KEYERA

DELIVERING MIDSTREAM SOLUTIONS

February 21, 2019

2018 Year End Report

For the period ended December 31, 2018

HIGHLIGHTS

- Keyera achieved record results in 2018 delivering net earnings of $394 million (2017 – $290 million), adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1] of $807 million (2017 – $617 million) and distributable cash flow of $638 million or $3.08 per share (2017 – $510 million or $2.70 per share).
- All three business segments had a strong finish to the year. For the fourth quarter of 2018, the Gathering and Processing segment generated operating margin of $74 million, the Liquids Infrastructure segment earned $84 million and the Marketing segment reported $106 million in realized margin[1,2].
- In 2018, the Liquids Infrastructure and Marketing segments both generated record results. The Gathering and Processing segment continued to deliver steady results, recording operating margin of $272 million in 2018 (2017 – $275 million).
- The Liquids Infrastructure segment reported operating margin of $324 million (2017 – $285 million). These record results were driven by increased demand for condensate services and incremental operating margin from new assets, including the Base Line Terminal and the Norlite pipeline.
- The Marketing segment's operating margin was $366 million (2017 – $128 million) and realized margin[1,2] was $296 million (2017 – $128 million). Marketing's record results were largely due to higher contributions from Keyera's iso-octane, liquids blending and condensate businesses, and its effective risk management strategy.
- To support future growth, Keyera has $2.1 billion in approved projects currently underway, mainly focused on establishing a strong position in the liquids-rich Montney and Duvernay development areas. This capital program begins generating incremental cash flow mid-2019 and is expected to earn an annual return on capital[3] of 10% to 15% in 2022, once all projects achieve their annual run rate.
- Keyera continues to maintain a conservative balance sheet with a Net Debt to EBITDA ratio[1] of 2.6 times at December 31 and a payout ratio[1] of 56% in 2018. With a strong financial position, Keyera expects to fund the remaining portion of its $2.1 billion capital program without issuing common equity, apart from its existing dividend reinvestment plan ("DRIP"). Approximately one-third of the program has been funded to date.
- In 2019, Keyera plans to invest growth capital of between $800 million and $900 million, excluding acquisitions, to advance its capital projects at the Simonette, Wapiti and Pipestone gas plants, and the Wildhorse Terminal.

1 Keyera uses certain "Non-GAAP Measures" such as Adjusted EBITDA, Distributable Cash Flow, Distributable Cash Flow per Share, Payout Ratio and Compound Annual Growth Rate. See section titled "Non-GAAP Financial Measures", "Dividends: Distributable Cash Flow" and "EBITDA" of the MD&A for further details.
2 Realized margin is a "Non-GAAP Measure" and excludes the effect of non-cash gains and losses from commodity-related risk management contracts.
3 Return on Capital is defined as expected operating margin divided by the estimated capital cost for the Simonette projects, the Wapiti and Pipestone gas plants and associated gathering infrastructure, the Wildhorse Terminal, and storage cavern capital projects that are currently under development. See "Non-GAAP Financial Measures" and "Forward-Looking Statements" in the MD&A for further details.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2018	2017	**2018**	2017
Net earnings	**165,052**	88,052	**394,224**	289,920
Per share ($/share) – basic	**0.79**	0.45	**1.90**	1.53
Cash flow from operating activities	**245,632**	212,609	**604,329**	513,697
Distributable cash flow[1]	**200,397**	173,890	**638,124**	510,434
Per share ($/share)[1]	**0.96**	0.90	**3.08**	2.70
Dividends declared	**94,437**	81,801	**359,269**	312,643
Per share ($/share)	**0.45**	0.42	**1.73**	1.65
Payout ratio %[1]	**47%**	47%	**56%**	61%
Adjusted EBITDA[2]	**248,278**	197,399	**807,363**	617,015
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,551**	1,526	**1,537**	1,464
Net processing throughput (MMcf/d)	**1,215**	1,192	**1,193**	1,149
Liquids Infrastructure:				
Gross processing throughput[3] (Mbbl/d)	**182**	193	**176**	181
Net processing throughput[3] (Mbbl/d)	**83**	76	**80**	67
AEF iso-octane production volumes (Mbbl/d)	**10**	15	**13**	12
Marketing:				
Inventory value	**235,556**	147,831	**235,556**	147,831
Sales volumes (Bbl/d)	**165,700**	164,900	**152,300**	143,000
Acquisitions	**5,609**	—	**333,204**	61,122
Growth capital expenditures	**228,545**	189,706	**935,435**	657,944
Maintenance capital expenditures	**14,419**	7,119	**51,882**	41,048
Total capital expenditures	**248,573**	196,825	**1,320,521**	760,114
Weighted average number of shares outstanding – basic and diluted	**209,585**	193,552	**207,397**	189,002

	As at December 31,	
	2018	2017
Long-term debt	**2,117,261**	1,795,530
Credit facility	**80,000**	—
Working capital surplus[4]	**(1,247)**	(336,509)
Net debt	**2,196,014**	1,459,021
Common shares outstanding – end of period	**210,479**	204,547

Notes:

1. Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow. Payout ratio and distributable cash flow are not standard measures under Generally Accepted Accounting Principles ("GAAP"). See the section titled, "Dividends: Distributable Cash Flow", for a reconciliation of distributable cash flow to its most closely related GAAP measure.
2. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, accretion, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and Adjusted EBITDA are not standard measures under GAAP. See section of the MD&A titled "EBITDA" for a reconciliation of Adjusted EBITDA to its most closely related GAAP measure.
3. Fractionation throughput in the Liquids Infrastructure segment is the aggregation of volumes processed through the fractionators and the de-ethanizers at the Keyera and Dow Fort Saskatchewan facilities.
4. Working capital is defined as current assets less current liabilities.

Message to Shareholders

Keyera delivered outstanding financial results in 2018 with each of our key financial metrics achieving record results. Net earnings grew 36% to $394 million, Adjusted EBITDA increased 31% to $807 million, while distributable cash flow rose 25% to $638 million, representing a 14% increase on a per share basis. All three business units had an impressive year. Our Liquids Infrastructure and Marketing segments both generated record financial results while the Gathering and Processing gross throughput volumes remained strong, increasing 5% over the prior year. With confidence in our business outlook, we maintained our dividend track record and increased our dividend by 7% in mid-2018.

During the year, Keyera achieved a number of operational milestones as well. With strong demand for our services, we handled record volumes at our Fort Saskatchewan fractionation facility, our Simonette gas plant and through our condensate system. In addition, we carried out the largest capital program in our history, investing approximately $1.3 billion in growth capital projects and acquisitions. Even with this increased activity, Keyera's employees remained dedicated to safety, achieving zero-lost time incidents for the year.

Keyera remains committed to generating long-term shareholder value with disciplined capital allocation. Since we became a corporation on January 1, 2011, we have invested over $5 billion and delivered a compound annual growth rate of approximately 9% for distributable cash flow per share. We currently have a $2.1 billion capital program underway that is expected to earn an annual return on capital of 10% to 15% in 2022, once all projects achieve their annual run rate.

Recognizing the dynamic environment that we operate in, Keyera has maintained a strong financial position and is well positioned to fund this capital program. To date, we have funded approximately one-third of this capital program while maintaining a Net Debt to EBITDA covenant ratio of 2.6 times, which is significantly below our debt covenant limit. With respect to funding the remaining portion of this capital program, we do not plan on issuing common equity, apart from the existing DRIP program, and are comfortable operating at a Net Debt to EBITDA covenant ratio above 3.0 times.

In 2019, we plan on investing between $800 million and $900 million to advance the $2.1 billion capital program currently underway. We expect the first major project, phase one of the Wapiti gas plant, to be generating incremental cash flow by mid-year. This begins the next phase of step changes in Keyera's growth as we expect to complete all the projects included in the capital program within the next 24 to 30 months.

Gathering and Processing Business Unit

The Gathering and Processing business unit generated operating margin of $272 million in 2018 compared to $275 million last year. Although natural gas prices continue to be challenged, our results were stable as producers remained active in liquids-rich areas of Alberta. For Keyera, this was most notable at our Simonette gas plant in northwestern Alberta, which processed record volumes in 2018.

Keyera's next phase of new cash flow growth will be driven by our expansion at the Simonette gas plant and our new Wapiti and Pipestone gas plants. These three gas plants support some of the most attractive geological developments in the Western Canada Sedimentary Basin, where producer economics are driven by the value of condensate. In 2019, we expect to complete the first phase of the Wapiti gas plant, including the North Wapiti Pipeline System, and the expansion at the Simonette gas plant. These projects will double our existing gas processing capacity in the area from 300 million cubic feet per day to 600 million cubic feet per day and increase our condensate handling capacity to 52,000 barrels per day.

In mid-2020, we expect to complete the second phase of the Wapiti gas plant, followed by the first phase of the Pipestone gas plant in 2021. When all of these projects are completed, Keyera will have a strong position in the liquids-rich area of northwestern Alberta, underpinned by long-term agreements with producers that add to our fee-for-service cash flows.

Liquids Business Unit – Liquids Infrastructure Segment

The Liquids Infrastructure segment generated a record operating margin of $324 million in 2018, which represents a 14% increase over the prior year. This was primarily due to incremental margin from our capital

investments, such as the Norlite diluent pipeline and the Base Line Terminal, and increasing demand for many of our liquids infrastructure assets and services.

To continue to meet the needs of our customers, we completed the Keylink NGL gathering pipeline system and the South Grand Rapids diluent pipelines during the year. These pipelines provide additional connectivity between our facilities and improve the flexibility and reliability of our integrated network of assets. We continue to expand our underground storage capacity, with the next two new caverns expected to be in service in 2020 and 2021.

As producers continue to focus on liquids-rich Montney and Duvernay developments in northwestern Alberta, we continue to work with producers in the area on a competitive egress solution. The proposed Key Access Pipeline System ("KAPS") would transport natural gas liquids and condensate from the area to Alberta's NGL and condensate hub in Fort Saskatchewan. A final investment decision is expected in the first half of 2019, subject to obtaining sufficient customer support. If this project is approved, Keyera would be well positioned to fund its 50% ownership, as substantially all of the spending is expected in 2020 and 2021 when our existing capital program is concluding. Assuming our capital projects underway are completed according to schedule, we expect KAPS would be funded without issuing common equity, apart from the existing DRIP program.

Liquids Business Unit – Marketing Segment

The Marketing segment reported record results with an operating margin of $366 million in 2018 compared to $128 million in the prior year. Excluding the effect of unrealized gains and losses from risk management contracts, the realized margin was $296 million compared to $128 million in 2017. Our iso-octane business delivered impressive results as our AEF facility operated near capacity for the year and demand was strong for the product. Our financial results also benefited from strong contributions from liquids blending and condensate marketing, as well as a continued effective risk management strategy.

Although Keyera's marketing results are subject to some variability, our processing, storage and transportation assets provide a strong foundation for Marketing to deliver cash flow year after year. Over the past five years, the Marketing segment has generated over $1 billion in realized margin, enhancing the returns from our fee-for-service businesses and providing an additional source of funding for our capital projects.

Outlook

Although our industry continues to face a number of challenges, Keyera's foundation is strong and we are well positioned to capitalize on the long-term growth opportunities within the Western Canada Sedimentary Basin. Not only does this basin have some of the best geology in the world, we are leaders in responsible energy development. At Keyera, we understand that energy is part of a broader financial and social system. As many parts of the world begin transitioning to a lower carbon economy, Canadian hydrocarbon fuels will continue to be essential to meet this global energy demand in a safe and affordable manner. We believe with improved market access, Canadian oil and gas can play a critical role on the international stage, and not only help minimize carbon emissions but also improve the quality of life for millions of people around the world.

In the near term, I am also confident in Keyera's position to deliver another year of strong financial performance. Within the next few months, we will kick off the next phase of our cash flow growth as we complete phase one of the Wapiti gas plant. Market fundamentals are also moving in our favor as more natural gas liquids continue to be produced from the Western Canada Sedimentary Basin. For the new contract year beginning in April, these fundamentals support higher fractionation fees, as well as lower butane prices in Alberta that benefit our iso-octane business.

On behalf of Keyera's board of directors and management team, I would like to thank our employees, customers, shareholders and other stakeholders for their continued support. Our team is committed to delivering another year of strong financial performance, operational excellence and project execution.

David G. Smith
President & Chief Executive Officer
Keyera Corp.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of February 21, 2019, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying audited consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the years ended December 31, 2018 and 2017 and the notes thereto. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

Keyera operates an integrated Canadian-based midstream business with extensive interconnected assets and depth of expertise in delivering midstream energy solutions. Midstream entities operate in the oil and gas industry between the upstream sector, which includes oil and gas exploration and production, and the downstream sector, which includes the refining and marketing of finished products. Keyera is organized into two integrated business units:

1. Gathering and Processing Business Unit – 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, primarily natural gas liquids ("NGLs"), before the sales gas is delivered into long-distance pipeline systems for transportation to end-use markets. Keyera also provides condensate handling services through its condensate gathering pipelines and stabilization facilities.

2. Liquids Business Unit, consisting of the following operating segments:

   Liquids Infrastructure – Keyera owns and operates a network of facilities for the gathering, processing, storage and transportation of the by-products of natural gas processing, including NGLs in mix form and specification NGLs such as ethane, propane, butane and condensate. In addition, this segment includes Keyera's iso-octane facilities at Alberta EnviroFuels ("AEF"), its liquids blending facilities and its 50% interest in the crude oil storage facility at the Base Line Terminal.

   Marketing – Keyera markets a range of products associated with its two infrastructure business lines, primarily propane, butane, condensate and iso-octane, and also engages in liquids blending.

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the years ended December 31, 2018 and 2017:

(Thousands of Canadian dollars, except per share data)	**2018**	2017
Net earnings	**394,224**	289,920
Net earnings per share (basic)	**1.90**	1.53
Operating margin	**976,199**	703,541
Realized margin[1,2]	**907,299**	698,215
Adjusted EBITDA[3]	**807,363**	617,015
Cash flow from operating activities	**604,329**	513,697
Distributable cash flow[4]	**638,124**	510,434
Distributable cash flow per share[4] (basic)	**3.08**	2.70
Dividends declared	**359,269**	312,643
Dividends declared per share	**1.73**	1.65
Payout ratio[5]	**56%**	61%

Notes:

1 Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, “Results of Operations: Marketing”, for a reconciliation of Operating margin to Realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes $1,310 of unrealized losses from commodity-related risk management contracts (2017 – $5,148 unrealized gains).

2 Information provided for the prior year has been revised to conform to the presentation adopted in the 2018 Year End Report.

3 Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, accretion, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and Adjusted EBITDA are not standard measures under GAAP. See the section titled “EBITDA” for a reconciliation of Adjusted EBITDA to its most closely related GAAP measure.

4 Distributable cash flow is not a standard measure under GAAP. See the section titled, “Dividends: Distributable Cash Flow”, for a reconciliation of distributable cash flow to its most closely related GAAP measure.

5 Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow and is not a standard measure under GAAP.

Keyera delivered outstanding financial results in 2018 as it was able to effectively utilize its existing and new infrastructure, including storage, fractionation, and transportation capabilities combined with high utilization at the AEF facility, to generate record margins in the Liquids Infrastructure and Marketing segments. Incremental cash flow from recently completed projects, such as the Base Line Terminal, also contributed to these strong results. In the Gathering and Processing segment several capital projects were announced during the year that will significantly expand its presence in the prolific liquids-rich Montney geological zone, including phase two of the Wapiti gas plant and the Pipestone gas plant and liquids hub.

Keyera currently has a $2.1 billion capital program underway, mainly focused on establishing a strong position in the liquids-rich Montney and Duvernay development areas. This growth capital program is expected to earn an annual return on capital of 10% to 15% in 2022, once all projects achieve their annual run rate. This return on capital estimate is based on Keyera’s current cash flow projections and assumes capital projects are completed on a timely basis.

Net Earnings

For the year ended December 31, 2018, net earnings were $394 million, $104 million higher than the prior year due to $273 million in higher operating margin that was partly offset by the following factors:

- a $63 million impairment charge recorded in 2018 to reduce the carrying values of the Minnehik Buck Lake and Zeta Creek gas plants as a result of low producer activity in the areas surrounding these facilities;

- $41 million in higher depreciation charges in 2018 due to a reduction in the useful life of the Nevis gas plant and an increase in Keyera's asset base, including the Alder Flats gas plant expansion, the Keylink pipeline and the Base Line Terminal;

- $26 million in higher income tax expense resulting from the increase in earnings in 2018; and

- $18 million in higher general and administrative costs which includes a one-time $6 million expense associated with a construction dispute that was settled in September 2018.

See the section of this MD&A titled, "Corporate and Other", for more information related to these charges.

Operating Margin and Realized Margin

For the year ended December 31, 2018, operating margin was $976 million, $273 million or 39% higher than 2017 largely due to: i) higher realized margin from the Liquids Infrastructure and Marketing operating segments as described in more detail below; and ii) the inclusion of an unrealized non-cash gain of $70 million associated with risk management contracts from the Marketing segment in 2018 compared to a non-cash gain of virtually $nil in 2017.

Realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) was $907 million, $209 million or 30% higher than the prior year. The higher realized margin was largely due to the following factors:

- $168 million in higher realized margin from the Marketing segment that resulted from:

  i) Approximately $100 million in higher iso-octane margins because of increased sales volumes as AEF operated on average above its nameplate capacity for the first three quarters in 2018. This is compared to the facility being off-line for nine-weeks in the first half of 2017. In addition, margins were especially strong during the summer months of 2018 due to a higher proportion of sales volumes that attracted significantly higher premiums for iso-octane to meet short-term demand;

     Iso-octane margins in 2018 also included approximately $23 million of realized cash gains related to the settlement of risk management contracts that were put in place to protect the value of butane feedstock. The majority of these gains related to butane that was still in inventory at December 31, 2018. As the feedstock is consumed to produce iso-octane in future periods, lower operating margin is expected to be realized.

  ii) higher condensate margins associated with increased volumes moving through Keyera's condensate network to meet the growing needs of oil sands producers; and

  iii) higher margins from Keyera's liquids blending business because of higher volumes and higher prices for crude oil and condensate relative to other NGLs.

- approximately $39 million in higher margin from the Liquids Infrastructure segment resulting from the overall growth in demand for Keyera's condensate network, and incremental cash flow associated with recent investments, including the Norlite pipeline that commenced operation in mid-2017, and the Base Line terminal that was brought on-line in phases throughout 2018.

The overall financial results from the Gathering and Processing segment were relatively stable in 2018 compared to the prior year as the financial effect of achieving record processing throughput at the Simonette gas plant was substantially offset by lower throughput volumes and operating margin at certain other facilities, including the Rimbey, Minnehik Buck Lake and Nevis gas plants.

See the section titled "Segmented Results of Operations" for more information on operating results by segment.

Cash Flow Metrics

Cash flow metrics were also strong in 2018 as a direct result of the outstanding financial results, particularly in the Liquids Infrastructure and Marketing operating segments as described above. Cash flow from operating activities for the year ended December 31, 2018 was $604 million, $91 million higher than 2017. Distributable cash flow in 2018 was $638 million, $128 million higher than the prior year and represents 14% growth on a per share basis.

Since Keyera became a corporation on January 1, 2011, it has invested over $5 billion and delivered a compound annual growth rate of approximately 9% for distributable cash flow per share.

Refer to the sections of this MD&A titled, "Dividends: Distributable Cash Flow", for a reconciliation of cash flow from operating activities to distributable cash flow and "Results of Operations: Marketing", for a reconciliation of Operating margin to Realized margin related to the Marketing segment.

SEGMENTED RESULTS OF OPERATIONS

Keyera is organized into two integrated businesses: the Gathering and Processing Business Unit and the Liquids Business Unit. The Liquids Business Unit consists of the Liquids 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 operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids 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, 2018 and 2017 are reported in note 30, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 18 active gas plants and two gas plants that are under construction, all of which are located in Alberta. Keyera operates 16 of the 18 active gas plants and will be the operator of one of the gas plants under construction, with an option to become the operator of the second after five years. 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 ("WCSB"). 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. Most of Keyera's facilities are also equipped with condensate handling capabilities. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

Operating margin for the Gathering and Processing segment was as follows:

Operating Margin and Throughput Information (Thousands of Canadian dollars)	**2018**	2017
Revenue[1]	**458,441**	466,473
Operating expenses[1]	**(185,927)**	(192,560)
Unrealized (loss) gain on electricity and other financial contracts	**(681)**	1,371
Total operating expenses	**(186,608)**	(191,189)
Operating margin	**271,833**	275,284
Gross processing throughput – (MMcf/d)	**1,537**	1,464
Net processing throughput[2] – (MMcf/d)	**1,193**	1,149

Notes:
1 Includes inter-segment transactions.
2 Net processing throughput refers to Keyera's share of raw gas processed at its processing facilities.

Operating Margin and Revenues

The Gathering and Processing segment recorded operating margin of $272 million in 2018, $3 million lower than 2017 primarily due to the following factors:

- lower processing throughput at the Rimbey, Minnehik Buck Lake and Nevis gas plants as weak natural gas prices and lower producer activity levels contributed to volume declines at those facilities;
- lower ethane sales volumes from the Rimbey gas plant as the petrochemical company that purchases the ethane under a long-term commercial arrangement curtailed receipt of sales volumes citing operational issues at their facility during the first quarter of 2018;
- lower operating fee revenue at the Strachan gas plant in the second half of 2018 as the full cost of the turnaround had been recovered in previous years; and
- a reduction in take-or-pay fees provided to a customer in exchange for a longer-term commitment of volumes that will be processed at Keyera's facilities in the west central Alberta area. As part of this arrangement, Keyera also received an ownership interest in a raw gas gathering pipeline that is described in more detail below. The reduction in take-or-pay fees was effective July 1, 2018.

The factors above were partly offset by:

- $17 million in higher operating margin from the Simonette gas plant due to record average processing throughput levels at the facility from new well-tie ins from the liquids-rich Montney and Duvernay geological zones as well as incremental revenues from the liquids handling expansion that became operational in May 2018; and
- a one-time $6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a raw gas gathering pipeline which spans across the Willesden Green and Ferrier areas. This pipeline is located in close proximity to existing Keyera infrastructure and has the potential to be connected into its existing network.

Gathering and Processing revenues for the year ended December 31, 2018 were $458 million, $8 million lower than in 2017. The lower revenues were due to the same factors that affected operating margin but were further reduced by lower ethane prices at the Rimbey facility. Ethane sales are generally based on index pricing and can significantly influence revenues; however, the impact to operating margin is minimal as ethane purchases from producers are also based on index pricing.

Gathering and Processing Activity

Gross processing throughput for the Gathering and Processing segment continued to grow at a moderate pace in 2018, averaging 1,537 million cubic feet per day, 5% higher than the prior year. The higher processing throughput was primarily due to the growth in volumes at the Simonette gas plant as the facility continued to benefit from new well-tie-ins from the liquids-rich Montney and Duvernay areas, pushing throughput at that facility to a new record in 2018. The Alder Flats facility also experienced growth in volumes with the completion of its phase two expansion in early May; however, the effect on operating margin was minimal. This is because Keyera began recording take-or-pay revenue associated with this incremental capacity upon acquiring the additional 35% ownership in the gas plant in 2016. Partly offsetting the growth in volumes at the Simonette and Alder Flats facilities were volume declines at the Rimbey, Minnehik Buck Lake and Nevis gas plants as a result of lower producer activity around these areas.

While natural gas prices remained weak throughout 2018, prices for crude oil and condensate strengthened in the first three quarters of the year. As a result, producer drilling activity in liquids-rich areas, including the Montney and Duvernay geological zones, continued to be strong. With the Montney and Duvernay geological zones in northwestern Alberta continuing to be a focus for producers, Keyera announced multiple capital investments in 2018 to support the development of this prolific area.

In April 2018, the Pipestone plant and liquids hub project was acquired by Keyera with the signing of a 20-year infrastructure development and midstream service agreement with Encana. The Pipestone gas plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, and 24,000 barrels per day of condensate processing capacity. This project supports Encana's condensate focused Montney development in the Pipestone area near Grande Prairie, Alberta. Under the terms of the agreement, Keyera owns the Pipestone project and will receive processing fees from Encana under a long-term fee-for-service arrangement with a modest revenue guarantee. The agreement also includes an area dedication that allows Encana to use its existing processing facilities in the area up to a defined limit. The Pipestone liquids hub, which has 14,000 barrels per day of condensate processing capacity, was completed at a cost of $91 million and began generating incremental cash flow in September.

In May 2018, Keyera made a decision to expand the Simonette gas plant by adding an incremental 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day. By enhancing the facility's processing capabilities, Keyera will be able to accommodate volume commitment requests from existing producers which currently exceed the plant's capacity.

In 2018, Keyera also announced its plans to proceed with the second phase of the Wapiti gas plant which will add 150 million cubic feet per day of sour gas processing capacity to the facility and is anticipated to be operational in mid-2020. Compared to the initial plan, Keyera is also expanding the Wapiti gathering system and the North Wapiti Pipeline System that will deliver volumes to the plant, as well as adding incremental compression to both pipeline systems. The increase in scope for the gathering systems was required to meet the volume commitments of the two primary customers utilizing these systems, Paramount Resources Ltd. ("Paramount") and Pipestone Oil Corp. ("POC").

In addition to the expansions of the Wapiti gas plant and associated gathering systems, Keyera is developing a water disposal system that includes high pressure injection pumps and pipeline connectivity for multiple water disposal wells. The capital investments in the Wapiti gathering systems, additional compression and water disposal system will generate incremental revenue under the existing agreements with Paramount and POC, both of which include take-or-pay commitments.

Upon completion of the Simonette gas plant expansion and the Wapiti (phases one and two) and Pipestone gas plants, Keyera will have approximately 950 million cubic feet per day of sour gas processing capacity and 90,000 barrels per day of condensate handling facilities in the liquids-rich Montney and Duvernay region of Alberta. Refer to the tables below, "Gathering and Processing – Capital Projects Status Update", for more information related to the projects that were announced in 2018, including estimated cost to complete and expected completion time.

Maintenance turnarounds at the Strachan, Nevis, and Brazeau North gas plants were all completed in the second quarter of 2018 at a combined cost of $19 million. For 2019, maintenance turnarounds are scheduled to occur at the Rimbey, Cynthia, Ricinus and Pembina North facilities at an estimated total cost of approximately $50 million.

