May 14, 2019

2019 First Quarter Report

For the period ended March 31, 2019

HIGHLIGHTS

- Keyera reported adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA")[1] of $164 million in the first quarter of 2019 (Q1 2018 – $189 million), funds from operations[1] of $129 million (Q1 2018 – $161 million), distributable cash flow[1] of $108 million or $0.51 per share (Q1 2018 – $155 million or $0.75 per share) and net earnings of $34 million (Q1 2018 – $88 million).
- Keyera's gas plants, fractionators and condensate system operated very well during the quarter. The Gathering and Processing segment delivered stable operating margin of $68 million (Q1 2018 – $71 million) while the Liquids Infrastructure segment reported another record quarter, generating $94 million in operating margin (Q1 2018 – $82 million). These record results were due to increasing demand for our condensate transportation and storage services and the Base Line Terminal that was completed in October 2018.
- The Marketing segment's operating margin was a loss of $18 million (Q1 2018 – margin of $66 million) and realized margin[2] was $22 million (Q1 2018 – $57 million)[3]. Results were affected by a 17-day unplanned outage at Alberta EnviroFuels that resulted in a lower contribution from iso-octane. Keyera expects Marketing's realized margin for 2019 to range between $280 million and $320 million.
- Phase one of Keyera's Wapiti gas plant recently became operational, starting the next phase of growth for Keyera, focused on the liquids-rich Montney area in northwestern Alberta. Over the next two years, the North Wapiti Pipeline System, Simonette gas plant expansion, phase two of the Wapiti gas plant, the Pipestone gas plant and Wildhorse terminal will be completed and add to this growth.
- Keyera is very pleased to be proceeding with the Key Access Pipeline System ("KAPS") that will transport NGL and condensate from northwest of Grande Prairie into Fort Saskatchewan and Keyera's fractionation facility and condensate hub. KAPS is expected to provide Keyera with secure, long-term, take-or-pay revenues, strong project returns and a platform for significant future growth. Keyera has partnered with SemGroup Corporation and KKR to develop KAPS. Keyera plans to fund KAPS without issuing common equity, aside from the existing DRIP program.
- Keyera announced a sulphur handling project at its 50% owned South Cheecham Terminal. A major oil sands producer has contracted the capacity with a long-term, 100% take-or-pay contract starting in 2022.
- Keyera has approximately $2.9 billion in growth capital projects underway, including KAPS and the sulphur project, and may consider issuing term debt, hybrid notes or preferred shares to fund a portion of this program. For 2019, Keyera still expects to invest between $800 million and $900 million, as the majority of investment for these two new projects occurs in 2020 and 2021.

[1] Keyera uses certain "Non-GAAP Measures" such as adjusted EBITDA, funds from operations, distributable cash flow, distributable cash flow per share and payout ratio. See section titled "Non-GAAP Financial Measures", "Dividends: Funds from Operations and 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] With the adoption of IFRS 16, Leases on January 1, 2019, Marketing's financial results are not directly comparable between periods. See page 36 of the MD&A for further details.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended March 31,** **2019**	 2018
Net earnings	**33,799**	87,715
Per share ($/share) – basic	**0.16**	0.43
Cash flow from operating activities	**223,809**	205,106
Funds from operations[1]	**128,566**	161,477
Distributable cash flow[1]	**107,948**	154,902
Per share ($/share)[1]	**0.51**	0.75
Dividends declared	**95,299**	86,305
Per share ($/share)	**0.45**	0.42
Payout ratio %[1]	**88%**	56%
Adjusted EBITDA[2]	**164,410**	189,363
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,616**	1,586
Net processing throughput (MMcf/d)	**1,299**	1,237
Liquids Infrastructure:		
Gross processing throughput[3] (Mbbl/d)	**180**	187
Net processing throughput[3] (Mbbl/d)	**91**	81
AEF iso-octane production volumes (Mbbl/d)	**12**	13
Marketing:		
Inventory value	**184,703**	120,212
Sales volumes (Bbl/d)	**150,600**	161,000
Acquisitions	**217**	10,000
Growth capital expenditures	**290,549**	238,793
Maintenance capital expenditures	**7,358**	6,012
Total capital expenditures	**298,124**	254,805
Weighted average number of shares outstanding – basic and diluted	**211,480**	205,267

	As at March 31, **2019**	 2018
Long-term debt	**2,105,229**	1,742,763
Credit facility	**260,000**	—
Working capital deficit (surplus)[4]	**116,071**	(108,227)
Net debt	**2,481,300**	1,634,536
Common shares outstanding – end of period	**212,368**	205,982

Notes:

1. Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow. Payout ratio, funds from operations, and distributable cash flow are not standard measures under Generally Accepted Accounting Principles ("GAAP"). See the section titled, "Dividends: Funds from Operations and Distributable Cash Flow", for a reconciliation of funds from operations and distributable cash flow to the most closely related GAAP measure.
2. Adjusted EBITDA is defined as earnings before finance costs, taxes, depreciation, amortization, 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

After completing a record year in 2018, Keyera continues to achieve new milestones and our midstream services remain in high demand. In the first quarter of 2019, we achieved record gross natural gas processing volumes and our fractionation units operated above nameplate capacity at Keyera Fort Saskatchewan ("KFS"). While our gas plants, fractionators and condensate system operated well during the quarter, we had an unplanned outage at our Alberta EnviroFuels ("AEF") facility. As a result, our first quarter results were lower than planned and we reported adjusted EBITDA of $164 million, funds from operations of $129 million, distributable cash flow of $108 million and net earnings of $34 million.

Keyera is well positioned to deliver another year of strong financial performance as we are completing a number of new growth capital projects. As well, market fundamentals support higher fractionation fees and iso-octane margins for the remainder of the year. We recently completed the first phase of the Wapiti gas plant, which is an exciting achievement for Keyera as it kicks off the next phase of our cash flow growth.

Gathering and Processing Operations

The Gathering and Processing segment delivered operating margin of $68 million in the first three months of 2019, and gross processing throughput reached a new record, averaging 1,616 million cubic feet per day. Volumes increased as new wells were tied into our Strachan and Brazeau River gas plants, and our Simonette gas plant set a new quarterly record for throughput volumes.

Over the past few years we have been investing in a number of capital projects to build out our footprint in the liquids-rich Montney and Duvernay developments in northwestern Alberta, and we are beginning to see the benefit of these investments. The Wapiti gas plant is now operational. We expect throughput volumes at the plant to continue to grow as the North Wapiti Pipeline System is completed later in the year and as our two anchor tenants increase their production. This growth will be complemented by the completion of the Simonette gas plant expansion in late 2019, the second phase of the Wapiti gas plant in mid-2020 and then the Pipestone gas plant in 2021. In May, we contracted the available capacity at our Pipestone gas plant with a new customer and now have fully contracted phase one of the plant. Once the Pipestone gas plant is completed, Keyera will have 950 million cubic feet of sour gas processing capacity and 90,000 barrels per day of condensate handling capacity in this region, one of the most economic developments in the Western Canada Sedimentary Basin.

Liquids Infrastructure Operations

The Liquids Infrastructure segment continued to generate strong results, reporting a record operating margin of $94 million in the first quarter of 2019, which represents a 15% increase over the same period in the prior year. These results were driven by the Base Line Terminal that was completed in the fall of 2018 and strong demand for our condensate storage and transportation services, including the Norlite pipeline. The Base Line Terminal and our condensate services provide Keyera with long-term take-or-pay cash flows.

With producers continuing to focus on drilling liquids-rich gas formations in Western Canada, fractionation capacity has tightened in Alberta. As a result, Keyera was able to contract higher fractionation fees for the portion of our capacity not underpinned by long-term contracts. These new NGL contract prices were effective April 1, 2019 and will increase our fractionation revenue in 2019 compared to 2018, assuming customers deliver volumes as planned.

Marketing Services

The Marketing business recorded an operating loss of $18 million in the first quarter of 2019, while realized margin was $22 million, excluding the effect of unrealized gains and losses from risk management contracts. Marketing's results were affected by a 17-day unplanned outage at AEF and the timing of settling risk management contracts.

