceeds on sale of assets	**—**	3,777
Changes in non-cash working capital *(note 20)*	**8,391**	(10,181)
	(236,198)	(106,460)
Financing activities		
Increase (decrease) of credit facilities *(note 9)*	**81,000**	(119,000)
Repayment of long-term debt *(note 9)*	**(52,500)**	(90,000)
Issuance of long-term debt *(note 9)*	**154,099**	94,700
Financing costs related to long-term debt *(note 9)*	**(850)**	(527)
Issuance of trust units *(note 13)*	**38,714**	36,186
Distributions paid to unitholders *(note 15)*	**(122,245)**	(128,973)
	98,218	(207,614)
Net cash inflow (outflow)	**15,754**	(890)
(Bank indebtedness) cash, beginning of year	**(777)**	113
Cash (bank indebtedness), end of year	**14,977**	(777)

See accompanying notes to the consolidated financial statements.
See note 20 for cash interest and taxes paid.

Keyera Facilities Income Fund
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)

1. Structure of the Fund

As of December 31, 2010, Keyera Facilities Income Fund (the "Fund") was an unincorporated open-ended trust established under the laws of the Province of Alberta pursuant to an Amended and Restated Declaration of Trust. The Fund held, directly or indirectly, 100% interest in a number of operating subsidiaries. The primary operating subsidiary of the Fund was Keyera Energy Limited Partnership (the "Partnership"). Other operating subsidiaries included, but were not limited to: Keyera Corp., Keyera Energy Facilities Limited ("KEFL"), Keyera Energy Inc. ("KEI"), Rimbey Pipeline Limited Partnership ("RPLP"), Alberta Diluent Terminal Limited Partnership ("ADTLP"), Keyera Partnership ("KP"), Keyera Energy Management Ltd., Alberta Diluent Terminal Ltd., Keyera RP Ltd. ("KRPL") and Keyera Facilities Ltd. ("KFL"). The Fund and is subsidiaries are collectively referred to herein as "Keyera".

As disclosed in subsequent event note 22, effective January 1, 2011, the Fund completed its conversion from an income trust to a corporation pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta). As a result of this conversion: (i) units of the Fund ("Units") were converted to common shares of Keyera Corp. ("Shares") on a one-for-one basis; (ii) Keyera Corp. assumed all of the business, assets, liabilities and obligations of the Fund, including the obligations under the Convertible Debentures; (iii) Keyera Partnership assumed all of the assets, liabilities, obligations of the Partnership and KEFL; (iv) KEFL and KEML were amalgamated into Keyera Corp.; (v) Alberta Diluent Terminal Ltd. assumed all of the assets, liabilities, obligations of ADTLP; and (vi) the Fund, the Partnership and ADTLP were wound up.

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 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 and assumptions include:

- 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. 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, processed or stored. 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 13 to 31 years for Gathering and Processing, 10 to 31 years for NGL Infrastructure, 14 years for Marketing and 1 to 19 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. If the carrying amount exceeds the undiscounted future cash flows for the asset or asset group, a second step is performed to determine the extent of the impairment. 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. If the carrying amount of the asset is more than the calculated fair value, an impairment charge is recorded.

Intangible assets
Goodwill
Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is allocated to the reporting unit that is expected to benefit from the synergies of the business combination. Goodwill and other intangible assets with an indefinite useful life are not amortized but are subject to impairment review at least annually.

The impairment test for goodwill is based on a comparison of the carrying amount of the operating segment, including allocated goodwill, with its fair value. When the carrying amount of an operating segment exceeds its fair value a second test is performed to determine the amount of the impairment. Any impairment of goodwill is measured by comparing the carrying value of goodwill with its implied fair value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of its net assets. If the carrying amount of the goodwill exceeds the implied fair value calculated, an impairment charge is recorded.

Other intangible assets
Other intangible assets consist of the marketing business contributed by the partners upon formation of the Partnership and the 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 and 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 observable market data, including commodity price curves, foreign currency curves and credit spreads. 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 and receivables
Loans and 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 are 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, interest rate swaps and cross currency 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 16. 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.

Employee future benefits

The Fund’s employee future benefit program consists of a defined contribution pension plan. Contributions to the defined contribution pension plan are expensed as incurred.

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. In December 2009, the Fund paid a special distribution ($0.45 per unit), $14,598 ($0.225 per unit) in cash and $14,598 ($0.225 per unit) in securities of the Fund.

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

3. New accounting policies and disclosures

Current year accounting changes

In the fourth quarter of 2010, the Fund early adopted CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. This new standard requires assets and liabilities acquired in a business combination and any contingent consideration to be measured at their fair values as of the date of acquisition and subsequently re-measured at fair value with changes recorded through earnings each period until settled. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are expensed to the statement of net earnings. Any negative goodwill is required to be recognized immediately in earnings. This standard has been prospectively applied to record Keyera's business combination relating to the Simonette area midstream assets acquisition as described in note 5 of these financial statements.

Concurrent with the adoption of CICA Handbook Section 1582, the Fund has adopted CICA Handbook Sections 1601 and 1602 as described below, which together replace CICA Handbook Section 1600, Consolidated Financial Statements.

CICA Handbook Section 1601, Consolidated Financial Statements, establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard did not have any impact on the Fund's Consolidated Financial Statements.

CICA Handbook Section 1602, Non-Controlling Interests, establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard did not have any impact on the Fund's Consolidated Financial Statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards.

Future accounting changes

Transition to International Financial Reporting Standards ("IFRS")
Canadian publicly accountable enterprises must transition to IFRS for fiscal years beginning on or after January 1, 2011. As a result, Keyera will adopt IFRS commencing January 1, 2011 and will publish its first consolidated financial statements, prepared in accordance with IFRS, for the quarter ending March 31, 2011. Upon adoption, the fiscal 2010 comparative financial information will also be prepared in accordance with IFRS.

4. Inventory

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

As at December 31,	**2010** **$**	2009 $
NGLs	**124,999**	77,371
Natural gas	—	66
Other	**405**	744
Total inventory	**125,404**	78,181

For the period ended December 31, 2010, $181 of inventory was carried at cost and $125,223 was carried at net realizable value which included a $7,900 charge to write-down the cost of NGL inventory to net realizable value. The write-down amount has not been reversed in 2010. The cost of inventory expensed for the year ended December 31, 2010 was $1,456,168 (2009 - $1,085,686).