The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangements at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

The table provides more detail related to previously announced and recently completed major projects in the Gathering and Processing segment:

Gathering and Processing – COMPLETED PROJECTS		
Facility/Area	**Project Description**	**Cost Information**
Alder Flats	***Alder Flats Phase Two Expansion Project:*** The expansion project increased the licensed capacity of the facility by 120 million cubic feet per day. Bellatrix is an owner and the operator of the facility and was responsible for the construction of the project. Keyera's ownership interest in the Alder Flats facility is 70%.	The expansion project became operational in mid-March 2018. *Cost to complete:* • Completed at a total gross cost of $101 million, approximately $11 million lower than originally forecast. Keyera's net share of the project was $74 million. *Total net costs to December 31, 2018:* • $5 million for the year ended December 31, 2018 • $74 million since inception
Simonette	***Simonette Liquids Handling Expansion Project:*** The project consisted of construction of NGL mix and condensate above ground storage facilities, addition of a truck loading facility, redesign of the existing condensate stabilization facilities and the addition of new facilities to handle growing volumes of condensate and improve overall liquids recoveries. With the completion of this project, condensate operational capacity at Simonette is now approximately 27,000 barrels per day. The project also included a new pipeline connection from Keyera's Simonette gas plant to the Peace pipeline system's custody transfer point. This connection provides Keyera's customers with the flexibility to transport greater volumes of NGL mix and condensate by pipeline.	The connection to the Peace pipeline system's custody transfer point was completed in the third quarter of 2017. The storage, truck loading and stabilization facilities were completed and commenced operations in May 2018. *Cost to complete:* • Completed at a total cost of $91 million, $9 million lower than the original estimate. *Total net costs to December 31, 2018:* • $30 million for the year ended December 31, 2018 • $91 million since inception

Gathering and Processing – COMPLETED PROJECTS		
Facility/Area	**Project Description**	**Cost Information**
Pipestone	***Pipestone Liquids Hub:*** The Pipestone liquids hub has condensate processing capacity of approximately 14,000 barrels per day.	Construction of the Pipestone liquids hub was completed and operations commenced at the end of September 2018. *Cost to complete:* • Completed at a cost of $91 million, $14 million lower than the original estimate. *Total net costs to December 31, 2018:* • $91 million for the year ended December 31, 2018 (including $34 million to acquire the project) • $91 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Simonette	***Simonette Acid Gas Injection and Inlet Liquids Separation Facilities:*** The following major assets will be constructed with this project: i) Acid gas injection facilities including surface facilities at the plant and well site, and a pipeline connecting the facilities to a disposal well. ii) Inlet liquids separation facilities consisting of multiple pressure vessels to accommodate the high volumes of liquids-rich gas coming into the Simonette gas plant. iii) Flare system to accommodate the various growth projects at the Simonette gas plant.	Detailed engineering work and procurement of long-lead equipment and materials continued throughout the fourth quarter of 2018. In addition, major equipment related to the inlet separation facilities and flare system were received on site. The project is expected to be operational in the third quarter of 2019. *Estimated total cost to complete:* • approximately $100 million *Total net costs to December 31, 2018:* • $36 million for the year ended December 31, 2018 • $39 million since inception
Simonette	***Simonette Expansion Project:*** The expansion project will create an additional 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day.	Detailed design and engineering work as well as procurement activities on long-lead equipment continued throughout the fourth quarter of 2018. Civil work is now substantially complete. The project is expected to be complete by the fourth quarter of 2019. *Estimated total cost to complete:* • approximately $85 million *Total net costs to December 31, 2018:* • $24 million for the year ended December 31, 2018 • $24 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Wapiti	***Wapiti Gas Plant (Phase One):*** Phase one includes the construction of a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system and field compressor stations. During the fourth quarter of 2018, the scope of the project was further enhanced to include new condensate treating facilities at the gas plant and field modifications to handle higher than expected levels of condensate. Project costs related to additional compression and an expansion of the Wapiti gathering system have been reclassified to phase one from phase two of the project.	By the end of the fourth quarter of 2018, commissioning activities had begun. Phase one, including the project enhancements are expected to be complete by mid-2019. Infrastructure related to additional compression and the expansion of the Wapiti gathering system is anticipated to be operational by mid-2020. *Estimated total cost to complete:* • approximately $575 million; *Total net costs to December 31, 2018:* • $294 million for the year ended December 31, 2018 • $468 million since inception (including $19 million in 2016 to acquire the project and acid gas injection well)
Wapiti	***Wapiti Gas Plant (Phase Two) and North Wapiti Pipeline System:*** Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant. The North Wapiti Pipeline System extends the capture area of Keyera's Wapiti gas plant and includes a 12-inch sour gas gathering pipeline, an 8-inch condensate and water pipeline, and a compressor station.	Engineering work on the gas plant continued in the fourth quarter of 2018 and all long-lead major equipment orders were placed. Phase two of the Wapiti gas plant is expected to be complete by mid-2020. Construction on the pipeline system began in the fourth quarter while procurement activities continued. The North Wapiti Pipeline System is expected to be in service in the second half of 2019. *Estimated total cost to complete:* • approximately $325 million *Total net costs to December 31, 2018:* • $65 million for the year ended December 31, 2018 • $65 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Wapiti	***Water Disposal System:*** This project includes installation of high pressure injection pumps and pipeline connectivity for multiple disposal wells that are capable of disposing up to 30,000 barrels per day of produced water from the Wapiti gas plant.	The first disposal well was drilled and successfully tested in the second quarter of 2018. Drilling of the second well and construction of the water disposal pipeline commenced in the fourth quarter of 2018. *Estimated total cost to complete:* • approximately $100 million *Total net costs to December 31, 2018:* • $53 million for the year ended December 31, 2018 • $53 million since inception (includes $10 million for acquired land)
Pipestone	***Pipestone Plant:*** The Pipestone plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, 24,000 barrels per day of condensate processing capacity, and associated water disposal facilities.	Detailed engineering and procurement activities for long-lead equipment commenced in the fourth quarter of 2018. Regulatory review of the acid gas injection wells remains in-progress. The Pipestone plant is expected to be operational in 2021. *Estimated total cost to complete:* • approximately $600 million *Total net costs to December 31, 2018:* • $40 million for the year ended December 31, 2018 (including $5 million to acquire the project) • $40 million since inception

Estimated costs and completion times for the projects currently under development that are discussed above assume that construction proceeds as planned, that actual costs are in line with estimates and, where required, that regulatory approvals and any other third-party approvals or consents are received on a timely basis. Outstanding regulatory approvals for the projects discussed above include certain amendments associated with the Wapiti plant and related pipeline systems. A portion of the costs incurred for completed and ongoing projects are based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, “Forward-Looking Statements”, provides more information on factors that could affect the development of these projects.

Liquids Infrastructure

The Liquids Infrastructure segment provides fractionation, storage, transportation, liquids blending and terminalling services for NGLs and crude oil, and produces iso-octane. These services are provided to customers through an extensive network of facilities, including the following assets:

- NGL and crude oil pipelines;
- underground NGL storage caverns;
- above ground storage tanks;
- NGL fractionation and de-ethanization facilities;
- pipeline, rail and truck terminals;
- liquids blending facilities; and
- the AEF facility.

The AEF facility has a licensed capacity of 13,600 barrels per day of iso-octane. Iso-octane is a low vapour pressure, high-octane gasoline blending component. AEF uses butane as the primary feedstock to produce iso-octane. As a result, AEF's business creates positive synergies with Keyera's Marketing business, which purchases, handles, stores and sells large volumes of butane.

Most of Keyera's Liquids Infrastructure assets are located in, or connected to, the Edmonton/Fort Saskatchewan area of Alberta, one of four key NGL 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 multiple NGL gathering systems for fractionation into specification products and delivery to market. Keyera's underground storage caverns at Fort Saskatchewan are used to store NGL mix and specification products. For example, propane can be stored in the summer months to meet winter demand; condensate can be stored to meet the diluent supply needs of the oil sands sector; and butane can be stored to meet blending and iso-octane feedstock requirements.

Keyera's Liquids Infrastructure assets are closely integrated with its 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 segment. All of the revenues in this segment that are associated with the AEF facility and the Oklahoma Liquids Terminal relate to services provided to the Marketing segment.

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**2018**	2017
Revenue[1]	**478,037**	418,822
Operating expenses[1]	**(152,447)**	(136,316)
Unrealized (loss) gain on electricity financial contracts	**(1,134)**	2,765
Total operating expenses	**(153,581)**	(133,551)
Operating margin	**324,456**	285,271

Note:
[1] Includes inter-segment transactions.

Operating Margin and Revenue

The Liquids Infrastructure segment posted another year of record financial results in 2018. For the year ended December 31, 2018, operating margin was $324 million, $39 million or 14% higher than 2017. The higher financial results in 2018 were primarily due to the following:

- approximately $50 million in higher operating margin associated with: i) the overall growth in demand for Keyera's condensate network including transportation and storage services, as well as incremental revenue from the Norlite pipeline that commenced operation in mid-2017; and ii) incremental operating margin from the Base Line Terminal that was brought into service in phases starting in January 2018, with all twelve tanks being operational in early October.

These positive factors were partly offset by:

- lower operating margin at the Alberta Diluent Terminal and South Cheecham Terminal due to two short-term contracts expiring at the end of 2017 and the second quarter of 2018. These contracts were put in place to provide a temporary rail and truck solution for transporting condensate to two oil sands producers who are now long-term customers on the Norlite pipeline; and

- lower fractionation revenue primarily due to lower fees compared to 2017. Fractionation fees, on average, were lower beginning with the 2018 contract year (April 1, 2018 to March 31, 2019) due to excess fractionation capacity in Alberta.

Liquids Infrastructure revenues for the year ended December 31, 2018 were $478 million, $59 million higher than 2017 largely due to the same factors that contributed to higher operating margin.

Liquids Infrastructure Activity

The year ended December 31, 2018 was a busy year for the Liquids Infrastructure segment as several capital projects were completed and put into service, including the Hull Terminal pipeline system in the U.S., the Keylink NGL gathering pipeline system and the Base Line Terminal. The Base Line Terminal, an above ground crude oil storage terminal in the Edmonton area, is a 50/50 joint venture with Kinder Morgan that provides Keyera with fee-for-service cash flows from multiple take-or-pay agreements up to ten years in length. Also in 2018, Keyera acquired a 50% ownership interest in the South Grand Rapids Pipeline that has enabled it to meet the growing diluent transportation commitments with oil sands customers. Refer to the table below, "Liquids Infrastructure – Capital Projects Completed", for more information related to these projects.

The demand for condensate, which is used as a diluent by oilsands producers, has continued to grow in Alberta. Accordingly, demand for Keyera's diluent handling services continues to grow and also provides for increased commercial opportunities within the Marketing segment. The volume of condensate delivered through Keyera's condensate system to the oil sands grew by 57% in 2018 compared to the prior year.

Keyera operates an industry-leading condensate hub in Western Canada, with multiple receipt points including the Kinder Morgan Cochin pipeline and Enbridge's Southern Lights pipeline and CRW pool. In early 2018, Keyera completed construction of a pipeline connection to Pembina Pipeline's Canadian Diluent Hub which added another receipt point into Keyera's condensate system. Keyera has long-term, take-or-pay arrangements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and Canadian Natural Resources Limited. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area.

The Norlite pipeline and Keyera's Fort Saskatchewan condensate system expansion were put into service in mid-2017. Keyera's condensate network provides the Norlite shippers with the transportation required between Edmonton and Fort Saskatchewan, providing these customers with access to multiple sources of diluent supply. In early 2019, an additional long-term, take-or-pay agreement was executed with a shipper to provide transportation services on the Norlite pipeline and Keyera's proprietary condensate system, the third new customer that has signed up for long-term service since Norlite became operational. These customers are incremental to the long-term commitments from the original anchor tenants, the owners of the Fort Hills oil sands project. See the table below, "Liquids Infrastructure – Completed Projects" for a final cost estimate for the Norlite pipeline.

In 2018, Keyera also announced two new investments in the United States, the Wildhorse Terminal and the Oklahoma Liquids Terminal. These investments expand Keyera's presence and midstream infrastructure into a key U.S. liquids hub. These strategic investments also provide significant commercial opportunities for Keyera's Marketing segment. See the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to the Wildhorse project.

The Oklahoma Liquids Terminal, which is a logistics and liquids blending terminal, was acquired by Keyera in mid-June, for US$83 million (including inventory and purchase price adjustments) plus up to US$10 million in

additional consideration over the next five years. The terminal receives, blends and delivers diluent, the majority of which is transported by pipeline from the Mont Belvieu area to the Chicago area and ultimately into the Alberta market. The Oklahoma Liquids Terminal is operated by the Liquids Infrastructure segment and provides the logistical and blending services to Keyera's Marketing segment for a fee. The majority of cash flow generated from this investment is recorded in the Marketing segment.

Utilization of the two fractionation units at Keyera's Fort Saskatchewan complex averaged slightly above its nameplate capacity in 2018, an increase of approximately 10% compared to 2017. Despite higher volumes, overall fractionation revenue in 2018 was lower relative to the prior year due to lower fractionation fees. In recent months, fractionation capacity in Alberta has tightened as a result of the increase in liquids rich drilling activity in the province. Assuming this trend continues, fractionation fees are expected to be higher for the contract year beginning April 1, 2019 compared to the 2018 contract year.

In the fourth quarter of 2018, Keyera entered into a 50/50 joint venture agreement with Wolf Midstream for the proposed development of an NGL and condensate gathering system, called the Key Access Pipeline System ("KAPS"). This proposed pipeline system would include the construction of two parallel pipelines to bring condensate and NGLs from the prolific Montney and Duvernay geological zones to Alberta's NGL hub in Fort Saskatchewan. As the majority of growth capital projects that are currently underway in the Gathering and Processing and Liquids Infrastructure segments are expected to begin contributing incremental cash flow in 2019 and 2020, Keyera believes it is well positioned to fund this project without issuing common equity, apart from the existing DRIP program. This is based on current cash flow forecasts and assumes capital projects presently underway are completed on schedule and in line with current cost estimates. Substantially all of the capital costs for the proposed KAPS project are projected to be incurred in 2020 and 2021. A final investment decision is expected to be made in the first half of 2019, subject to obtaining sufficient customer support.

The AEF facility is operated by the Liquids Infrastructure segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. Iso-octane production averaged approximately 95% of AEF's capacity in 2018 and averaged production above its nameplate capacity in the second and third quarters of 2018 which is the peak demand season. In the fourth quarter, Keyera converted an above ground storage tank at the Alberta Diluent Terminal with approximately 100,000 barrels of capacity from condensate to iso-octane service in order to more effectively manage the operational storage requirements of AEF and the seasonal demand for the product.

On November 1st, 2018, the AEF facility was proactively taken off-line to complete a catalyst replacement and other maintenance work. The facility was off-line for most of November; however, the financial impact on iso-octane margins was minimal as the maintenance work was completed in the fourth quarter when demand is lower. AEF was taken off-line in mid-February 2019 for unscheduled repair work and is currently expected to be fully operational by the end of the month.

Keyera continues to focus on enhancing its infrastructure to meet the needs of its customers. The table below is a status update of previously announced and recently completed major projects in the Liquids Infrastructure segment:

Liquids Infrastructure – COMPLETED PROJECTS		
Facility/Area	**Project Description**	**Cost Information**
Edmonton (50/50 joint venture with Kinder Morgan)	***Base Line Terminal:*** The project consisted of 12 above ground crude oil storage tanks with the ability to provide customers with 4.8 million barrels of storage capacity. Kinder Morgan constructed the project and is the operator.	The first six storage tanks were put into service in the first quarter of 2018. The remaining six storage tanks were operational by early October. *Cost to complete:* • Gross cost is approximately $630 million, $30 million lower than the original forecast. • Keyera's net share of costs is approximately $315 million *Total net costs to December 31, 2018:* • $67 million for the year ended December 31, 2018 • $314 million since inception
West Central Alberta	***Keylink Pipeline:*** The project consisted of over 240 kilometres of newly constructed and repurposed existing pipelines that transport NGL mix from eight Keyera gas plants to the Rimbey gas plant for fractionation into specification products. The project also includes a pipeline connection to a third party gas plant.	The pipeline became operational in April 2018. *Cost to complete:* • $125 million, $25 million lower than the original forecast *Total net costs to December 31, 2018:* • $68 million for the year ended December 31, 2018 • $123 million since inception

Liquids Infrastructure – COMPLETED PROJECTS		
Facility/Area	**Project Description**	**Cost Information**
Hull Terminal	***Hull Terminal Pipeline System:*** In 2016 Keyera acquired the Hull Terminal Pipeline System and subsequently entered into an agreement with a major U.S. midstream energy company to construct pipeline connections to its infrastructure in Mont Belvieu, North America's largest NGL hub. This project consisted of third party pipeline connections and work undertaken to prepare the Hull Terminal Pipeline System for operation (including the connection facilities at the Hull Terminal, installation of pumps and metering systems and completion of pipeline repairs and integrity work).	The Hull Terminal Pipeline System was completed in April 2018. *Cost to complete:* • $24 million *Total net costs to December 31, 2018:* • $12 million for the year ended December 31, 2018 • $24 million since inception
Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)	***South Grand Rapids Pipeline:*** Keyera acquired a 50% interest in the southern portion of the 20-inch, 45-kilometre diluent Grand Rapids Pipeline. The pipeline was constructed by Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and PetroChina Canada. The pipeline extends from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal near Fort Saskatchewan. Keyera is the operator of the pipeline. As part of this project, Keyera constructed a pump station at its Edmonton Terminal where the pipeline now connects. Keyera sold a 50% ownership interest in the pump station to GRPLP.	The South Grand Rapids Pipeline was completed in September and Keyera acquired a 50% interest in the pipeline for a purchase price of $105 million. Concurrently, Keyera sold a 50% interest in the pump station for proceeds of approximately $20 million. *The final net costs to Keyera for this project were:* • $105 million for acquisition of the 50% interest in the pipeline and $20 million for the remaining 50% interest in the pump station. The total cost to Keyera was $125 million.
Norlite Pipeline (30/70 joint venture with Enbridge Pipelines (Athabasca) Inc. ("Enbridge"))	***Norlite Pipeline:*** Keyera is a 30% non-operating owner in the Norlite pipeline, a 24-inch pipeline, which delivers diluent from the Fort Saskatchewan area to certain oil sands projects. Enbridge constructed the pipeline and is the operator. The gross capacity of the pipeline is approximately 218,000 barrels per day of diluent with the potential to be further expanded to 465,000 barrels per day with the addition of pump stations.	The pipeline became operational in mid-2017. Costs continue to be incurred for environmental monitoring and cleanup activities. *Cost to complete:* • Gross cost is $1.1 billion, $200 million lower than the original estimate. • Keyera's net share is $335 million. *Total net costs to December 31, 2018:* • $8 million for the year ended December 31, 2018 • $322 million since inception

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Fort Saskatchewan	***Underground Storage Development:*** Development of four additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity. The fourth cavern was approved in the fourth quarter of 2018. This cavern will be the 18th underground storage cavern in Keyera's portfolio.	***Completed Assets:*** The 15th cavern and its related infrastructure was put into service in early May 2018. ***Construction-In-Progress Assets:*** Washing of the 16th and 17th caverns continued in the fourth quarter of 2018. These caverns are expected to be in service in the first half of 2020 and first half of 2021, respectively. Engineering and procurement activities associated with the 18th cavern commenced in the fourth quarter of 2018. This cavern is anticipated to be operational in the second half of 2022. *Estimated total cost to complete:* • Gross cost is approximately $145 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment. • Keyera's net share is approximately $110 million. *Total net costs to December 31, 2018:* • $24 million for the year ended December 31, 2018 • $81 million since inception
Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)	***Wildhorse Terminal ("Wildhorse"):*** Development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. Wildhorse will initially be pipeline connected to two existing storage terminals in Cushing. An affiliate of Lama Energy Group will own 10% of the project.	During the second half of 2018, civil work and the procurement of long lead items was initiated and construction of the terminal commenced in the fourth quarter. The terminal is expected to be operational by mid-2020. *Estimated total cost to complete:* • gross cost is approximately US$205 million • Keyera's net share of costs is approximately US$185 million *Total net costs to December 31, 2018:* • $76 million for the year ended December 31, 2018 • $76 million since inception

Estimated costs and completion times for the projects currently under development that are discussed above assume that construction proceeds as planned, that actual costs are in line with estimates and, where required, that regulatory approvals and any other third-party approvals or consents are received on a timely basis. With respect to regulatory approvals for underground storage caverns at KFS, the authorization to put the wells into service is applied for after the cavern has been washed. There are no material regulatory approvals outstanding on the other projects listed as most are complete or nearing completion. A portion of the costs incurred for completed and ongoing projects are based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, "Forward-Looking Statements", provides more information on factors that could affect the development of these projects.

Marketing

The Marketing segment is focused on the distribution and sale of products associated with Keyera's facilities, including NGLs, crude oil and iso-octane. Keyera markets products acquired through processing arrangements, term supply agreements and other purchase transactions. Most NGL volumes are purchased under one-year supply contracts typically with terms beginning in April of each year. In addition, Keyera has long-term supply arrangements with several producers for a portion of its NGL supply. Keyera may also source additional condensate or butane, including from the U.S., when market conditions and associated sales contracts are favourable.

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 condensate sales, the majority of the product is sold to customers in Alberta shortly after it is purchased. Butane is used as the primary feedstock in the production of iso-octane at Keyera's AEF facility and therefore a significant portion of the contracted butane supply is retained for Keyera's own use, and the balance is generally sold into the Alberta market shortly after it is purchased.

Propane markets are seasonal and geographically diverse. Keyera sells propane in various North American markets, often where the only option for delivery is via railcar or truck. Keyera is well positioned to serve these markets due to its extensive infrastructure and rail logistics expertise. Further, because demand for propane is typically 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 lower to fulfill winter term-sales commitments.

Keyera manages its NGL 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, as well as pricing differentials between different geographic markets. These risks are managed by purchasing and selling product at prices based on the same or similar indices or benchmarks, and through physical and financial contracts that include energy-related forward contracts, price swaps, forward currency contracts and other hedging instruments. A more detailed description of the risks associated with the Marketing segment is available in Keyera's Annual Information Form, which is available at www.sedar.com.

Keyera's primary markets for iso-octane are in the Gulf Coast and Midwestern United States and Western Canada. Demand for iso-octane is seasonal, with higher demand in the spring and summer, typically resulting in higher sales prices during these months. There can be significant variability in iso-octane margins. As with Keyera's other marketing activities, various strategies are utilized to mitigate the risks associated with the commodity price exposure, including the use of financial contracts. The section of this MD&A titled "Risk Management" provides more information on the risks associated with the sale of iso-octane and Keyera's related hedging strategy.

Keyera also engages in liquids blending (previously referred to as crude oil midstream activities), where it operates facilities at various locations, including the newly acquired Oklahoma Liquids Terminal, allowing it to transport, process and blend various product streams. Margins are earned by blending products of lower value into higher value products. As a result, these transactions are exposed to variability in price and quality differentials between various product streams. Keyera manages this risk by balancing its purchases and sales and employing risk management strategies.

Overall, the integration of Keyera's business lines means that its Marketing segment can draw on the resources available to it through its two facilities based operating segments (Liquids Infrastructure and Gathering and Processing), including access to NGL supply and key fractionation, storage and transportation infrastructure and logistics expertise.

Operating and realized margin for the Marketing segment was as follows:

Operating and Realized Margin (Thousands of Canadian dollars, except for sales volume information)	**2018**	2017
Revenue[1]	**3,811,915**	2,803,950
Operating expenses[1]	**(3,445,685)**	(2,675,580)
Operating margin	**366,230**	128,370
Unrealized (gain) loss on risk management contracts	**(70,210)**	(178)
Realized margin	**296,020**	128,192
Sales volumes (Bbl/d)	**152,300**	143,000

Note:
[1] Includes inter-segment transactions.

Realized margin is not a standard measure under GAAP. Management believes that this supplemental measure facilitates the understanding of the Marketing segment's financial results in the period without the effect of mark-to-market changes from risk management contracts related to future periods.

Composition of Marketing Revenue (Thousands of Canadian dollars)	**2018**	2017
Physical sales	**3,730,386**	2,858,265
Realized cash gain (loss) on financial contracts[1]	**11,319**	(54,493)
Unrealized gain due to reversal of financial contracts existing at end of prior period	**27,599**	27,902
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	**41,516**	(27,599)
Unrealized gain (loss) from change in fair value of fixed price physical contracts[2]	**1,095**	(125)
Total unrealized gain on risk management contracts	**70,210**	178
Total gain (loss) on risk management contracts	**81,529**	(54,315)
Total Marketing revenue	**3,811,915**	2,803,950

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.

Revenue, Operating and Realized Margin
For the year ended December 31, 2018, the Marketing segment posted record financial results. Operating margin for 2018 was $366 million, $238 million higher than the prior year due to: i) higher realized margin as described below; and ii) the inclusion of a $70 million non-cash unrealized gain from risk management contracts compared to a non-cash gain of virtually $nil in 2017.

Realized margin (excluding the effect of non-cash unrealized gains and losses from risk management contracts) was $296 million, $168 million higher than 2017 primarily due to the following factors:

- approximately $100 million in higher iso-octane margins that resulted from:

  i) higher sales volumes during the peak demand season in 2018 as AEF operated on average above its nameplate capacity in the first nine months of the year. Comparatively, sales volumes were lower in 2017 due to a nine-week unscheduled outage that extended into the third week in April;

  ii) approximately 25% of total sales volumes in the second quarter of 2018 attracted significantly higher premiums for iso-octane to meet short-term demand, these higher premium sales continued into July;

  iii) $23 million in realized cash gains associated with the settlement of risk management contracts put in place to protect the value of butane feedstock that is used to produce iso-octane. The majority of these gains related to butane that was still in inventory at December 31, 2018; and

  iv) the receipt of initial insurance proceeds of $5 million in 2018 that related to the recovery of a portion of the repair costs at AEF in 2017. By comparison, the 2017 financial results included an $8 million charge related to this unplanned repair work; and

- higher condensate margins associated with increased volumes moving through Keyera's condensate network to meet the growing needs of oil sands producers; and

- higher margins from Keyera's liquids blending business because of higher volumes in part due to the acquisition of the Oklahoma Liquids Terminal in June 2018, combined with higher average prices for crude oil and condensate relative to other NGLs.

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the year ended December 31, 2018, revenue from physical sales was $872 million higher compared to 2017 due to higher average sales prices and higher sales volumes for substantially all products.

Market Overview
The financial results of the Marketing segment in 2018 were outstanding as Keyera was able to effectively utilize its infrastructure including storage, fractionation and transportation capabilities, as well as high utilization at the AEF facility to generate record margins. Overall iso-octane margins in 2018 set a record due to the number of factors described above. Although AEF was taken off-line in November for preventative maintenance work, margins were strong in the fourth quarter of 2018 due to: i) an effective risk management strategy whereby attractive margins were secured; and ii) the timing of settling inventory-related risk management contracts. Fourth quarter 2018 iso-octane margins included $23 million in realized cash gains related to butane feedstock, the majority of which was still in inventory at year end. Significant gains were realized on these financial contracts as a result of the steep decline in crude oil prices from September to December 2018. As the higher price butane inventory relative to market value is consumed as feedstock in future periods, physical iso-octane margins are expected to be lower. Refer to the Risk Management section below for more information related to Keyera's risk management strategies.

Because butane is the primary feedstock for the production of iso-octane, butane costs directly affect iso-octane margins. The majority of Keyera's butane supply is purchased on a one year term basis. For the

contract year that began on April 1, 2018, the price for butane as a percentage of crude oil was comparable to the prior year. The spot price for butane typically increases in the winter months due to the seasonal demand for cold weather gasoline blending. However, butane prices have been unusually weak in Alberta due to exceptionally high inventory levels resulting from longer than planned refinery outages and turnarounds, as well as increased drilling activity in 2018. While market fundamentals support lower butane prices in Alberta for the near term, it will take time for Keyera to consume the higher price butane that is currently in inventory.

Propane margins were strong in the fourth quarter of 2018 due to typical winter conditions and higher sales volumes as Keyera utilized its Josephburg Terminal to export propane by rail to meet winter heating demand in markets across North America. Margins were also strong in the fourth quarter because of Keyera's effective hedging strategy. While propane prices declined in the fourth quarter of 2018 with the decrease in crude oil prices, margins were protected through the use of propane forward financial contracts. On an annual basis, propane margins remained a small contributor to Keyera's overall Marketing operating margin, but there is greater seasonal variation between the summer and winter months as storage and rail car lease costs were expensed throughout the year.

As oil sands projects have come on stream over the past few years, bitumen production has increased along with demand for condensate that is used as a diluent. This demand for condensate is being met primarily by increased condensate production from the Western Canada Sedimentary Basin and pipeline deliveries from the United States. Contribution from the marketing of condensate in 2018 was strong as higher volumes moved through Keyera's condensate system in the Edmonton/Fort Saskatchewan area, allowing for greater commercial opportunities for the Marketing segment. Also, Keyera imports condensate into Alberta when demand fundamentals support positive operating margins.

Margins from Keyera's liquids blending business also contributed to the strong 2018 financial results, largely due to higher volumes and prices for crude oil and condensate relative to other NGLs. Volumes and margins were also higher as a result of acquiring the Oklahoma Liquids Terminal in June 2018. Refer to the section of this MD&A, "Liquids Infrastructure: Liquids Infrastructure Activity", for more information related to the acquisition of this terminal in the U.S.

Risk Management

When possible, Keyera uses hedging strategies to mitigate risk in its Marketing business, including foreign currency exchange risk associated with the purchase and sale of NGLs and iso-octane. Keyera's hedging objective for iso-octane is to secure attractive margins and mitigate the effect of iso-octane price fluctuations on its future operating margins. Iso-octane is generally priced at a premium to the price of Reformulated Blendstock for Oxygen Blending ("RBOB"). RBOB is the highest volume refined product sold in the U.S. and has the most liquid forward financial contracts. Accordingly, Keyera expects to continue to utilize RBOB-based financial contracts to hedge a portion of its iso-octane sales.

To protect the value of its NGL inventory from fluctuations in commodity prices, Keyera typically uses physical and financial forward contracts. For propane inventory, contracts are generally put in place as inventory builds and may either: i) settle when products are expected to be withdrawn from inventory and sold; or ii) settle and reset on a month-to-month basis. Within these strategies, there may be differences in timing between when the contracts are settled and when the product is sold. In general, the increase or decrease in the fair value of the contracts is intended to mitigate fluctuations in the value of the inventories and protect operating margin. Keyera typically uses propane physical and financial forward contracts to hedge its propane inventory.

Keyera may hold butane inventory to meet the feedstock requirements of the AEF facility. For condensate, most of the product purchased is sold within one month. The supply and sales price for both butane and condensate are typically priced as a percentage of West Texas Intermediate ("WTI") crude oil and in certain cases the supply cost may be based on a hub posted or index price. To align the pricing terms of physical supply with the terms of contracted sales and to protect the value of butane and condensate inventory, the following hedging strategies may be utilized:

- Keyera may enter into financial contracts to lock in the supply price at a specified percentage of WTI, as the sales contracts for butane and condensate are also generally priced in relation to WTI. When butane or condensate is physically purchased, the financial contract is settled and a realized gain or loss is recorded in income.

- Once the product is in inventory, WTI financial forward contracts are generally used to protect the value of the inventory.