Although Keyera's Marketing quarterly results are subject to variability, our processing, storage and transportation assets, as well as our AEF facility provide a strong foundation for Marketing to deliver cash flow year after year. On an annual basis, we expect our Marketing business to contribute, on average, a base realized margin of between $180 million and $220 million. This estimated range is based on a variety of assumptions that are described in our first quarter 2019 MD&A. For 2019, we expect the Marketing segment to outperform this base range and generate realized margin between $280 million and $320 million. This is primarily due to lower butane feedstock prices effective with the new annual term supply contracts that began on April 1, 2019. Marketing adds value to our integrated business by enhancing the returns from our fee-for-service businesses and also provides an additional source of funding for our capital projects.

Business Development

We are very pleased to be proceeding with the KAPS project and have partnered with SemCAMS Midstream, owned jointly by SemGroup Corporation and KKR, to develop this world-class NGL and condensate gathering system. The pipeline system is expected to be in service in the first half of 2022 and will transport NGL and condensate from the liquids-rich Montney and Duvernay developments in northwestern Alberta to Fort Saskatchewan and Keyera's fractionation assets and condensate system.

This project is highly desired by industry and anchored by multiple long-term agreements, averaging 14 years in length with 75% take-or-pay commitments, as well as specific facility and area dedications. The firm volume commitments over the length of the agreements make up over 60% of the initial aggregate capacity of the pipeline system and includes meaningful commitments from investment grade counterparties. We expect KAPS is to generate an annual return on capital of between 10% and 15% starting in 2024.

KAPS will be an open-access system and initially constructed from northwest of Grande Prairie to KFS. Along this route, KAPS will initially be connected to our Pipestone, Wapiti and Simonette gas plants and several third party gas plants with volume commitments to KAPS. By 2022, Keyera and SemCAMS Midstream will have nine gas plants operating in northwestern Alberta providing KAPS with access to approximately 2.25 billion cubic feet per day of natural gas processing capacity and 130,000 barrels per day of condensate handling facilities. Keyera will construct and operate the pipeline system.

The cost of the pipeline system is currently estimated at $1.3 billion, or $650 million net to Keyera, and we plan to fund this project without issuing common equity, outside of our current DRIP.

KAPS is not only a strategic asset for Keyera, connecting our NGL business to our gathering and processing assets located in a key region of the Western Canada Sedimentary Basin; it also provides numerous future growth opportunities. We thank our customers for their endorsement and commitment to our solution and are committed to developing this pipeline system in a responsible manner for all stakeholders.

Outlook

This is an exciting time for Keyera as we are completing a number of new growth projects over the next few years and have a number of new opportunities to consider. While we focus on creating value for our shareholders over the long-term, we will maintain our disciplined approach. We will focus our growth on investments that enhance our integrated value chain and we will continue to ensure our capital is deployed efficiently and effectively. We remain committed to our financing plan and may consider issuing term debt, hybrid notes or preferred shares to fund a portion of our current capital program.

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.

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 May 14, 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 unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera for the three months ended March 31, 2019 and the notes thereto as well as the audited consolidated financial statements of Keyera for the year ended December 31, 2018, and the related MD&A. 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 three months ended March 31, 2019 and 2018:

	Three months ended March 31,	
(Thousands of Canadian dollars, except per share data)	**2019**	2018
Net earnings	**33,799**	87,715
Net earnings per share (basic)	**0.16**	0.43
Operating margin	**148,025**	222,413
Realized margin[1,2]	**189,180**	213,472
Adjusted EBITDA[3]	**164,410**	189,363
Cash flow from operating activities	**223,809**	205,106
Funds from operations[4]	**128,566**	161,477
Distributable cash flow[4]	**107,948**	154,902
Distributable cash flow per share[4] (basic)	**0.51**	0.75
Dividends declared	**95,299**	86,305
Dividends declared per share	**0.45**	0.42
Payout ratio[5]	**88%**	56%

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, "Segmented 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 $556 of unrealized losses from commodity-related risk management contracts (Q1 2018 – $398 unrealized gains).

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

3 Adjusted EBITDA is defined as earnings before finance costs, taxes, depreciation, amortization, 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 Funds from operations and distributable cash flow are not standard measures under GAAP. See the section titled, "Dividends: Funds from Operations and Distributable Cash Flow", for a reconciliation of funds from operations and distributable cash flow to the 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 recorded solid financial results in the first quarter of 2019, despite a 17-day unscheduled outage at AEF in February that contributed to weaker Marketing results in the quarter. The Liquids Infrastructure segment delivered another record quarter in 2019 as described throughout this MD&A. In the Gathering and Processing segment, operating margin was relatively stable.

Looking ahead to the remainder of the year, the Wapiti gas plant commenced operations in May and is now contributing incremental cash flow. The North Wapiti Pipeline System and the expansion of the Simonette gas plant are on schedule, and are expected to be operational in the second half of 2019. Other trends that are expected to affect Keyera's business in 2019 include: i) higher average fractionation fees in the Liquids Infrastructure segment; and ii) lower term butane feedstock prices that directly affect iso-octane margins in the Marketing segment. These new fee structures were effective with the new contract year that began on April 1st.

The Marketing segment generates its cash flow by effectively utilizing Keyera's infrastructure, including storage, fractionation and transportation capabilities, as well as the AEF facility. However, the financial results from this segment can vary between quarters due to the seasonality in demand for propane and iso-octane, as well as the timing of settling risk management contracts. As a result, it is important to view Keyera's Marketing business on an annual basis.

Keyera expects its Marketing business to contribute, on average, a base realized margin of between $180 million and $220 million annually. This base contribution assumes: i) AEF operates near capacity; ii) butane feedstock costs are comparable to the 2018 contract year; iii) crude oil prices range between US$55 per barrel to US$65 per barrel; iv) there are no significant logistics or transportation curtailments; and v) producers deliver their volumes according to plan. There are numerous variables that can affect the results from Keyera's Marketing segment. For a detailed discussion of risk factors that affect Keyera, see Keyera's Annual Information Form which is available at www.sedar.com.

For 2019, Keyera expects the Marketing segment to outperform this base range and generate realized margin between $280 million and $320 million. This is primarily due to lower butane feedstock prices effective with the new annual term supply contracts that began on April 1, 2019. Marketing adds value to Keyera's integrated business by enhancing the returns from its fee-for-service businesses and also provides an additional source of funding for capital projects.

With the adoption of *IFRS 16, Leases,* the effect on Keyera's financial results for the first quarter of 2019 was as follows:

- decrease in operating expenses of $13 million;
- increase in finance costs of $2 million;
- increase in depreciation, depletion and amortization expenses of $13 million; and
- a foreign currency gain on U.S. debt and other of $3 million.

These factors affected certain financial and non-GAAP measures as follows:

- increase in net income of $1 million;
- increase in operating margin, realized margin, and cash flow from operating activities of $13 million;
- decrease in cash flow from financing activities of $13 million; and
- an increase in funds from operations and adjusted EBITDA of $13 million.

Distributable cash flow was not affected by the adoption of *IFRS 16, Leases* as lease payments continue to be deducted from this non-GAAP measure.

Net Earnings

For the three months ended March 31, 2019, net earnings were $34 million, $54 million lower than the same period in 2018, primarily attributable to lower operating margin from the Marketing segment which is discussed in further detail below.

Partly offsetting the lower operating margin was the following:

- a $4 million net foreign currency gain in the first quarter of 2019, compared to a loss of $8 million during the same period in the prior year; and

- $28 million in lower income tax expense due to decreased earnings in the first quarter of 2019.

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

Operating Margin and Realized Margin

Effective January 1, 2019, Keyera adopted *IFRS 16, Leases* whereby lease expenditures, in particular rail car leases, are no longer included in operating expenses of the Marketing segment but rather are capitalized for accounting purposes. The adoption of this standard did not result in the restatement of prior periods; accordingly, the financial results of the Marketing segment are not directly comparable between periods. Approximately $10 million of rail car lease costs were included in operating expenses of the Marketing segment in the first quarter of 2018.