5. Business combination

On October 29, 2010, the Fund acquired a 37.5% ownership interest in the Simonette gas plant as well as interests in a compression facility, the North Cabin, Solomon and Cabin Creek gathering pipelines that deliver gas to the plant for processing. On December 14, 2010, the Fund acquired the remaining ownership interest of 62.5% in the Simonette gas plant, bringing its interest all in these midstream assets to 100%. Total consideration paid was approximately $123,708.

The acquisition was settled in cash, as drawn from the Fund's existing bank credit facilities. The transaction was recognized as a business combination in accordance with CICA Handbook Section 1582. This transaction was accounted for using the acquisition method of accounting. The allocation of the total consideration to the net assets acquired is summarized below:

Net Assets Acquired [1]	**$**
Property, plant and equipment	125,405
Goodwill	3,019
Future income tax asset	1,006
Asset retirement obligation	(5,722)
Total net assets acquired	123,708

Consideration	**$**
Cash	123,708
Total consideration paid	123,708

Notes:
[1] The above amounts are estimates, which were made by management based on information available at the time of preparation of these financial statements. Amendments may be made to these amounts as values subject to estimate are finalized.

Keyera incurred $nil of acquisition and transaction costs for this business combination. The goodwill recognized is primarily attributed to the expected future cash flows to be derived from the plant's underutilized sweet and sour processing capacity and its capability of extracting natural gas liquids from the liquids rich reserves found in the geologically attractive capture area near the plant.

It is impracticable for the Fund to determine the amounts of revenue and profit or loss of the Simonette area midstream assets in order to disclose proforma information as though the acquisition had occurred as of January 1, 2010 due to the fact that the data was not collected during this period in a manner that would be representative of the economic model of the Fund.

6. Property, plant and equipment

As at December 31, 2010	**Cost** $	**Accumulated Depreciation** $	**Net Book Value** $
Gathering and Processing	1,372,546	(258,786)	1,113,760
NGL Infrastructure	388,096	(69,167)	318,929
Marketing	17,946	(2,595)	15,351
Corporate and other	32,076	(12,582)	19,494
Total	**1,810,664**	**(343,130)**	**1,467,534**

As at December 31, 2009	Cost $	Accumulated Depreciation $	Net Book Value $
Gathering and Processing	1,160,874	(227,648)	933,226
NGL Infrastructure	367,995	(60,155)	307,840
Marketing	13,063	(1,788)	11,275
Corporate and other	10,426	(9,250)	1,176
Total	**1,552,358**	**(298,841)**	**1,253,517**

Costs associated with assets under development, excluded from costs subject to depreciation, totaled $50,792 as at December 31, 2010 (2009 – $44,012).

An impairment expense of $3,617 was recorded for the year ended December 31, 2010 of which $2,177 related to the write down of the Judy Creek pipeline, $1,035 related to the Nisku pipeline, and $405 related to the Greenstreet gas plant.

7. Intangible assets

As at December 31, 2010	**Cost** $	**Accumulated Amortization** $	**Net Book Value** $
Marketing (a)	19,290	(17,347)	1,943
Total	**19,290**	**(17,347)**	**1,943**

As at December 31, 2009	Cost $	Accumulated Amortization $	Net Book Value $
Marketing (a)	19,290	(16,681)	2,609
Total	**19,290**	**(16,681)**	**2,609**

(a) 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 term of the contracts of three years. Amortization expense for the year ended December 31, 2010 was $666 (2009 – $1,483).

8. Goodwill

As at December 31, 2010	**Cost $**	**Accumulated Amortization $**	**Net Book Value $**
Gathering and Processing (a)	42,237	—	42,237
NGL Infrastructure (a)	32,015	—	32,015
Total	**74,252**	—	**74,252**

As at December 31, 2009	Cost $	Accumulated Amortization $	Net Book Value $
Gathering and Processing (a)	39,219	—	39,219
NGL Infrastructure (a)	32,015	—	32,015
Total	**71,234**	—	**71,234**

(a) Goodwill relates to the acquisition of the shares of EnerPro Midstream Company in 2004 and Simonette in 2010 and is attributable to the Gathering and Processing and NGL Infrastructure segments.

9. Credit facilities and long-term debt

As at December 31	**Notes**	2010 $	2009 $
Bank credit facilities	(a)	211,000	130,000
Private shelf agreement	(b)	—	—
Canadian dollar denominated debt			
5.79% due August 26, 2010	(c)	—	52,500
6.16% due August 26, 2013	(c)	**52,500**	52,500
4.66% due September 8, 2015	(e)	**30,000**	—
7.87% due May 1, 2016	(c)	**35,000**	35,000
5.89% due December 3, 2017	(c)	**60,000**	60,000
5.68% due September 8, 2020	(e)	**2,000**	—
6.14% due December 3, 2022	(c)	**60,000**	60,000
		239,500	260,000
US dollar denominated debt			
8.40% due May 1, 2016 (US$50,000)	(d)	**49,730**	52,330
3.91% due September 8, 2015 (US$15,000)	(e)	**14,918**	—
5.14% due September 8, 2020 (US$103,000)	(e)	**102,444**	—
		406,592	312,330
Less: Financing costs		**(2,182)**	(1,621)
		404,410	310,709
Less: Current portion of long-term debt		—	(52,500)
Long-term debt		**404,410**	258,209

(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 (see note 22 – Subsequent events). In addition, the Toronto Dominion Bank has provided a $15,000 revolving demand facility and the Royal Bank of Canada has provided a further demand facility that is equal to the amount of outstanding letters of credit. As at December 31, 2010, outstanding letters of credit were $3,962 (2009 - $3,962). 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. Interest expense for the year ended December 31, 2010 included a fixed commitment fee resulting in a weighted average interest rate of 2.36% (2009 – 2.35%). As at December 31, 2010, the balance outstanding on the bank credit facilities was $211,000 (2009 – $130,000).

(b) On December 13, 2010, the Fund entered into an uncommitted private shelf agreement with Prudential Capital Group which allows for the issuance of up to US$125,000 of notes. When drawn, the notes will have an interest rate equal to the related U.S. treasuries corresponding to the term of the notes plus an appropriate credit risk adjustment at the time of issuance. As of December 31, 2010, the balance outstanding on this private shelf facility was nil (2009 – n/a). See note 22 – Subsequent events for additional information on this facility.

(c) In 2003, $125,000 of unsecured senior notes were issued by the Partnership and KEFL in three parts: $20,000 due and repaid in 2008 bearing interest at 5.42%, $52,500 due and repaid 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 method over the remaining terms of the related debt. The effective interest rates for the year ended December 31, 2010 was 6.25% for the notes due in 2013 (2009 – 6.25%).