Within these hedging strategies, there may be differences in timing between when the financial contracts are settled and when the products are purchased and sold. There may also be basis risk between the prices of crude oil and the NGL products and therefore the financial contracts may not fully offset future butane and condensate price movements.

For the year ended December 31, 2018, the total unrealized gain on risk management contracts was $70 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding risk management contracts as at December 31, 2018 resulted in an unrealized (non-cash) gain of $42 million that includes the following significant items:

- a $36 million non-cash gain relating to iso-octane risk management contracts;
- a $5 million non-cash gain relating to propane, butane and condensate risk management contracts; and
- a $1 million non-cash loss relating to foreign currency and other financial contracts.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at December 31, 2018, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 22, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	**2018**	2017
Other income (operating margin)	**13,680**	14,616
General and administrative (net of overhead recoveries on operated facilities)	**(85,674)**	(67,293)
Finance costs	**(75,689)**	(72,393)
Depreciation, depletion and amortization expenses	**(206,719)**	(165,978)
Net foreign currency (loss) gain on U.S. debt	**(5,317)**	11,131
Long-term incentive plan expense	**(14,262)**	(13,907)
Impairment expense	**(63,350)**	(20,830)
Gain on disposal of property, plant and equipment	**—**	20,447
Income tax expense	**(130,678)**	(104,798)

Other Income

Keyera has acquired oil and gas reserves as part of the acquisition of ownership interests in the Minnehik Buck Lake, West Pembina, Bigoray and Cynthia facilities. Keyera reports operating margin (net of royalties and operating expenses) from the production associated with all of its reserves as other income as it has no plans to drill additional wells to offset natural production declines.

Other income for the year ended December 31, 2018 was $14 million, $1 million lower than the prior year. Production for the year ended December 31, 2018 averaged 3,670 barrels of oil equivalent per day compared to 4,107 barrels of oil equivalent per day in 2017.

The reserves and production are not material to Keyera's business and do not have a material effect on its financial results.

General and Administrative Expenses

General and administrative ("G&A") expenses for 2018 were $86 million, $18 million higher than the prior year primarily due to the following:

- $11 million in higher salary and short-term incentive plan costs; and
- $6 million of costs and interest charges associated with a construction dispute that was settled in September. Refer to note 31 of the accompanying financial statements for more information related to this dispute.

Finance Costs (including accretion)

Finance costs for the year ended December 31, 2018 were $76 million, $3 million higher than the prior year largely due to higher interest capitalized on qualifying projects that is a reduction to finance costs. Interest capitalized on qualifying projects was $31 million in 2018 compared to $27 million in the prior year.

Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization ("DD&A") expenses were $207 million in 2018, $41 million higher than the prior year due to: i) a reduction in the useful life of the Nevis gas plant; and ii) an increase in Keyera's overall asset base, including the Alder Flats gas plant expansion, the Keylink pipeline and the Base Line Terminal.

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

The net foreign currency (loss) gain associated with the U.S. debt was as follows:

Net Foreign Currency Gain (Loss) on U.S. Debt (Thousands of Canadian dollars)	**2018**	2017
Translation of long-term debt and interest payable	**(50,297)**	39,921
Change in fair value of cross-currency swaps – principal and interest portion	**42,265**	(31,316)
Gain on cross-currency swaps – interest portion[1]	**2,715**	2,526
Net foreign currency (loss) gain on U.S. debt	**(5,317)**	11,131

Note:
[1] Foreign currency gains (losses) resulted from the exchange of currencies related to the settlement of interest payments on the long-term cross-currency swaps.

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. 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. Additional information on the swap agreements can be found in note 22, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency loss of $5 million was recorded for the year ended December 31, 2018. The translation of U.S. dollar denominated debt into Canadian dollars resulted in a $50 million non-cash loss as the Canadian dollar weakened relative to the U.S. dollar since the end of 2017. This unrealized loss was partly offset by a $42 million non-cash gain resulting from the change in fair value of cross currency swap agreements since the end of 2017.

Long-Term Incentive Plan Expense

The Long-Term Incentive Plan ("LTIP") expense was $14 million for the year ended December 31, 2018, virtually unchanged compared to the prior year. The effect of a lower share price at the end of 2018 relative to the end of 2017 was offset by higher payout multipliers associated with the 2015 LTIP grant that was settled in 2018 as well as the 2016 outstanding grant.

Net Impairment Expense

Keyera reviews its assets for indicators of impairment on a quarterly basis. As well, if an asset has been impaired and subsequently recovers in value, GAAP requires the asset to be written-up (i.e. reversal of previous impairments). In the third quarter of 2018, an impairment charge of $63 million was recorded to reduce the carrying value of the Minnehik Buck Lake and Zeta Creek gas plants to their recoverable amounts as a result of reduced drilling activity and corresponding throughput at these facilities.

In 2017, an impairment expense of $21 million was recorded: i) $18 million to reduce the carrying value of the Caribou gas plant that ceased operation effective December 2015; and ii) $3 million to reduce the carrying value of two non-core pipelines that were subsequently sold in early 2018.

Impairment expenses are non-cash charges and do not affect operating margin, distributable cash flow, EBITDA, or Adjusted EBITDA.

Gain on Disposal of Property, Plant and Equipment

In 2017, Keyera sold the Paddle River gas plant and Judy Creek pipeline for proceeds of approximately $6 million. The sale of these non-core assets resulted in a gain of $20 million in the second quarter of 2017. Neither the Paddle River gas plant nor the Judy Creek pipeline were operational at the time of the sale.

Taxes

In general, as earnings before taxes increase, total tax expense (current and deferred taxes) will also be higher. If sufficient tax pools exist, current taxes will be reduced and deferred income taxes will increase as these tax pools are utilized. Other factors that affect the calculation of deferred income taxes include future income tax rate changes and permanent differences (i.e. accounting income or expenses that will never be taxed or deductible for income tax purposes).

Current Income Taxes

Current income tax expense for the year ended December 31, 2018 was $32 million, compared to an expense of $5 million in 2017. For 2019, current income tax expense is currently expected to range between $75 million and $85 million. Current income tax expense for 2020 is estimated to be less than $10 million as approximately $950 million of announced capital projects from the Gathering and Processing segment become available for use in 2019. Tax pools associated with gas plants and their accompanying gathering systems are generally included in class 41 that attract a 25% tax depreciation rate (capital cost allowance or "CCA"). This is compared to projects such as the Norlite pipeline, South Grand Rapids pipeline and Base Line Terminal that became operational in 2017 and 2018 and attract significantly lower CCA rates. In addition, the Federal Minister of Finance presented the 2018 Federal Fall Economic Update which introduced the Accelerated Investment Incentive ("AII") that will increase the first year CCA deduction for certain eligible CCA classes effective November 21, 2018. This incentive will remain in effect until 2023, at which point it will be gradually phased out.

The current tax expense estimates for 2019 and 2020 assumes Keyera's business performs as planned and its capital projects are completed as expected. Over 2020 and 2021, a further $750 million of announced capital projects in the Gathering and Processing segment are expected to be available for use and in general attract a 25% CCA rate. In addition, the cost of turnarounds are fully deductible in the year they are incurred for income tax purposes.

Deferred Income Taxes

For the year ended December 31, 2018, deferred income tax expense was $99 million, virtually unchanged from the prior year. The effect of higher earnings before taxes in 2018 was substantially offset by the recognition of a $17 million deferred tax recovery related to Keyera's U.S. subsidiary. With the acquisition of the Oklahoma Liquids Terminal in June 2018, Keyera considers it probable that there will be sufficient future taxable profits in its U.S. subsidiary to utilize tax losses that had not been recognized prior to June 30, 2018 for deferred income tax purposes.

Keyera estimates its total tax pools at December 31, 2018 were approximately $3.0 billion.

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,** **2018**	2017
Operating Margin		
Gathering and Processing	**73,530**	72,744
Liquids Infrastructure	**83,768**	81,905
Marketing	**156,623**	54,032
Other	**2,902**	2,408
Operating margin	**316,823**	211,089
Realized margin[1,2]	**265,577**	216,056
Net earnings	**165,052**	88,052
Earnings per share (basic)	**0.79**	0.45
Cash flow from operating activities	**245,632**	212,609
Distributable cash flow[3]	**200,397**	173,890
Distributable cash flow per share (basic)[3]	**0.96**	0.90
Dividends declared	**94,437**	81,801
Dividends declared per share	**0.45**	0.42
Adjusted EBITDA[4]	**248,278**	197,399
Capital expenditures (including acquisitions)	**248,573**	196,825
Volumetric Information		
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,551**	1,526
Net processing throughput (MMcf/d)	**1,215**	1,192
Liquids Infrastructure[5]:		
Gross fractionation throughput (Mbbl/d)	**182**	193
Net fractionation throughput (Mbbl/d)	**83**	76
AEF iso-octane production volumes (Mbbl/d)	**10**	15
Marketing:		
Sales volumes (Bbl/d)	**165,700**	164,900

Notes:

1 Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the Composition of Marketing Revenue and Operating/Realized Margin table below for a reconciliation of Operating Margin to Realized Margin as it relates to the Marketing segment. Included in Operating margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment is $221 of unrealized gains from commodity-related risk management contracts (2017 – $2,780 unrealized gains).

2 Information provided for the prior year has been revised to conform to the presentation adopted in the 2018 Year End Report.

3 Distributable cash flow is not a standard measure under GAAP. See the Distributable Cash Flow table below for a reconciliation of distributable cash flow to its most closely related GAAP measure.

4 Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, accretion, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and Adjusted EBITDA are not standard measures under GAAP. See the Adjusted EBITDA table below for a reconciliation of Adjusted EBITDA to its most closely related GAAP measure.

5 Fractionation throughput in the Liquids Infrastructure segment is the aggregation of volumes processed through the fractionators and the de-ethanizers at the Keyera and Dow Fort Saskatchewan facilities.

Composition of Marketing Revenue and Operating/Realized Margin (Thousands of Canadian dollars)	**Three months ended December 31, 2018**	2017
Physical sales	**843,888**	901,524
Realized cash gain (loss) on financial contracts[1]	**66,577**	(29,047)
Unrealized gain due to reversal of financial contracts existing at end of prior period	**9,007**	20,102
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	**41,516**	(27,599)
Unrealized gain (loss) resulting from change in fair value of fixed price physical contracts[2]	**502**	(250)
Total unrealized gain (loss) on risk management contracts	**51,025**	(7,747)
Total gain (loss) on risk management contracts	**117,602**	(36,794)
Revenue[3]	**961,490**	864,730
Operating Expenses[3]	**(804,867)**	(810,698)
Marketing operating margin	**156,623**	54,032
Unrealized (gain) loss on risk management contracts	**(51,025)**	7,747
Marketing realized margin	**105,598**	61,779

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.
3 Includes inter-segment transactions.

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

Distributable Cash Flow (Thousands of Canadian dollars)	**Three months ended December 31, 2018**	2017
Cash flow from operating activities	**245,632**	212,609
Add (deduct):		
Changes in non-cash working capital	**(29,883)**	(31,068)
Long-term incentive plan recovery	**3,920**	31
Maintenance capital	**(14,419)**	(7,119)
Inventory write-down	**(4,853)**	—
Other	**—**	(563)
Distributable cash flow	**200,397**	173,890
Dividends declared to shareholders	**94,437**	81,801

The following is a reconciliation of EBITDA and Adjusted EBITDA to their most closely related GAAP measure, net earnings for the fourth quarter:

EBITDA (Thousands of Canadian dollars)	**Three months ended December 31,** **2018**	 2017
Net Earnings	**165,052**	88,052
Add (deduct):		
Finance costs	**20,045**	17,633
Depreciation, depletion and amortization expenses	**54,379**	43,917
Income tax expense	**62,042**	34,074
EBITDA	**301,518**	183,676
Unrealized (gain) loss on commodity-related contracts	**(51,246)**	4,967
Net foreign currency (gain) loss on U.S. debt	**(1,994)**	4,097
Adjustment to gain on disposal of property, plant and equipment	**—**	1,719
Impairment expense	**—**	2,940
Adjusted EBITDA	**248,278**	197,399

Net Earnings

Net earnings in the fourth quarter of 2018 were $165 million, $77 million higher than the same period in 2017 primarily due to a $106 million increase in operating margin in 2018 as described below. The higher operating margin was partly offset by:

- $28 million in higher income tax expense due to the $105 million increase in earnings before income tax in 2018 compared to the prior year; and

- $10 million in higher depreciation expense resulting from the growth in Keyera's asset base.

Operating Margin and Realized Margin

Keyera posted record fourth quarter results in 2018. Total operating margin for the fourth quarter of 2018 was $317 million, $106 million higher than the same period in 2017 largely due to significantly stronger financial results from the Marketing segment that included a non-cash gain from the settlement of risk management contracts of $51 million. This is compared to a non-cash loss of $8 million in the fourth quarter of 2017.

Realized margin (excluding the non-cash gains and losses from commodity-related risk management contracts) was $266 million, $50 million higher than the prior year. The fourth quarter operating results are discussed in more detail below.

Gathering and Processing

Operating margin for the Gathering and Processing business segment was $74 million in the fourth quarter of 2018, $1 million higher than the same period in 2017 largely due to the following factors:

- $4 million in higher operating margin from record processing throughput and incremental liquids handling revenues at the Simonette gas plant, as well as incremental operating margin from the Pipestone Liquids Hub that commenced operations at the end of September; and

- a one-time $6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a raw gas gathering pipeline in the Willesden Green and Ferrier areas. This pipeline was acquired from a customer in exchange for a reduction in take-or-pay fees effective July 2018. Keyera also received a longer term commitment for processing volumes at several of its facilities in the west central Alberta area in connection with this transaction.

These positive factors were substantially offset by: i) lower revenues at the Rimbey and Nevis gas plants as lower producer activity levels contributed to volume declines at those facilities; and ii) a reduction in take-or-pay fees provided to a customer effective July 2018 as described above.

Gross processing throughput averaged 1,551 million cubic feet per day for the fourth quarter of 2018, 2% higher than the same period in 2017 primarily due to record processing throughput at the Simonette gas plant, together with higher average processing throughput at the Alder Flats gas plant. These volume increases more than offset lower throughput at the Rimbey gas plant.

Liquids Infrastructure

Operating margin from the Liquids Infrastructure segment was $84 million in the fourth quarter of 2018, $2 million higher than the same period in 2017. The higher financial results for the quarter were largely due to incremental revenue associated with the Base Line Terminal, as all twelve crude oil storage tanks were operational in the fourth quarter. This incremental revenue was partly offset by the following:

- lower fractionation revenue in the quarter associated with lower fractionation fees overall in 2018;
- $2 million in higher operating expenses at the Alberta Diluent Terminal associated with converting one above ground storage tank from condensate to iso-octane service to provide greater operational flexibility to meet the seasonal demand for iso-octane; and
- the inclusion of a $2 million one-time increase to revenue in the 2017 financial results related to the cash recovery of capitalized project costs.

Marketing

Operating margin from the Marketing segment was $157 million in the fourth quarter of 2018, $103 million higher than the same period in 2017 due to: i) higher realized margin as described below; and ii) the inclusion of a $51 million non-cash unrealized gain from risk management contracts compared to a non-cash loss of $8 million in the fourth quarter of 2017.

Realized margin (excluding the effect of non-cash gains and losses from commodity-related risk management contracts) was $106 million in the fourth quarter of 2018 or $44 million higher than the same period in the prior year. The significantly higher financial results in the fourth quarter of 2018 primarily stemmed from:

- $34 million in higher iso-octane margins due to: i) an effective risk management strategy whereby attractive margins were secured; and ii) the timing of settling inventory-related risk management contracts. Fourth quarter 2018 results included $23 million in realized cash gains from the settlement of financial contracts that were put in place to protect the value of butane inventory that is used to produce iso-octane. The strong iso-octane margins in 2018 were achieved despite AEF being off-line for most of November for preventative maintenance work; and
- higher condensate margins associated with increased volumes moving through Keyera's condensate system to meet the growing needs of oil sands producers.

The section of this MD&A titled, "Segmented Results of Operations", provides more information related to the performance of each of the operating segments.

Corporate and Other

Keyera reports operating margin (net of royalties and operating expenses) from the production associated with all of its reserves as other income. Other income was $3 million in the fourth quarter of 2018, virtually unchanged from the same period in 2017. Production for the three months ended December 31, 2018 averaged 3,529 barrels of oil equivalent per day compared to 3,897 barrels of oil equivalent per day in the same period in 2017.

Cash Flow Metrics

For the three months ended December 31, 2018, cash flow from operating activities was $246 million, $33 million higher than the same period in 2017. Distributable cash flow was $200 million for the fourth quarter of 2018, $27 million higher than the same period in the prior year. The higher cash flow metrics in the fourth quarter of 2018 were largely a result of the record Marketing results. See the section of this MD&A, "Results of Operations: Marketing", for more information related to the timing of settling these financial contracts.

For the three months ended December 31, 2018, dividends declared were $94 million, or 47% of distributable cash flow, compared to dividends declared of $82 million, or 47% of distributable cash flow for the same period in 2017.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's audited consolidated financial statements in accordance with GAAP, management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The most significant estimates are those indicated below:

Operating Revenues

Gathering and Processing and Liquids Infrastructure:

For each month, actual volumes processed and fees earned from the Gathering and Processing and Liquids 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 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, 2018, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately $68 million primarily for December 2018 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.

At December 31, 2018, the Marketing sales and accounts receivable contained an estimate for December 2018 revenues of approximately $116 million.

Operating Expenses and Product Purchases

Gathering and Processing and Liquids 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 Liquids 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, 2018, operating expenses and accounts payable contained an estimate of approximately $24 million primarily for December 2018 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 U.S. The majority of NGL mix

purchases are estimated each month as actual volume information is generally not available until the next month. Specification product volumes and prices are based upon contract volumes and prices. Accordingly, the 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 approximately $116 million at December 31, 2018.

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 $5 million was included in revenue and accounts receivable at December 31, 2018. Operating expenses and accounts payable contained an equalization adjustment of $10 million.

Depreciation of property, plant and equipment
For purposes of determining depreciation, depletion and amortization expense, estimates and judgments are required to establish depreciation methods, useful lives, and residual values for Keyera's assets. Determining depreciation methods requires management to make judgments that most appropriately reflect the pattern of an asset's future economic benefit expected to be consumed by Keyera. For assets other than production assets, useful life estimates include management's assumptions regarding the period over which the asset is expected to be available for use by the company. This includes assessing the assets' physical and economic lives and, if applicable, may include an estimation of the associated reserve lives and production activity related to the assets' respective capture areas.

Production assets are depleted using the unit-of-production method based on estimated proved reserves, which are determined by Keyera's independent qualified reserves evaluator. The estimation of reserves involves the exercise of professional judgment and is inherently subject to uncertainty. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves.

Allowance for Expected Credit Losses
The allowance for expected 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 expected credit losses was $2 million as at December 31, 2018, approximately $1 million lower than the prior year end.

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 estimates 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 22, Financial Instruments and Risk Management, of the accompanying financial statements for a summary of the fair value of derivative financial instruments existing at December 31, 2018.

Fair value estimates of property, plant and equipment
Determination of the fair value of identifiable assets acquired in a business combination requires Keyera's management to make assumptions and estimates about future events. The fair value of identifiable assets such as gathering and processing, storage and fractionation facilities, pipelines, terminals and other equipment is estimated with reference to the expected discounted future cash flows expected to be derived

from the acquired assets. These assumptions and estimates generally require judgment and include estimates of future revenues, costs and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired in a business combination.

Impairment of property, plant and equipment and goodwill
In determining the recoverable amount of assets, in the absence of quoted market prices, estimates are made regarding the present value of future cash flows. The useful lives of property, plant and equipment is determined by the present value of future cash flows. Future cash flow estimates are based on future production profiles and reserves for surrounding wells, commodity prices and costs. Estimates are also made in determining the discount rate used to calculate the present value of future cash flows.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and the discount rate in order to calculate present value. The determination of CGUs is subject to management's judgment.

Refer to note 11, Property, Plant and Equipment and note 12, Goodwill, of the accompanying financial statements for further details of the impairment expense recorded for the year ended December 31, 2018.

Long-term incentive plan liability
The LTIP is accounted for using the liability method and is measured at fair value. Determining the fair value requires management to estimate Keyera's financial performance over a three-year period to determine the appropriate payout multiplier associated with the Performance Awards. The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the three-year period and 30% on the relative total shareholder return over the same period. The payout multiplier determines the number of shares expected to be settled following the third anniversary of the grant date of the Performance Awards. Refer to note 21, Share-based Compensation and Pension Plans, of the accompanying financial statements for further details.

Decommissioning liability
Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its gathering and processing, fractionation, iso-octane and storage facilities, pipelines and terminals at the end of their economic life. The majority of decommissioning obligations are generally expected to be incurred over the next 25 to 45 years. While the provision is based on the best estimate of future costs and the economic lives of these assets, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

The process, overseen by Keyera's 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 decommissioning liability to be approximately $514 million at December 31, 2018, compared to $466 million at December 31, 2017. The fair value of the decommissioning liability is calculated by using a risk-free discount rate of 2.2% (December 31, 2017 – 2.3%).

For an investor to compare Keyera's decommissioning liability with that of midstream peers who use a credit adjusted discount rate, the net present value of Keyera's decommissioning liability would have been $267 million as of December 31, 2018 based on an estimated credit adjusted discount rate of 5.0% (December 31, 2017 – $269 million assuming an estimated credit adjusted discount rate of 4.6%).

Refer to note 15, Decommissioning Liability, of the accompanying financial statements for a reconciliation of the beginning and ending carrying amount of the decommissioning liability. Additional information related to decommissioning, abandonment and reclamation is also provided in Keyera's Annual Information Form, which is available on SEDAR at www.sedar.com.

Deferred tax assets and liabilities

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. Refer to note 17, Income Taxes, of the accompanying financial statements for a reconciliation of income taxes to the income tax provision recognized for the year ended December 31, 2018.

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, 2018 and 2017:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	2018	2017	**Increase (decrease)**	**Explanation**
Operating	**604,329**	513,697	90,632	Cash generated from operating activities was higher in 2018 because of the increase in realized margin recorded by the Liquids Infrastructure and Marketing segments compared to the prior year. This increase was partly offset by a higher cash requirement to fund NGL inventory, particularly butane in 2018 compared to 2017.
Investing	**(1,258,968)**	(646,935)	(612,033)	Capital spending in 2018 and 2017 primarily related to growth capital projects as described in the "Segmented Results of Operations" section of this MD&A. Capital spending in 2018 included $309 million in acquisitions (net of disposals) associated with: the South Grand Rapids Pipeline, Oklahoma Liquids Terminal; the Keyera Butane System that was previously leased; and the Pipestone project purchased from Encana.
Financing	**314,912**	445,846	(130,934)	Financing activities to fund Keyera's capital program were lower in 2018 as sufficient cash was available from the issuance of common shares in the prior year as well as higher cash generated from operating activities in 2018.

Refer to the consolidated statements of cash flows of the accompanying financial statements for more detailed information.

Working capital requirements are strongly influenced by the amounts of inventory held in storage and their related commodity prices. Product inventories are required to meet seasonal demand patterns and will vary depending on the time of year. Typically, Keyera's inventory levels for propane are at their lowest after the winter season and reach their peak in the third quarter to meet the demand for propane in the winter season.

Butane inventory is maintained for the production of iso-octane. When market conditions enable Keyera to source additional butane at favourable prices, butane may be held in storage for use in future periods. Inventory levels for iso-octane may fluctuate depending on market conditions. Demand for iso-octane is typically stronger in the second and third quarters, associated with the higher gasoline demand in the summer months.

A working capital surplus (current assets less current liabilities) of $1 million existed at December 31, 2018. This is compared to a surplus of $337 million at December 31, 2017. Keyera has access to a credit facility in the amount of $1.5 billion of which $80 million was drawn as at December 31, 2018. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility.

Equity Financing

In the fourth quarter of 2017, Keyera issued 12,200,000 common shares, as well as an additional 1,830,000 common shares pursuant to an over-allotment option exercised by underwriters in connection with the equity offering. The common shares were issued at a price of $35.20 per common share for gross total proceeds of approximately $494 million. Financing costs associated with the issuance of shares were approximately $20 million.

Dividend Reinvestment Plan

Keyera's dividend reinvestment plan (the "Plan") consists of two components: a Premium Dividend™ ("Premium DRIP") reinvestment component and a regular dividend reinvestment component ("DRIP"). The DRIP component allows eligible shareholders of Keyera to direct their cash dividends to be reinvested in additional shares issued from treasury at a 3% discount to the Average Market Price (as defined in the Plan) on the applicable dividend date, with no incremental finance costs.

The Premium DRIP component permits eligible shareholders to elect to have the additional shares issued at the 3% discount delivered to the designated Plan Broker in exchange for a premium cash payment equal to 101% of the regular, declared cash dividend that was reinvested on their behalf under the Plan. A copy of the Plan is available on Keyera's website at www.keyera.com and on SEDAR at www.sedar.com.

The DRIP and Premium DRIP generated cash of $196 million for the year ended December 31, 2018. In 2017, the plan generated cash of $181 million.

Corporate Credit Ratings

Keyera has been assigned an issuer rating of "BBB" with a "stable" trend by DBRS Limited ("DBRS") and a long-term corporate credit rating of "BBB/Stable" by S&P Global ("S&P"). The medium-term notes issued by Keyera in June 2018 have been assigned a rating of "BBB" with a "stable" trend by DBRS and "BBB" by S&P.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Rating agencies will regularly evaluate Keyera, including its financial strength. In addition, factors not entirely within Keyera's control may also be considered, including conditions affecting the industry in which it operates. A credit rating downgrade could impair Keyera's ability to enter into arrangements with suppliers or counterparties and could limit its access to private and public credit markets in the future and increase the costs of borrowing.

Long-term Debt (including Credit Facilities)
Below is a summary of Keyera's long-term debt obligations as at December 31, 2018:

As at December 31, 2018 (Thousands of Canadian dollars)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**After 2023**
Credit facilities							
Bank credit facility	80,000	—	—	—	—	80,000	—
Total credit facilities	**80,000**	**—**	**—**	**—**	**—**	**80,000**	**—**
Canadian dollar denominated debt							
Senior unsecured notes:							
5.01% due January 4, 2019	70,000	70,000	—	—	—	—	—
4.35% due June 19, 2019	52,000	52,000	—	—	—	—	—
5.68% due September 8, 2020	2,000	—	2,000	—	—	—	—
6.14% due December 3, 2022	60,000	—	—	—	60,000	—	—
3.50% due June 16, 2023	30,000	—	—	—	—	30,000	—
4.91% due June 19, 2024	17,000	—	—	—	—	—	17,000
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
4.15% due June 16, 2026	30,000	—	—	—	—	—	30,000
3.96% due October 13, 2026	200,000	—	—	—	—	—	200,000
3.68% due September 20, 2027	400,000	—	—	—	—	—	400,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
4.11% due October 13, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	1,256,000	122,000	2,000	—	60,000	30,000	1,042,000
Senior unsecured medium-term notes:							
3.93% due June 21, 2028	400,000	—	—	—	—	—	400,000
	1,656,000	122,000	2,000	—	60,000	30,000	1,442,000
U.S. dollar denominated debt							
Senior unsecured notes:							
3.42% due June 19, 2019 (US$3,000)	4,094	4,094	—	—	—	—	—
5.14% due September 8, 2020 (US$103,000)	140,549	—	140,549	—	—	—	—
4.19% due June 19, 2024 (US$128,000)	174,662	—	—	—	—	—	174,662
4.75% due November 20, 2025 (US$140,000)	191,037	—	—	—	—	—	191,037
4.95% due November 20, 2028 (US$65,000)	88,696	—	—	—	—	—	88,696
	599,038	4,094	140,549	—	—	—	454,395
Less: current portion of long-term debt	(126,094)	(126,094)	—	—	—	—	—
Total long-term debt	**2,128,944**	**—**	**142,549**	**—**	**60,000**	**30,000**	**1,896,395**

Credit Facilities

Keyera's Credit Facility is with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at December 31, 2018, $80 million was drawn under this facility (December 31, 2017 – $nil).

In 2017, Keyera amended its senior note agreements (discussed below) and the Credit Facility to provide more flexibility with respect to the funding of growth capital projects by introducing two changes in the covenant calculations. The first change allows Keyera to increase its Net Debt to EBITDA ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters. The second change allows Keyera to utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date. In December 2018, the Credit Facility was further amended to extend the term from December 6, 2022 to December 6, 2023. The amendments also incorporated certain changes to the basis of Keyera's commitment fee rates which are now based on its public issuer ratings by DBRS and S&P. Management expects to extend the Credit Facility prior to maturity, and in the event of reaching maturity, expects an adequate replacement will be established.