For the three months ended March 31, 2019, operating margin was $148 million, $74 million lower than the same period in 2018 due to: i) the inclusion of an unrealized non-cash loss of $41 million associated with risk management contracts from the Marketing segment in 2019, compared to a non-cash gain of $9 million in 2018; and ii) lower realized margin from the Marketing segment as described in more detail below.

Realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) was $189 million for the three months ended March 31, 2019, $24 million lower than the same period in 2018 due to reduced margin from the Marketing segment that resulted from the following factors:

- $25 million in lower iso-octane margins in 2019 that stemmed from: i) reduced production and 30% lower sales volumes as the AEF facility was taken off-line for unscheduled repair work in February; ii) significantly lower sales volumes in March, as it took time to rebuild inventory once AEF was in full production. The month of March is the beginning of the spring/summer demand season for iso-octane; and iii) the 2018 financial results included $5 million of initial insurance proceeds related to the recovery of a portion of the unplanned repair costs at AEF in 2017;

- lower margins from the sale of butane as product was sold at weak market prices to manage inventory levels resulting from the outage at AEF. Significant realized gains from risk management contracts were recorded in the fourth quarter of 2018 to offset the decline in butane prices. However, within Keyera's risk management strategies there can be timing differences between when these financial contracts are settled and when the physical product is sold or consumed as feedstock; and

- lower margins from the sale of propane in the first quarter of 2019, as realized gains from risk management contracts were recognized in the fourth quarter of 2018 to offset the decline in propane prices. Accordingly, lower physical margins were recognized in the first quarter of 2019. On an annual basis, propane remains a small contributor to Keyera's overall Marketing segment.

The factors above were partly offset by approximately $10 million in lower rail car lease costs that were included in operating expenses in 2018.

Further offsetting the lower realized margin from the Marketing segment were the record results from the Liquids Infrastructure segment in 2019. The Liquids Infrastructure segment delivered an increase in operating margin of $13 million or 15% compared to the same period in 2018 because of: i) incremental margin from the Base Line Terminal that was brought into service in phases starting in January 2018, with all 12 tanks being operational in October; and ii) the overall growth in demand for Keyera's condensate network, including transportation and storage services, as well as incremental revenue and volumes from the Norlite pipeline.

The overall financial results from the Gathering and Processing segment were relatively stable in the first quarter of 2019 compared to the same period of last 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 gas plant.

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

Cash Flow Metrics

With the adoption of *IFRS 16, Leases* effective January 1, 2019, operating lease payments are excluded from the calculation of cash flow from operating activities and funds from operations as these payments are no longer included in operating expenses. Accordingly, these two cash flow measures are not comparable between periods, as approximately $11 million in lease expenses were deducted in the first quarter of 2018. However, distributable cash flow is comparable between periods as lease expenditures are deducted in both periods to calculate this measure.

Cash flow from operating activities was $224 million in the first quarter of 2019, $19 million higher than the same period last year partly because of a $39 million cash pre-payment made in 2018 to acquire the

Pipestone project. This was partly offset by lower overall realized margin in the first quarter of 2019 as described above.

Distributable cash flow in the first quarter of 2019 was $108 million, $47 million lower than the same period in 2018 due to lower realized margin and $15 million in higher current tax expense in 2019.

Refer to the sections of this MD&A titled, “Dividends: Funds from Operations and Distributable Cash Flow”, for a reconciliation of cash flow from operating activities to funds from operations and distributable cash flow and “Segmented 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 three months ended March 31, 2019 and 2018 are reported in note 16, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 19 active gas plants and one gas plant that is under construction, all of which are located in Alberta. Keyera operates 17 of the 19 active gas plants and has the option to become the operator of the gas plant currently under construction, five years after the commencement of its operations. 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)	**Three months ended March 31,** **2019**	 2018
Revenue[1]	**116,647**	107,354
Operating expenses[1]	**(47,735)**	(36,541)
Unrealized loss on electricity and other financial contracts	**(590)**	(266)
Total operating expenses	**(48,325)**	(36,807)
Operating margin	**68,322**	70,547
Gross processing throughput – (MMcf/d)	**1,616**	1,586
Net processing throughput[2] – (MMcf/d)	**1,299**	1,237

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 total operating margin of $68 million in the first quarter of 2019, $2 million lower than the same period in 2018 due to:

- lower processing throughput at the Rimbey gas plant as lower producer activity levels contributed to volume declines at the facility; and
- a reduction in fees provided to two customers in exchange for a longer-term commitment of volumes and the ability to process volumes at multiple Keyera facilities in the west central Alberta area.

The factors above were partly offset by higher operating margin from:

- record average processing throughput at the Simonette gas plant and incremental revenues from the liquids handling expansion that became operational in May 2018;
- incremental operating margin from the Pipestone Liquids Hub that came into service in September 2018; and
- higher ethane sales from the Rimbey gas plant, as the petrochemical company that purchases ethane under a long-term commercial arrangement had curtailed the receipt of sales volumes during the first quarter of 2018.

Gathering and Processing revenue for the three months ended March 31, 2019 was $117 million, $9 million higher than the same period in 2018 primarily due to higher ethane sales volumes. Ethane sales are generally based on index pricing and can significantly influence revenues; however, the effect on operating margin is minimal as ethane purchases from producers are also based on index pricing and are included in operating expenses.

Gathering and Processing Activity

Gross processing throughput for the Gathering and Processing segment reached a new record in the first quarter of 2019, averaging 1,616 million cubic feet per day. The record gross processing throughput was 4% higher than the fourth quarter of 2018 primarily due to new well tie-ins that flowed to the Strachan and Brazeau River gas plants, and 2% higher than the previous record set in the first quarter of 2018. The increase in throughput compared to the first quarter of 2018 was largely attributable to both the Simonette gas plant, which continues to benefit from high producer activity levels in the liquids-rich Montney and Duvernay geological zones, and the Alder Flats gas plant. Although throughput at the Alder Flats gas plant has increased due to the completion of the phase two expansion in May 2018, the impact on operating margin has been minimal. This is because Keyera began recording take-or-pay revenue associated with this incremental capacity upon acquiring the additional 35% ownership interest in the gas plant in 2016. The increase in volumes at these facilities was partly offset by a decline in gross processing throughput at the Rimbey gas plant as a result of lower producer activity in the surrounding areas.

As producer activity levels remain high in the liquids-rich Montney and Duvernay geological zones in northwestern Alberta, Keyera has continued to engage in discussions with producers in the area to provide gathering and processing solutions that will support their developments. In May 2019, Keyera secured an additional long-term volume commitment with a new customer that includes take-or-pay obligations. The new agreement will utilize all of the remaining capacity available in the first phase of the Pipestone gas plant currently under construction.

In May 2019, phase one of the Wapiti gas plant and its related water disposal system began operating and is generating incremental margin. The primary customer for phase one of the gas plant is Paramount Resources Ltd. Additional processing volumes will be delivered by way of the North Wapiti Pipeline System once the system becomes operational in the second half of 2019. In addition to these projects, the Simonette gas plant expansion is anticipated to be complete in the fourth quarter of this year.

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, including estimated cost to complete and expected completion time.