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 method over the remaining terms of the related debt. The effective interest rates for the year ended December 31, 2010 were 5.98% and 6.20% for the notes due in 2017 and 2022 respectively (2009 – 5.98% and 6.20%).

In 2009, $35,000 of unsecured senior notes were issued by KEFL and guaranteed by the Partnership and the Fund. The notes bear interest at 7.87% and mature in 2016. Interest is payable semi-annually. Financing costs of $186 have been deferred and are amortized using the effective interest method over the remaining term of the debt. The effective interest rate for the year ended December 31, 2010 was 7.94% (2009 – 7.94%).

(d) In 2009, US$50,000 of unsecured senior notes were issued by KEFL and guaranteed by the Partnership and the Fund. The notes bear interest at 8.40% and mature in 2016. Interest is payable semi-annually. Concurrent with this transaction, KEFL entered into a cross currency agreement with a syndicate of Canadian banks to swap the U.S. dollar proceeds at a foreign exchange rate of 1.2425 and future interest payments into Canadian dollars. The resulting effective interest rate for the total principal amount is 8.17% (see note 17). Financing costs of $341 have been deferred and are amortized using the effective interest method over the remaining term of the debt. The effective interest rate for the year ended December 31, 2010 was 8.48% (2009 – 8.48%).

(e) On September 8, 2010 the Partnership issued $32,000 and US$118,000 of medium and long-term senior unsecured notes to a group of institutional investors in Canada and the U.S.

The notes were issued in the following four tranches:

- US$15,000 denominated in U.S. dollars bearing interest at 3.91% and maturing on September 8, 2015;
- $30,000 denominated in Canadian dollars bearing interest at 4.66% and maturing on September 8, 2015;
- US$103,000 denominated in U.S. dollars bearing interest at 5.14% and maturing on September 8, 2020; and
- $2,000 denominated in Canadian dollars bearing interest at 5.68% and maturing on September 8, 2020.

Concurrent with this transaction, the Partnership entered into an agreement with a syndicate of Canadian banks to swap the U.S. dollar proceeds and future interest payments into Canadian dollars at a foreign exchange rate of 1.0425. The resulting effective interest rate for the total principal amount is respectively 4.81%, and 6.03% for the US$15,000 and US$103,000 notes.

Financing costs of $850 have been deferred and are amortized using the effective interest method over the remaining terms of the debt. The effective interest rate for the year ended December 31, 2010 was respectively 4.00%, 4.75%, 5.19% and 5.73% for the US$15,000, $30,000, US$103,000 and $2,000 notes due in 2015 and 2020.

Supplemental Disclosure
The fair value of the Fund's Canadian and U.S. dollar denominated senior fixed rate debt at December 31, 2010 were $263,577 and $181,141 respectively (December 31, 2009 – $268,765 and $57,272) based on third party estimates.

10. Convertible debentures

	Debt Component 6.75% Series $	Debt Component 8.25% Series $	Total Debt Component $	Equity Component $
Balance, January 1, 2009	**5,831**	**73,203**	**79,034**	**3,092**
Converted to trust units	(1,888)	(3,198)	(5,086)	(107)
Accretion of financing costs	—	735	735	—
Accretion of debt discount	—	610	610	—
Balance, December 31, 2009	**3,943**	**71,350**	**75,293**	**2,985**
Converted to trust units	(1,247)	(44,453)	(45,700)	(1,234)
Accretion of financing costs	—	548	548	—
Accretion of debt discount	—	458	458	—
Balance, December 31, 2010	**2,696**	**27,903**	**30,599**	**1,751**
Less: Current portion of convertible debentures			**(2,696)**	—
Convertible Debentures			**27,903**	**1,751**

(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 $237 has been accrued for the year ended December 31, 2010 (2009 – $330). 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 $11.75 per unit.

Financing costs consisting of underwriters' commission of $4,000 and issuance costs of $332 were initially incurred and have been fully amortized or recognized as a charge to unitholders' equity as at December 31, 2008. The effective interest rate for the year ended December 31, 2010 was 6.75% (2009 – 6.75%).

(b) In December 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 $5,341 has been accrued for the year ended December 31, 2010 (2009 - $7,916). 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 $19.10 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 charge to unitholders' equity. When there are no conversions, convertible debentures are accreted to face value over the term of the debt using the effective interest rate method. For the year ended December 31, 2010, accretion of the convertible debentures was $458 (2009 - $610), a non-cash item included in interest expense.

Financing costs consisting of underwriters' commission of $3,200 and issuance costs of $505 have been deferred and are 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, 2010 was 10% (2009 – 10%) resulting from the inclusion of the accretion of financing costs and debt discount in interest expense.

Supplemental Disclosure
The fair value of the Fund's unsecured convertible debentures at December 31, 2010 was $62,400 (December 31, 2009 – $103,555) as determined by reference to quoted market prices for the Fund's debentures.

11. 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.

As at December 31,	**2010** **$**	2009 $
Asset retirement obligation, beginning of the period	**51,207**	52,070
Liabilities acquired	**15,728**	1,116
Liabilities disposed	**—**	(535)
Liabilities settled	**(878)**	(2,271)
Revisions in estimated cash flows	**5,647**	(2,535)
Accretion expense	**5,019**	3,362
Asset retirement obligation, end of the period	**76,723**	51,207

The total undiscounted amount of cash flows required to settle the asset retirement obligations is $490,920 (2009 - $365,630) which has been discounted using a credit-adjusted risk-free rate of 7% (2009 – 7%). The majority of these obligations are expected to be settled between 2013 and 2040. No assets have been legally restricted for settlement of the liability.

12. Income taxes

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.

	2010	2009
	$	$
Earnings before tax	**132,928**	148,788
Income from the Fund distributable to unitholders	**(123,539)**	(145,267)
Income before taxes – operating subsidiaries	**9,389**	3,521
Income tax at statutory rate of 28.0% (2009 – 29.0%)	**2,629**	1,021
Increase (decrease) in valuation allowance	**3,686**	(4,468)
Non deductible (taxable) items excluded from income for tax purposes	**(1,058)**	2,008
Rate adjustments and changes in estimates	**2,870**	182
Non-capital loss carry back	**—**	(1,264)
Adjustments to tax pool balances	**177**	1,110
Other	**(422)**	(125)
	7,882	(1,536)
Classified as:		
Current	**(275)**	(996)
Future	**8,157**	(540)
Income tax expense (recovery)	**7,882**	(1,536)

For income tax purposes, the Fund and its subsidiaries have non-capital losses carried forward of approximately $34,053 at December 31, 2010 (2009 - $22,069). These non-capital losses are available to offset income of specific entities of the consolidated group in future periods.