Keyera also has two unsecured revolving demand facilities, one with the Toronto Dominion Bank in the amount of $25 million and the other with the Royal Bank of Canada in the amount of $50 million. These facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. base rate loans, LIBOR loans or bankers' acceptances.

Long-term Debt

Keyera's long term debt structure consists of a number of senior unsecured notes and medium-term notes. In June 2018, Keyera issued $400 million of medium-term notes in the Canadian public debt market at an interest rate of 3.934% and maturing on June 21, 2028. Keyera has an uncommitted private shelf agreement with Prudential Capital Group ("Prudential") under which it may issue notes subject to certain conditions. The aggregate amount that can be issued under the Prudential facility is US$375 million with an issuance period to December 15, 2019. As at December 31, 2018, there was approximately US$52 million of capacity under the Prudential shelf facility.

In 2017, Keyera closed a private placement of 10-year senior unsecured notes totaling $400 million with a group of institutional investors in Canada and the United States. The long-term notes bear interest at 3.68% and mature on September 20, 2027.

As at December 31, 2018, Keyera had $1,656 million and US$439 million of unsecured senior notes (including amounts drawn under the Prudential shelf facility and medium term notes). To manage the foreign currency exposure on the U.S. dollar denominated debt existing at December 31, 2018, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" provides more information.

The Credit Facility, senior note agreements, and note indenture for the medium-term notes contain a number of covenants, all of which were met as at December 31, 2018. The 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. The primary covenant for Keyera's senior unsecured notes and its Credit Facility, is the Net Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to deduct working capital surpluses or add working capital deficits. As at December 31, 2018, Keyera's Net Debt to EBITDA ratio was 2.6 for covenant test purposes (December 31, 2017 – 2.3 based on the amended covenant calculation). The covenant test used for debt purposes is calculated differently compared to the leverage ratios that are used by credit rating agencies.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the years ended December 31, 2018 and 2017:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	**2018**	2017
Acquisitions	**333,204**	61,122
Growth capital expenditures	**935,435**	657,944
Maintenance capital expenditures	**51,882**	41,048
Total capital expenditures	**1,320,521**	760,114

Growth capital expenditures for the year ended December 31, 2018 amounted to $935 million. Refer to the section of this MD&A, "Segmented Results of Operations", for information related to the various growth capital projects in the Gathering and Processing and Liquids Infrastructure segments, including estimated costs to complete, costs incurred in 2018 and since inception of the project, and estimated completion timeframes.

Acquisitions in 2018 were $333 million and included the following significant items:

- $105 million for a 50% ownership interest in the South Grand Rapids diluent pipeline;
- $110 million (US$83 million including inventory and purchase price adjustments) for the Oklahoma Liquids Terminal that closed in mid-June;
- $41 million for the purchase of the Keyera Butane System that had previously been leased since December 2016; and
- $39 million for the Pipestone project purchased from Encana that closed in April.

Acquisitions in 2017 largely related to the purchase of 1,290 acres of undeveloped land in the Industrial Heartland area near Fort Saskatchewan for approximately $55 million.

Keyera has comprehensive inspection, monitoring and maintenance programs in place. The objectives of these programs are to keep Keyera's facilities in good working order and to maintain their ability to operate reliably for many years. In addition to the maintenance capital expenditures, Keyera incurred maintenance and repair expenses of $52 million for the year ended December 31, 2018, compared to $50 million in 2017. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

To grow future cash flow, Keyera is investing growth capital to expand its current asset base and capture new opportunities. Based on current plans, Keyera anticipates that its growth capital investment in 2019 will be between $800 million and $900 million, excluding acquisitions. Maintenance capital for 2019 is expected to be between $100 million and $110 million, including approximately $50 million for the scheduled turnarounds in the Gathering and Processing segment. Also included in maintenance capital for 2019 is work at Keyera's Fort Saskatchewan facility and approximately $25 million for the scheduled replacement of a catalyst plus costs for additional work at AEF.

Keyera's overall capital program for 2019 is expected to be funded by cash flow from operating activities, the existing Credit Facility and the DRIP and Premium DRIP program. Readers are referred to the section of the MD&A titled, "Forward-Looking Statements" for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

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 dividends.

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

Distributable Cash Flow (Thousands of Canadian dollars)	**2018**	2017
Cash flow from operating activities	**604,329**	513,697
Add (deduct):		
Changes in non-cash working capital	**106,231**	53,942
Long-term incentive plan expense	**(14,262)**	(13,907)
Maintenance capital	**(51,882)**	(41,048)
Inventory write down	**(4,853)**	—
Other	**(1,439)**	(2,250)
Distributable cash flow	**638,124**	510,434
Dividends declared to shareholders	**359,269**	312,643
Payout ratio	**56%**	61%

For the year ended December 31, 2018, dividends declared were $359 million, or 56% of distributable cash flow, compared to dividends declared of $313 million, or 61% of distributable cash flow in 2017.

Distributable cash flow for the year ended December 31, 2018 was $638 million, $128 million higher than 2017 primarily due to: i) incremental revenue from recent investments including the Norlite pipeline and the Base Line Terminal, as well as strong demand for Keyera's diluent handling services in the Liquids Infrastructure segment; and ii) strong realized margin from iso-octane, liquids blending and condensate in the Marketing segment. Distributable cash flow in the first half of 2017 was negatively affected by lower iso-octane margins in the Marketing segment stemming from a nine-week outage at AEF that commenced in February.

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, which are funded from current operating cash flow.

Dividend Policy

Keyera increased its dividend by 7% from $0.14 per share per month to $0.15 per share per month, or $1.80 per share annually, beginning with its dividend payable on September 17, 2018. In determining the level of cash dividends to shareholders, Keyera's board of directors considers current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

Keyera expects to pay dividends from distributable cash flow; however, credit facilities may be used to stabilize dividends from time to time. Growth capital expenditures will be funded from cash, retained operating cash flow, and 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. For a more detailed discussion of the risks that could affect the level of cash dividends, refer to Keyera's Annual Information Form available at www.sedar.com.

EBITDA

EBITDA and Adjusted EBITDA are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure showing earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity-related contracts, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. Management believes that these supplemental measures facilitate the understanding of Keyera's results from operations.

The following is a reconciliation of EBITDA and Adjusted EBITDA to their most closely related GAAP measure, net earnings:

EBITDA (Thousands of Canadian dollars)	**2018**	2017
Net earnings	**394,224**	289,920
Add (deduct):		
Finance costs	**75,689**	72,393
Depreciation, depletion and amortization expenses	**206,719**	165,978
Income tax expense	**130,678**	104,798
EBITDA	**807,310**	633,089
Unrealized gain on commodity-related contracts	**(68,900)**	(5,326)
Net foreign currency loss (gain) on U.S. debt	**5,317**	(11,131)
Impairment expense	**63,350**	20,830
Gain on disposal of property, plant and equipment	**—**	(20,447)
Loss on settlement of finance lease	**286**	—
Adjusted EBITDA	**807,363**	617,015

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2018, the obligations that represent known future cash payments that are required under existing contractual arrangements were as follows:

Payments Due by Period

Contractual obligations (Thousands of Canadian dollars)	**Total** **$**	**2019** **$**	**2020** **$**	**2021** **$**	**2022** **$**	**2023** **$**	**After 2023** **$**
Bank indebtedness	10,860	10,860	—	—	—	—	—
Derivative financial instruments	25,014	24,188	826	—	—	—	—
Dividends payable	31,572	31,572	—	—	—	—	—
Credit facility	80,000	—	—	—	—	80,000	—
Long-term debt[1]	2,255,038	126,094	142,549	—	60,000	30,000	1,896,395
Other liabilities[2]	26,543	10,129	9,003	3,417	2,067	1,927	—
Decommissioning liabilities[3]	514,339	11,804	—	—	—	—	502,535
Operating leases[4]	354,284	67,453	53,978	45,128	37,690	25,737	124,298
Purchase obligations[5,6]	946,046	712,322	232,524	1,200	—	—	—
Total contractual obligations	**4,243,696**	**994,422**	**438,880**	**49,745**	**99,757**	**137,664**	**2,523,228**

Notes:

1 Long-term debt obligations are principal only and exclude interest payments. For the U.S. denominated senior unsecured notes, the principal obligations are converted at the December 31, 2018 spot foreign exchange rate of 1.3646.

2 Other liabilities include the current portion of the LTIP and certain trade and other payable balances.

3 The majority of these obligations are expected to be settled between 2019 and 2063. No assets have been legally restricted for settlement of the liability.

4 Keyera has lease commitments relating to railway tank cars, vehicles, real estate, terminal storage, and iso-octane and natural gas transportation.

5 Purchase obligations include third party contractual commitments related to assets under construction.

6 Keyera through its operating entities has assumed commitments in various contractual purchase agreements in the normal course of its operations. The agreements involve the purchase of NGL production from producers in the areas specified in the agreements. The purchase prices are based on current market prices. The future volumes and prices for these contracts cannot be reasonably determined and therefore no amount has been included in purchase obligations to reflect these contractual agreements.

RELATED PARTY TRANSACTIONS

Keyera has provided compensation to key management personnel who are comprised of its directors and executive officers. There have been no other material related party transactions or significant changes to the annual compensation amounts disclosed in note 28, Related Party Transactions, of the accompanying December 31, 2018 financial statements.

RISK FACTORS

The majority of Keyera's cash flow is derived from the Gathering and Processing and Liquids Infrastructure fee-for-service 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 Liquids 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. Many of Keyera's facilities are located in significant liquids-rich natural gas supply areas of the Western Canada Sedimentary Basin or major liquids hubs, 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. Refer to the section below titled, "Marketing Risk", for more information related to these risks.

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 and in the section of this MD&A titled, "Environmental Regulation and Climate Change".

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 prices 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.

Keyera regularly monitors accounts receivable for collection purposes and reviews exposure to customers and counterparties. It has also implemented other credit risk management strategies including but not limited to the following: i) obtaining netting agreements in order to reduce the net exposure to a particular customer or producer; ii) obtaining letters of credit that may be used as collateral; or iii) requiring pre-payment prior to the sale of product or rendering of services where deemed appropriate. 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.

As at December 31, 2018, the allowance for expected credit losses was $2 million (December 31, 2017 – $3 million) to provide for specific accounts receivable amounts that may be uncollectible. 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 22, Financial Instruments and Risk Management, of the accompanying financial statements and to Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

Credit Ratings
With the assignment of two long-term corporate credit ratings, rating agencies will regularly evaluate Keyera, including its financial strength. In addition, factors not entirely within Keyera's control may also be considered, including conditions affecting the industry in which it operates. There can be no assurance that one or more of Keyera's credit ratings will not be downgraded. A credit rating downgrade could impair Keyera's ability to enter into arrangements with suppliers or counterparties and could limit its access to private and public credit markets and increase the costs of borrowing.

Marketing Risk
Keyera enters into contracts to purchase and sell natural gas, NGLs, iso-octane 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, from fluctuations in the margins between purchase prices and sales prices and, in some cases, may also expose Keyera to foreign currency risk.

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, gasoline 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 propane that it markets and in butane that it uses as a feedstock for the production of iso-octane, and it may store these products in order to meet seasonal demand and take advantage of seasonal pricing differentials, resulting in inventory price risk. In Keyera's NGL, iso-octane and liquids blending 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 can lessen certain 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 and physical hedging contracts and by offsetting some physical and financial contracts in terms of volumes, timing of performance and delivery obligations. 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 risk associated with these activities. If Keyera hedges its commodity price exposure, it may forego the benefits that may otherwise be experienced if commodity prices were to change and it is subject to credit risks associated with the counterparties with whom it contracts. Refer to the section of this MD&A titled, "Marketing: Risk Management", for more information of Keyera's risk management strategies.

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. Keyera's functional currency is the Canadian dollar. The Marketing segment has foreign currency risk associated with its sales and purchases denominated in U.S. dollars; however, the Gathering and Processing and Liquids Infrastructure segments have very little foreign currency risk as sales and purchases are primarily denominated in Canadian dollars. 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 related to the principal portion and future interest payments for substantially all 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.

Cyber Security

There is a risk that failure of one or more technology system could lead to failure of other systems. In addition, the risk of cyber-attacks in general are increasing. A breach in Keyera's security or information technology could result in operational outages, financial loss, loss of material data, reputational harm and other adverse outcomes. These risks are somewhat mitigated through Keyera's technology strategy that focuses on employing a multilayer security framework and incident management system to protect and detect issues within its information technology infrastructure.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

Keyera is subject to a range of laws, regulations and requirements imposed by various levels of government and regulatory bodies in the jurisdictions in which it operates. While these legal controls and regulations affect numerous aspects of Keyera's activities, including but not limited to, the operation of wells, pipelines and facilities, construction activities, transportation of dangerous goods, emergency response, operational safety and environmental matters, Keyera does not believe that they impact its operations in a manner materially different from other comparable businesses operating in the same jurisdictions.

The midstream industry is subject to provincial and federal environmental legislation and regulations. Among other things, the environmental regulatory regime provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations. Environmental regulation affects the operation of facilities and limits the extent to which facility expansion is permitted. In addition, legislation requires that facility sites and pipelines be abandoned and reclaimed to the satisfaction of provincial authorities and local landowners. A breach of such legislation may result in the imposition of fines, the issuance of clean-up orders or the shutting down of facilities and pipelines.

Greenhouse gases, mainly carbon dioxide and methane, are components of the raw natural gas processed and handled at Keyera's facilities. Operations at Keyera's facilities, including the combustion of fossil fuels in engines, turbines, heaters and boilers, release carbon dioxide, methane and other minor greenhouse gases. As such, Keyera is subject to various greenhouse gas reporting and reduction programs. Keyera uses engineering consulting firms and internal resources to compile inventories of greenhouse gas emissions and reports these inventories in accordance with federal and provincial programs. Third party audits or verifications of inventories are conducted for facilities that are required to meet regulatory targets.

Keyera is closely monitoring the ongoing development and implementation of the regulatory framework through which the federal and provincial governments are implementing their climate change and emissions reduction policies.

Keyera's year over year compliance costs are increasing as a result of the changes in emissions regulation and are expected to continue to increase. Overall, the increased costs are not expected to be material to Keyera; however, Keyera is looking at opportunities to reduce its costs and enhance the management of its emissions profile. For a detailed discussion of environmental regulations that affect Keyera, political and

legislative developments as they relate to climate change and the risks associated therewith, see Keyera's Annual Information Form which is available at www.sedar.com.

SELECTED FINANCIAL INFORMATION

The following table presents selected annual financial information for Keyera:

(Thousands of Canadian dollars, except per share information)	**2018**	2017	2016
Revenue before intersegment eliminations[1]			
- Gathering and Processing[2]	**458,441**	466,473	462,550
- Liquids Infrastructure	**478,037**	418,822	369,393
- Marketing	**3,811,915**	2,803,950	1,924,614
- Other	**25,436**	26,667	22,625
Operating margin			
- Gathering and Processing	**271,833**	275,284	290,225
- Liquids Infrastructure	**324,456**	285,271	246,104
- Marketing	**366,230**	128,370	101,109
- Other	**13,680**	14,616	8,735
Net earnings	**394,224**	289,920	216,851
Earnings per share ($/share):			
- Basic	**1.90**	1.53	1.21
- Diluted	**1.90**	1.53	1.21
Dividends to shareholders	**359,269**	312,643	277,578
Dividends per share (basic)	**1.73**	1.65	1.54
Shares outstanding (thousands)			
- Weighted average (basic)	**207,397**	189,002	179,688
- Weighted average (diluted)	**207,397**	189,002	179,688
Total assets	**6,782,698**	5,874,128	4,956,961
Total long-term liabilities	**3,315,522**	2,793,360	2,582,728

Notes:

[1] Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. Revenue before inter-segment eliminations includes these transactions. Inter-segment transactions are eliminated on consolidation in order to arrive at Operating Revenues in accordance with GAAP.

[2] Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2017.

In the Gathering and Processing segment, operating margin has trended downward due to continued weak gas prices that has resulted in reduced drilling activity in certain areas. However, producers continue to drill in liquids rich areas, including areas close to the Simonette gas plant that has helped to offset some of the volume declines at other facilities including the Rimbey, Minnehik Buck Lake and Nevis gas plants. Keyera continues to focus on building its infrastructure to meet the needs of customers who are actively drilling in the Montney and Duvernay geological zones. See the section of this MD&A, "Segmented Results of Operations: Gathering and Processing", for more information related to the various projects that are currently underway and significantly expand Keyera's infrastructure footprint in this prolific area.

The Liquids Infrastructure operating segment set a new record for financial results in 2018 that largely stemmed from: i) a full year of take-or-pay fees associated with the Norlite pipeline being in effect; ii) continued demand for Keyera's diluent handling services; and iii) incremental cash flow associated with the Base Line Terminal as all crude oil tanks were operational effective October 2018.

The Marketing segment also set a new record for financial results in 2018 as it was able to effectively utilize Keyera's infrastructure assets including storage, rail and pipeline transportation capabilities as well as high utilization at the AEF facility to generate record margins. Overall iso-octane margins set a record in 2018 combined with strong liquids blending and condensate margins as described throughout this MD&A. Operating margin from the Marketing segment in 2018 also included a $70 million non-cash unrealized gain from risk management contracts.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017	Mar 31, 2017
Revenue[1]								
Gathering and Processing	**125,511**	117,588	107,998	107,354	120,422	116,635	116,689	112,727
Liquids Infrastructure	**128,980**	123,701	115,880	109,476	114,525	103,872	99,398	101,027
Marketing	**961,490**	991,777	927,554	931,094	864,730	612,526	627,651	699,043
Other	**5,696**	6,578	5,921	7,241	5,303	5,065	7,918	8,381
Operating margin (loss)								
Gathering and Processing	**73,530**	63,855	63,901	70,547	72,744	69,381	66,822	66,337
Liquids Infrastructure	**83,768**	82,314	76,571	81,803	81,905	71,718	67,073	64,575
Marketing	**156,623**	69,618	74,137	65,852	54,032	(15,130)	21,033	68,435
Other	**2,902**	3,681	2,886	4,211	2,408	2,265	4,868	5,075
Net earnings	**165,052**	34,684	106,773	87,715	88,052	38,464	67,062	96,342
Net earnings per share ($/share)								
Basic	**0.79**	0.17	0.52	0.43	0.45	0.20	0.36	0.52
Diluted	**0.79**	0.17	0.52	0.43	0.45	0.20	0.36	0.52
Weighted average common shares (basic)	**209,585**	208,037	206,646	205,267	193,552	188,650	187,445	186,286
Weighted average common shares (diluted)	**209,585**	208,037	206,646	205,267	193,552	188,650	187,445	186,286
Dividends declared to shareholders	**94,437**	91,645	86,882	86,305	81,801	79,317	77,400	74,125

Notes:

[1] Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. Revenue before inter-segment eliminations reflects these transactions. Inter-segment transactions are eliminated on consolidation in order to arrive at operating revenues in accordance with GAAP.

In the Gathering and Processing segment, Keyera has continued to focus on delivering cost-effective and value-added services intended to enhance its customers' economics, while at the same time maximizing throughput and efficiencies at its facilities. Drilling activity in the Montney and Duvernay geological zones has steadily increased and has resulted in throughput and operating margin growth at Keyera's Simonette gas plant over the past year. This has helped to offset some of the financial effect of lower throughput at certain other facilities where drilling activity is less robust. Fourth quarter 2018 financial results included a one-time $6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a gathering pipeline, in exchange for a reduction in take-or-pay fees effective July 1, 2018.

In the Liquids Infrastructure segment, incremental cash flow from recent investments, including the Norlite pipeline and the crude oil storage tanks at the Base Line Terminal, have contributed to the growth in operating margin. In addition, Keyera has long-term agreements in place to provide diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area for several oil sands producers and the demand for these services steadily increased over the past eight quarters.

Operating margin from the Marketing segment is affected by seasonal factors. The demand for iso-octane is typically highest in the second and third quarters as the demand for gasoline tends to be higher in the spring and summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. Beginning in 2017, Keyera saw more pronounced seasonal variability in its

propane results due to the pricing strategy it used to purchase volumes. Unrealized non-cash gains and losses resulting from the change in fair value of risk management contracts and the timing of settling these contracts can also have a material effect on quarterly operating margin for this segment. Keyera continues to maintain its disciplined approach to risk management for its NGL and iso-octane products.

See the section of this MD&A, “Segmented Results of Operations”, for more information on the financial results of Keyera’s operating segments for the year ended December 31, 2018.

ADOPTION OF NEW AND AMENDED STANDARDS

Keyera has applied the following new IFRS standards in 2018:

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments (“IFRS 9”), is the new standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”), and provides a single model of classifying and measuring financial assets and liabilities. IFRS 9 only allows for two classification categories: amortized cost and fair value. As a result, the previous financial asset categories of loans and receivables, available for sale and held to maturity have been eliminated. This change in classification categories did not affect how Keyera recognizes and measures its financial instruments.

The requirements for accounting for financial liabilities have remained relatively unchanged from IAS 39. However, for financial liabilities measured at fair value, fair value changes arising from changes in an entity’s own credit risk status are now required to be presented in other comprehensive income, as opposed to profit or loss. Keyera’s financial liabilities measured at fair value include certain derivative instruments. Due to the short-term nature of these instruments, the change in Keyera’s credit risk does not have a material impact on the fair value of its financial liabilities.

IFRS 9 introduces a new expected credit loss model for assessing and calculating financial asset impairments, which replaces the incurred loss model utilized under IAS 39. Instead of determining financial asset impairments as a result of incurred loss events, an entity is now required to consider historical, current and forward-looking expected credit loss information.

The hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. Keyera currently does not follow hedge accounting to reflect its risk management activities.

Keyera adopted IFRS 9 on January 1, 2018 using retrospective application. There was no effect on Keyera’s consolidated financial statements upon adoption of the standard.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), addresses revenue arising from an entity’s contracts with customers, and supersedes:

a) IAS 11 Construction Contracts;
b) IAS 18 Revenue;
c) IFRIC 13 Customer Loyalty Programmes;
d) IFRIC 15 Agreements for the Construction of Real Estate;
e) IFRIC 18 Transfers of Assets from Customers; and
f) SIC-31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 outlines the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. It requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. Keyera adopted IFRS 15 on January 1, 2018 in accordance with the transitional provisions of the standard and IFRS 15 has been applied retrospectively to each prior period presented in the financial statements.

Keyera has applied IFRS 15 using the following practical expedients:

- Where the consideration received from Keyera's revenue contracts corresponds directly with the value provided to the customer, Keyera recognizes revenue in the amount to which it has a "right to invoice" the customer. Any variable consideration associated with such contracts is recognized in the period Keyera becomes entitled to such consideration;
- Where the "right to invoice" method of revenue recognition has been applied, Keyera has utilized the associated practical expedient that does not require disclosure of certain information related to its remaining performance obligations. "Right to invoice" contracts do not have any remaining performance obligations associated with the distinct services that have already been provided under the contracts. Therefore, disclosure of: (1) the transaction price allocated to the remaining performance obligations, and (2) an explanation of when Keyera expects to recognize such amounts as revenue is unnecessary for these contracts;
- For completed contracts, Keyera has not assessed contracts that began and ended within the same annual reporting period; or that were completed at the beginning of the earliest period presented (January 1, 2017); and
- For contract modifications before January 1, 2017, Keyera did not assess contracts for such individual modifications, and instead considered the aggregate effect of all of the modifications for each contact that occurred prior to this date.

Keyera's accounting policies related to the recognition of revenue have not been substantially affected as a result of adopting IFRS 15. Revenues are recognized when Keyera satisfies its performance obligations by transferring control of the promised products or services to its customers, in an amount that reflects the consideration Keyera expects to be entitled to in exchange for those products or services.

Generally, as Keyera performs the distinct services stipulated under the contract, it does not have any remaining performance obligations to its customers for those services. As a result, the majority of Keyera's revenue contracts allow for revenue recognition at the amount to which it has a "right to invoice" the customer. The exception is Keyera's take-or-pay arrangements that include customer make-up rights. Under these arrangements, the customer may have not exercised all of their contractual rights under the contract even though Keyera would have received non-refundable consideration, thereby possibly requiring the performance of future services to the customer. Make-up rights are subject to conditions, including expiry and availability of asset capacity. If material, the revenue associated with the make-up rights is deferred and a corresponding contract liability is separately disclosed in the consolidated statements of financial position. The amount of revenue attributed to the make-up right is the amount of the non-refundable consideration received for the minimum committed volumes not utilized in the current reporting period. Revenue associated with make-up rights are recognized at the earlier of: (i) when the make-up volume is utilized, (ii) the make-up right expires; or (iii) when it is determined the likelihood that the customer will exercise its make-up right is remote. At transition, Keyera did not have any unperformed obligations related to customer make-up rights that were material.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which provides a single lease accounting model for lessees, requiring the recognition of most leases as finance leases on the consolidated statements of financial position.

This will result in the recognition of a lease liability and the corresponding recognition of a leased asset called a right-of-use asset. On the consolidated statements of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items.

For lessors, the accounting treatment remains the same whereby a lessor continues to classify a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15, Revenue from Contracts with Customers on or before the initial application of IFRS 16.

Expected impact

IFRS 16 will be adopted by Keyera on January 1, 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard will be recognized at the date of initial application, including the election of allowable practical expedients.

Keyera has identified existing contracts that would qualify as a lease under the new standard and is finalizing its detailed assessments of such contracts to conclude on the effect to Keyera's consolidated financial statements upon adoption. Furthermore, Keyera is currently completing the necessary changes to its policies, processes, internal controls, information technology systems, key operating metrics, financial covenants, and significant judgments and estimations required.

Upon the initial adoption of IFRS 16, Keyera has elected to measure its right-of-use assets at the value of the lease liability, adjusted for any prepaid or accrued lease payments, and lease incentives received. Subject to finalization, at January 1, 2019 Keyera anticipates that it will recognize right-of-use assets and lease liabilities on its consolidated statement of financial position in the range of $190 million to $210 million. Keyera's most material lessee lease contracts relate to rail car arrangements. Based on Keyera's estimate at January 1, 2019, approximately US$30 million to US$35 million of rail car lease payments are expected to be incurred in 2019, which would have been expensed in the Marketing segment under the previous lease accounting requirements. This estimate is based on information available at the date of transition to IFRS 16 and does not take into consideration any additional rail cars that may be leased, or contract modifications that may occur, during 2019. In addition, Keyera also has significant lessee lease contracts related to pipeline transportation and real estate arrangements. Currently, Keyera does not have any material lessor lease agreements.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of December 31, 2018, Keyera's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to Keyera 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 are designed to 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 for the period beginning January 1, 2018 and ending December 31, 2018 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

There were 5,931,601 common shares issued under the DRIP and the Premium DRIP for consideration of $196 million, bringing the total common shares outstanding at December 31, 2018 to 210,478,743.

Subsequent to December 31, 2018, 1,318,646 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of $35 million, bringing the total common shares outstanding at February 21, 2019 to 211,797,389.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with GAAP. Measures such as distributable cash flow (defined as cash flow from operating activities adjusted for changes in non-cash working capital, long-term incentive plan costs, inventory write-downs, maintenance capital expenditures and finance lease liabilities); distributable cash flow per share (defined as distributable cash flow divided by weighted average number of shares – basic); EBITDA (defined as earnings before finance costs, taxes, depreciation, and amortization); Adjusted EBITDA (defined as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity-related contracts, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment); realized margin (defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts); return on capital (defined as expected operating margin divided by the estimated capital cost for the Simonette projects, the Wapiti and Pipestone gas plants and associated gathering infrastructure, the Wildhorse Terminal and storage cavern capital projects that are currently under development); and compound annual growth rate for distributable cash flow per share, calculated as:

$$\text{Compound Annual Growth Rate for Distributable Cash Flow per Share} = \left(\frac{\text{Distributable Cash Flow per Share at the end of the period}}{\text{Distributable Cash Flow per Share at the beginning of the period}}\right)^{\left(\frac{1}{\text{Number of Years}}\right)} - 1$$

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. 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 dividends. EBITDA and Adjusted EBITDA are measures used as an indication of earnings generated from operations after consideration of administrative and overhead costs. Realized margin is used to assess the financial performance of Keyera's ongoing operations without the effect of unrealized gains and losses on commodity risk management contracts related to future periods. Return on capital is used to reflect the expected profitability and value-creating potential for certain growth projects that have been sanctioned and are currently under development as of the date hereof. Compound annual growth rate provides investors with the rate at which distributable cash flow has grown over a defined period of time. 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

In order to provide readers with information regarding Keyera, including its assessment of future plans, operations and financial performance, certain statements contained herein (and in the documents incorporated by reference) are forward-looking. These forward-looking 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, forward-looking statements may be attributed to third party sources. Management believes that its assumptions and analysis 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 to fund capital requirements and future growth plans; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; access to third-party facilities; competitive action by other companies; activities of producers and customers, including the performance of contractual obligations by customers and demand for services aligned with production profiles; oil sands development activity and overall industry activity levels; changes in gas composition; pipeline product specification changes; 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, ability to maintain current credit ratings; foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; compliance with regulatory requirements; 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 shareholders, and in particular any differential effects relating to shareholder'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 21, 2019, filed on SEDAR at www.sedar.com and available on 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 schedules and expected in-service dates; contractor productivity; contractor disputes; quality of cost estimating; decision processes and approvals by joint venture partners; changes in project scope at the time of project sanctioning; regulatory approvals, conditions or delays (including possible intervention by third parties); Keyera's ability to secure adequate land rights and water supply; and macro socio-economic trends. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions contained herein. Further, some of the projects discussed are subject to securing sufficient producer/customer interest and may not proceed if sufficient commitments are not obtained. Typically, the earlier in the engineering process that projects are sanctioned, the greater the likelihood that the schedule and budget may change.