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 most significant of these maintenance turnarounds will occur at the Rimbey gas plant, scheduled to commence at the end of May. 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 below provides more detail related to major projects in the Gathering and Processing segment:

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.	***Construction-In-Progress Assets:*** The acid gas injection facilities are expected to be operational in the third quarter of 2019. ***Completed Assets:*** The inlet liquids separation facilities and flare system were completed and commenced operations at the beginning of March 2019. *Estimated total cost to complete:* • approximately $90 million, $10 million lower than the original estimate *Total net costs to March 31, 2019:* • $21 million in the first quarter of 2019 • $60 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.	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 March 31, 2019:* • $16 million in the first quarter of 2019 • $40 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, field compressor stations, and condensate treating facilities.	***Wapiti Gas Plant (Phase One):*** Phase one of the Wapiti Gas Plant was completed and began operating in May 2019.
	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.	***Water Disposal System:*** The water disposal system became operational with the start-up of phase one of the Wapiti Gas Plant in May 2019. The system is currently equipped with one disposal well. A second disposal well will come into service in the second quarter of 2019.
	North Wapiti Pipeline System: 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.	***North Wapiti Pipeline System:*** Construction on the pipeline system continued in the first quarter of 2019. The North Wapiti Pipeline System is expected to be in service in the second half of 2019.
	Gold Creek Compressor and Gathering System Expansion: This project provides additional compression and includes an expansion of the Wapiti gathering system.	***Gold Creek Compressor and Gathering System Expansion:*** Detailed engineering work and ordering of long lead equipment continued in the first quarter of 2019. The additional compression and the expansion of the Wapiti gathering system is anticipated to be operational by mid-2020.
	Wapiti Gas Plant (Phase Two): Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant.	***Wapiti Gas Plant (Phase Two):*** Fabrication of major equipment commenced while engineering work remained ongoing in the first quarter of 2019. Phase two of the Wapiti gas plant is expected to be complete by mid-2020. *Estimated total cost to complete the Wapiti complex and related infrastructure:* • approximately $1 billion *Total net costs to March 31, 2019:* • $144 million in the first quarter of 2019 • $729 million since inception (including $19 million in 2016 to acquire the project and acid gas injection well and $10 million for the acquisition of land)

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Pipestone	***Pipestone Gas Plant:*** 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, 24,000 barrels per day of condensate processing capacity, and associated water disposal facilities.	Detailed engineering and procurement activities continued in the first quarter of 2019. The Pipestone gas plant is expected to be operational in 2021. *Estimated total cost to complete:* • approximately $600 million *Total net costs to March 31, 2019:* • $38 million in the first quarter of 2019 • $79 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 North Wapiti Pipeline System and the Pipestone gas plant and related acid gas injection well. 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)	**Three months ended March 31,** **2019**	 2018
Revenue[1]	**132,821**	109,476
Operating expenses[1]	**(38,383)**	(28,289)
Unrealized gain on electricity financial contracts	**12**	616
Total operating expenses	**(38,371)**	(27,673)
Operating margin	**94,450**	81,803

Note:
[1] Includes inter-segment transactions.

Operating Margin and Revenue
The Liquids Infrastructure segment posted another quarter of record financial results for the first three months of 2019. Operating margin was $94 million, an increase of $13 million or 15% compared to the same period in 2018, due to the following:

- incremental operating margin from the Base Line Terminal that was brought into service in phases starting in January 2018, with all 12 tanks being operational in October; and

- the overall growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental revenue and volumes from the Norlite pipeline.

Liquids Infrastructure revenues for the three months ended March 31, 2019 were $23 million higher than the same period in 2018, primarily due to the same factors that contributed to higher operating margin as described above.

Liquids Infrastructure Activity
In May, Keyera announced that it will be proceeding with the development of an NGL and condensate gathering system, called the Key Access Pipeline System ("KAPS"). KAPS will transport growing Montney and Duvernay production in northwestern Alberta to Fort Saskatchewan. KAPS will be an open-access system with initial connections into Keyera's fractionation assets and condensate system in Fort Saskatchewan.

This project is highly desired by industry as it provides an additional and alternative transportation solution to deliver increasing production from Alberta's liquids-rich developments to market. KAPS is expected to provide Keyera with secure, long-term, take-or-pay revenues and strong project returns. The project is expected to generate an annual return on capital of between 10% and 15% starting in 2024. KAPS is also an important link between Keyera's growing gathering and processing franchise in northwestern Alberta and its strong liquids infrastructure network at Fort Saskatchewan, creating a platform for significant future business opportunities.

Keyera has partnered with SemCAMS Midstream ULC ("SemCAMS") to develop KAPS under a 50/50 joint venture agreement. SemCAMS is owned jointly by SemGroup Corporation and KKR, an investor with extensive experience in the energy sector. Keyera and SemCAMS will have nine gas plants operating in the area by 2022, providing KAPS with access to approximately 2.25 billion cubic feet per day of natural gas processing capacity and 130,000 barrels per day of condensate handling capabilities. This new joint venture with SemCAMS replaces the arrangement between Keyera and Wolf Midstream that was signed in late 2018.

The project is anchored by multiple long-term agreements, averaging 14 years in length with 75% take-or-pay commitments, as well as specific facility and area dedications. The customer base for KAPS is broad and includes investment grade counterparties. The firm volume commitments over the length of the agreements make up over 60% of the initial aggregate capacity of the pipeline system.

Based on the current scope, KAPS will consist of a 16-inch pipeline for condensate and a 12-inch pipeline for NGL mix. KAPS will initially be constructed from northwest of Grande Prairie to Keyera's Fort Saskatchewan fractionation and storage facility ("KFS"). Along this route, KAPS will initially be connected to Keyera's Pipestone, Wapiti and Simonette gas plants and several third party gas plants with volume commitments to KAPS. Customers will also have direct access to Keyera's condensate system that offers connectivity for transporting condensate to high-value diluent markets. Condensate is used as a diluent by bitumen producers. Keyera will construct and operate the pipeline system. KAPS is expected to become operational in the first half of 2022.

The cost of the pipeline system is currently estimated at $1.3 billion, or $650 million net to Keyera. With the majority of the capital spending expected to occur during the second half of 2020 and into 2021, Keyera plans to fund its 50 percent ownership interest without issuing additional common equity, apart from the existing DRIP program.

Demand for Keyera's diluent handling services continues to grow and 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 19% in the first three months of 2019 compared to the same period last year. Compared to the fourth quarter of 2018, condensate deliveries were down by approximately 10% primarily because of the Alberta government imposed curtailment on crude oil production. Despite these curtailments and lower volumes through Keyera's condensate system, the financial impact was minimal due to take-or-pay arrangements that are in place. In early 2019, Keyera completed construction of a condensate connection to Inter Pipeline's Cold Lake pipeline system, which added another delivery point to Keyera's condensate system.

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, CRW pool, and a pipeline connection to Pembina Pipeline's Canadian Diluent Hub. 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.

Utilization of the two fractionation units at Keyera's Fort Saskatchewan complex averaged above its nameplate capacity in the first quarter of 2019. In recent months, fractionation capacity has tightened as a result of the increase in liquids rich drilling activity in Alberta. For the contract year beginning April 1, 2019, Keyera has contracted higher fractionation fees compared to the prior year. Accordingly, fractionation revenue is expected to be higher in 2019 compared to 2018, assuming customers deliver volumes in line with their forecasts.

In the second quarter of 2019, Keyera entered into a 15-year agreement with a subsidiary of a creditworthy major oil sands producer, to provide sulphur handling and forming services at the South Cheecham rail and truck terminal, a facility that is jointly owned by Keyera and Enbridge. As a result of the agreement, Keyera and Enbridge will jointly own and build new sulphur handling, forming, and storage facilities at the terminal for a total estimated cost of $115 million, with Keyera's net share of the capital costs being approximately $58 million. The agreement contains a 100% take-or-pay commitment, and the sulphur handling facilities will be for the sole use of the producer. The facilities are anticipated to be operational in 2022.

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 86% of AEF's capacity in the first quarter of 2019. In February, AEF was taken off-line for approximately 17 days to address an equipment failure that was intensified by extended extreme cold temperatures. During the outage, Keyera took the opportunity to conduct additional preventative maintenance work. Since this work was completed, AEF has been operating near capacity.