During the fourth quarter, it was determined that the future utilization of the losses residing in the Fund's U.S. subsidiary is unlikely, and as a result, a valuation allowance of $13,166 was recorded. Accordingly, only the benefit related to the remaining $20,887 of losses has been recorded as at December 31, 2010.

	2010	2009
	$	$
Property, plant and equipment	**(184,172)**	(167,333)
Asset retirement obligation	**19,257**	12,697
Long-term incentive plan	**4,926**	3,491
Intangible assets	**63**	(169)
Non-capital losses	**(2,941)**	3,330
Other	**13,107**	1,667
Future income tax liabilities	**(149,760)**	(146,317)
Property, plant and equipment	**—**	(466)
Asset retirement obligation	**—**	165
Non-capital losses	**—**	4,274
Future income tax assets	**—**	3,973

13. 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 implemented a Premium Distribution™ ("Premium DRIP™") and Distribution Reinvestment Plan ("DRIP"), collectively referred to as the Plan. The DRIP component allows eligible Unitholders of the Fund to direct their cash distributions to be reinvested in additional units issued from treasury at a 5% discount to the Average Market Price (as defined in the DRIP component of the Plan) on the applicable distribution payment date. The Premium DRIP™ component permits eligible Unitholders to elect to have these additional units delivered to the designated Plan Broker in exchange for a premium cash payment equal to 102% of the regular, declared cash distribution that is reinvested on their behalf under the Plan.

Beginning with the April 2010 distribution, the Fund suspended the Premium DRIP™ component of the Plan. The DRIP component remained in effect; however, the discount on the reinvestment units was reduced from 5% to 3% of the Average Market Price.

The following table presents the reconciliation between the beginning and ending trust units issued and unitholders' capital:

Trust units issued and unitholders' capital	**Number of Units**	**$**
Balance, January 1, 2009	**62,888,284**	**704,627**
Units issued as part of a special distribution	641,392	14,598
Units issued on conversion of convertible debentures	335,454	5,193
Units issued pursuant to distribution reinvestment plans	1,948,427	36,186
Balance, December 31, 2009	**65,813,557**	**760,604**
Units issued on conversion of convertible debentures	2,575,188	46,934
Units issued pursuant to distribution reinvestment plans	1,502,492	38,714
Balance, December 31, 2010	**69,891,237**	**846,252**

14. Net earnings per unit

Basic per unit calculations for the years ended December 31, 2010 and 2009 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 years ended December 31, 2010 and 2009.

	2010	2009
	$	$
Net earnings – basic	**125,046**	150,324
Effect of convertible debentures (net of tax)	**3,944**	5,872
Net earnings – diluted	**128,990**	156,196

(in thousands)		
Weighted average number of units – basic	**68,108**	63,674
Additional units if debentures converted	**3,031**	4,581
Weighted average number of units – diluted	**71,139**	68,255

15. Accumulated distributions to unitholders

The following table presents the reconciliation between the beginning and ending accumulated distributions to unitholders.

	$
Balance, January 1, 2009	**413,695**
Unitholders' distributions declared and paid	104,942
Unitholders' distributions declared	9,872
Unitholders' special distribution – non cash portion	14,598
Unitholders' special distribution – cash portion	14,598
Balance, December 31, 2009	**557,705**
Unitholders' distributions declared and paid	112,373
Unitholders' distributions declared	10,484
Balance, December 31, 2010	**680,562**

Pursuant to the Fund Declaration of Trust, the Fund makes monthly distributions to holders of record on a date, which may include the last day of each month, within the Distribution Period as may be determined from time to time by the Trustee. Payments are made on or about the 15^{th} 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. 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 are determined at the discretion of the Board of Directors. In determining its 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.

16. Compensation and pension plans

The Long Term Incentive Plan ("LTIP") 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 until the unit awards vest.

The LTIP consists of two types of unit awards, which are described below. Unit awards and the delivery of units under the LTIP are accounted for as liability awards in accordance with the intrinsic value method of accounting for stock-based compensation. The aggregate compensation cost recorded for the LTIP was $18,225 for the year ended December 31, 2010 (2009 – $12,687).

During the year ended December 31, 2010, 208,341 units (2009 – 183,320) at a cost of $5,588 (2009 - $3,118) were purchased on the market and delivered to the participants and 350,293 units (2009 – 129, 191) were settled in cash for $9,395 (2009 - $2,497).

Performance Unit Awards

All Performance Unit Awards issued and outstanding are settled on September 1st following the third anniversary. 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 distributions paid by the Fund to its unitholders during the term that the unit award is outstanding. 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 average annual pre-tax distributable cash flow per unit			
	July 1, 2008 Grant	**July 1, 2009 Grant**	**July 1, 2010 Grant**	**Payout Multiplier**
	Less than 2.50	Less than 2.75	Less than 2.65	Nil
First range	2.50 – 2.82	2.75 – 3.07	2.65 – 2.93	50% – 99%
Second range	2.83 – 3.49	3.08 – 3.74	2.94 – 3.50	100% – 199%
Third range	3.50 and greater	3.75 and greater	3.51 and greater	200%

As of December 31, 2010, 775,595 Performance Unit Awards (December 31, 2009 – 738,318) were outstanding: 254,673 effective July 1, 2008, 292,480 effective July 1, 2009, and 228,442 effective July 1, 2010. The compensation cost recorded for these units for the year ended December 31, 2010 was $15,481 (2009 - $10,082) using the Fund's closing price at December 31, 2010 of $35.15 per unit.

Time Vested Unit Awards ("Restricted Unit Awards")

Restricted Unit Awards are settled in three equal installments over a three-year period regardless of the performance of the Fund. The July 1, 2008, and July 1, 2009 grants are settled from the effective date of the award. Beginning with the July 1, 2010 grants, these Restricted Unit awards are settled on September 1st in three equal installments over a three-year period. The number of units to be delivered will be calculated by multiplying the number of unit awards 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, 2010, 132,559 Restricted Unit Awards (December 31, 2009 – 165,184) were outstanding: 33,882 effective July 1, 2008, 45,616 effective July 1, 2009, and 53,061 effective July 1, 2010. The compensation cost recorded for these units for the year ended December 31, 2010 was $2,744 (2009 - $2,605) using the Fund's closing price at December 31, 2010 of $35.15 per unit.

Defined contribution pension plan

For the year ended December 31, 2010, the Fund made pension contributions of $4,289 (2009 - $3,891) on behalf of its employees. The contributions were recorded in general and administrative expenses.