In addition to the factors referenced above, Keyera's expectations with respect to future returns associated with the growth capital projects that have been sanctioned and are in development as of the date hereof are based on a number of assumptions, estimates and projections that have been developed based on past experience and anticipated trends, including but not limited to: capital cost estimates assuming no material unforeseen costs; timing for completion of growth capital projects; customer performance of contractual obligations; reliability of production profiles; commodity prices, margins and volumes; tax and interest rates; availability of capital at attractive prices; and no changes in regulatory or approval requirements, including no delay in securing any outstanding regulatory approvals.

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.

All forward-looking statements contained herein or in the accompanying documents are expressly qualified by this cautionary statement. Readers are cautioned that they should not unduly rely on these forward-looking statements and that the information contained in the forward-looking statements may not be appropriate for other purposes. Further, readers are cautioned that the forward-looking statements in this document speak only as of the date hereof. Keyera does not undertake any obligation to update forward-looking statements except as required by securities law.

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.

KEYERA CORP.

Investor Information

DIVIDENDS TO SHAREHOLDERS

Dividends declared to shareholders of Keyera were $0.45 per share in the fourth quarter and a total of $1.73 per share in 2018. Effective with the August 2018 dividend and payable to shareholders on September 17, 2018, Keyera increased its dividend by 7% from $0.14 per share to $0.15 per share per month, or $1.80 per share annually. Keyera is focused on providing stable long-term dividends per share that grow over time.

TAXABILITY OF DIVIDENDS

Keyera's dividends are considered to be eligible dividends for the purpose of the Income Tax Act (Canada). For non-resident shareholders, Keyera's dividends are subject to Canadian withholding tax.

SUPPLEMENTARY INFORMATION

A breakdown of Keyera's operational and financial results, including volumetric and operating margin information by major business unit, is available on our website at www.keyera.com/ir/reports.

YEAR END 2018 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the 2018 financial results at 7:00 am Mountain Time (9:00 am Eastern Time) on February 22, 2019. Callers may participate by dialing either 888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 11:59 pm Mountain Time on March 1, 2019 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 8183607.

Internet users can listen to the call live on Keyera's website at www.keyera.com/news/events. 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 1-888-699-4853 or via email at ir@keyera.com. Information about Keyera can also be found on our website at www.keyera.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Keyera Corp. (the "Company") is responsible for the preparation of the financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Management has developed and maintains an extensive system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results, and that the Company's assets are safeguarded. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2018. The Company has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the requirements of Canadian securities legislation.

Deloitte LLP, an independent firm of chartered professional accountants, was appointed by a resolution of the Board of Directors to audit the financial statements of the Company and to provide an independent professional opinion. Deloitte LLP was appointed to hold such office until the next such annual meeting of the shareholders of the Company.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and Deloitte LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Company. The Board of Directors has approved the information contained in the financial statements based on the recommendation of the Audit Committee.

/s/ *David G. Smith*

David G. Smith
Chief Executive Officer
Keyera Corp.

/s/ *Steven B. Kroeker*

Steven B. Kroeker
Chief Financial Officer
Keyera Corp.

February 21, 2019
Calgary, Alberta

Deloitte.

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Independent Auditor's Report

To the Shareholders of Keyera Corp.:

Opinion
We have audited the consolidated financial statements of Keyera Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- 2018 Year End Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and the 2018 Year End Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 21, 2019

Keyera Corp.
Consolidated Statements of Financial Position
(Thousands of Canadian dollars)

As at	Note	**December 31, 2018 $**	December 31, 2017 $
ASSETS			
Cash		**—**	326,381
Trade and other receivables	8	**422,747**	435,620
Derivative financial instruments	22	**71,415**	11,561
Inventory	9	**235,556**	147,831
Other assets	10	**8,982**	16,604
Total current assets		**738,700**	937,997
Derivative financial instruments	22	**130,815**	90,109
Property, plant and equipment	11	**5,749,350**	4,792,398
Intangible assets	7	**92,413**	—
Goodwill	12	**53,624**	53,624
Deferred tax assets	17	**17,796**	—
Total assets		**6,782,698**	5,874,128
LIABILITIES AND EQUITY			
Bank indebtedness		**10,860**	—
Trade and other payables, and provisions	13	**532,935**	526,395
Derivative financial instruments	22	**24,188**	35,398
Dividends payable	20	**31,572**	28,637
Current portion of finance lease liability	16	**—**	1,474
Current portion of long-term debt	14	**126,094**	—
Current portion of decommissioning liability	15	**11,804**	9,584
Total current liabilities		**737,453**	601,488
Derivative financial instruments	22	**826**	220
Credit facilities	14	**80,000**	—
Long-term debt	14	**2,117,261**	1,795,530
Decommissioning liability	15	**502,535**	456,455
Other long-term liabilities	16	**16,414**	58,922
Deferred tax liabilities	17	**598,486**	482,233
Total liabilities		**4,052,975**	3,394,848
Equity			
Share capital	18	**2,846,496**	2,647,836
Accumulated deficit		**(136,258)**	(168,556)
Accumulated other comprehensive income		**19,485**	—
Total equity		**2,729,723**	2,479,280
Total liabilities and equity		**6,782,698**	5,874,128

See accompanying notes to the consolidated financial statements.
Commitments and contingencies (note 31)

These consolidated financial statements were approved by the board of directors of Keyera Corp. on February 21, 2019.

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

Keyera Corp.
Consolidated Statements of Net Earnings and Comprehensive Income
For the Years Ended December 31,
(Thousands of Canadian dollars, except share information)

	Note	**2018** $	2017 $
Revenues	30	**4,465,211**	3,413,363
Expenses	30	**(3,489,012)**	(2,709,822)
Operating margin		**976,199**	703,541
General and administrative expenses	25	**(85,674)**	(67,293)
Finance costs	26	**(75,689)**	(72,393)
Depreciation, depletion and amortization expenses	27	**(206,719)**	(165,978)
Net foreign currency (loss) gain on U.S. debt	23	**(5,317)**	11,131
Long-term incentive plan expense	21	**(14,262)**	(13,907)
Impairment expense	11	**(63,350)**	(20,830)
Loss on settlement of finance lease	16	**(286)**	—
Gain on disposal of property, plant, and equipment	11	**—**	20,447
Earnings before income tax		**524,902**	394,718
Income tax expense	17	**(130,678)**	(104,798)
Net earnings		**394,224**	289,920
Other comprehensive income			
Foreign currency translation adjustment		**12,775**	—
Comprehensive income		**406,999**	289,920
Earnings per share			
Basic earnings per share	19	**1.90**	1.53
Diluted earnings per share	19	**1.90**	1.53

See accompanying notes to the consolidated financial statements.

Keyera Corp.
Consolidated Statements of Cash Flows
For the Years Ended December 31,
(Thousands of Canadian dollars)

	Note	**2018** $	2017 $
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings		**394,224**	289,920
Adjustments for items not affecting cash:			
Finance costs	26	**13,695**	14,039
Depreciation, depletion and amortization expenses	27	**206,719**	165,978
Long-term incentive plan expense	21	**14,262**	13,907
Unrealized (gain) loss on derivative financial instruments	22	**(111,165)**	25,990
Unrealized loss (gain) on foreign exchange		**34,977**	(31,171)
Inventory write-down	9	**4,853**	—
Deferred income tax expense	17	**99,112**	99,383
Impairment expense	11	**63,350**	20,830
Gain on disposal of property, plant and equipment	11	**—**	(20,447)
Loss on settlement of finance lease	16	**286**	—
Decommissioning liability expenditures	15	**(9,753)**	(10,790)
Changes in non-cash working capital	29	**(106,231)**	(53,942)
Net cash provided by operating activities		**604,329**	513,697
INVESTING ACTIVITIES			
Acquisitions	11	**(333,204)**	(61,122)
Capital expenditures	11	**(987,317)**	(698,992)
Proceeds on disposal of property, plant, and equipment	11	**23,946**	6,015
Changes in non-cash working capital	29	**37,607**	107,164
Net cash used in investing activities		**(1,258,968)**	(646,935)
FINANCING ACTIVITIES			
Borrowings under credit facility	14, 29	**720,000**	3,268,802
Repayments under credit facility	14, 29	**(640,000)**	(3,503,802)
Proceeds from issuance of long-term debt	14, 29	**400,000**	400,000
Financing costs related to credit facility/long-term debt	14, 29	**(3,318)**	(3,527)
Repayment of long-term debt	14, 29	**—**	(60,000)
Proceeds from equity offering	18	**—**	493,856
Issuance costs related to equity offering and other	18	**(416)**	(19,742)
Proceeds from issuance of shares related to DRIP	18	**196,419**	181,118
Repayment of finance lease liabilities	16	**(1,439)**	(2,250)
Dividends paid to shareholders	20	**(356,334)**	(308,609)
Net cash provided by financing activities		**314,912**	445,846
Effect of exchange rate fluctuations on foreign cash held		**2,486**	(2,704)
Net (decrease) increase in cash		**(337,241)**	309,904
Cash at the beginning of the year		**326,381**	16,477
(Bank indebtedness) cash at the end of the year		**(10,860)**	326,381
Income taxes paid in cash		**353**	3,351
Interest paid in cash		**94,026**	82,996

See accompanying notes to the consolidated financial statements.

Keyera Corp.

Consolidated Statements of Changes in Equity

(Thousands of Canadian dollars)

	Share Capital $	Accumulated Deficit $	Accumulated Other Comprehensive Income $	Total $
Balance at December 31, 2016	**1,987,341**	**(145,833)**	**—**	**1,841,508**
Common shares issued pursuant to dividend reinvestment plans	181,118	—	—	181,118
Common shares issued pursuant to equity offering[1]	479,377	—	—	479,377
Net earnings	—	289,920	—	289,920
Dividends declared to shareholders	—	(312,643)	—	(312,643)
Balance at December 31, 2017	**2,647,836**	**(168,556)**	**—**	**2,479,280**
Common shares issued pursuant to dividend reinvestment plans	196,419	—	—	196,419
Issuance costs related to 2017 equity offering and other	(416)	—	—	(416)
Net earnings	—	394,224	—	394,224
Dividends declared to shareholders	—	(359,269)	—	(359,269)
Cumulative opening translation adjustment	—	—	6,710	6,710
Other comprehensive income	—	—	12,775	12,775
Other adjustments	2,657	(2,657)	—	—
Balance at December 31, 2018	**2,846,496**	**(136,258)**	**19,485**	**2,729,723**

Note:
[1] Net of issuance costs and related deferred income tax asset recorded. See note 18 for further information.

See accompanying notes to the consolidated financial statements.

Keyera Corp.
Notes to Consolidated Financial Statements
As at and for the years ended December 31, 2018 and 2017
(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)

1. GENERAL BUSINESS DESCRIPTION

The operating subsidiaries of Keyera Corp. include Keyera Partnership (the "Partnership"), Keyera Energy Ltd. ("KEL"), Keyera Energy Inc. ("KEI"), Keyera Rimbey Ltd. ("KRL"), Keyera RP Ltd. ("KRPL"), Rimbey Pipeline Limited Partnership ("RPLP"), Alberta Diluent Terminal Ltd. ("ADT") and Alberta EnviroFuels Inc. ("AEF"). Keyera Corp. and its subsidiaries are involved in the business of natural gas gathering and processing; transportation, storage and marketing of natural gas liquids ("NGLs") and iso-octane in Canada and the United States ("U.S."); the production of iso-octane; and liquids blending in Canada and the U.S.

Keyera Corp. and its subsidiaries are collectively referred to herein as "Keyera". The address of Keyera's registered office and principal place of business is Suite 200, Sun Life Plaza West Tower, 144 – 4th Avenue S.W., Calgary, AB, Canada.

Pursuant to its Articles of Amalgamation, Keyera Corp. is authorized to issue an unlimited number of common shares (the "Shares"). The Shares trade on the Toronto Stock Exchange under the symbol "KEY".

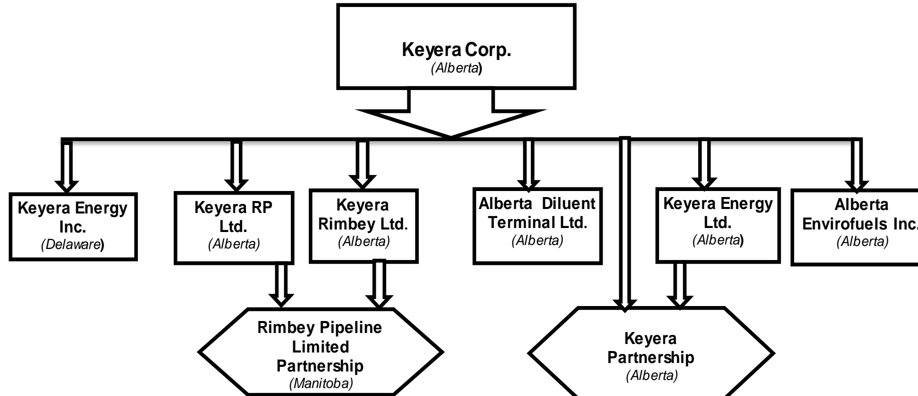
Keyera is approved to issue two classes of preferred shares (one class referred to as the "First Preferred Shares", a second class referred to as the "Second Preferred Shares"), and collectively both classes being referred to as the "Preferred Shares". Each are issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the board of directors may at any time and from time to time determine, subject to an aggregate maximum number of authorized Preferred Shares. No preferred shares had been issued as at December 31, 2018.

Interests in Subsidiaries

Keyera Corp. directly or indirectly owns 100% of the voting interests in all of its operating subsidiaries and is the managing partner of the Partnership, Keyera's primary Canadian operating subsidiary.

On January 1, 2017, Keyera Energy Ltd. and Keyera Midstream Ltd., both subsidiaries of Keyera Corp., amalgamated under the Keyera Energy Ltd. name. As a result of the amalgamation, Keyera Energy Ltd. owns the 2.5391% general partnership interest in Keyera Partnership formerly owned by Keyera Midstream Ltd.

The following diagram sets out the name and jurisdiction of formation of the operating subsidiaries of Keyera Corp as of December 31, 2018.



The Partnership owns and operates the majority of Keyera's Canadian assets and businesses. In accordance with the Partnership Agreement, the Partnership is authorized to carry on a number of business activities including: (i) directly or indirectly, alone or in conjunction with other persons, gathering, processing, transporting, delivering, fractionating, extracting, storing, blending, buying, selling, marketing, investing in, developing, producing, and disposing of natural gas, NGLs, iso-octane, crude oil, bitumen and other petroleum products (including any by-products associated with the foregoing), petroleum based solvents, and electricity; (ii) constructing, owning, operating, managing, acquiring and investing in facilities and infrastructure related to the foregoing; (iii) other business activities as the board of directors may determine; and (iv) all activities ancillary or incidental to any of the foregoing.

Keyera's only Canadian assets that are not owned and operated by the Partnership are the Rimbey Pipeline, which is owned and operated by RPLP, and the Alberta Diluent Terminal, which is owned and operated by ADT.

Keyera Energy Inc. is Keyera's U.S. operating subsidiary. It carries out Keyera's NGL, iso-octane, liquids blending, and marketing activities in the United States.

Interests in Material Jointly Controlled Operations

For all of the material jointly controlled operations below, Keyera recognizes its proportionate share of revenues, expenses, and property, plant and equipment.

Name of Joint Arrangement	***Place of Business***	***% Ownership***	***Nature of Relationship***
Alberta Crude Terminal	*Alberta*	*50%*	*Rail Loading, Offloading and Storage*
Alder Flats Gas Plant	*Alberta*	*70%*	*Gathering and Processing Facilities*
Base Line Terminal	*Alberta*	*50%*	*Crude Oil Storage*
Brazeau River Gas Plant	*Alberta*	*94%*	*Gathering and Processing Facilities*
Cynthia Gas Plant	*Alberta*	*94%*	*Gathering and Processing Facilities*
Keyera Fort Saskatchewan Facilities	*Alberta*	*77%*	*NGL Processing, Storage and Pipelines*
Minnehik Buck Lake Gas Plant	*Alberta*	*80%*	*Gathering and Processing Facilities*
Norlite Pipeline	*Alberta*	*30%*	*NGL Pipelines*
Ricinus Gas Plant	*Alberta*	*71%*	*Gathering and Processing Facilities*
Rimbey Gas Plant	*Alberta*	*99%*	*Gathering and Processing Facilities*
South Cheecham Rail and Truck Terminal	*Alberta*	*50%*	*Rail Loading, Offloading and Storage*
South Grand Rapids Pipeline	*Alberta*	*50%*	*NGL Pipelines*
West Pembina Gas Plant	*Alberta*	*83%*	*Gathering and Processing Facilities*
Zeta Creek Gas Plant	*Alberta*	*60%*	*Gathering and Processing Facilities*

2. BASIS OF PREPARATION

International Financial Reporting Standards ("IFRS") are the generally accepted accounting principles in Canada ("GAAP"). As such, the accompanying consolidated financial statements were prepared in accordance with the respective IFRS.

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value; and
- liabilities for Keyera's long-term incentive plan are measured at fair value.

The consolidated financial statements were authorized for issuance on February 21, 2019 by the board of directors.

Change in Functional Currency of Foreign Subsidiary

Each entity within Keyera determines its own functional currency based on the primary economic environment in which the entity operates. This assessment involves certain judgments and reflects the underlying transactions, events and conditions that are relevant to that entity. Once an entity's functional currency is determined, it is not changed unless there is a change to those underlying transactions, events and conditions which determine the entity's primary economic environment.

Up until June 30, 2018, the functional currency of the company's only foreign subsidiary, KEI, was Canadian dollars because it was determined that since its inception, KEI's operations were carried out as an extension of the Canadian business and was therefore integrated with the Canadian reporting entity.

During the third quarter, the company reassessed the functional currency of KEI due to changes that occurred with the acquisition of the Oklahoma Liquids Terminal, which was completed on June 19, 2018. This acquisition, combined with Keyera's Wildhorse Terminal project which was announced during the second quarter of 2018, are expected to generate profits and cash flows for KEI that are denominated in U.S. dollars. As a result, KEI is no longer expected to be an integral foreign operation that carries on business as an extension of its Canadian parent company's operations, thereby indicating that the primary economic environment in which it operates is the U.S.

Keyera determined that these changes in circumstances resulted in a change in the functional currency of KEI from Canadian dollars to U.S. dollars, effective July 1, 2018, and has made this change in functional currency on a prospective basis. Keyera Corp.'s functional and presentation currency has not changed and remains Canadian dollars.

New and amended IFRS standards adopted by Keyera

Keyera has applied the following new IFRS standards in 2018:

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9"), is the new standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), and provides a single model of classifying and measuring financial assets and liabilities. IFRS 9 allows for the following classification categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. As a result, the previous financial asset categories of

loans and receivables, available for sale and held to maturity have been eliminated. This change in classification categories did not affect how Keyera recognizes and measures its financial instruments.

The requirements for accounting for financial liabilities have remained relatively unchanged from IAS 39.

IFRS 9 introduces a new expected credit loss model for assessing and calculating financial asset impairments, which replaces the incurred loss model utilized under IAS 39. Instead of determining financial asset impairments as a result of incurred loss events, an entity is now required to consider historical, current and forward-looking expected credit loss information.

The hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. Keyera currently does not follow hedge accounting to reflect its risk management activities.

Keyera adopted IFRS 9 on January 1, 2018 using retrospective application. There was no effect on Keyera's consolidated financial statements upon adoption of the standard.

IFRS 15, Revenue from Contracts with Customers

Transition

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), addresses revenue arising from an entity's contracts with customers, and supersedes:

g) IAS 11 Construction Contracts;
h) IAS 18 Revenue;
i) IFRIC 13 Customer Loyalty Programmes;
j) IFRIC 15 Agreements for the Construction of Real Estate;
k) IFRIC 18 Transfers of Assets from Customers; and
l) SIC-31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 outlines the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. Keyera adopted IFRS 15 on January 1, 2018 in accordance with the transitional provisions of the standard and IFRS 15 has been applied retrospectively to each prior period presented in the financial statements.

Keyera has applied IFRS 15 using the following practical expedients:

- Where the consideration received from Keyera's revenue contracts corresponds directly with the value provided to the customer, Keyera recognizes revenue in the amount to which it has a "right to invoice" the customer. Any variable consideration associated with such contracts is recognized in the period Keyera becomes entitled to such consideration;
- Where the "right to invoice" method of revenue recognition has been applied, Keyera has utilized the associated practical expedient that does not require disclosure of certain information related to its remaining performance obligations. "Right to invoice" contracts do not have any remaining performance obligations associated with the distinct services that have already been provided under the contracts. Therefore, disclosure of: (1) the transaction price allocated to the remaining performance obligations, and (2) an explanation of when Keyera expects to recognize such amounts as revenue is unnecessary for these contracts;

- For completed contracts, Keyera has not assessed contracts that began and ended within the same annual reporting period; or that were completed at the beginning of the earliest period presented (January 1, 2017); and
- For contract modifications before January 1, 2017, Keyera did not assess contracts for such individual modifications, and instead considered the aggregate effect of all of the modifications for each contact that occurred prior to this date.

Keyera's accounting policies related to the recognition of revenue have not been substantially affected as a result of adopting IFRS 15. Revenues are recognized when Keyera satisfies its performance obligations by transferring control of the promised products or services to its customers, in an amount that reflects the consideration Keyera expects to be entitled to in exchange for those products or services.

Generally, as Keyera performs the distinct services stipulated under the contract, it does not have any remaining performance obligations to its customers for those services. As a result, the majority of Keyera's revenue contracts allow for revenue recognition at the amount to which it has a "right to invoice" the customer. The exception is Keyera's take-or-pay arrangements that include customer make-up rights. Under these arrangements, the customer may have not exercised all of their contractual rights under the contract even though Keyera would have received non-refundable consideration, thereby possibly requiring the performance of future services to the customer. Make-up rights are subject to conditions, including expiry and availability of asset capacity. If material, the revenue associated with the make-up rights is deferred and a corresponding contract liability is separately disclosed in the consolidated statements of financial position. The amount of revenue attributed to the make-up right is the amount of the non-refundable consideration received for the minimum committed volumes not utilized in the current reporting period. Revenue associated with make-up rights are recognized at the earlier of: (i) when the make-up volume is utilized, (ii) the make-up right expires; or (iii) when it is determined the likelihood that the customer will exercise its make-up right is remote. At transition, Keyera did not have any unperformed obligations related to customer make-up rights that were material.

Accounting Policies

Keyera's revenue recognition policies have been updated to provide additional information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. These revised policies are disclosed in note 3.

Use of Significant Judgments and Estimates in Determining Revenue

In applying the requirements of IFRS 15 to determine the timing and amount of revenue recognition, management must utilize significant judgments and estimates, which include: the nature and type of performance obligations under contract, the timing of when such performance obligations have been satisfied, the amount of any variable consideration associated with a revenue contract and whether such consideration is constrained or not reasonably estimable, the contract term, and the likelihood that customers will have the ability to exercise any make-up rights that have accumulated before they expire.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Keyera and all of its subsidiaries. Subsidiaries are entities over which Keyera has control. Generally, control is achieved where Keyera has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as Keyera, using consistent accounting policies. All intercompany accounts and transactions have been eliminated upon consolidation.

Jointly controlled operations
Jointly controlled operations are assets over which Keyera has joint ownership with one or more unaffiliated entities. Keyera undertakes a number of Gathering and Processing and Liquids Infrastructure activities through jointly controlled operations.

Jointly controlled operations are accounted for using the proportionate consolidation method as follows:

- the consolidated statements of financial position includes Keyera's share of the assets that it controls jointly and the liabilities for which it is jointly responsible; and
- the consolidated statements of net earnings and comprehensive income includes Keyera's share of the income and expenses generated by the jointly controlled operation.

Business combinations
Business combinations are accounted for using the acquisition method. Assets and liabilities acquired in a business combination and any contingent consideration are measured at their fair values as of the date of acquisition and subsequently remeasured at fair value with changes recorded through the consolidated statements of net earnings and comprehensive income each period until settled. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are expensed to the consolidated statements of net earnings and comprehensive income. Business combinations also applies to the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

Currency
The functional currency and presentation currency of Keyera and the majority of its subsidiaries is Canadian dollars. Keyera's only foreign subsidiary, KEI, has a functional currency of U.S. dollars as the primary economic environment in which it operates is in the U.S.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange on the statement of financial position date. Any resulting exchange differences are included in the consolidated statements of net earnings and comprehensive income. Non-monetary assets and liabilities denominated in a foreign currency are measured at historical cost and are translated into the functional currency using the rates of exchange as at the dates of the initial transactions.

Foreign Subsidiary Translation
The accounts of KEI are translated into Keyera Corp's presentation currency at period-end exchange rates for assets and liabilities, and using the rates in effect at the date of the transaction for revenues and expenses. The resulting translation gains and losses related to the foreign operations of KEI are recognized as foreign currency translation adjustments in other comprehensive income ("OCI") in the consolidated statements of net earnings and comprehensive income.

The foreign currency translation adjustments accumulate in accumulated other comprehensive income ("AOCI"), which is a separate component of equity in the consolidated statements of financial position. These adjustments remain in equity until there is a disposal of the foreign operation. When the gain or loss on disposal is recognized, the cumulative amount of exchange differences relating to the foreign operation are reclassified from equity to net earnings.

If there is a disposal of a partial interest in a foreign operation that continues to be a subsidiary, a proportionate amount of the accumulated foreign currency translation adjustments will be allocated between controlling and non-controlling interests.

Revenue recognition

Keyera's performance obligations include the products or services that are promised to a customer. Revenues are recognized when Keyera satisfies its performance obligations by transferring control of the promised products or services to its customers, in an amount that reflects the consideration Keyera expects to be entitled to in exchange for those products or services. Customer credit worthiness is assessed prior to the signing of any contract, as well as throughout the contract duration. Revenues are generally invoiced and received on a monthly basis. Inter-segment and intra-segment revenues are recorded at current market prices and are eliminated upon consolidation to arrive at net earnings in accordance with IFRS.

Keyera derives its revenue from energy midstream activities from the assets of its two integrated business units:

1. Gathering and Processing ("G&P") business unit;
2. Liquids business unit

Gathering and Processing Business Unit

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, primarily natural gas liquids, before the sales gas is injected into pipeline systems for transportation to end-use markets. There is only one operating segment within the G&P business unit. The services performed in the G&P operating segment largely consist of gas handling services and other ancillary services such as NGL extraction, NGL handling and loading services, and condensate stabilization.

Revenue is recognized for each unit of raw gas volumes handled and processed by Keyera on a fee-for-service basis. The fee structure is stipulated in the contract and is based on either a fixed fee structure or a flow-through operating cost structure.

- **Fixed fee arrangements***:* The fee is a fixed charge per unit transported or processed.

- **Flow-through operating cost arrangements***:* The fees are generally comprised of a capital component and a flow-through operating component. The capital component is usually a function of the replacement cost of capital invested in the facility with a reasonable rate of return, in light of market conditions. The operating component is based on the customer's pro rata share of the operating costs for the facility calculated based on total throughput. Customers 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 facility 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.

Given that there are physical capacity limits at Keyera's gathering and processing facilities, customers may enter into one of two service categories, or a combination of both, to determine how the raw gas is handled and processed:

(a) *Firm service contracts:* Firm service contracts generally have the highest priority of service in the event of apportionment. Keyera's obligation is to process and handle volumes nominated under firm service contracts above other service contracts. These contracts frequently contain a take-or-pay provision and/or dedication of reserves whereby a producer agrees to deliver all gas produced from specified reserves to a facility.

(b) *Interruptible-service contracts*: Under interruptible-service contracts, services are provided to the customer only if the facility has capacity after all firm-service contracts, or other contracts with higher priority, have been satisfied. Enforceable rights and obligations are present when Keyera has capacity to process these lower priority volumes. Revenue from interruptible-service contracts is recognized when services are performed.

Keyera's gas handling agreements are generally either evergreen or long term in nature. Evergreen contracts continue in force until terminated by either party by providing notice to the other party.

In addition to providing services to third party customers at Keyera's gathering and processing facilities, the G&P business unit charges fees, at market rates, to Keyera's Corporate segment to process Keyera's proprietary production and to Keyera's Marketing segment for the use of the gathering and processing facilities.