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

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. Once complete, Keyera will have 18 underground storage caverns in its portfolio.	***Construction-In-Progress Assets:*** Washing of the 16th and 17th caverns continued in the first quarter of 2019. These caverns are expected to be in service in the first half of 2020 and first half of 2021, respectively. Drilling of the 18th cavern commenced in late April. This cavern is anticipated to be operational in the second half of 2022. ***Completed Assets:*** The 15th cavern and its related infrastructure was put into service in early May 2018. *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 March 31, 2019:* • $2 million in the first quarter of 2019 • $83 million since inception (includes costs related to the 15th cavern that was completed in May 2018)

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
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 first quarter of 2019, civil work and construction of the terminal continued to advance. 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 March 31, 2019:* • $32 million in the first quarter of 2019 • $108 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, 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 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)	**Three months ended March 31,** **2019**	 2018
Revenue[1]	**665,981**	931,094
Operating expenses[1]	**(684,109)**	(865,242)
Operating (loss) margin	**(18,128)**	65,852
Unrealized loss (gain) on risk management contracts	**40,599**	(8,543)
Realized margin	**22,471**	57,309
Sales volumes (Bbl/d)	**150,600**	161,000

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)	**Three months ended March 31,** **2019**	 2018
Physical sales	**713,308**	934,045
Realized cash loss on financial contracts[1]	**(6,728)**	(11,494)
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	**(41,516)**	27,599
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	**1,741**	(19,194)
Unrealized (loss) gain from fixed price physical contracts[2]	**(824)**	138
Total unrealized (loss) gain on risk management contracts	**(40,599)**	8,543
Total loss on risk management contracts	**(47,327)**	(2,951)
Total Marketing revenue	**665,981**	931,094

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

As described throughout this MD&A, with the adoption of *IFRS 16, Leases* on January 1, 2019, operating leases, in particular rail car leases, are now capitalized for accounting purposes and are no longer included in operating expenses of the Marketing segment. The adoption of this standard did not require the restatement of prior periods. Accordingly, the financial results of the Marketing segment are not directly comparable between periods as approximately $10 million of rail car lease costs were included in the first quarter 2018 financial results.

For the quarter ended March 31, 2019, operating margin from the Marketing segment resulted in a loss of $18 million or $84 million lower than the same period in 2018 due to: i) the inclusion of a $41 million non-cash loss from risk management contracts, compared to a non-cash gain of $9 million in the same period of 2018; and ii) lower realized margin as described in more detail below.

Realized margin (excluding the effect of non-cash unrealized gains and losses from risk management contracts) was $22 million in the first quarter of 2019, $35 million lower than the same period in 2018 due to the following factors:

- $25 million in lower iso-octane margins that resulted from:
    - i) reduced production and 30% lower sales volumes in the first quarter of 2019 as the AEF facility was taken off-line for unscheduled repair work in February. AEF operated on average at 86% of its capacity in the first quarter of 2019, compared to 97% of its operating capacity in the same period of 2018;
    - ii) a decrease in sales volumes that were available to be sold in March as it took time to rebuild inventory once AEF returned to full production. The month of March is the beginning of the demand season for iso-octane; and
    - iii) the inclusion of $5 million of initial insurance proceeds in the 2018 financial results related to the recovery of a portion of the unplanned repair costs in 2017;
- lower margins from the sale of butane as product was sold at low market prices in order to manage inventory levels resulting from the outage at AEF. Keyera typically maintains its butane inventory for the production of iso-octane. Significant realized gains from risk management contracts were recorded in the fourth quarter to offset the significant decline in butane prices; and
- lower margins from the sale of propane in 2019 as prices declined in the fourth quarter of 2018. Realized gains from risk management contracts were recognized in the fourth quarter to offset the reduction in propane prices.

Margins from the sale of condensate and the liquids blending business were strong in the first quarter of 2019 and were comparable to the same period in 2018.

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the three months ended March 31, 2019, revenue from physical sales was $221 million lower than the same period in 2018 primarily due to lower iso-octane sales volumes and lower average sales prices for substantially all products.

Market Overview

Overall, iso-octane margins in the first quarter of 2019 were lower than normal due to AEF being taken off-line for approximately 17 days in February. As it takes time to rebuild inventory levels, iso-octane sales volumes were reduced for the month of March which is the beginning of the demand season. Accordingly, the outage in February had a more significant financial effect on the Marketing results in the first quarter of 2019, compared to the preventative maintenance outage that was undertaken in the fourth quarter of last year. Refer to the section of this MD&A, "Liquids Infrastructure: Liquids Infrastructure Activity", for more information related to this unscheduled outage.

The demand for iso-octane typically increases in the spring and summer months as driving activity and gasoline demand increase, which generally translates into premium pricing for gasoline and iso-octane. 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. In recent months, butane prices in Alberta have weakened significantly due to increased supply. For the annual term supply contracts that began on April 1, 2019, the price for butane as a percentage of crude oil is substantially lower than the prior contract year. Keyera expects to see the benefit of lower butane feedstock costs in the second half of 2019 as the higher price inventory existing at the end of 2018 continues to be consumed. This assumes AEF continues to operate at normal levels.

Margins from the sale of butane are typically small as Keyera maintains most of its inventory to be consumed as feedstock for the production of iso-octane. In the first quarter of 2019, Keyera sold butane to effectively manage its operational and inventory levels resulting from the AEF outage. Butane margins were low due to high priced inventory relative to market prices. However, significant realized cash gains from risk management contracts were recognized in the fourth quarter of 2018. These contracts were put in place to protect the value of Keyera's butane inventory relative to market value. Within Keyera's hedging strategies, there can be timing differences between when the risk management contracts are settled and the physical inventory is sold. Refer to the "Risk Management" section below for more information related to Keyera's risk management strategies.

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. Also, Keyera imports condensate into Alberta by rail when demand fundamentals support positive operating margins. Contribution from the marketing of condensate in the first quarter of 2019 was comparable to the same period in 2018, although lower than the fourth quarter of 2018. This was partly due to the Alberta government's temporary curtailment of crude oil production effective January 1, 2019, that resulted in lower volumes of condensate moving through Keyera's condensate system. Due to take-or-pay contractual arrangements, the financial effect of the government curtailment on Keyera's Liquids Infrastructure segment was not significant.

Propane margins were robust in the first quarter of 2019 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. While propane prices decreased in the fourth quarter of 2018 and early part of 2019 with the decline in crude oil prices, margins were protected through the use of propane forward financial contracts. On an annual basis, propane margins are expected to remain a relatively small contributor to Keyera's overall Marketing operating margin.

Margins from Keyera's liquids blending business were comparable to the first quarter of 2018.

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 quarter ended March 31, 2019, the total unrealized loss on risk management contracts was $41 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding risk management contracts as at March 31, 2019 resulted in an unrealized (non-cash) gain of $2 million that related to iso-octane, propane, butane and condensate risk management 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 March 31, 2019, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 12, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	**Three months ended March 31,** **2019**	2018
Other income (operating margin)	**3,381**	4,211
General and administrative (net of overhead recoveries on operated facilities)	**(19,260)**	(18,873)
Finance costs	**(19,869)**	(18,062)
Depreciation, depletion and amortization expenses	**(62,953)**	(46,143)
Net foreign currency gain (loss) on U.S. debt and other	**3,838**	(7,867)
Long-term incentive plan expense	**(5,510)**	(5,236)
Income tax expense	**(10,472)**	(38,517)

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 three months ended March 31, 2019 was $3 million, $1 million lower than the same period in 2018. Production for the three months ended March 31, 2019 averaged 3,594 barrels of oil equivalent per day compared to 4,007 barrels of oil equivalent per day for the same period in 2018.

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 the three months ended March 31, 2019 were $19 million, virtually unchanged from the same period in 2018.

Finance Costs

Finance costs for the three months ended March 31, 2019 were $20 million, $2 million higher than the same period in 2018 primarily due to:

- an increase of $5 million in interest expense related to the $400 million public note offering issued in June 2018 as well as an increase in short-term borrowings in the first quarter of 2019; and

- $2 million in incremental interest expense resulting from lease liabilities recognized with the adoption of *IFRS 16, Leases* that was effective January 1st, 2019. See the section titled, "Adoption of New Standards", and notes to the accompanying financial statements for further information.

These increases to finance costs were partly offset by a $6 million increase in interest capitalized on qualifying projects in the first quarter of 2019. Capitalized interest is a reduction to finance costs.

Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization ("DD&A") expenses for the three months ended March 31, 2019 were $63 million, $17 million higher than the same period in 2018 due to: i) an increase in Keyera's overall asset base including the Alder Flats gas plant expansion, the Keylink pipeline, the Base Line Terminal, and the Oklahoma Liquids Terminal; and ii) depreciation related to the right-of-use assets recognized with the adoption of *IFRS 16, Leases* that was effective January 1st, 2019. See the section titled, "Adoption of New Standards", and notes to the accompanying financial statements for further information.