17. Financial instruments and risk management

Financial instruments include cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities, distributions payable, credit facilities, long-term debt, convertible debentures and derivatives held for trading (derivative instruments such as foreign exchange contracts, cross currency swaps, interest rate swaps, crude oil price contracts, natural gas price contracts, electricity price contracts and physical fixed price commodity contracts).

Derivative instruments, cash and bank indebtedness are classified as held for trading and are measured at fair value. Accounts receivable are classified as loans and 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.

(a) Fair value

Fair value represents the Fund's estimate of the price at which a financial instrument could be exchanged between knowledgeable and willing parties in an orderly arm's length transaction motivated by normal business considerations.

Fair value measurement of assets and liabilities recognized on the consolidated statement of financial position are categorized into levels within a fair value hierarchy based on the nature of valuation inputs.

The fair value hierarchy has the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

All of the Fund's derivative instruments are classified as Level 2 as their fair value is derived by using observable inputs, including commodity price curves, foreign currency curves and credit spreads. For fixed price forward contracts, fair value is derived from observable NGL market prices.

Financial instruments with fair value equal to carrying 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 carrying value of the credit facilities approximates fair value due to their floating rates of interest.

Fair value of senior fixed rate debt and convertible debentures

See Supplemental Disclosures in note 9 and 10 respectively for the fair value amounts of the senior fixed rate debt and convertible debentures.

(b) Market risk

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 with physical and financial contracts which include energy related forward contracts, price swaps and forward currency contracts. 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 to 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 in place 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 prices 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 occasions, subsidiaries of the Fund 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.

(c) 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. The Gathering and Processing and NGL Infrastructure segments are not subject to foreign currency risk as all sales and virtually all purchases are denominated in Canadian dollars. In the Marketing business, approximately US$475,565 of sales were priced in U.S. dollars for the year ended December 31, 2010 (2009 – US$306,096). Further, approximately US$274,381 of Marketing purchases were priced in U.S. dollars for the year ended December 31, 2010 (2009 – US$176,353). Foreign currency risk is actively managed by using forward currency contracts and cross currency swap contracts. Management monitors the exposure to foreign currency risk and regularly reviews its financial instrument activities and all outstanding positions.

The Fund recorded $4,490 of unrealized foreign currency losses relating to U.S. dollar denominated cash, accounts receivable and accounts payable in Marketing operating expenses for year ended December 31, 2010 (2009 – $5,179 of unrealized foreign currency losses).

As at December 31, 2010, portions of the Fund's cash, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar financial instrument balances, net earnings and comprehensive income for the year ended December 31, 2010 would have increased/decreased by approximately $441 for every $0.01 decrease/increase in the value of the U.S./Canadian dollar exchange rate (December 31, 2009 – $228).

The Fund is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt. To manage this currency exposure, the Fund has entered into cross currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt. These cross currency contracts are accounted for as derivative instruments.

The foreign currency gains (losses) associated with the U.S. debt were as follows:

Year Ended December 31	**2010** **$**	2009 $
Unrealized gain (loss) resulting from:		
Translation of US$168 million long-term debt	**7,336**	7,370
Translation of accrued interest payable	**138**	57
Change in fair value of the cross currency swap – principal portion	**(3,968)**	(5,808)
Change in fair value of the cross currency swap – interest portion	**(9,213)**	(3,327)
	(5,707)	(1,708)
Realized gain (loss) from:		
Cross currency swap – principal portion[1]	**779**	2,765
Cross currency swap – interest portion[2]	**(802)**	(315)
Foreign currency (loss) gain on U.S. debt	**(5,730)**	742

Notes:

1 Realized foreign currency gains resulted from the exchange of currencies in accordance with currency swap agreements entered into on September 8, 2010 and May 1, 2009.

2 A realized foreign currency loss resulted from the exchange of currencies relating to the interest payment in May and November 2010 on US$50 million debt.

(d) 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.

For the Marketing and NGL Infrastructure segments, unrealized gains (losses), representing the change in fair value of derivative contracts, are recorded in Marketing operating revenue and NGL Infrastructure operating expense respectively. Unrealized gains (losses) relating to the cross currency swaps are recorded in foreign currency loss on U.S. debt. Unrealized gains (losses) on interest rate swaps are recorded in interest expense on long-term debt.

The unrealized gains (losses) representing the change in fair value relating to derivative instruments were as follows:

Unrealized gain (loss)	2010 $	2009 $
Marketing revenue	**(13,094)**	(51,482)
NGL Infrastructure operating expense	**478**	(851)
Other:		
Foreign currency (loss) gain on U.S. debt	**(13,181)**	(9,135)

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.

As at December 31, 2010	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level[2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing						
NGLs:						
Seller of fixed price swaps (maturing by December 31, 2012)	2,930,615 Bbls	76.92/Bbl	Level 2	(28,308)	—	(28,308)
Buyer of fixed price swaps (maturing by December 31, 2012)	1,526,485 Bbls	67.88/Bbl	Level 2	17,032	17,032	—
Physical contracts:						
Seller of fixed price forward contracts (maturing by June 30, 2011)	69,762 Bbls	50.38/Bbl	Level 2	(269)	6	(275)
Fractionation contracts:						
Seller of fixed price forward contracts (maturing by December 31, 2011)	108,000 Bbls	87.25/Bbl	Level 2	(640)	—	(640)
Buyer of fixed price forward contracts (maturing by December 31, 2011)	876,000 Gjs	3.65/Gj	Level 2	302	302	—
Currency:						
Seller of forward contracts (maturing by December 1, 2011)	US$119,292,245	1.03/USD	Level 2	4,640	4,640	—
NGL Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2011)	21,900 MWhs	78.54/MWh	Level 2	(609)	—	(609)
Other						
Buyer of cross currency swap (maturing by May 1, 2016)	US$50,000,000	1.24/USD	Level 2	(8,226)	—	(8,226)
Buyer of cross currency swaps (maturing by May 1, 2016)	US$23,100,000	1.21/USD	Level 2	(3,846)	—	(3,846)
Buyer of cross currency swaps (maturing September 8, 2020)	US$103,000,000	1.04/USD	Level 2	(1,300)	—	(1,300)
Buyer of cross currency swaps (maturing September 8, 2020)	US$52,942,000	1.22/USD	Level 2	(8,000)	—	(8,000)
Buyer of cross currency swaps (maturing September 8, 2015)	US$15,000,000	1.04/USD	Level 2	(250)	—	(250)
Buyer of cross currency swaps (maturing September 8, 2015)	US$2,932,500	1.28/USD	Level 2	(694)	—	(694)
					21,980	**(52,148)**

Notes:
1 All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
2 A description of the fair value hierarchy is discussed in the fair value section.