Liquids Business Unit ("LBU")
This business unit consists of the following two operating segments:

1. Liquids Infrastructure
2. Marketing

Liquids Infrastructure – Keyera owns and operates a network of facilities including underground NGL storage caverns, above ground storage tanks, NGL fractionation facilities, NGL pipelines as well as rail and truck terminals for the processing, fractionation, storage and transportation of the by-products of natural gas processing, including NGLs such as ethane, propane, butane and condensate.

Most of Keyera's LBU assets are located in, or connected to, the Edmonton/Fort Saskatchewan area in Alberta, one of four key energy hubs in North America. This area also serves as a condensate hub which supports the operations of customers in the oil sands sector. Condensate is used as a diluent to facilitate movement of bitumen by pipeline.

Diluent handling services provided to oil sands customers involves providing capacity for diluent transportation services, including the provision of operational storage on a temporary basis as well as rail and truck terminalling services.

In addition, the Liquids Infrastructure segment produces iso-octane at the Alberta EnviroFuels facility ("AEF"). Iso-octane is a low vapour pressure, high-octane content component used in the blending of gasoline. The AEF facility is entirely reserved for the proprietary use of Keyera's Marketing segment which sells this product to customers operating in the gasoline blending market.

Keyera also engages in liquids blending, where it operates facilities at various locations, including the Oklahoma Liquids Terminal, allowing it to transport, process and blend various product streams. Margins are earned by blending products of lower value into products of higher value. As a result, these products are exposed to variability in price and quality differential between various product streams.

Customers who utilize the Liquids Infrastructure services enter into contracts with Keyera on a fee-for-service basis. Revenue is recognized for each unit of volume fractionated, processed, stored, transported and handled by Keyera based on the fee structure stipulated in the service contract with its customers.

These contracts provide Keyera with an enforceable right to payment for services completed to date. The fees charged for services performed in the Liquids Infrastructure segment are negotiated on a customer-by-customer basis depending on the various assets required to fulfill the services stipulated in the contracts.

Given that there are physical capacity limits to the Liquids Infrastructure assets, customers may enter into one of two service categories, or a combination of both, to determine how services are to be prioritized and handled:

(a) *Firm capacity reservation contracts:* Firm capacity reservation contracts generally have the highest priority of service in the event of capacity constraints. Keyera's obligation is to process and handle volumes nominated under firm capacity reservation contracts above other service contracts.

(b) *Interruptible-service contracts*: Under interruptible-service contracts, services are provided to the customer only if the facility has capacity after all firm-service contracts, or other contracts with higher priority, have been satisfied. Under interruptible-service arrangements, enforceable rights and obligations are present once the customer nominates the volumes to be processed and Keyera has the capacity to process the nominated volumes. Revenue from interruptible-service contracts is recognized when services are performed.

In addition to including firm capacity and/or interruptible service terms, the Liquids Infrastructure contracts may also include volumetric tariffs, rate of return components, take-or-pay components and/or the flow through of certain costs.

Keyera's Liquids Infrastructure segment provides a significant amount of processing, fractionation, storage, blending and/or de-ethanization services to Keyera's Marketing segment, which pays market prices for the services it utilizes.

Take-or-pay arrangements
In both the Liquids Infrastructure and G&P segments, certain contracts are entered into under take-or-pay arrangements whereby the customer has committed to minimum volume deliveries, regardless of whether the committed volumes are utilized. In these instances, Keyera recognizes revenue either rateably over the term of the fixed fee arrangement, or as volumes are handled and processed.

Take-or-pay arrangements may contain make-up rights, which are rights earned by the customer when the minimum volume commitments are not utilized during the period, but under certain circumstances can be used to offset excess volumes in future periods, subject to expiry. Consideration associated with take-or-pay contracts which have make-up rights are deferred and revenue is recognized at the earlier of (i) when the make-up volume is processed; (ii) the make-up right expires; or (iii) when it is determined the likelihood that the customer will exercise its make-up right is remote.

Non-cash consideration
For any revenue contracts whereby a customer provides consideration in a form other than cash, such consideration is measured at fair value. If an estimate of fair value is not reasonably estimable, the consideration is measured by reference to the stand-alone selling price of the products or services promised to the customer in exchange for the consideration. When non-cash consideration is received in exchange for future services that have yet to be performed, revenue is deferred as a contract liability and recognized over the period that the performance obligation is expected to be satisfied.

Marketing – Keyera markets a range of products associated with its two infrastructure business lines, and revenue generated from this operating segment consists of primarily selling NGLs (ethane, propane, butane, condensate), iso-octane, as well as natural gas and crude oil. In addition, Keyera's Marketing

segment will enter into product purchase and processing contracts whereby NGL products are purchased from the customer at the delivery point to one or more of Keyera's facilities.

Revenue contracts within the Marketing segment are typically short term in nature (one year or less). Revenue from selling NGLs, iso-octane, natural gas and crude oil is recognized based on volumes delivered to customers at specified delivery points and at contracted prices, depending on the hydrocarbon product being sold. The contracted sales price is generally based on a market index price or is transacted at a fixed price. Keyera also enters into financial instruments and physical hedging contracts as risk mitigating measures to either protect the value of its NGL inventory, protect the sales price for iso-octane, or to hedge the foreign currency exposure on sales prices based in U.S. dollars.

The unrealized gains/losses representing the change in fair value of financial instruments contracts are recorded in Marketing revenue along with the realized gains/losses resulting from the settlement of the financial instruments.

Corporate and Other

Keyera also engages in the production of oil and gas reserves which were acquired from its ownership interests in certain gathering and processing facilities. This activity represents an insignificant part of Keyera's midstream business and there are no plans to further develop the reserves. Production revenue, net of royalties is recorded in the Corporate and Other operating segment along with other corporate activities.

Share-based compensation

Keyera has a Long-Term Incentive Plan ("LTIP"), which is described in note 21. The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The liability is measured by using a fair value pricing model. The compensation expense is recognized over the vesting period, with a corresponding liability recognized in the consolidated statements of financial position.

Cash

Cash is comprised of cash on hand at year end.

Trade and other receivables

Trade receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less allowance for expected credit losses.

Keyera maintains an allowance for expected credit losses to provide for impairment of trade receivables. The expense or recovery relating to doubtful accounts is included within general and administrative expenses in the consolidated statements of net earnings and comprehensive income.

Inventory

Inventory is comprised primarily of NGL and iso-octane products for sale through the Marketing operations. Inventory is measured at the lower of weighted average cost and net realizable value. Net realizable value represents the estimated selling price for inventories less selling expenses at the statement of financial position date. 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

Items of property, plant and equipment, which include plant and processing equipment and production assets, are measured at cost less accumulated depreciation, depletion and accumulated impairment

losses net of recoveries. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liability, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Major maintenance programs (turnaround costs) are capitalized and amortized over the period to the next scheduled maintenance. The costs of day-to-day servicing of property, plant and equipment are recognized in the consolidated statements of net earnings and comprehensive income as incurred.

The cost of replacing part of an item of property, plant and equipment is capitalized if it is probable that future economic benefits will flow to Keyera and its cost can be measured reliably.

An item of property, plant and equipment is derecognized upon disposal, replacement or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized in the consolidated statements of net earnings and comprehensive income.

Depreciation is recognized so as to expense the cost of significant components of assets less their residual values over their useful lives, using the straight-line method. Production assets are depleted using the unit-of-production method based on estimated proved reserves. Land and linefill are not depreciated. Capitalized leased assets under finance lease arrangements are depreciated over the shorter of: i) the estimated useful life of the asset; or ii) the lease term if the lease arrangement does not transfer ownership of the asset to the lessee at the end of the lease term, or if the lease arrangement does not reflect that the lessee will exercise a purchase option. Otherwise, the capitalized leased asset is depreciated from the commencement date to the end of the useful life of the underlying asset. Depreciation methods, useful lives and residual values are reviewed on an annual basis and, if necessary, any changes would be accounted for prospectively.

The estimated useful lives of Keyera's property, plant and equipment are as follows:

General plant and processing equipment	4 - 45 years
Other properties and equipment	5 - 10 years
Turnarounds	4 - 10 years

Borrowing costs

Borrowing costs that Keyera incurs in connection with the borrowing of funds that are attributable to the acquisition, construction or production of a qualifying asset are capitalized when the assets take a significant period of time to get ready for use or sale. Other borrowing costs are expensed as incurred.

Impairment of property, plant and equipment

Keyera assesses assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units or CGUs). Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of net earnings and comprehensive income.

The recoverable amount is the greater of:

i) an asset's fair value less costs of disposal; and
ii) its value in use.

Fair value is the price that would be expected to be received in a sale transaction less costs of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Keyera evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration. Reversals of impairment losses are evaluated and if deemed necessary are recognized immediately in the consolidated statements of net earnings and comprehensive income.

Goodwill
Goodwill arising in a business combination is recognized as an asset and initially measured at cost, being the excess of the consideration transferred in the business combination over Keyera's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If Keyera's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the consolidated statements of net earnings and comprehensive income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but is reviewed for impairment at least annually.

Impairment of goodwill
Impairment is assessed at least annually and is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount, an impairment loss is recognized in the consolidated statements of net earnings and comprehensive income. The impairment loss is allocated first to reduce the carrying amount of any goodwill and then on a pro-rata basis to the other assets within the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Financial assets and financial liabilities
Financial assets and financial liabilities are initially recognized at fair value, and for financial assets and liabilities not measured at fair value through profit or loss, net of transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The subsequent measurement of financial assets and financial liabilities depends on their classification as follows:

Financial assets
Financial assets include cash, trade and other receivables and derivative financial instruments. Keyera determines the classification of its financial assets at initial recognition.

a) Financial assets measured at amortized cost
These are non-derivative financial assets composed of contractual cash flows that are held to collect and are solely payments of principal and interest on the principal amount outstanding with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of net earnings and comprehensive income when the financial assets are derecognized or impaired. Assets in this category include cash, and trade and other receivables that are classified as current assets in the consolidated statements of financial position.

Previously, under IAS 39, these financial assets were classified as loans and receivables and were measured at amortized cost.

b) Financial assets measured at fair value
Financial assets not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss in the consolidated statements of net earnings and comprehensive income. Derivatives, other than those designated as effective hedging instruments, are included in this category. Keyera has not designated any derivative instruments as hedges.

These assets are carried on the consolidated statements of financial position at fair value with gains or losses recognized in the consolidated statements of net earnings and comprehensive income in the period in which they arise. The estimated fair value of assets and liabilities classified as fair value through profit or loss in the consolidated statements of net earnings and comprehensive income is determined by reference to observable market data, including commodity price curves, foreign currency curves and credit spreads. Transaction costs are charged to the consolidated statements of net earnings and comprehensive income as incurred.

Previously, under IAS 39, these derivatives were classified as held for trading and were measured at fair value through profit or loss. Keyera does not have any financial assets measured at fair value through other comprehensive income.

Impairment of financial assets
Keyera assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired based on expected credit loss information. Impairments arising from expected credit losses are recognized in the consolidated statements of net earnings and comprehensive income.

Financial liabilities
Financial liabilities consist of bank indebtedness, current and long-term debt, credit facilities, trade and other payables, derivative financial instruments, dividends payable and finance lease liabilities.

a) Financial liabilities measured at fair value through profit or loss
Derivatives are included in this category. These liabilities are carried on the consolidated statements of financial position at fair value with gains or losses recognized in the consolidated statements of net earnings and comprehensive income in the period in which they arise. Keyera has not designated any derivative instruments as hedges. Transaction costs are charged to the consolidated statements of net earnings and comprehensive income as incurred.

Previously, under IAS 39, these derivatives were classified as held for trading and were measured at fair value through profit or loss.

b) Financial liabilities measured at amortized cost
If a financial liability is not measured at fair value through profit or loss, it is measured at amortized cost. For interest bearing debt, this is the fair value of the proceeds received net of transaction costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Keyera has classified bank indebtedness, current and long-term debt, credit facilities, trade and other payables, dividends payable and finance lease liabilities in this category.

Previously, under IAS 39, these financial liabilities were classified and measured at amortized cost.

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. Keyera uses derivative instruments such as commodity price swaps (NGLs, crude oil, natural gas, motor gasoline), electricity price swaps, foreign exchange forward contracts, 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 Keyera'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. For embedded derivatives within a financial asset host contract, the embedded derivative is not separated from the host contract and instead, the whole contract is accounted for as a single instrument. For embedded derivatives within a financial liability host contract, the embedded derivative is separated from the host contract and accounted for as a derivative instrument.

Changes in the fair value of derivatives are recognized in the consolidated statements of net earnings and comprehensive income and are included in Marketing revenue, Liquids Infrastructure operating expenses, Gathering and Processing operating expenses, Corporate and Other revenue and expenses and net foreign currency gain (loss) on U.S. debt. The grouping of these gains and losses in the consolidated statements of net earnings and comprehensive income is consistent with the underlying nature and purpose of the derivative instruments (see note 22).

Provisions

Provisions are recognized when Keyera has a present obligation (legal or constructive) as a result of a past event, it is probable that Keyera will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Decommissioning Liability

Liabilities for decommissioning costs are recognized for the reclamation of Keyera's facilities at the end of their economic life. Any change in the present value, as a result of a change in discount rate or expected future costs, of the estimated obligation is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment. Keyera's discount rate is a risk-free rate based on the Government of Canada's benchmark long-term bond yield. The liability for decommissioning costs is increased each period through the unwinding of the discount, which is included in finance costs in the consolidated statements of net earnings and comprehensive income. Actual expenditures incurred are charged against the decommissioning liability.

Taxation

Income tax expense represents the sum of current and deferred tax. Tax is recognized in the consolidated statements of net earnings and comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

a) Current tax
The tax currently payable is based on taxable profit for the year. Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

b) Deferred tax
Deferred tax is recognized using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts on the consolidated statements of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are not recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable income will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Keyera intends to settle its current tax assets and liabilities on a net basis.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to Keyera. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the lease property or the present value of minimum lease payments and are included in property, plant and equipment. All other leases are classified as operating leases and are expensed to the consolidated statements of net earnings and comprehensive income based on the terms of the lease.

Finance costs
Finance costs include interest expense on debt, interest charges related to finance leases, non-cash expense related to the unwinding of the debt discount, and non-cash accretion expense related to decommissioning liabilities, net of interest capitalized for qualifying projects and interest income.

All finance costs are recognized in the consolidated statements of net earnings and comprehensive income in the period in which they are incurred.

Earnings per share

Basic earnings per share are calculated by dividing net earnings by the weighted average number of shares outstanding during the period. For the calculation of the weighted average number, shares are determined to be outstanding from the date they are issued. Diluted earnings per share are calculated by adding the weighted average number of shares outstanding during the period to the additional shares that would have been outstanding if potentially dilutive shares had been issued as a result of any convertible debentures outstanding, using the "if converted" method.

Accumulated deficit

Accumulated deficit includes opening deficit, net earnings for the period to date, and dividends declared to shareholders.

Reclassification

Certain information provided for the prior year has been reclassified to conform to a change in presentation adopted in 2018.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of Keyera's accounting policies, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from the estimates.

The most significant estimates and judgments contained in the consolidated financial statements are described below:

Allowance for expected credit losses

Keyera provides services and sells NGLs and iso-octane to a number of counterparties on credit terms. The allowance for credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on expected credit losses, which includes the number of days outstanding and the likelihood of collection from the counterparty.

Depreciation of property, plant and equipment and amortization of intangible assets

For purposes of determining depreciation, depletion and amortization expense, estimates and judgments are required to establish depreciation methods, useful lives, and residual values for Keyera's assets. Determining depreciation methods requires management to make judgments that most appropriately reflect the pattern of an asset's future economic benefit expected to be consumed by Keyera. For assets other than production assets, useful life estimates include management's assumptions regarding the period over which the asset is expected to be available for use by the company. This includes assessing the assets' physical and economic lives and, if applicable, may include an estimation of the associated reserve lives and production activity related to the assets' respective capture areas.

Production assets are depleted using the unit-of-production method based on estimated proved reserves, which are determined by Keyera's independent qualified reserves evaluator. The estimation of reserves involves the exercise of professional judgment and is inherently subject to uncertainty. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves.

Depreciation methods, useful lives and residual values are reviewed on an annual basis and, if necessary, any changes are accounted for prospectively.

Fair value estimates of property, plant and equipment
Determination of the fair value of identifiable assets acquired in a business combination requires Keyera's management to make assumptions and estimates about future events. The fair value of identifiable assets such as gathering and processing, storage and fractionation facilities, pipelines, terminals and other equipment is estimated with reference to the expected discounted future cash flows expected to be derived from the acquired assets. These assumptions and estimates generally require judgment and include estimates of future revenues, costs and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired in a business combination.

Impairment of property, plant and equipment
In determining the recoverable amount of assets, in the absence of quoted market prices, estimates are made regarding the present value of future cash flows. The useful lives of property, plant and equipment are determined by the present value of future cash flows. Future cash flow estimates are based on future production profiles and reserves for surrounding wells, commodity prices and costs. Estimates are also made in determining the discount rate used to calculate the present value of future cash flows.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and the discount rate in order to calculate present value. The determination of CGUs is subject to management's judgment.

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 estimates 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.

Long-term incentive plan liability
The LTIP is accounted for using the liability method and is measured at fair value. Determining the fair value requires management to estimate Keyera's financial performance over a three-year period to determine the appropriate payout multiplier associated with the Performance Awards. The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the three-year period. The payout multiplier determines the number of shares expected to be settled following the third anniversary of the grant date of the Performance Awards.

Decommissioning liabilities
Keyera estimates future site restoration costs for its gathering and processing, fractionation, iso-octane and storage facilities, pipelines and terminals. The ultimate costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other processing sites.

Deferred tax assets and liabilities
Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Revenue Recognition
To determine the timing and amount of revenue recognition, management must utilize significant judgments and estimates, which include: the nature and type of performance obligations under contract, the timing of when such performance obligations have been satisfied, the amount of any variable consideration associated with a revenue contract and whether such consideration is constrained or not reasonably estimable, the contract term, and the likelihood that customers will have the ability to exercise any make-up rights that have accumulated before they expire.

Operating revenues and operating expenses
a) Gathering and Processing and Liquids Infrastructure:
Each month, actual volumes processed and fees earned from the Gathering and Processing and Liquids Infrastructure assets are not known until the following month. In addition, the period in which invoices are rendered for the supply of goods and services necessary for the operation of the Gathering and Processing and Liquids Infrastructure assets is generally later than the period in which the goods or services were provided. Estimates of one month's revenue and one month's operating costs are recorded in the consolidated financial statements based upon a review of historical trends that is adjusted for events that are known to have a significant effect on the month's operations.

b) Marketing:
Marketing sales revenue is recorded based on actual volumes and prices. However, in many cases actual volumes have not yet been confirmed and sales prices that are dependent on other variables are not yet known. In addition, the majority of NGL supply purchases are estimated each month as actual volume information is not available until the following month. At the end of the period, estimates for sales and purchases are recorded in the consolidated financial statements. Estimates are prepared based on contracted volumes and known events.

Equalization Adjustments
Much of the revenue from the Gathering and Processing segment includes a recovery of operating costs. 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. On a quarterly basis, throughput volumes and operating costs are reviewed and adjustments are made to revenue and operating expenses based on actual operating costs incurred to date.

5. FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which provides a single lease accounting model for lessees, requiring the recognition of most leases as finance leases on the consolidated statements of financial position.

This will result in the recognition of a lease liability and the corresponding recognition of a leased asset called a right-of-use asset. On the consolidated statements of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items.

For lessors, the accounting treatment remains the same whereby a lessor continues to classify a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15, Revenue from Contracts with Customers on or before the initial application of IFRS 16.

Expected impact

IFRS 16 will be adopted by Keyera on January 1, 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard will be recognized at the date of initial application, including the election of allowable practical expedients.

Keyera has identified existing contracts that would qualify as a lease under the new standard and is finalizing its detailed assessments of such contracts to conclude on the effect to Keyera's consolidated financial statements upon adoption. Furthermore, Keyera is currently completing the necessary changes to its policies, processes, internal controls, information technology systems, key operating metrics, financial covenants, and significant judgments and estimations required.

Upon the initial adoption of IFRS 16, Keyera has elected to measure its right-of-use assets at the value of the lease liability, adjusted for any prepaid or accrued lease payments, and lease incentives received. Subject to finalization, at January 1, 2019 Keyera anticipates that it will recognize right-of-use assets and lease liabilities on its consolidated statement of financial position in the range of $190 million to $210 million. Keyera's most material lessee lease contracts relate to rail car arrangements; however, Keyera also has significant lease contracts related to pipeline transportation and real estate arrangements. Currently, Keyera does not have any material lessor lease agreements.

6. SOUTH GRAND RAPIDS JOINT ARRANGEMENT

On September 14, 2018, Keyera acquired a 50% ownership interest in the southern portion of the Grand Rapids Pipeline for total consideration of $104,883. The pipeline, a 20-inch 45-kilometre diluent pipeline that extends from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal, was constructed and acquired from Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and PetroChina Canada. Concurrent with the acquisition, Keyera disposed of a 50% ownership interest in a newly constructed pump station that is connected to the Grand Rapids Pipeline at Keyera's Edmonton Terminal to GRPLP for proceeds of $19,484 which was equivalent to its net book value. The pipeline and pump station transactions were accounted for as an acquisition and disposition of Property, Plant and Equipment, respectively, and the joint arrangement with GRPLP is considered to be a joint operation.

7. BUSINESS COMBINATION

On June 19, 2018, Keyera completed the acquisition of the Oklahoma Liquids Terminal, a logistics and liquids blending terminal for cash consideration of $109,934 (US$82,688) plus up to US$10,000 in additional consideration over the next five years. The terminal receives, blends and delivers diluent, the majority of which is transported by pipeline from the Mont Belvieu area to the Chicago area and ultimately into the Alberta market. The terminal is operated by the Liquids Infrastructure segment and provides the logistical and blending services to Keyera's Marketing segment for a fee. The majority of the cash flow generated from the terminal will be recorded in the Marketing segment. The terminal also has exclusive access to a nearby rail-to-truck transloading facility.

The transaction was accounted for as a business combination using the acquisition method of accounting. The purchase price allocation was based on management's best estimates of the fair values of identifiable assets acquired and liabilities assumed as of the acquisition date. The associated decommissioning liability assumed was negligible.

Purchase Price Allocation	**As at June 19, 2018**	
	Canadian $	**US $**
Inventory	8,451	6,357
Property, plant and equipment	18,126	13,633
Intangible assets	94,200	70,855
Total assets acquired	**120,777**	**90,845**
Cash consideration	109,934	82,688
Estimated additional consideration	10,843	8,157
Total consideration	**120,777**	**90,845**

Intangible Assets

The intangible assets acquired relate to identifiable contracts. These assets will be amortized on a straight-line basis over their expected useful lives of 12 years. Amortization is recorded in depreciation, depletion and amortization expenses.

8. TRADE AND OTHER RECEIVABLES

As at December 31,	**2018 $**	2017 $
Trade and other receivables	**424,850**	438,846
Allowance for expected credit losses:		
Balance at beginning of the year	**(3,226)**	(4,033)
Impairment losses – trade receivables	**1,123**	807
Balance at the end of the year	**(2,103)**	(3,226)
Total trade and other receivables	**422,747**	435,620

Trade receivables are non-interest bearing and are generally on 5 to 30 day terms which are classified as neither past due or impaired in the aging analysis below.

Aging of receivables that are not impaired

As at December 31,	**2018 $**	2017 $
Neither past due or impaired	**419,939**	434,154
Past due 31 to 60 days	**1,568**	1,466
Past due over 60 days	**1,240**	—
Total trade and other receivables	**422,747**	435,620

9. INVENTORY

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

As at December 31,	**2018** **$**	2017 $
NGLs and iso-octane	**230,489**	142,356
Other	**5,067**	5,475
Total inventory	**235,556**	147,831

For the year ended December 31, 2018, $204,149 (2017 – $147,831) of inventory was carried at cost and $31,407 (2017 – $nil) was carried at net realizable value. During the year, a write-down of $4,853 was recorded to adjust the carrying amount of inventory to its net realizable value (2017 – $nil). The cost of inventory expensed for the year ended December 31, 2018 was $2,998,966 (2017 – $2,273,478).

10. OTHER ASSETS

As at December 31,	**2018** **$**	2017 $
Prepaid deposits	**3,035**	608
Other	**5,947**	15,996
Total other assets	**8,982**	16,604

11. PROPERTY, PLANT, AND EQUIPMENT

Cost	General plant & processing equipment $	Other properties & equipment $	Turnarounds $	Land & linefill $	Total $
Balance at December 31, 2016	**5,118,097**	**198,502**	**234,666**	**108,929**	**5,660,194**
Additions	684,146	12,234	16,457	61,257	774,094
Disposals	(49,271)	—	(2,152)	—	(51,423)
Decommissioning asset	5,965	—	—	—	5,965
Balance at December 31, 2017	**5,758,937**	**210,736**	**248,971**	**170,186**	**6,388,830**
Additions	1,118,307	26,755	23,562	14,997	1,183,621
Disposals	(34,430)	—	—	—	(34,430)
Decommissioning asset	46,193	—	—	—	46,193
Foreign currency translation	17,165	3	—	894	18,062
Balance at December 31, 2018	**6,906,172**	**237,494**	**272,533**	**186,077**	**7,602,276**

Accumulated depreciation, depletion and impairment	General plant & processing equipment $	Other properties & equipment $	Turnarounds $	Land & linefill $	Total $
Balance at December 31, 2016	**(1,146,142)**	**(145,218)**	**(166,059)**	**(2,291)**	**(1,459,710)**
Impairment expense	(14,521)	(918)	(5,391)	—	(20,830)
Depreciation and depletion expenses	(96,979)	(18,810)	(31,163)	—	(146,952)
Disposals	48,691	—	1,394	—	50,085
Decommissioning asset	(19,025)	—	—	—	(19,025)
Balance at December 31, 2017	**(1,227,976)**	**(164,946)**	**(201,219)**	**(2,291)**	**(1,596,432)**
Impairment expense	(63,350)	—	—	—	(63,350)
Depreciation and depletion expenses	(149,126)	(15,009)	(36,821)	—	(200,956)
Disposals and other	9,897	—	—	—	9,897
Foreign currency translation	(2,085)	—	—	—	(2,085)
Balance at December 31, 2018	**(1,432,640)**	**(179,955)**	**(238,040)**	**(2,291)**	**(1,852,926)**

Carrying value	General plant & processing equipment $	Other properties & equipment $	Turnarounds $	Land & linefill $	Total $
As at December 31, 2017	4,530,961	45,790	47,752	167,895	4,792,398
As at December 31, 2018	**5,473,532**	**57,539**	**34,493**	**183,786**	**5,749,350**

Property, plant and equipment under construction included in carrying value	Cost $
As at December 31, 2017	829,453
As at December 31, 2018	**902,637**

Assets under finance leases included in carrying value	As at December 31, 2018 $	As at December 31, 2017 $
General plant & processing equipment	—	45,233
Land	—	9,001
Total finance lease assets	—	54,234

Refer to note 16 for additional detail on the finance lease.

Impairment expense	2018 $	2017 $
Gathering and processing segment	**63,350**	17,890
Liquids infrastructure segment	—	2,940
Total impairment expense	**63,350**	20,830

2018 Impairment Expense

In the third quarter of 2018, Keyera identified through its impairment review that the Minnehik Buck Lake and Zeta Creek gas plants had carrying values that were greater than their recoverable amounts. The recoverable amount for each asset was calculated based on value in use which represents the estimated net present value of the cash flows expected to be derived from the asset. The main factors leading to a reduction in the carrying value of the assets were due to lower producer activity and throughput in the capture areas surrounding these assets. The following impairment expenses with a combined value of $63,350 were recognized in the Gathering and Processing segment during the third quarter of 2018:

	Applicable value in use discount rate	Recoverable amount as at September 30, 2018	Impairment expense recognized for the year ended December 31, 2018
Minnehik Buck Lake gas plant[1]	10.0%	19,592	31,383
Zeta Creek gas plant[2]	10.0%	3,804	31,967
Total Impairment expense recognized in Gathering and Processing segment			**63,350**

Notes:
[1] The Minnehik Buck Lake gas plant is included in the Alder Flats & Minnehik Buck Lake Cash Generating Unit ("CGU").
[2] The Zeta Creek gas plant is included in the Zeta Creek CGU.

2017 Impairment Expense

In the second quarter of 2017, Keyera identified through its impairment review that the Caribou facility, a CGU within the Gathering and Processing segment, was impaired as the carrying value of the facility was greater than its recoverable amount. The recoverable amount for the CGU was determined based on its fair value less costs of disposal. Keyera impaired the CGU to the estimated fair value of the facility. The impairment loss recognized in this segment was $17,890 in the second quarter of 2017.