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

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

Net Foreign Currency Gain (Loss) on U.S. Debt and Other (Thousands of Canadian dollars)	**Three months ended March 31,** **2019**	 2018
Translation of long-term debt and interest payable	**12,583**	(17,041)
Change in fair value of cross-currency swaps – principal and interest portion	**(11,797)**	8,958
Gain on cross-currency swaps – interest portion[1]	**369**	216
Foreign exchange re-measurement of lease liabilities and other	**2,683**	—
Net foreign currency gain (loss) on U.S. debt and other	**3,838**	(7,867)

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 12, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of $4 million was recorded for the three months ended March 31, 2019 and was comprised of the following:

- a $13 million non-cash gain from the translation of U.S. dollar denominated debt into Canadian dollars as the Canadian dollar strengthened relative to the U.S. dollar since the end of 2018. This unrealized gain was partly offset by a $12 million non-cash loss resulting from the change in fair value of cross currency swap agreements since the end of 2018; and

- a $3 million non-cash gain resulting from the re-measurement of U.S. dollar denominated lease liabilities recognized with the adoption of *IFRS 16, Leases* that was effective January 1st, 2019. See the section titled, “Adoption of New Standards”, and notes to the accompanying financial statements for further information.

Long-Term Incentive Plan Expense

The Long-Term Incentive Plan (“LTIP”) expense was $6 million for the three months ended March 31, 2019, virtually unchanged compared to the same period in the prior year. The effect of a higher share price on March 31, 2019 relative to the end of 2018 was partly offset by lower payout multipliers associated with certain outstanding grants.

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 first quarters of 2019 and 2018, no impairment charges or impairment reversals were recorded.

Impairment expenses are non-cash charges and do not affect operating margin, funds from operations, distributable cash flow, EBITDA or adjusted EBITDA.

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 three months ended March 31, 2019 was $22 million, compared to an expense of $8 million in 2018. The increase in current tax expense was primarily due to taxable income exceeding the amount of available tax pool deductions. For 2019, current income tax expense is currently expected to range between $90 million and $105 million. Current income tax expense for 2020 is estimated to be less than $10 million as approximately $1 billion of announced capital projects, primarily 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 with a prescribed 25% tax depreciation rate (capital cost allowance or "CCA"). 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 was substantively enacted in April 2019 and 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. For 2020 and 2021, a further $775 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

A deferred income tax recovery of $12 million was recognized for the three months ended March 31, 2019, compared to a deferred income tax expense of $31 million during the same period in 2018. The deferred income tax recovery is largely attributable to a shift between deferred income taxes to higher current income taxes as sufficient tax pools are not available to shelter taxable income in 2019.

Keyera estimates its total tax pools at March 31, 2019 were approximately $3.3 billion.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's accompanying financial statements in accordance with GAAP, management is required to make estimates and assumptions that are not readily apparent from other sources, and are subject to change based on revised circumstances and the availability of new information. Actual results may differ from the estimates, which could materially affect the company's consolidated financial statements. 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 methodologies and assumptions used in developing these estimates have not significantly changed since December 31, 2018. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2018 annual MD&A and note 4 of the audited consolidated financial statements for the year ended December 31, 2018, which are available at www.sedar.com.

LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the three months ended March 31, 2019 and 2018:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended March 31, 2019	2018	Increase (decrease)	Explanation
Operating	**223,809**	205,106	18,703	Cash generated from operating activities was higher in the first quarter of 2019 partly because of a $39 million cash pre-payment made in 2018 to acquire the Pipestone project. This was partly offset by lower realized margin from the Marketing segment as described throughout this MD&A.
Investing	**(264,092)**	(205,726)	(58,366)	Higher capital spending in the first quarter of 2019 was primarily associated with construction activities related to the Wapiti and Wildhorse Terminal projects as described in the “Segmented Results of Operations” section of this MD&A.
Financing	**54,653**	(39,343)	93,996	Cash from financing activities increased in 2019 as Keyera borrowed $180 million from its credit facility to fund a portion of its capital expenditures. Keyera also repaid $70 million of long-term debt that was due on January 4, 2019. Financing activities to fund Keyera’s capital program were lower in the first quarter of 2018 as sufficient cash was available from the equity offering completed in late 2017.

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.

A working capital deficit (current assets less current liabilities) of $116 million existed at March 31, 2019. This is compared to a surplus of $1 million at December 31, 2018. Keyera has access to a credit facility in the amount of $1.5 billion, of which $260 million was drawn as at March 31, 2019, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility ("Credit Facility").

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 $53 million for the three months ended March 31, 2019. In the same period in 2018, the plan generated cash of $47 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 March 31, 2019:

As at March 31, 2019 (Thousands of Canadian dollars)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**After 2023**
Credit facilities	260,000	—	—	—	—	260,000	—
Canadian dollar denominated debt							
Senior unsecured notes	1,186,000	52,000	2,000	—	60,000	30,000	1,042,000
Senior unsecured medium-term notes	400,000	—	—	—	—	—	400,000
	1,846,000	**52,000**	**2,000**	**—**	**60,000**	**290,000**	**1,442,000**
U.S. dollar denominated debt	586,483	4,008	137,603	—	—	—	444,872
Total debt	**2,432,483**	**56,008**	**139,603**	**—**	**60,000**	**290,000**	**1,886,872**
Less: current portion of long-term debt	(56,008)	(56,008)	—	—	—	—	—
Total long-term debt	**2,376,475**	**—**	**139,603**	**—**	**60,000**	**290,000**	**1,886,872**

Credit Facilities

Keyera has an unsecured revolving Credit Facility 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 March 31, 2019, $260 million was drawn under this facility (December 31, 2018 – $80 million).

In December 2018, the Credit Facility was amended to extend the term from December 6, 2022 to December 6, 2023. 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 March 31, 2019, there was approximately US$122 million of capacity under the Prudential shelf facility.

As at March 31, 2019, Keyera had $1,586 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 March 31, 2019, 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 and Other", 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 March 31, 2019. 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: i) deduct working capital surpluses or add working capital deficits; and ii) utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date. As at March 31, 2019, Keyera's Net Debt to EBITDA ratio was 3.0 for covenant test purposes (December 31, 2018 – 2.6). The covenant test used for debt purposes is calculated differently compared to the leverage ratios that are used by credit rating agencies.

Keyera may consider financing options such as term debt, hybrid notes or preferred shares to fund a portion of its growth capital program. These instruments allow Keyera to raise funds at an attractive cost while minimizing dilution to common shareholders.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three months ended March 31, 2019 and 2018:

Capital Expenditures and Acquisitions	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2019**	2018
Acquisitions	**217**	10,000
Growth capital expenditures	**290,549**	238,793
Maintenance capital expenditures	**7,358**	6,012
Total capital expenditures	**298,124**	254,805

Growth capital expenditures for the three months ended March 31, 2019 amounted to $291 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 2019 and since inception of the project, and estimated completion timeframes.

Acquisitions in the first three months of 2018 related to the purchase of the Willesden Green gas plant for $10 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 $9 million for the three months ended March 31, 2019, virtually unchanged from the same period in 2018. 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, $19 million for projects at the AEF facility, and $19 million at the KFS facility.

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.

At December 31, 2018, Keyera had a $2.1 billion capital program underway, mainly focused on establishing a strong position in the liquids-rich Montney and Duvernay development areas. The addition of the sulphur handling project at the South Cheecham rail and truck terminal, also expected to be operational in 2022, increases the cost of the capital program to $2.2 billion. 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. The return on capital estimate is unchanged from the December 31, 2018 year-end MD&A and is based on Keyera's current cash flow projections, and assumes capital projects are completed on a timely basis. Approximately $1.1 billion has been expended on this program since inception.

With the announcement of KAPS, Keyera's capital program will increase to a total estimated cost of $2.9 billion. KAPS is anticipated to earn an annual return on capital of 10% to 15% starting in 2024. This is based on Keyera's current cash flow projections, and assumes the KAPS project is completed on a timely basis.

Dividends

Funds from Operations and Distributable Cash Flow

Funds from operations and distributable cash flow are not standard measures under GAAP, and therefore may not be comparable to similar measures reported by other entities. Funds from operations is used to assess the level of cash flow generated from operating activities excluding the effect of changes in non-cash working capital, as they are primarily the result of seasonal fluctuations in product inventories or other temporary changes. Funds from operations is also a valuable measure that allows investors to compare Keyera with other companies within the midstream oil and gas industry.