As at December 31, 2009	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing						
NGLs:						
Seller of fixed price swaps (maturing by March 31, 2011)	1,832,240 Bbls	75.42/Bbl	Level 2	(12,231)	892	(13,123)
Buyer of fixed price swaps (maturing by March 31, 2010)	1,007,975 Bbls	57.01/Bbl	Level 2	15,619	15,619	—
Physical contracts:						
Seller of fixed price forward contracts (maturing by August 31, 2010)	63,637 Bbls	43.33/Bbl	Level 2	(1,126)	276	(1,402)
Currency:						
Seller of forward contracts (maturing by March 1, 2010)	US $76,040,152	1.09/USD	Level 2	3,588	3,588	—
NGL Infrastructure						
Natural gas:						
Buyer of fixed price swap (maturing by March 31, 2010)	329,500 Gjs	4.82/Gj	Level 2	174	174	—
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2011)	43,800 MWhs	78.54/MWh	Level 2	(1,261)	—	(1,261)
Other						
Buyer of cross currency swap (maturing by May 1, 2016)	US $50,000,000	1.24/USD	Level 2	(5,808)	—	(5,808)
Buyer of cross currency swaps (maturing by May 1, 2016)	US $27,300,000	1.21/USD	Level 2	(3,327)	—	(3,327)
					20,549	(24,921)

Notes:
1 All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
2 A description of the fair value hierarchy is discussed in the fair value section.

As at December 31, 2010, derivative instruments held for trading were exposed to commodity price risk. The following table outlines the increase (decrease) to net earnings and comprehensive income attributable to derivative instruments if there was a 10% decrease in the price of the commodity:

As at December 31,	**2010** $	2009 $
Natural gas	**(350)**	(176)
Electricity	**(111)**	(218)
NGLs	**14,692**	8,122

(e) 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 capital investments and 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, 2010, fixed rate borrowings comprised 67% of total debt outstanding (December 31, 2009 – 75%). 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 period ended December 31, 2010 would have decreased/increased by approximately $1,333 based on weighted average debt balances (December 31, 2009 – $1,036).

(f) 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. 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 13% of operating revenue for the year ended December 31, 2010 (2009 – 16%).

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.

Accounts receivable **As at December 31,**	**2010** **$**	2009 $
Neither impaired nor past due	**250,055**	205,913
Impaired	**3,182**	3,461
Not impaired but past due in the following periods:		
31 to 60 days	**7,849**	11,193
61 to 90 days	**2,203**	4,042
Over 90 days	**757**	1,132
Trade accounts receivable	**264,046**	225,741
Allowance for credit losses	**(3,182)**	(3,461)
Total accounts receivable	**260,864**	222,280

Allowance for credit losses **As at December 31,**	**2010** **$**	2009 $
Allowance for credit losses, beginning of period	**(3,461)**	(2,578)
Impairment expense	—	(883)
Amount written-off as uncollectible	**279**	—
Allowance for credit losses, end of period	**(3,182)**	(3,461)

(g) 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 competitive 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 as at December 31, 2010:

	2011 **$**	**2012** **$**	**2013** **$**	**2014** **$**	**2015** **$**	**After 2015** **$**
Accounts payable and accrued liabilities	245,958	—	—	—	—	—
Distributions payable	10,484	—	—	—	—	—
Long-term debt[1]	—	—	52,500	—	45,638	326,502[3]
Credit facilities[1]	211,000	—	—	—	—	—
Convertible debentures[2]	2,696	—	29,408	—	—	—

Notes:
[1] Amounts represent principal only and exclude accrued interest.

[2] Convertible debentures are convertible into trust units of the Fund at the option of the holders at any time prior to maturing (note 10).
[3] Long-term debt includes unsecured senior notes of US$50,000 converted at a foreign exchange rate of 1.2425 and US$118,000 converted at a foreign exchange rate of 1.0425 as a result of cross currency swaps (note 17).

18. 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, and
- working capital (defined as current assets less current liabilities, including credit facilities).

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.

As at December 31,	**2010** **$**	2009 $
Long term debt	**404,410**	258,209
Current assets	**(425,523)**	(326,467)
Current liabilities (including credit facilities)	**499,437**	414,364
Net debt obligations	**475,324**	346,106
Unitholder's capital	**846,252**	760,604
Total Capitalization	**1,321,576**	1,106,710

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, 2010, 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.

Consolidated Debt **As at December 31,**	**2010** **$**	2009 $
Long-term debt	**404,000**	260,000
Working capital deficit (surplus)[1]	**74,000**	88,000
Consolidated debt	**478,000**	348,000

Consolidated EBITDA **Twelve months ended**	**December 31, 2010** **$**	December 31, 2009 $
Operating revenues	**1,942,000**	1,545,000
Operating expenses	**(1,673,000)**	(1,274,000)
General and administrative expenses	**(41,000)**	(37,000)
Unrealized (loss) gain on derivative instruments	**13,000**	52,000
Realized gain on cross-currency swap	**1,000**	3,000
Consolidated EBITDA	**242,000**	289,000

	Guideline[2]		
Consolidated debt to consolidated EBITDA	**< 3.5**	**1.98**	1.20

Notes:
[1] Working capital is defined as current assets less current liabilities.
[2] The Fund currently intends to maintain a consolidated debt to consolidated EBITDA ratio of less than 3.5.

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

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

The calculation for each financial covenant is based on specific definitions and 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, 2010.

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 2010, based on the Fund's market capitalization on October 31, 2006, was approximately $990,793. If the normal growth limitations were exceeded, the Fund may be subject to taxation on its distributions prior to 2011. As at December 31, 2010, the normal growth limitations have not been exceeded.

19. Commitments and contingencies

The Fund, through its operating entities, has assumed commitments in various contractual agreements in the normal course of its operations. The agreements range from one to ten years and comprise 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 for these commitments are as follows:

	$
2011	**10,889**
2012	**8,254**
2013	**5,172**
2014	**1,656**
2015	**399**
Thereafter	—
	26,370

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.

20. Supplemental cash flow information

Changes in non-working capital	**December 31, 2010 $**	December 31, 2009 $
Cash provided by (used in):		
Accounts receivable	**(38,584)**	25,987
Inventory	**(55,123)**	(25,054)
Other current assets	**508**	(424)
Accounts payable and accrued liabilities	**19,175**	28,548
Changes in non-cash working capital	**(74,024)**	29,057
Relating to:		
Operating activities	**(82,415)**	39,238
Investing activities	**8,391**	(10,181)
Other cash flow information		
Interest paid	**32,478**	31,485
Taxes paid	**113**	(3,316)

21. Segmented information

The Fund has four reportable operating segments: Gathering and Processing, NGL Infrastructure, Marketing, and Other. 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 Other segment includes corporate functions and the production of natural gas and natural gas liquids.