In December 2017, Keyera entered into an agreement with an unrelated third party to sell its Wabasca River and North Senex pipelines, which were non-core assets included in the Liquids Infrastructure segment. While the divestiture did not close until January 2018, Keyera recorded an impairment loss of $2,940 in the fourth quarter of 2017 related to these assets. The recoverable amounts for the assets were determined based on fair value less costs of disposal, which were derived from the sales agreement proceeds.

Disposal of property, plant and equipment

In the second quarter of 2017, Keyera disposed of the Paddle River facility and the Judy Creek pipeline for total proceeds of $6,000, which resulted in a gain of $20,447. The Paddle River facility had been shut down since February 2015 along with the Judy Creek pipeline, which was non-operational and was considered a non-core asset within Keyera's Gathering and Processing segment.

12. GOODWILL

As at December 31,	**2018** **$**	2017 $
Cost and carrying value	**53,624**	53,624

Impairment test of goodwill

Keyera performed its annual tests for goodwill impairment on December 31, 2018 and 2017 in accordance with its policy described in note 3 and determined that goodwill was not impaired.

Allocation of goodwill to cash-generating units
For the purpose of impairment testing, goodwill is allocated to Keyera's CGUs which represent the lowest level within Keyera at which the goodwill is monitored for internal management purposes.

The carrying amount of goodwill was allocated to CGUs as follows:

As at December 31,	**2018** **$**	2017 $
Liquids infrastructure facilities	**32,015**	32,015
Rimbey gas plant	**12,810**	12,810
Simonette gas plant	**8,799**	8,799
Total goodwill	**53,624**	53,624

The recoverable amount for Keyera's CGUs was determined based on a value in use calculation. Value in use was calculated by discounting future cash flow projections that are based on Keyera's internal budget. Keyera projected cash flows for a period of five years, and then applied a perpetual long-term declining rate thereafter. In arriving at its forecasts, Keyera considered past experience, economic trends such as inflation as well as industry and market trends.

The discount rate used in the calculation of value in use represented a weighted average cost of capital ("WACC"). The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU. The pre-tax discount rate used for the Liquids Infrastructure CGU and the Rimbey and Simonette gas plant CGUs was 10.2% at December 31, 2018 (December 31, 2017 – 9.3% for the same CGUs).

13. TRADE AND OTHER PAYABLES, AND PROVISIONS

The components of trade and other payables, and provisions were as follows:

As at December 31,	**2018** **$**	2017 $
Trade and accrued payables	**476,586**	505,814
Other payables	**16,611**	14,687
Current portion of long-term incentive plan	**7,583**	5,196
Current income taxes payable	**32,155**	698
Total trade and other payables, and provisions	**532,935**	526,395

14. LONG-TERM DEBT

Carrying value
Amounts recorded in the consolidated financial statements are referred to as carrying value. The carrying value of debt is reflected in current debt and long-term debt on the consolidated statements of financial position.

Fair value
The fair value of long-term debt is based on third party estimates for similar issues or current rates offered to Keyera for debt of the same maturity. The fair value of Keyera's senior unsecured notes at December 31, 2018, as noted below was determined by reference to valuation inputs under Level 2 of the fair value hierarchy as referenced in note 22.

The following is a summary of Keyera's current and long-term debt:

As at December 31, 2018	**Effective Interest Rate**	**Notes**	**Carrying Value $**	**Fair Value $**
Bank credit facility	3.30%	(a)	80,000	80,000
Total credit facilities			**80,000**	**80,000**
Canadian dollar denominated debt				
Senior unsecured notes:				
5.01% due January 4, 2019	5.07%		70,000	70,000
4.35% due June 19, 2019	4.48%		52,000	52,000
5.68% due September 8, 2020	5.75%		2,000	2,100
6.14% due December 3, 2022	6.21%		60,000	65,200
3.50% due June 16, 2023	3.55%		30,000	29,700
4.91% due June 19, 2024	4.97%		17,000	17,900
4.92% due October 10, 2025	4.94%		100,000	105,000
5.05% due November 20, 2025	5.14%		20,000	21,200
4.15% due June 16, 2026	4.19%		30,000	30,000
3.96% due October 13, 2026	4.01%		200,000	197,700
3.68% due September 20, 2027	3.72%	(b)	400,000	384,900
5.09% due October 10, 2028	5.10%		100,000	107,000
4.11% due October 13, 2028	4.16%		100,000	99,200
5.34% due April 8, 2029	5.38%		75,000	82,000
			1,256,000	1,263,900
Senior unsecured medium-term notes:				
3.93% due June 21, 2028	4.00%	(c)	400,000	391,300
			1,656,000	1,655,200
U.S. dollar denominated debt				
Senior unsecured notes:				
3.42% due June 19, 2019 (US$3,000)	3.52%		4,094	4,100
5.14% due September 8, 2020 (US$103,000)	5.22%		140,549	144,200
4.19% due June 19, 2024 (US$128,000)	4.24%		174,662	173,600
4.75% due November 20, 2025 (US$140,000)	4.81%		191,037	193,400
4.95% due November 20, 2028 (US$65,000)	4.99%		88,696	90,900
			599,038	606,200
Less: Issuance costs			(11,683)	—
Less: Current portion of long-term debt			(126,094)	(126,100)
Total long-term debt			**2,117,261**	**2,135,300**

As at December 31, 2017	Effective Interest Rate	Notes	Carrying Value $	Fair Value $
Bank credit facility	4.22%	(a)	—	—
Total credit facilities			**—**	**—**
Canadian dollar denominated debt				
Senior unsecured notes:				
5.01% due January 4, 2019	5.07%		70,000	71,300
4.35% due June 19, 2019	4.48%		52,000	52,900
5.68% due September 8, 2020	5.75%		2,000	2,100
6.14% due December 3, 2022	6.21%		60,000	66,500
3.50% due June 16, 2023	3.55%		30,000	29,600
4.91% due June 19, 2024	4.97%		17,000	18,000
4.92% due October 10, 2025	4.94%		100,000	106,700
5.05% due November 20, 2025	5.14%		20,000	21,500
4.15% due June 16, 2026	4.19%		30,000	29,900
3.96% due October 13, 2026	4.01%		200,000	196,500
3.68% due September 20, 2027	3.72%	(b)	400,000	381,700
5.09% due October 10, 2028	5.10%		100,000	107,000
4.11% due October 13, 2028	4.16%		100,000	98,600
5.34% due April 8, 2029	5.38%		75,000	82,100
			1,256,000	1,264,400
U.S. dollar denominated debt				
Senior unsecured notes:				
3.42% due June 19, 2019 (US$3,000)	3.52%		3,756	3,756
5.14% due September 8, 2020 (US$103,000)	5.22%		128,935	133,943
4.19% due June 19, 2024 (US$128,000)	4.24%		160,230	161,482
4.75% due November 20, 2025 (US$140,000)	4.81%		175,252	181,887
4.95% due November 20, 2028 (US$65,000)	4.99%		81,367	85,999
			549,540	567,067
Less: Issuance costs			(10,010)	—
Total long-term debt			**1,795,530**	**1,831,467**

(a) On December 13, 2018, the Partnership amended its unsecured revolving credit facility ("Credit Facility") with a syndicate of nine financial institutions under which it can borrow up to $1,500,000, with the potential to increase this limit to $1,850,000 subject to certain conditions. The Credit Facility has a five-year revolving term and the maturity date has now been extended to December 6, 2023.

Financing costs of $847 were incurred upon the renewal and extension of the Credit Facility and have been deferred and are amortized using the effective interest method over the remaining term of the Credit Facility.

In addition, the Toronto Dominion Bank has provided a $25,000 unsecured revolving demand facility and the Royal Bank of Canada has provided a further unsecured revolving demand facility that is equal to the amount of outstanding letters of credit, up to $50,000. These unsecured 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. As at December 31, 2018, outstanding letters of credit issued were $6,136 (December 31, 2017 – $10,680).

(b) On September 20, 2017, Keyera closed a private placement of 10-year senior unsecured notes with a group of institutional investors in Canada and the U.S. The $400,000 senior unsecured notes bear interest at 3.68% and mature on September 20, 2027. Interest is paid semi-annually.

Financing costs of approximately $1,560 have been deferred and are amortized using the effective interest method over the remaining term of the debt.

(c) On June 21, 2018, Keyera closed a public note offering of 10-year senior unsecured medium-term notes to investors in Canada. The $400,000 senior unsecured notes bear interest at 3.934% and mature on June 21, 2028. Interest is paid semi-annually.

The associated financing costs of approximately $2,500 have been deferred and are amortized using the effective interest method over the remaining term of the debt.

15. DECOMMISSIONING LIABILITY

Keyera estimates the future costs of decommissioning for its gathering and processing, fractionation, iso-octane and storage facilities, pipelines and terminals on a discounted basis upon acquisition or installation of these assets. The total undiscounted amount of cash flows required to settle the decommissioning liability is $909,004 (2017 – $846,391) which has been discounted using a risk-free rate of 2.18% (2017 – 2.26%). The majority of these costs are expected to be incurred over the next 25 to 45 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

The following is a reconciliation of the beginning and ending carrying amount of the obligation associated with the decommissioning of Keyera's assets:

As at December 31,	**2018** **$**	2017 $
Decommissioning liability, beginning of the year	**466,039**	476,199
Liabilities acquired	**4,432**	581
Liabilities disposed	**(867)**	(15,768)
Liabilities settled	**(9,753)**	(10,790)
Revision in estimated cash flows and additions	**33,961**	(674)
Revision due to change in discount rate	**9,402**	6,058
Unwinding of discount included in finance costs	**10,970**	10,433
Foreign currency translation	**155**	—
	514,339	466,039
Less: current portion of decommissioning liability	**(11,804)**	(9,584)
Long-term portion of decommissioning liability	**502,535**	456,455

16. OTHER LIABILITIES

As at December 31,	2018 $	2017 $
Finance lease liabilities	**—**	54,029
Less: current portion of finance lease liabilities	**—**	(1,474)
Long-term portion of finance lease liabilities	**—**	52,555
Long-term incentive plan	**7,830**	6,367
Other liabilities	**8,584**	—
Total other liabilities	**16,414**	58,922

In 2015, Keyera entered into an arrangement for the use of a pipeline for transportation services in the Edmonton/Fort Saskatchewan area. Effective December 1, 2016, the arrangement was classified as a finance lease as this was the date Keyera was entitled to exercise its right to use the pipeline for its sole benefit, and the risks and rewards incidental to ownership were transferred to Keyera.

The arrangement included a put option which provided the lessor with the right to require Keyera to purchase the pipeline within six months of the pipeline's in-service date for the approximate amount of $41,250. The pipeline became operational in January 2018 and in March Keyera received notice that the lessor was exercising the put option. Keyera purchased the pipeline in May 2018.

At December 31, 2018 there were no remaining finance leases.

17. INCOME TAXES

The components of the tax expense were as follows:

	2018 $	2017 $
Current income taxes		
Current income tax charge	**32,109**	6,176
Adjustments with respect to current income tax of the previous year	**(543)**	(761)
Current income tax expense	**31,566**	5,415
Deferred income taxes		
Related to the origination and reversal of temporary differences	**98,823**	100,143
Adjustments to opening deferred tax balances	**289**	(760)
Deferred income tax expense	**99,112**	99,383
Total income tax expense	**130,678**	104,798

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 and comprehensive income.

	2018	2017
	$	$
Earnings before income tax	**524,902**	394,718
Income tax at statutory rate of 27% (2017 – 27%)	**141,724**	106,574
(Decrease) increase in valuation allowance	**(15,183)**	5,800
Non-deductible (taxable) items excluded from income for tax purposes	**3,110**	(3,657)
Tax rate differences and adjustments	**431**	(1,655)
Adjustments to tax pool balances	**(254)**	(1,521)
Other	**850**	(743)
Total income tax expense	**130,678**	104,798

Deferred income tax balances

	2018	2017
	$	$
Deferred tax assets	**17,796**	—
Deferred tax liabilities	**(598,486)**	(482,233)
Net deferred tax liabilities	**(580,690)**	(482,233)

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

	Balance at December 31, 2018	Deferred income tax recognized on the consolidated statement of net earnings	Foreign currency translation	Balance at December 31, 2017
	$	$	$	$
Net deferred tax liabilities				
Property, plant and equipment	**(670,635)**	(53,336)	(482)	(616,817)
Decommissioning liabilities	**138,809**	13,170	18	125,621
Long-term incentive plan	**4,754**	1,183	—	3,571
Non-capital losses	**28,402**	25,726	1,044	1,632
Intangible assets	**1,241**	(4,855)	(95)	6,191
Partnership deferral	**(71,959)**	(50,566)	—	(21,393)
Finance lease liabilities	—	(14,624)	—	14,624
Other	**(11,302)**	(15,810)	170	4,338
Net deferred tax liabilities	**(580,690)**	(99,112)	655	(482,233)

	Balance at December 31, 2017	Deferred income tax recognized on the consolidated statement of net earnings	Deferred income tax related to share issuance costs	Balance at December 31, 2016
	$	$	$	$
Net deferred tax liabilities				
Property, plant and equipment	**(616,817)**	(63,116)	—	(553,701)
Decommissioning liabilities	**125,621**	(3,078)	—	128,699
Long-term incentive plan	**3,571**	(3,959)	—	7,530
Non-capital losses	**1,632**	(2,637)	—	4,269
Intangible assets	**6,191**	(7,055)	5,263	7,983
Partnership deferral	**(21,393)**	(21,393)	—	—
Finance lease liabilities	**14,624**	(15)	—	14,639
Other	**4,338**	1,870	—	2,468
Net deferred tax liabilities	**(482,233)**	(99,383)	5,263	(388,113)

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

As at December 31, 2018, Keyera and its subsidiaries have non-capital losses carried forward of $118,318 (2017 – $72,649) which are available to offset income of specific entities of the consolidated group in future periods. The amount of unrecognized non-capital losses at December 31, 2018 is $nil (2017 – $48,163). The amount of unrecognized net capital losses and other assets as at December 31, 2018 is $20,516 (2017 – $13,688).

18. CAPITAL

	Number of Common Shares	**Share Capital $**
Balance at December 31, 2016	**185,683,427**	**1,987,341**
Common shares issued pursuant to equity offering[1]	14,030,000	479,377
Common shares issued pursuant to dividend reinvestment plans	4,833,715	181,118
Balance at December 31, 2017	**204,547,142**	**2,647,836**
Common shares issued pursuant to dividend reinvestment plans	5,931,601	196,419
Issuance costs related to 2017 equity offering and other	—	(416)
Other adjustments	—	2,657
Balance at December 31, 2018	**210,478,743**	**2,846,496**

Note:
[1] Net of issuance costs and related deferred income tax asset recorded.

Equity Offering

On December 8, 2017 Keyera issued 12,200,000 common shares in a public offering and 1,830,000 common shares pursuant to the overallotment option in connection with the public offering, at a price of $35.20 per common share for net proceeds of $479,377 after underwriters' fees and issuance costs of $14,729, net of a deferred tax asset balance of $5,263.

Dividend Reinvestment Plan
Keyera's dividend reinvestment plan (the "Plan") consists of two components: a Premium Dividend™ ("Premium DRIP") reinvestment component and a regular dividend reinvestment component ("DRIP"). The DRIP component allows eligible shareholders of Keyera to direct their cash dividends to be reinvested in additional shares issued from treasury at a 3% discount to the Average Market Price on the applicable dividend date without Keyera incurring typical financing costs.

The Premium DRIP component permits eligible shareholders to elect to have the additional shares issued at the 3% discount delivered to the designated Plan Broker in exchange for a premium cash payment equal to 101% of the regular, declared cash dividend.

For the year ended December 31, 2018, dividends declared totaled $359,269 or $1.73 per common share (2017 – $312,643 or $1.65 per common share).

19. EARNINGS PER SHARE

Basic earnings per share was calculated by dividing net earnings by the weighted average number of shares outstanding for the related period.

	2018	2017
	$	$
Basic and diluted earnings per share	**1.90**	1.53
Net earnings – basic and diluted	**394,224**	289,920

(in thousands)	**2018**	2017
Weighted average number of shares – basic and diluted	**207,397**	189,002

20. ACCUMULATED DIVIDENDS TO SHAREHOLDERS

The following table presents the reconciliation between the beginning and ending accumulated dividends to shareholders.

	$
Balance at December 31, 2016	**1,876,454**
Dividends declared and paid	284,006
Dividends declared	28,637
Balance at December 31, 2017	**2,189,097**
Dividends declared and paid	327,697
Dividends declared	31,572
Balance at December 31, 2018	**2,548,366**

Keyera's general practice is to pay a monthly dividend on the closest business day to the 15th of each calendar month to shareholders of record as of the dividend record date, which is usually 20 to 26 days prior to the dividend payment date.

Keyera's dividend policy is to provide shareholders with relatively stable and predictable monthly dividends, while retaining a portion of cash flow to fund ongoing growth projects. The amount of dividends to be paid on the common shares, if any, is subject to the discretion of the board of directors and may vary depending on a variety of factors. In determining the level of dividends to be declared each month, the board of directors takes into consideration such factors as current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

21. SHARE-BASED COMPENSATION AND PENSION PLANS

Long-Term Incentive Plan

Keyera has a Long-Term Incentive Plan ("LTIP") which compensates officers and key employees by delivering shares of Keyera or paying cash in lieu of shares. Participants in the LTIP are granted rights ("share awards") to receive shares of Keyera on specified dates in the future. Grants of share awards are authorized by the board of directors. Shares delivered to employees are acquired in the marketplace and not issued from treasury. The acquired shares are placed in a trust account established for the benefit of the participants until the share awards vest.

The LTIP consists of two types of share awards, which are described below:

(a) Performance Awards

All Performance Awards issued and outstanding are settled on or before September 1st following the third anniversary of the grant date. The number of shares to be delivered will be determined by the financial performance of Keyera over the three-year period. The number of shares to be delivered will be calculated by multiplying the number of share awards by an adjustment ratio and a payout multiplier. The adjustment ratio adjusts the number of shares to be delivered to reflect the per share cash dividends paid by Keyera to its shareholders during the term that the share award is outstanding.

The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the performance period of three years and 30% on the relative total shareholder return in a defined peer group over the performance period of three years.

(b) Time Vested Awards ("Restricted Awards")

Restricted Awards are settled in three equal installments over a three-year period regardless of the performance of Keyera. The number of shares to be delivered will be multiplied by an adjustment ratio which reflects the per share cash dividends paid by Keyera to its shareholders during the term that the share award is outstanding.

The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The fair value of the liability is measured by applying a fair value pricing model whereby one of the valuation inputs was the December 31, 2018 share price of Keyera, which was $25.81 per share (December 31, 2017 – $35.42 per share).

The compensation cost recorded for the LTIP was as follows:

	2018 **$**	2017 $
Performance Awards	**11,841**	13,700
Restricted Awards	**2,421**	207
Total long-term incentive plan expense	**14,262**	13,907

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**December 31, 2018**	December 31, 2017
Issued July 1, 2015 – Performance Awards	**—**	327,798
Issued July 1, 2016 – Performance Awards	**331,856**	341,458
Issued July 1, 2017 – Performance Awards	**334,765**	343,978
Issued July 1, 2018 – Performance Awards	**415,856**	—
Issued July 1, 2015 – Restricted Awards	**—**	19,524
Issued July 1, 2016 – Restricted Awards	**21,542**	45,515
Issued July 1, 2017 – Restricted Awards	**45,837**	71,929
Issued July 1, 2018 – Restricted Awards	**89,747**	—

Employee Stock Purchase Plan

Keyera maintains an employee stock purchase plan (“ESPP”) whereby eligible employees can purchase common shares of Keyera. Keyera will contribute an amount equal to 5% of the employee’s contribution. To participate in the ESPP, eligible employees select an amount to be deducted from their semi-monthly remuneration. Employees may elect to withhold up to 25% of their base compensation for the stock purchases. The shares of Keyera are acquired on the Toronto Stock Exchange on a semi-monthly basis consistent with the timing of the semi-monthly remuneration. The cost of the shares purchased to match the employee’s contribution is expensed as incurred and recorded in general and administrative expenses.

Defined Contribution Pension Plan

For the year ended December 31, 2018, Keyera made pension contributions of $9,675 (2017 – $9,076) on behalf of its employees. The contributions were recorded in general and administrative expenses.

Deferred Share Unit Plan

Effective January 1, 2016, Keyera implemented a deferred share unit (“DSU”) plan, for non-employee directors. Each DSU vests on the date the grant is awarded but cannot be redeemed until a director ceases to be a member of the board of directors. The grant value is determined based on a 20 day weighted average trading share price. DSUs are settled in cash (on an after-tax basis) based on the 20 day weighted average Keyera share price up to the date of termination. For the year ended December 31, 2018, Keyera recorded $684 (2017 – $844) in general and administrative expenses related to the DSU plan.

The following table reconciles the number of DSUs outstanding:

	2018	2017
Balance at beginning of year	**46,171**	19,827
Granted	**37,686**	26,344
Redeemed	**(3,336)**	—
Balance at end of year	**80,521**	46,171

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments include cash, trade and other receivables, derivative financial instruments, bank indebtedness, trade and other payables, dividends payable, credit facilities, finance lease liabilities, current and long-term debt, and certain other long-term liabilities. Derivative financial instruments include foreign exchange contracts, cross-currency swaps, NGLs, crude oil, motor gasoline and natural gas price

contracts, electricity price contracts and physical fixed price commodity contracts. Derivative instruments are measured at fair value through profit or loss in the consolidated statements of net earnings and comprehensive income. All other financial instruments are measured at amortized cost.

Financial Instruments

(a) Fair value

Fair value represents Keyera'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 statements 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 Keyera'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 cash, trade and other receivables, trade and other payables and dividends payable approximate their fair values because the instruments are either near maturity, have 5 to 30 days payment terms or have no fixed repayment terms. The carrying value of the credit facility approximates fair value due to their floating rates of interest.

Fair value of senior fixed rate debt

Refer to note 14 for the fair value amounts of the senior unsecured notes and senior unsecured medium-term notes.

The fair values and carrying values of the derivative instruments are listed below and represent an estimate of the amount that Keyera would receive (pay) if these instruments were settled at the end of the period.

As at December 31, 2018	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by March 31, 2020)	2,968,189 Bbls	73.15/Bbl	Level 2	31,322	31,584	(262)
Buyer of fixed price WTI swaps (maturing by December 31, 2019)	367,074 Bbls	65.36/Bbl	Level 2	(429)	221	(650)
Seller of fixed price NGL swaps (maturing by March 31, 2020)	2,380,750 Bbls	44.22/Bbl	Level 2	14,315	14,955	(640)
Buyer of fixed price NGL swaps (maturing by March 31, 2020)	1,667,000 Bbls	51.05/Bbl	Level 2	(16,203)	—	(16,203)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	2,270,000 Bbls	25.02/Bbl	Level 2	19,732	19,768	(36)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by February 28, 2019)	320,000 Bbls	37.36/Bbl	Level 2	885	887	(2)
Buyer of fixed price NGL forward contracts (maturing by January 31, 2019)	35,222 Bbls	42.84/Bbl	Level 2	71	71	—
Currency:						
Seller of forward contracts (maturing by December 31, 2019)	US$197,000,000	1.33/USD	Level 2	(7,221)	—	(7,221)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	78,840 MWhs	41.03/MWh	Level 2	1,000	1,000	—
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	8,760 MWhs	45.45/MWh	Level 2	72	72	—
Emission Performance Credits:						
Seller of emission performance credits	282,597 credits	23.54/credit	Level 2	592	592	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	26,280 MWhs	43.47/MWh	Level 2	271	271	—
Long-term Debt						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$554,811,000	0.98/USD - 1.22/USD	Level 2	132,809	132,809	—
				177,216	**202,230**	**(25,014)**

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, 2017	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by March 31, 2019)	2,095,175 Bbls	69.81/Bbl	Level 2	(11,138)	—	(11,138)
Buyer of fixed price WTI swaps (maturing by March 31, 2018)	73,500 Bbls	71.63/Bbl	Level 2	293	293	—
Seller of fixed price NGL swaps (maturing by March 31, 2018)	1,337,154 Bbls	45.35/Bbl	Level 2	(7,719)	64	(7,783)
Buyer of fixed price NGL swaps (maturing by March 31, 2018)	404,000 Bbls	48.77/Bbl	Level 2	3,913	3,978	(65)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	3,380,000 Bbls	19.69/Bbl	Level 2	(15,163)	479	(15,642)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by March 31, 2018)	26,188 Bbls	43.94/Bbl	Level 2	(138)	—	(138)
Currency:						
Seller of forward contracts (maturing by June 30, 2018)	US$103,500,000	1.27/USD	Level 2	2,214	2,287	(73)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	157,680 MWhs	40.41/MWh	Level 2	2,134	2,194	(60)
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2018)	35,040 MWhs	44.65/MWh	Level 2	335	377	(42)
Emission Performance Credits:						
Seller of emission performance credits	340,520 credits	22.53/credit	Level 2	1,010	1,010	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	35,040 MWhs	41.95/MWh	Level 2	422	443	(21)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2018)	135,000 Bbls	66.55/Bbl	Level 2	(656)	—	(656)
Long-term Debt						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$575,335,900	0.98/USD - 1.22/USD	Level 2	90,545	90,545	—
				66,052	**101,670**	**(35,618)**

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.

Derivative instruments are recorded on the consolidated statements of financial position at fair value. Changes in the fair value of these financial instruments are recognized through profit or loss in the consolidated statements of net earnings and comprehensive income in the period in which they arise.

Unrealized gains (losses), representing the change in fair value of derivative contracts, are recorded in the following consolidated statements of net earnings and comprehensive income line items and the related reportable operating segments:

Derivative Contracts Related To	Reportable Operating Segments	Consolidated Net Earnings and Comprehensive Income Line Item
Natural gas, crude oil and NGLs, and iso-octane	Marketing Corporate and Other	Marketing revenue; Corporate and Other revenue
Electricity	Liquids Infrastructure Gathering and Processing Corporate and Other	Liquids Infrastructure expenses; Gathering and Processing expenses; Corporate and Other revenues and expenses
Cross-currency swaps	Corporate and Other	Net foreign currency gain/(loss) on U.S. debt
Emission performance credits	Gathering and Processing	Gathering and Processing expenses

Unrealized gain (loss)	2018 $	2017 $
Marketing revenue	**70,210**	178
Liquids infrastructure operating expenses	**(1,134)**	2,765
Gathering and processing expenses	**(681)**	1,371
Corporate and Other:		
Corporate and Other revenues and expenses	**505**	1,012
Change in fair value of the cross currency swaps on U.S. debt[1]	**42,265**	(31,316)
Total unrealized gain (loss)	**111,165**	(25,990)

Note:
[1] Includes principal and interest portion.

Risk Management

Market risk is the risk that the fair value of future cash flows of a financial asset or a financial liability will fluctuate because of changes in market prices. Market risk is comprised of commodity price risk, interest rate risk, and foreign currency risk, as well as credit and liquidity risks.

(b) Commodity price risk

Subsidiaries of Keyera enter into contracts to purchase and sell primarily NGLs and iso-octane, as well as natural gas and crude oil. These contracts are exposed to commodity price risk between the time when contracted volumes are purchased and sold, and foreign currency risk for those sales denominated in U.S. dollars. These risks are actively managed by utilizing physical and financial contracts which include commodity-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 of changing prices and volumes.

Significant amounts of electricity and natural gas are consumed by certain facilities. In order to mitigate the 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 NGL contracts that require physical delivery at fixed prices are accounted for as derivative instruments.

(c) Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency. Keyera's foreign currency risk largely arises from the Marketing segment where a significant portion of sales and purchases are denominated in U.S. dollars. 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 financial instrument activities and all outstanding positions.

The Marketing segment has foreign currency risk associated with its sales and purchases denominated in U.S. dollars; however, the Gathering and Processing and Liquids Infrastructure segments have very little foreign currency risk as sales and purchases are primarily denominated in Canadian dollars.

Portions of Keyera's trade and other receivables and trade and other payables are denominated in U.S. dollars and, as a result, are subject to foreign currency risk.

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt and U.S. dollar denominated LIBOR loans when drawn under Keyera's bank credit facility. To manage this currency exposure, Keyera has entered into long-term 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. Refer to note 23 for a summary of the foreign currency gains (losses) associated with the U.S. dollar denominated long-term debt.

(d) Interest rate risk

The majority of Keyera's interest rate risk is attributed to its fixed and floating rate debt, which is used to finance capital investments and operations. Keyera'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. As at December 31, 2018, fixed rate borrowings comprised 97% of total debt outstanding (December 31, 2017 – 100%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

The majority of trade and other receivables 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. Keyera evaluates and monitors the financial strength of its customers in accordance with its credit policy. Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at December 31, 2018.

With respect to counterparties for derivative financial instruments, the credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which significantly reduce overall counterparty credit risk. In addition, Keyera incorporates the credit risk associated with counterparty default, as well as Keyera's own credit risk, into the estimates of fair value.