Distributable cash flow is used by Keyera to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. Deducted from the determination of distributable cash flow are maintenance capital expenditures and lease expenditures that are now capitalized with the adoption of *IFRS 16, Leases* effective January 1, 2019.

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

Funds from Operations and Distributable Cash Flow (Thousands of Canadian dollars)	**Three months ended March 31, 2019**	2018
Cash flow from operating activities	**223,809**	205,106
Add (deduct):		
Changes in non-cash working capital	**(95,243)**	(43,629)
Funds from operations	**128,566**	161,477
Maintenance capital	**(7,358)**	(6,012)
Leases	**(13,260)**	(563)
Distributable cash flow	**107,948**	154,902
Dividends declared to shareholders	**95,299**	86,305
Payout ratio	**88%**	56%

Distributable cash flow in the first quarter of 2019 was $108 million, $47 million lower than the same period in 2018 primarily due to: i) lower realized margin from the Marketing segment; and ii) $15 million in higher current tax expense in 2019. Partly offsetting the lower financial results from the Marketing segment were record margins from the Liquids Infrastructure segment stemming from incremental revenue from recent investments, including the Base Line Terminal, as well as continued strong demand for Keyera's diluent handling services.

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 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)	**Three months ended March 31,** **2019**	2018
Net earnings	**33,799**	87,715
Add (deduct):		
Finance costs	**19,869**	18,062
Depreciation, depletion and amortization expenses	**62,953**	46,143
Income tax expense	**10,472**	38,517
EBITDA	**127,093**	190,437
Unrealized loss (gain) on commodity contracts	**41,155**	(8,941)
Net foreign currency (gain) loss on U.S. debt and other	**(3,838)**	7,867
Adjusted EBITDA	**164,410**	189,363

CONTRACTUAL OBLIGATIONS

On January 1, 2019, Keyera adopted *IFRS 16, Leases* which required the recognition of lease liabilities on the consolidated statement of financial position for arrangements that were previously classified as operating leases. Prior to the adoption of *IFRS 16*, future operating lease obligations were disclosed as contractual obligations in the MD&A, and commitments in the notes to the financial statements. Refer to note 2, Basis of Preparation, of the accompanying financial statements for a reconciliation of the operating lease obligations included in the "Contractual Obligations" section of the MD&A at December 31, 2018, to the opening balance of lease liabilities at January 1, 2019.

Keyera has assumed various contractual obligations in the normal course of its operations. There were no material changes in contractual obligations since the December 31, 2018 year end.

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 the December 31, 2018 annual audited financial statements.

RISK FACTORS

For a detailed discussion of the risks and trends that could affect the financial performance of Keyera and the steps that Keyera takes to mitigate these risks, see the December 31, 2018 MD&A and Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

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.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017
Revenue[1]								
Gathering and Processing	**116,647**	125,511	117,588	107,998	107,354	120,422	116,635	116,689
Liquids Infrastructure	**132,821**	128,980	123,701	115,880	109,476	114,525	103,872	99,398
Marketing	**665,981**	961,490	991,777	927,554	931,094	864,730	612,526	627,651
Other	**6,487**	5,696	6,578	5,921	7,241	5,303	5,065	7,918
Operating margin (loss)								
Gathering and Processing	**68,322**	73,530	63,855	63,901	70,547	72,744	69,381	66,822
Liquids Infrastructure	**94,450**	83,768	82,314	76,571	81,803	81,905	71,718	67,073
Marketing	**(18,128)**	156,623	69,618	74,137	65,852	54,032	(15,130)	21,033
Other	**3,381**	2,902	3,681	2,886	4,211	2,408	2,265	4,868
Net earnings	**33,799**	165,052	34,684	106,773	87,715	88,052	38,464	67,062
Net earnings per share ($/share)								
Basic	**0.16**	0.79	0.17	0.52	0.43	0.45	0.20	0.36
Diluted	**0.16**	0.79	0.17	0.52	0.43	0.45	0.20	0.36
Weighted average common shares (basic)	**211,480**	209,585	208,037	206,646	205,267	193,552	188,650	187,445
Weighted average common shares (diluted)	**211,480**	209,585	208,037	206,646	205,267	193,552	188,650	187,445
Dividends declared to shareholders	**95,299**	94,437	91,645	86,882	86,305	81,801	79,317	77,400

Note:

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 remained high, resulting in throughput and operating margin growth at Keyera's Simonette gas plant. This has helped to offset some of the financial effect of lower throughput at certain other facilities where drilling activity is less robust.

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 implemented 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.

Compared to the 2018 year-end results, operating margin from the Liquids Infrastructure segment continues to grow in 2019 due to: i) continued demand for Keyera's diluent handling services; and ii) incremental cash flow associated with the Base Line Terminal as all crude oil tanks became operational in October 2018. In the

Gathering and Processing segment, producers continue to be active in liquids-rich areas, particularly in areas close to the Simonette gas plant. This has helped to offset some of the volume declines experienced at other facilities including the Rimbey gas plant. Incremental cash flows in the remaining three quarters of 2019 are expected from: i) phase one of the Wapiti gas plant which commenced operations in May; and ii) the North Wapiti Pipeline System and the Simonette gas plant expansion, both anticipated to come on stream in the second half of 2019. 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. Refer to the 2018 year-end MD&A for more information related to this adjustment.

In the Marketing segment, the seasonality associated with the sale of iso-octane and propane has continued in 2019. On an annual basis, propane margins are estimated to remain a small part of Keyera's overall Marketing margin. In the first quarter of 2019, operating margin from the Marketing segment included a $41 million unrealized non-cash loss from risk management contracts as well as lower iso-octane margins primarily related to the AEF outage in February. With the significant weakening of butane prices in recent months, Keyera expects to see the benefit of lower butane feedstock costs in the second half of 2019 as the higher priced inventory existing at the end of 2018 continues to be consumed.

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 three months ended March 31, 2019.

ADOPTION OF NEW STANDARDS

Keyera has applied the following new IFRS standard and IFRS Interpretations Committee ("IFRIC") interpretation in 2019:

IFRS 16, Leases

IFRS 16, Leases ("*IFRS 16*"), is the new accounting standard for lease recognition, measurement and disclosure, and supersedes:

- *IAS 17, Leases;*
- *IFRIC 4, Determining Whether an Arrangement Contains a Lease; and*
- *SIC 15, Operating Leases – Incentives.*

IFRS 16 provides a single lease accounting model for lessees, requiring the recognition of most lease obligations on the consolidated statements of financial position. This results 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 is recognized and consists of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. For lessors, the accounting treatment remained relatively unchanged whereby lessors continue to classify a lease as either a finance or operating lease. Keyera adopted *IFRS 16* on January 1, 2019 using a modified retrospective approach whereby the cumulative effect of adopting the standard was recognized in the opening consolidated statement of financial position as at January 1, 2019. Accordingly, comparative information for Keyera's consolidated financial statements has not been restated.

Upon the initial adoption of *IFRS 16*, Keyera elected to measure its right-of-use assets at the value of the lease liabilities, adjusted for any prepaid or accrued lease payments, and lease incentives received; with no adjustment to opening retained earnings required. Keyera adopted *IFRS 16* using certain exemptions and practical expedients permitted under the standard, which are discussed in greater detail in the notes to the accompanying financial statements. On adoption of *IFRS 16* at January 1, 2019, Keyera recognized $203 million in lease liabilities and $199 million in right-of-use assets.