The accounting policies of the segments are the same as those 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.

Year ended December 31, 2010	**Marketing $**	**Gathering and Processing $**	**NGL Infrastructure $**	**Corporate and Other $**	**Total $**
Segmented revenue before inter-segment eliminations	1,628,027	275,754	93,247	3,737	2,000,765
Segmented expenses before inter-segment eliminations	(1,544,015)	(156,700)	(30,037)	(900)	(1,731,652)
Marketing general and administrative expenses	(4,810)	—	—	—	(4,810)
Contribution	79,202	119,054	63,210	2,837	264,303
Inter-segment revenue eliminations	—	(10,424)	(45,164)	(2,709)	(58,297)
Inter-segment expenses eliminations	57,802	—	—	495	58,297
Marketing general and administrative expenses	4,810	—	—	—	4,810
	141,814	108,630	18,046	623	269,113
General and administrative, and interest				(76,864)	(76,864)
Depreciation and amortization				(44,955)	(44,955)
Foreign currency loss on U.S. debt				(5,730)	(5,730)
Accretion expense				(5,019)	(5,019)
Impairment expense				(3,617)	(3,617)
Earnings before income tax	141,814	108,630	18,046	(135,562)	132,928
Income tax expense	—	—	—	(7,882)	(7,882)
Net earnings	141,814	108,630	18,046	(143,444)	125,046
Identifiable assets	329,322	1,234,887	361,169	46,626	1,972,004
Capital expenditures	4,506	197,915	24,478	17,690	244,589

Year ended December 31, 2009	**Marketing $**	**Gathering and Processing $**	**NGL Infrastructure $**	**Corporate and Other $**	**Total $**
Segmented revenue before inter-segment eliminations	1,253,026	251,634	90,310	—	1,594,970
Segmented expenses before inter-segment eliminations	(1,165,453)	(127,204)	(31,406)	—	(1,324,063)
Marketing general and administrative expenses	(4,103)	—	—	—	(4,103)
Contribution	83,470	124,430	58,904	—	266,804
Inter-segment revenue eliminations	—	(8,557)	(41,366)	—	(49,923)
Inter-segment expenses eliminations	49,923	—	—	—	49,923
Marketing general and administrative expenses	4,103	—	—	—	4,103
	137,496	115,873	17,538	—	270,907
General and administrative, and interest				(70,019)	(70,019)
Depreciation and amortization				(42,070)	(42,070)
Foreign currency gain on U.S. debt				742	742
Accretion expense				(3,362)	(3,362)
Impairment expense				(2,778)	(2,778)
Loss on disposal of capital assets				(4,632)	(4,632)
Earnings before income tax	137,496	115,873	17,538	(122,119)	148,788
Income tax recovery	—	—	—	1,536	1,536
Net earnings	137,496	115,873	17,538	(120,583)	150,324
Identifiable assets	258,578	1,041,622	347,686	10,015	1,657,901
Capital expenditures	1,127	75,652	22,494	783	100,056

	2010	2009
	$	$
Marketing revenue derived from export sales to the U.S.	**235,451**	209,955
Property, plant and equipment located in the U.S.	**15,351**	11,275

22. Subsequent events

Corporate conversion

Effective January 1, 2011, the Fund completed its conversion from an income trust to a corporation pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) as approved by the unitholders of the Fund on May 22, 2010. As a result of this conversion: (i) Units of the Fund were converted to Shares of Keyera Corp. on a one-for-one basis; (ii) Keyera Corp. assumed all of the business, assets, liabilities and obligations of the Fund, including the obligations under the Convertible Debentures; (iii) Keyera Partnership assumed all of the assets, liabilities, obligations of the Partnership and KEFL; (iv) KEFL and KEML were amalgamated into Keyera Corp.; (v) Alberta Diluent Terminal Ltd. assumed all of the assets, liabilities, obligations of ADTLP; and (vi) the Fund, the Partnership and ADTLP were wound up. Keyera Corp.'s capital structure consists of only one class of common shares.

The Shares began trading on the Toronto Stock Exchange under the symbol "KEY" on January 17, 2011 at which time the Units were delisted. The Convertible Debentures continue to trade under the symbols "KEY.DB" and "KEY.DB.A" and, in accordance with the terms of the a supplemental indenture entered into between Keyera Corp. and the debenture trustee, the Convertible Debentures are now convertible into Shares on the same conversion basis as units were previously issuable on conversion thereof.

The conversion was an internal reorganization and did not involve the acquisition or disposition of any interests in any operating assets by Keyera. The principal businesses of the Keyera Corp. and its subsidiaries are the same as the principal businesses of Fund and its subsidiaries immediately prior to the conversion. The directors and management of KEML, Administrator of the Fund, became the directors and management of Keyera Corp. The conversion did not result in a change of control for the purposes of the LTIP and participants in the LTIP will be entitled to receive the same number of Shares as Units that such participant would have been otherwise entitled to receive in accordance with the applicable performance periods and related delivery dates. The conversion is being treated as a change in business form and going forward will be accounted for as a continuity of interest.

Beginning in 2011, Keyera Corp. will be subject to taxation at corporate rates.

Prudential credit facility

On January 4, 2011, the Fund issued $70.0 million of long-term note under the private credit facility arrangement with Prudential Capital Group (see note 9). The note bears interest at 5.005% and matures on January 4, 2019. Interest will be paid semi-annually in arrears.

Credit facilities renewals

As a result of the plan of arrangement noted above, Keyera Partnership renewed the existing $300,000 unsecured revolving credit facility with certain Canadian financial institutions, led by the Royal Bank of Canada and the National Bank of Canada effective January 1, 2011. The facility has a three-year revolving term and matures on April 30, 2014. Furthermore, Keyera Partnership renewed the demand facility with the Royal Bank of Canada, providing it with credit equal to the amount of outstanding letters of credit, up to $10,000. As well, the existing revolving demand facility of $15,000 with the Toronto Dominion Bank was renewed.