The allowance for credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on expected credit losses, which includes the number of days outstanding and the likelihood of collection from the counterparty. The carrying amount of financial assets on the consolidated statements of financial position approximates Keyera's maximum exposure to credit risk.

(f) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for Keyera's business activities may not be available. Keyera 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. Keyera 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 Keyera as at December 31, 2018:

	Total **$**	**2019** **$**	**2020** **$**	**2021** **$**	**2022** **$**	**2023** **$**	**After 2023** **$**
Bank indebtedness	**10,860**	10,860	—	—	—	—	—
Trade and other payables	**532,935**	532,935	—	—	—	—	—
Derivative financial instruments[1]	**25,014**	24,188	826	—	—	—	—
Dividends payable	**31,572**	31,572	—	—	—	—	—
Credit facility	**80,000**	—	—	—	—	80,000	—
Long-term debt[2]	**2,255,038**	126,094	142,549	—	60,000	30,000	1,896,395
Other liabilities	**16,414**	—	9,003	3,417	2,067	1,927	—
	2,951,833	**725,649**	**152,378**	**3,417**	**62,067**	**111,927**	**1,896,395**

Notes:
1 Derivative instruments include cross-currency swaps related to U.S. long-term debt (note 23).
2 Amounts represent principal only and exclude accrued interest.

Risk Management Sensitivities

The following table summarizes the sensitivity of the fair value of Keyera's risk management positions to fluctuations in commodity price, interest rate, and foreign currency rate. Fluctuations in commodity prices, foreign currency rate and interest rate changes could have resulted in unrealized gains (losses) affecting income before tax as follows:

	Impact on income before tax December 31, 2018		Impact on income before tax December 31, 2017	
Risk sensitivities	**Increase $**	**(Decrease) $**	Increase $	(Decrease) $
Commodity price changes				
+ 10% in electricity price	**612**	**—**	1,230	—
- 10% in electricity price	**—**	**(612)**	—	(1,230)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(23,086)**	—	(28,921)
- 10% in NGL, crude oil and iso-octane prices	**23,086**	**—**	28,921	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(1,093)**	926	—
- $0.01 in U.S./Canadian dollar exchange rate	**1,093**	**—**	—	(926)
Interest rate changes				
+ 1% in interest rate	**—**	**(800)**	—	—
- 1% in interest rate	**800**	**—**	—	—

23. NET FOREIGN CURRENCY GAIN (LOSS) ON U.S. DEBT

The components of net foreign currency gain (loss) were as follows:

	2018 $	2017 $
Foreign currency (loss) gain resulting from:		
Translation of long-term debt and interest payable	**(50,297)**	39,921
Change in fair value of the cross-currency swaps – principal and interest portion	**42,265**	(31,316)
Gain from cross-currency swaps – interest portion[1]	**2,715**	2,526
Total net foreign currency (loss) gain on U.S. debt	**(5,317)**	11,131

Note:
[1] Foreign currency gains resulted from the exchange of currencies related to the settlement of interest payments on the long-term cross-currency swaps.

24. CAPITAL MANAGEMENT

Keyera's objectives when managing capital are:

- to safeguard Keyera'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 shareholders 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.

Keyera defines its capital as shareholders' equity, long-term debt, credit facilities, and working capital (defined as current assets less current liabilities). Keyera 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, Keyera may adjust the amount of dividends paid to shareholders, issue new shares, issue new debt or replace existing debt with new debt having different characteristics.

For the year ended December 31, 2018, Keyera's capital management strategy was unchanged from the prior year. Keyera monitors its capital structure primarily based on its consolidated net debt to consolidated earnings before interest, taxes, depreciation, amortization, accretion, unrealized gains and losses, impairment expenses and any other non-cash items ("adjusted EBITDA") ratio. The definition of adjusted EBITDA for capital management purposes is similar, but not identical to the adjusted EBITDA financial measure used in the calculation of Keyera's financial covenants on its credit facilities and long-term debt agreements. This ratio is calculated as consolidated net debt divided by a twelve-month trailing adjusted EBITDA, which are non-GAAP measures.

In the first quarter of 2017, Keyera amended its credit facilities and long-term debt agreements to provide more flexibility by introducing two changes to the covenant calculations. The first change allows Keyera to increase its Net Debt to EBITDA ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters. The second change allows Keyera to utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date.

Keyera is also subject to the following financial covenants: (i) adjusted EBITDA to consolidated interest charges, and (ii) priority debt to consolidated total assets. The calculation for each of these financial covenants is based on specific definitions and is not in accordance with GAAP, and cannot be directly derived from the consolidated financial statements. Keyera was in compliance with all financial covenants as at December 31, 2018.

25. GENERAL AND ADMINISTRATIVE EXPENSES

The components of general and administrative expenses were as follows:

	2018 **$**	2017 $
Salaries and benefits	**87,999**	76,206
Professional fees and consulting	**16,910**	16,397
Other	**24,895**	17,246
Overhead recoveries on operated facilities	**(44,130)**	(42,556)
Total general and administrative expenses	**85,674**	67,293

Other expenses include operating lease charges, insurance, and promotional expenditures. In 2018, Keyera recognized $6,000 in other general and administrative expenses for interest and other costs related to the final outcome of the arbitration proceedings described in note 31.

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. The reimbursement of such costs is called overhead recoveries.

26. FINANCE COSTS

The components of finance costs were as follows:

	2018 **$**	2017 $
Interest on bank indebtedness and credit facilities	**5,786**	11,007
Interest on long-term debt	**89,264**	74,046
Interest capitalized	**(30,551)**	(26,511)
Other interest (income) expense	**(1,426)**	1,869
Total interest expense on current and long-term debt	**63,073**	60,411
Unwinding of discount on decommissioning liability	**10,970**	10,433
Unwinding of discount on long-term debt	**1,646**	1,549
Non-cash expenses in finance costs	**12,616**	11,982
Total finance costs	**75,689**	72,393

For the year ended December 31, 2018, $30,551 of borrowing (interest) costs were capitalized (2017 – $26,511) at a weighted average capitalization rate of 4.75% on funds borrowed (2017 – 4.87%).

27. DEPRECIATION, DEPLETION AND AMORTIZATION

The components of depreciation, depletion and amortization expense were as follows:

	2018 **$**	2017 $
Depreciation and depletion on property, plant and equipment	**202,557**	165,978
Amortization of intangible assets	**4,162**	—
Total depreciation, depletion and amortization expenses	**206,719**	165,978

28. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of Keyera's board of directors and executive officers.

Compensation of key management personnel was as follows:

	2018	2017
	$	$
Salaries and other short-term benefits	**11,104**	9,489
Post-employment benefits	**340**	362
Share-based payments	**4,574**	16,750
Total related party transactions	**16,018**	26,601

29. SUPPLEMENTAL CASH FLOW INFORMATION

Details of changes in non-cash working capital from operating activities were as follows:

	2018	2017
	$	$
Inventory	**(81,457)**	(39,955)
Trade and other receivables	**11,639**	(71,540)
Other assets	**(3,461)**	2,860
Trade and other payables, and provisions	**(32,952)**	54,693
Changes in non-cash working capital from operating activities	**(106,231)**	(53,942)

Details of changes in non-cash working capital from investing activities were as follows:

	2018	2017
	$	$
Trade and other payables, and provisions	**37,607**	52,110
Other assets	**—**	55,054
Changes in non-cash working capital from investing activities	**37,607**	107,164

Reconciliation of liabilities arising from financing activities:

	Credit Facilities $	Current and Long-term Debt $	Derivative Financial Assets Related To U.S. Long-term Borrowings $	Current and Long-term Finance Lease Liabilities $
As at December 31, 2016	**235,000**	**1,497,413**	**121,860**	**54,218**
Cash changes:				
Inflows from borrowings	3,268,802	400,000	—	—
Outflows related to repayments	(3,503,802)	(60,000)	—	(2,250)
Outflows related to financing costs	—	(3,527)	—	—
Non-cash and other changes:				
Finance costs[1]	—	—	—	2,061
Fair value changes	—	—	(31,316)	—
Unrealized foreign exchange	—	(39,905)	—	—
Unwinding of discount on long-term debt	—	1,549	—	—
As at December 31, 2017	**—**	**1,795,530**	**90,544**	**54,029**
Cash changes:				
Inflows from borrowings	720,000	400,000	—	—
Outflows related to repayments	(640,000)	—	—	(42,687)
Outflows related to financing costs	—	(3,318)	—	—
Non-cash and other changes:				
Finance costs[1]	—	—	—	1,079
Fair value changes	—	—	42,265	(373)
Unrealized foreign exchange	—	49,497	—	—
Unwinding of discount on long-term debt	—	1,646	—	—
Remeasurement of capital lease	—	—	—	(12,048)
As at December 31, 2018	**80,000**	**2,243,355**	**132,809**	**—**

Note:
1 The interest portion related to the finance lease liability payments are recorded as finance costs within operating activities of the consolidated statements of cash flows.

30. SEGMENT INFORMATION

Keyera has the following four reportable operating segments based on the nature of its business activities:

Gathering and Processing
The Gathering and Processing segment includes raw gas gathering systems and processing plants located in the natural gas production areas primarily on the western side of the Western Canada Sedimentary Basin. The operations primarily involve providing natural gas gathering and processing, including liquids extraction, and condensate stabilization services to customers. This segment also includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer under a long-term commercial arrangement.

Liquids Infrastructure
The Liquids Infrastructure segment provides fractionation, storage, transportation and terminalling services for NGLs and crude oil. As well, it provides processing services to Keyera's Marketing business related to NGLs, iso-octane, and liquids blending. These services are provided to customers through an extensive network of facilities that include underground NGL storage caverns, NGL fractionation and de-ethanization facilities, NGL pipelines, rail and truck terminals, the AEF facility, a 50% interest in the Base Line Terminal, and the Oklahoma Liquids Terminal.

Marketing
The Marketing segment is primarily involved in the marketing of NGLs, such as propane, butane, and condensate; and iso-octane to customers in Canada and the United States, as well as liquids blending.

Corporate and Other
The Corporate and Other segment includes corporate functions and the production of natural gas, natural gas liquids and crude oil.

Inter-segment and intra-segment sales and expenses are recorded at current market prices at the date of the transaction. These transactions are eliminated on consolidation in order to arrive at net earnings in accordance with IFRS.

Reclassification

Certain information provided for the prior year has been reclassified to conform to a change in presentation adopted as a result of the transition to IFRS 15.

The following table shows the operating margin from each of Keyera's operating segments and includes inter-segment transactions. Operating margin is a key measure used by management to monitor profitability by segment.

Year ended December 31, 2018	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Inter-segment Eliminations $	Total $
Segmented revenue	458,441	478,037	3,811,915	25,436	(308,618)	4,465,211
Segmented expenses	(186,608)	(153,581)	(3,445,685)	(11,756)	308,618	(3,489,012)
Operating margin	271,833	324,456	366,230	13,680	—	976,199
General and administrative expenses	—	—	—	(85,674)	—	(85,674)
Finance costs	—	—	—	(75,689)	—	(75,689)
Depreciation, depletion and amortization expenses	—	—	—	(206,719)	—	(206,719)
Net foreign currency loss on U.S. debt	—	—	—	(5,317)	—	(5,317)
Long-term incentive plan expense	—	—	—	(14,262)	—	(14,262)
Impairment expense	(63,350)	—	—	—	—	(63,350)
Loss on settlement of finance lease	—	(286)	—	—	—	(286)
Earnings (loss) before income tax	208,483	324,170	366,230	(373,981)	—	524,902
Income tax expense	—	—	—	(130,678)	—	(130,678)
Net earnings (loss)	**208,483**	**324,170**	**366,230**	**(504,659)**	**—**	**394,224**

Year ended December 31, 2017	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Inter-segment Eliminations $	Total $
Segmented revenue	466,473	418,822	2,803,950	26,667	(302,549)	3,413,363
Segmented expenses	(191,189)	(133,551)	(2,675,580)	(12,051)	302,549	(2,709,822)
Operating margin	275,284	285,271	128,370	14,616	—	703,541
General and administrative expenses	—	—	—	(67,293)	—	(67,293)
Finance costs	—	—	—	(72,393)	—	(72,393)
Depreciation, depletion and amortization Expenses	—	—	—	(165,978)	—	(165,978)
Net foreign currency gain on U.S. debt	—	—	—	11,131	—	11,131
Long-term incentive plan expense	—	—	—	(13,907)	—	(13,907)
Impairment expense	(17,890)	(2,940)	—	—	—	(20,830)
Gain on disposal of property, plant, and equipment	20,447	—	—	—	—	20,447
Earnings (loss) before income tax	277,841	282,331	128,370	(293,824)	—	394,718
Income tax expense	—	—	—	(104,798)	—	(104,798)
Net earnings (loss)	**277,841**	**282,331**	**128,370**	**(398,622)**	**—**	**289,920**

DISAGGREGATION OF REVENUE

The following table shows revenue disaggregated by the major service lines offered by Keyera in its four reportable operating segments:

Year ended December 31, 2018	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Total $
Gas handling and processing services[1]	394,585	85,065	—	—	479,650
Fractionation and storage services	7,764	188,756	—	—	196,520
Transportation and terminalling services	—	202,937	—	—	202,937
Marketing of NGLs and iso-octane	—	—	3,811,915	—	3,811,915
Other[2]	56,092	1,279	—	25,436	82,807
Revenue before inter-segment eliminations	**458,441**	**478,037**	**3,811,915**	**25,436**	**4,773,829**
Inter-segment revenue eliminations	(20,009)	(248,932)	(11,655)	(28,022)	(308,618)
Revenue from external customers	**438,432**	**229,105**	**3,800,260**	**(2,586)**	**4,465,211**

Year ended December 31, 2017	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Total $
Gas handling and processing services[1]	383,587	96,958	—	—	480,545
Fractionation and storage services	8,793	156,755	—	—	165,548
Transportation and terminalling services	—	163,952	—	—	163,952
Marketing of NGLs and iso-octane	—	—	2,803,950	—	2,803,950
Other[2]	74,093	1,157	—	26,667	101,917
Revenue before inter-segment eliminations	**466,473**	**418,822**	**2,803,950**	**26,667**	**3,715,912**
Inter-segment revenue eliminations	(23,836)	(243,656)	(4,621)	(30,436)	(302,549)
Revenue from external customers	**442,637**	**175,166**	**2,799,329**	**(3,769)**	**3,413,363**

Notes:

[1] Processing services revenue recognized in Keyera's Liquids Infrastructure segment represents the processing fees charged to Keyera's Marketing segment for the production of iso-octane at the Keyera AEF facility.

[2] Other revenue in Keyera's Gathering and Processing segment includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer, and other miscellaneous revenue. Other revenue recognized in Keyera's Corporate and Other segment relates to the production of oil and gas reserves.

Contract Balances

Contract liabilities are recorded when consideration has been received from a customer prior to Keyera's fulfillment of its obligation to provide future services. Contract liabilities primarily relate to consideration received under take-or-pay contract arrangements whereby the customer has the ability to exercise accumulated make-up rights prior to their expiry. Contract liabilities also arise when Keyera receives non-cash consideration or up-front payments from customers for the performance of future services. As at December 31, 2018 contract liabilities were $nil (January 1, 2018 – $nil) as there were no unperformed obligations related to customer make-up rights that were material and Keyera did not receive any non-cash consideration or up-front customer payments that required revenue deferral.

Contract assets are recorded when Keyera performs services for customers in advance of receiving consideration from the customer or before payment is due. As at December 31, 2018 contract assets were $nil (January 1, 2018 – $nil). All instances whereby Keyera's performance obligations were satisfied prior to receiving consideration from the customer were unconditional and therefore have been presented as a receivable.

Geographical information

Keyera operates in two geographical areas, Canada and the U.S. Keyera's revenue from external customers and information about its non-current assets by geographical location are detailed below based on the country of origin.

Revenue from external customers located in	**2018** **$**	2017 $
Canada	**3,778,693**	2,873,125
U.S.	**686,518**	540,238
Total revenue	**4,465,211**	3,413,363

Non-current assets[1] as at December 31,	**2018** **$**	2017 $
Canada	**5,593,006**	4,752,164
U.S.	**302,381**	93,858
Total non-current assets	**5,895,387**	4,846,022

Note:
[1] Non-current assets are comprised of property, plant and equipment, intangible assets, and goodwill.

Information about major customers

Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue for the years ended December 31, 2018 and 2017.

31. COMMITMENTS AND CONTINGENCIES

Keyera through its operating entities has assumed commitments in various contractual purchase agreements in the normal course of its operations. The agreements involve the purchase of NGL production from producers in the areas specified in the agreements. The purchase prices are based on then current market prices. The future volumes and prices for these contracts cannot be reasonably determined and therefore no amount has been included in purchase obligations to reflect these contractual agreements.

There are operating lease commitments relating to railway tank cars, vehicles, real estate, terminal storage, iso-octane and natural gas transportation, and third party contractual obligations related to assets under construction. The initial lease terms for these contracts range from less than 12 months to 15 years. Keyera has the option, under certain of its leases, to lease the assets for additional five year terms. The estimated annual minimum payments due for these commitments are as follows:

	$
2019	779,775
2020	286,503
2021	46,328
2022	37,690
2023	25,737
Thereafter	124,298
Total commitments	**1,300,331**

Construction contract dispute

In 2016, Keyera agreed to arbitration with a contractor involved in the construction of the Simonette Wapiti pipeline to resolve a dispute over the final amounts due under the construction contract. In the third quarter of 2018, an arbitrator issued a decision on the contractor's claim and Keyera's counterclaim, requiring Keyera to pay a net amount of $21,000 for direct costs related to pipeline construction, which has been recognized in property, plant and equipment. Approximately $18,000 of the total $21,000 in construction costs had previously been accrued for, prior to the third quarter based on Keyera's estimate of the expected outcome from the arbitration proceedings.

In 2018, Keyera recognized an additional $6,000 in general and administrative expenses for interest and other costs related to the final outcome of the arbitration proceedings.

32. SUBSEQUENT EVENTS

On January 11, 2019, Keyera declared a dividend of $0.15 per share, payable on February 15, 2019 to shareholders of record as of January 22, 2019.

On February 12, 2019, Keyera declared a dividend of $0.15 per share, payable on March 15, 2019 to shareholders of record as of February 25, 2019.

Additional Information

Fourth Quarter Results

Statements of Net Earnings and Comprehensive Income	**(Unaudited) Three months ended December 31, 2018**	2017
(Thousands of Canadian dollars)	**$**	$
Revenues	**1,142,342**	1,027,004
Expenses	**(825,519)**	(815,915)
Operating margin	**316,823**	211,089
General and administrative expenses	**(21,219)**	(18,688)
Finance costs	**(20,045)**	(17,633)
Depreciation, depletion and amortization expenses	**(54,379)**	(43,917)
Net foreign currency gain (loss) on U.S. debt	**1,994**	(4,097)
Long-term incentive plan recovery	**3,920**	31
Impairment expense	**—**	(2,940)
Adjustment to gain on disposal of property, plant and equipment	**—**	(1,719)
Earnings before income tax	**227,094**	122,126
Income tax expense	**(62,042)**	(34,074)
Net earnings	**165,052**	88,052
Other comprehensive income		
Foreign currency translation adjustment	**19,032**	—
Comprehensive income	**184,084**	88,052
Weighted average number of shares (in thousands)		
- basic	**209,585**	193,552
- diluted	**209,585**	193,552
Earnings per share	**$**	$
- basic	**0.79**	0.45
- diluted	**0.79**	0.45

Statements of Cash Flows

(Thousands of Canadian dollars)

	(Unaudited) Three months ended December 31,	
	2018	2017
Cash provided by (used in):	**$**	$
OPERATING ACTIVITIES		
Net earnings	**165,052**	88,052
Adjustments for items not affecting cash:		
Finance costs	**3,440**	3,306
Depreciation, depletion and amortization expenses	**54,379**	43,917
Long-term incentive plan recovery	**(3,920)**	(31)
Unrealized (gain) loss on derivative financial instruments	**(84,147)**	9,457
Unrealized loss on foreign exchange	**26,034**	2,284
Inventory write-down	**4,853**	—
Deferred income tax expense	**55,477**	33,535
Impairment expense	**—**	2,940
Adjustment to gain on disposal of property, plant and Equipment	**—**	1,719
Decommissioning liability expenditures	**(5,419)**	(3,638)
Changes in non-cash working capital	**29,883**	31,068
Net cash provided by operating activities	**245,632**	212,609
INVESTING ACTIVITIES		
Acquisitions	**(5,609)**	—
Capital expenditures	**(242,964)**	(196,825)
Proceeds on disposal of property, plant, and equipment	**18**	—
Changes in non-cash working capital	**(18,913)**	(1,236)
Net cash used in investing activities	**(267,468)**	(198,061)
FINANCING ACTIVITIES		
Borrowings under credit facilities	**420,000**	105,000
Repayments under credit facilities	**(380,000)**	(200,000)
Financing costs related to credit facilities/long-term debt	**(1,068)**	(968)
Repayment of long-term debt	**—**	(60,000)
Proceeds from issuance of equity offering	**—**	493,856
Issuance costs related to equity offering and other	**(250)**	(19,992)
Proceeds from issuance of shares related to DRIP	**52,551**	45,176
Repayment of finance lease liabilities	**—**	(563)
Dividends paid to shareholders	**(94,179)**	(79,661)
Net cash (used in) provided by financing activities	**(2,946)**	282,848
Effect of exchange rate fluctuations on foreign cash held	**171**	(932)
Net (decrease) increase in cash	**(24,611)**	296,464
Cash, start of period	**13,751**	29,917
(Bank indebtedness) cash, end of period	**(10,860)**	326,381

SUPPLEMENTAL CASH FLOW INFORMATION

Details of changes in non-cash working capital from operating activities were as follows:

	(Unaudited) Three months ended December 31,	
	2018	2017
	$	$
Inventory	**69,483**	22,588
Trade and other receivables	**111,938**	(51,487)
Other assets	**6,867**	7,556
Trade and other payables, and provisions	**(158,405)**	52,411
Changes in non-cash working capital from operating activities	**29,883**	31,068

Details of changes in non-cash working capital from investing activities were as follows:

	(Unaudited) Three months ended December 31,	
	2018	2017
	$	$
Trade and other payables, and provisions	**(18,913)**	(1,236)
Changes in non-cash working capital from investing activities	**(18,913)**	(1,236)

The following amounts are included in Cash Flows from Operating Activities:

	(Unaudited) Three months ended December 31,	
	2018	2017
	$	$
Income taxes paid in cash	**—**	766
Interest paid in cash	**38,617**	33,361

The following table shows the operating margin from each of Keyera's operating segments and includes inter-segment transactions. Operating margin is a key measure used by management to monitor profitability by segment.

(Unaudited) Three months ended December 31, 2018	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	125,511	128,980	961,490	5,696	(79,335)	1,142,342
Segmented expenses	(51,981)	(45,212)	(804,867)	(2,794)	79,335	(825,519)
Operating margin	73,530	83,768	156,623	2,902	—	316,823
General and administrative expenses	—	—	—	(21,219)	—	(21,219)
Finance costs	—	—	—	(20,045)	—	(20,045)
Depreciation, depletion and amortization expenses	—	—	—	(54,379)	—	(54,379)
Net foreign currency gain on U.S. debt	—	—	—	1,994	—	1,994
Long-term incentive plan recovery	—	—	—	3,920	—	3,920
Earnings (loss) before income tax	73,530	83,768	156,623	(86,827)	—	227,094
Income tax expense	—	—	—	(62,042)	—	(62,042)
Net earnings (loss)	**73,530**	**83,768**	**156,623**	**(148,869)**	**—**	**165,052**

(Unaudited) Three months ended December 31, 2017	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	120,422	114,525	864,730	5,303	(77,976)	1,027,004
Segmented expenses	(47,678)	(32,620)	(810,698)	(2,895)	77,976	(815,915)
Operating margin	72,744	81,905	54,032	2,408	—	211,089
General and administrative expenses	—	—	—	(18,688)	—	(18,688)
Finance costs	—	—	—	(17,633)	—	(17,633)
Depreciation, depletion and amortization expenses	—	—	—	(43,917)	—	(43,917)
Net foreign currency loss on U.S. debt	—	—	—	(4,097)	—	(4,097)
Long-term incentive plan recovery	—	—	—	31	—	31
Impairment expense		(2,940)	—	—	—	(2,940)
Adjustment to gain on disposal of property, plant	(1,719)	—	—	—	—	(1,719)
Earnings (loss) before income tax	71,025	78,965	54,032	(81,896)	—	122,126
Income tax expense	—	—	—	(34,074)	—	(34,074)
Net earnings (loss)	**71,025**	**78,965**	**54,032**	**(115,970)**	**—**	**88,052**

DISAGGREGATION OF REVENUE

The following table shows revenue disaggregated by the major service lines offered by Keyera in its four reportable operating segments:

(Unaudited) Three months ended December 31, 2018	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Total $**
Gas handling and processing services[1]	105,067	23,021	—	—	128,088
Fractionation and storage services	2,098	53,081	—	—	55,179
Transportation and terminalling services	—	52,566	—	—	52,566
Marketing of NGLs and iso-octane	—	—	961,490	—	961,490
Other[2]	18,346	312	—	5,696	24,354
Revenue before inter-segment eliminations	**125,511**	**128,980**	**961,490**	**5,696**	**1,221,677**
Inter-segment revenue eliminations	(4,826)	(66,396)	(2,348)	(5,765)	(79,335)
Revenue from external customers	**120,685**	**62,584**	**959,142**	**(69)**	**1,142,342**

(Unaudited) Three months ended December 31, 2017	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Total $**
Gas handling and processing services[1]	103,563	23,714	—	—	127,277
Fractionation and storage services	2,023	40,413	—	—	42,436
Transportation and terminalling services	—	50,109	—	—	50,109
Marketing of NGLs and iso-octane	—	—	864,730	—	864,730
Other[2]	14,836	289	—	5,303	20,428
Revenue before inter-segment eliminations	**120,422**	**114,525**	**864,730**	**5,303**	**1,104,980**
Inter-segment revenue eliminations	(5,940)	(64,139)	(575)	(7,322)	(77,976)
Revenue from external customers	**114,482**	**50,386**	**864,155**	**(2,019)**	**1,027,004**

Notes:

[1] Processing services revenue recognized in Keyera's Liquids Infrastructure segment represents the processing fees charged to Keyera's Marketing segment for the production of iso-octane at the Keyera AEF facility.

[2] Other revenue in Keyera's Gathering and Processing segment includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer, and other miscellaneous revenue. Other revenue recognized in Keyera's Corporate and Other segment relates to the production of oil and gas reserves.

Corporate Information

Board of Directors

Jim V. Bertram [(1)]
Corporate Director
Calgary, Alberta

Douglas Haughey [(2)(4)]
Corporate Director
Calgary, Alberta

Gianna Manes[(5)]
President and CEO
ENMAX Corporation
Calgary, Alberta

Donald J. Nelson [(4)(5)]
President
Fairway Resources Inc.
Calgary, Alberta

Michael Norris [(3)]
Corporate Director
Toronto, Ontario

Thomas C. O'Connor[(3)]
Corporate Director
Evergreen, Colorado

Charlene Ripley[(5)]
EVP & General Counsel
Goldcorp Inc.
Vancouver, British Columbia

David G. Smith
President and Chief Executive Officer
Keyera Corp.
Calgary, Alberta

William R. Stedman [(4)(5)]
Chairman and CEO
ENTx Capital Corporation
Calgary, Alberta

Janet Woodruff [(3)]
Corporate Director
West Vancouver, British Columbia

(1) Chair of the Board
(2) Independent Lead Director
(3) Member of the Audit Committee
(4) Member of the Compensation and Governance Committee
(5) Member of the Health, Safety and Environment Committee

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Officers

David G. Smith
President and Chief Executive Officer

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President, Operations, Gathering and Processing

Michael Freeman
Vice President Commercial Strategy, Liquids Business Unit

Suzanne Hathaway
Senior Vice President, General Counsel and Corporate Secretary

John Hunzinger
Vice President, Operations, Liquids Infrastructure

Rick Koshman
Vice President, Corporate Development

Dion O. Kostiuk
Vice President, Human Resources and Corporate Services

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

Bradley W. Lock
Senior Vice President and Chief Operating Officer

Eileen Marikar
Vice President, Controller

Brian Martin
Vice President, Business Development, Liquids Business Unit

C. Dean Setoguchi
Senior Vice President and Chief Commercial Officer

Jamie Urquhart
Vice President, Marketing

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q4 2018

TSX:KEY – Cdn $	
High	$35.73
Low	$24.55
Close December 31, 2018	$25.81
Volume	40,395,018
Average Daily Volume	641,191

Auditors

Deloitte LLP
Chartered Professional Accountants
Calgary, Canada

Investor Relations

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