Additional Information (unaudited)

Fourth Quarter Results

Statement of Net Earnings (Thousands of Canadian dollars)	**(unaudited) Three months ended December 31, 2010 $**	2009 $	**Twelve months ended December 31, 2010 $**	2009 $
Operating revenues				
Marketing	**436,022**	381,199	**1,628,027**	1,253,026
Gathering and Processing	**67,298**	62,498	**265,330**	243,077
NGL Infrastructure	**12,565**	12,556	**48,083**	48,944
Other	**(1,041)**	—	**1,028**	—
	514,844	456,253	**1,942,468**	1,545,047
Operating expenses				
Marketing	**388,222**	340,361	**1,486,213**	1,115,530
Gathering and Processing	**43,129**	36,697	**156,700**	127,204
NGL Infrastructure	**6,723**	8,204	**30,037**	31,406
Other	**167**	—	**405**	—
	438,241	385,262	**1,673,355**	1,274,140
	76,603	70,991	**269,113**	270,907
General and administrative	**13,575**	11,972	**40,733**	36,722
Interest expense	**8,783**	7,800	**36,131**	33,297
Depreciation and amortization	**12,419**	6,161	**44,955**	42,070
Accretion expense	**2,262**	644	**5,019**	3,362
Foreign currency loss (gain) on U.S. debt	**2,631**	75	**5,730**	(742)
Loss on disposal of assets	—	—	—	4,632
Impairment expense	**3,617**	1,837	**3,617**	2,778
	43,287	28,489	**136,185**	122,119
Earnings before income tax	**33,316**	42,502	**132,928**	148,788
Income tax expense (recovery)	**6,233**	3,297	**7,882**	(1,536)
Net earnings	**27,083**	39,205	**125,046**	150,324
Weighted average number of units (in thousands)				
- basic	**69,355**	64,825	**68,108**	63,674
- diluted	**71,539**	69,303	**71,139**	68,255
Net earnings per unit				
- basic	**0.39**	0.60	**1.84**	2.36
- diluted	**0.39**	0.59	**1.81**	2.29

Statements of Cash Flows (Thousands of Canadian dollars)	**(unaudited) Three months ended December 31,**		**Twelve months ended December 31,**	
	2010	2009	**2010**	2009
Net inflow (outflow) of cash:	**$**	$	**$**	$
Operating activities				
Net earnings	**27,083**	39,205	**125,046**	150,324
Items not affecting cash:				
Depreciation and amortization	**12,419**	6,161	**44,955**	42,070
Accretion expense	**2,262**	644	**5,019**	3,362
Accretion of financing costs and debt discount related to convertible debentures and long-term debt	**271**	406	**1,295**	1,684
Impairment expense	**3,617**	1,837	**3,617**	2,778
Unrealized gain on financial instruments	**19,576**	(6,396)	**25,797**	61,468
Inventory write-down	**—**	—	**7,900**	—
Unrealized gain on foreign exchange	**(4,097)**	(220)	**(2,984)**	(2,248)
Long-term incentive plan expense	**6,429**	5,178	**18,225**	12,687
Loss on disposal of capital assets	**—**	—	**—**	4,632
Future income tax expense (recovery)	**6,225**	3,007	**8,157**	(540)
Asset retirement obligation expenditures	**(289)**	(1,449)	**(878)**	(2,271)
Changes in non-cash operating working capital	**5,286**	(14,943)	**(82,415)**	39,238
	78,782	33,430	**153,734**	313,184
Investing activities				
Business combination	**(123,708)**	—	**(123,708)**	—
Capital expenditures	**(34,370)**	(35,305)	**(120,881)**	(100,056)
Proceeds on sale of assets	**—**	(10)	**—**	3,777
Changes in non-cash working capital	**(123)**	(1,369)	**8,391**	(10,181)
	(158,201)	(36,684)	**(236,198)**	(106,460)
Financing activities				
Issuance (repayment) of debt under credit facilities	**116,000**	125,000	**81,000**	(119,000)
(Repayment) issuance of long-term debt	**—**	(90,000)	**101,599**	4,700
Financing costs related to long-term debt	**(80)**	—	**(850)**	(527)
Issuance of trust units	**7,383**	14,503	**38,714**	36,186
Distributions paid to unitholders	**(31,087)**	(43,640)	**(122,245)**	(128,973)
	92,216	5,863	**98,218**	(207,614)
Net cash inflow (outflow)	**12,797**	2,609	**15,754**	(890)
Cash (bank indebtedness), beginning of period	**2,180**	(3,386)	**(777)**	113
Cash (bank indebtedness), end of period	**14,977**	(777)	**14,977**	(777)

Distributable Cash Flow				
Cash flow from operating activities	**78,782**	33,430	**153,734**	313,184
Changes in non-cash working capital	**(5,286)**	14,943	**82,415**	(39,238)
Long-term incentive plan expense	**(6,429)**	(5,178)	**(18,225)**	(12,687)
Inventory write-down	**—**	—	**(7,900)**	—
Maintenance capital	**(1,112)**	(131)	**(2,135)**	(1,269)
Distributable cash flow	**65,955**	43,064	**207,889**	259,990
Distributions declared to Unitholders	**31,251**	58,477	**122,857**	144,010

Corporate Information

Board of Directors

E. Peter Lougheed [(1)(3)]
Counsel
Bennett Jones LLP
Calgary, Alberta

Jim V. Bertram
President and CEO
Keyera Corp.
Calgary, Alberta

Robert B. Catell
Chairman of the Advanced Energy Research and Technology Center of Stoneybrook University
New York, New York

Michael B.C. Davies [(2)]
Principal
Davies & Co.
Banff, Alberta

Nancy M. Laird [(3)(4)]
Corporate Director
Calgary, Alberta

Donald J. Nelson [(2)(4)]
President
Fairway Resources Inc.
Calgary, Alberta

H. Neil Nichols [(2)(3)]
Corporate Director
Smiths Cove, Nova Scotia

William R. Stedman [(2)(3)(4)]
Chairman and CEO
ENTx Capital Corporation
Calgary, Alberta

(1) Chairman of the Board
(2) Member of the Audit Committee
(3) Member of the Compensation and Governance Committee
(4) Member of the Health, Safety and Environment Committee

Officers

Jim V. Bertram
President and Chief Executive Officer

David G. Smith
Executive Vice President, Liquids Business Unit and Corporate Secretary

Graham Balzun
Vice President, Engineering and Corporate Responsibility

Michael Freeman
Vice President, Commercial

Jim Hunter
Vice President, NGL Facilities

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 and Chief Financial Officer

Stock Exchange Listing

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

Unit Trading Summary Q4 2010	
TSX:KEY.UN – Cdn $	
High	$36.42
Low	$30.40
Close December 31, 2010	$35.15
Volume	7,924,606
Average Daily Volume	125,787

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Calgary, Canada

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