Keyera's most material lessee lease contracts are related to rail car arrangements; however, Keyera has also identified significant lease contracts for pipeline transportation and real estate arrangements. Keyera does not have any material lessor lease arrangements.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued *IFRIC 23, Uncertainty over Income Tax Treatments* ("*IFRIC 23*"), clarifying the recognition and measurement requirements in *IAS 12, Income Taxes* when there is uncertainty over income tax treatments. Under *IFRIC 23*, entities consider uncertain tax treatments independently or together depending on which method better predicts the resolution of the uncertainty. Entities are required to assume that a taxation authority with the right to examine any amounts reported to it will do so and will have full knowledge of all relevant information when examining such amounts. In addition, entities must consider the probability that the relevant taxation authority will accept the tax treatments used in income tax filings. If it is not probable that the uncertain tax position will be accepted, the tax position must reflect that uncertainty. If facts and circumstances change from the original assessment, judgments and estimates used to determine tax treatments must be reassessed. *IFRIC 23* is applicable for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Upon Keyera's prospective adoption of *IFRIC 23* on January 1, 2019, the application of this interpretation did not have an effect on Keyera's consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

There were no significant new accounting standards or interpretations issued during the quarter.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of March 31, 2019, 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, 2019 and ending March 31, 2019 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

During the three months ended March 31, 2019, there were 1,889,561 common shares issued under the DRIP and the Premium DRIP for consideration of $53 million, bringing the total common shares outstanding at March 31, 2019 to 212,368,304.

Subsequent to March 31, 2019, 561,465 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of $17 million, bringing the total common shares outstanding at May 14, 2019 to 212,929,769.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with GAAP. Measures such as funds from operations (defined as cash flow from operating activities adjusted for changes in non-cash working capital); distributable cash flow (defined as cash flow from operating activities adjusted for changes in non-cash working capital, inventory write-downs, maintenance capital expenditures and lease payments); 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, the South Cheecham sulphur handling project, and storage cavern capital projects that are currently under development); return on capital for the KAPS project (defined as expected operating margin divided by the estimated capital cost for the development of the KAPS project); 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. Funds from operations is used to assess the level of cash flow generated from operating activities excluding the effect of changes in non-cash working capital, as they are primarily the result of seasonal fluctuations in product inventories or other temporary changes. Funds from operations is also a valuable measure that allows investors to compare Keyera with other companies within the midstream oil and gas industry. 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-related risk management contracts related to future periods. Return on capital and return on capital for the KAPS project are used to reflect the expected profitability and value-creating potential for: (i) certain growth projects that have been sanctioned and are currently under development as of the date hereof, and (ii) for the KAPS project. 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: (i) the growth capital projects that have been sanctioned and are in development as of the date hereof, and (ii) the KAPS project, 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.

Investor Information

DIVIDENDS TO SHAREHOLDERS
Dividends declared to shareholders of Keyera were $0.45 per share in the first quarter of 2019. 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.

FIRST QUARTER 2019 RESULTS CONFERENCE CALL AND WEBCAST
Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the financial results for the first quarter of 2019 at 8:00 am Mountain Time (10:00 am Eastern Time) on May 15, 2019. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 11:59 pm Mountain Time on May 22, 2019 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 2388456.

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.

Keyera Corp.

Condensed Interim Consolidated Statements of Financial Position

(Thousands of Canadian dollars)
(Unaudited)

As at	Note	March 31, 2019	December 31, 2018
ASSETS			
Cash		**2,578**	—
Trade and other receivables		**400,142**	422,747
Derivative financial instruments	12	**32,379**	71,415
Inventory	4	**184,703**	235,556
Other assets		**11,212**	8,982
Total current assets		**631,014**	738,700
Derivative financial instruments	12	**118,015**	130,815
Property, plant and equipment		**5,995,026**	5,749,350
Right-of-use assets	5	**264,670**	—
Intangible assets	3	**88,504**	92,413
Goodwill		**53,624**	53,624
Deferred tax assets	11	**20,342**	17,796
Total assets		**7,171,195**	6,782,698
LIABILITIES AND EQUITY			
Bank indebtedness		—	10,860
Trade and other payables, and provisions		**584,471**	532,935
Derivative financial instruments	12	**25,634**	24,188
Dividends payable		**31,855**	31,572
Current portion of lease liabilities	6	**37,443**	—
Current portion of long-term debt		**56,008**	126,094
Current portion of decommissioning liability		**11,674**	11,804
Total current liabilities		**747,085**	737,453
Derivative financial instruments	12	**496**	826
Credit facilities		**260,000**	80,000
Long-term debt		**2,105,229**	2,117,261
Decommissioning liability		**505,123**	502,535
Long-term lease liabilities	6	**230,369**	—
Other long-term liabilities	7	**19,525**	16,414
Deferred tax liabilities		**589,563**	598,486
Total liabilities		**4,457,390**	4,052,975
Equity			
Share capital	8	**2,899,457**	2,846,496
Accumulated deficit		**(197,758)**	(136,258)
Accumulated other comprehensive income		**12,106**	19,485
Total equity		**2,713,805**	2,729,723
Total liabilities and equity		**7,171,195**	6,782,698

See accompanying notes to the unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements were approved by the board of directors of Keyera Corp. on May 14, 2019.

Keyera Corp.
Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income
(Thousands of Canadian dollars, except share information)
(Unaudited)

	Note	**Three months ended March 31, 2019**	2018
Revenues	16	**836,746**	1,084,011
Expenses	16	**(688,721)**	(861,598)
Operating margin		**148,025**	222,413
General and administrative expenses		**(19,260)**	(18,873)
Finance costs	14	**(19,869)**	(18,062)
Depreciation, depletion and amortization expenses		**(62,953)**	(46,143)
Net foreign currency gain (loss) on U.S. debt and other	13	**3,838**	(7,867)
Long-term incentive plan expense	10	**(5,510)**	(5,236)
Earnings before income tax		**44,271**	126,232
Income tax expense	11	**(10,472)**	(38,517)
Net earnings		**33,799**	87,715
Other comprehensive loss			
Foreign currency translation adjustment		**(7,379)**	—
Comprehensive income		**26,420**	87,715
Earnings per share			
Basic earnings per share	9	**0.16**	0.43
Diluted earnings per share	9	**0.16**	0.43

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Keyera Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended March 31, 2019	2018
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings		**33,799**	87,715
Adjustments for items not affecting cash:			
Finance costs	14	**5,333**	3,563
Depreciation, depletion and amortization expenses		**62,953**	46,143
Unrealized loss (gain) on derivative financial instruments	12	**52,952**	(17,899)
Unrealized (gain) loss on foreign exchange		**(14,329)**	12,969
Deferred income tax (recovery) expense	11	**(11,842)**	30,805
Decommissioning liability expenditures		**(300)**	(1,819)
Changes in non-cash working capital	15	**95,243**	43,629
Net cash provided by operating activities		**223,809**	205,106
INVESTING ACTIVITIES			
Acquisitions		**(217)**	(10,000)
Capital expenditures		**(297,907)**	(244,805)
Proceeds on disposal of property, plant and equipment		**—**	4,444
Changes in non-cash working capital	15	**34,032**	44,635
Net cash used in investing activities		**(264,092)**	(205,726)
FINANCING ACTIVITIES			
Borrowings under credit facility		**410,000**	—
Repayments under credit facility		**(230,000)**	—
Repayments of long-term debt		**(70,000)**	—
Financing costs related to credit facility/long-term debt		**(32)**	—
Issuance costs related to equity offering		—	(75)
Proceeds from issuance of shares related to DRIP	8	**52,961**	47,400
Lease payments	6	**(13,260)**	(563)
Dividends paid to shareholders		**(95,016)**	(86,105)
Net cash provided by (used in) financing activities		**54,653**	(39,343)
Effect of exchange rate fluctuations on foreign cash held		**(932)**	1,789
Net increase (decrease) in cash		**13,438**	(38,174)
(Bank indebtedness) cash at the beginning of the period		**(10,860)**	326,381
Cash at the end of the period		**2,578**	288,207
Income taxes paid in cash		**36,717**	346
Interest paid in cash		**17,583**	13,079

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Keyera Corp.

Condensed Interim Consolidated Statements of Changes in Equity

(Thousands of Canadian dollars)
(Unaudited)

	Share Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2017	**2,647,836**	**(168,556)**	**—**	**2,479,280**
Common shares issued pursuant to dividend reinvestment plans	47,400	—	—	47,400
Issuance costs related to 2017 equity offering	(75)	—	—	(75)
Net earnings	—	87,715	—	87,715
Dividends declared to shareholders	—	(86,305)	—	(86,305)
Other adjustments	2,657	(2,657)	—	—
Balance at March 31, 2018	**2,697,818**	**(169,803)**	**—**	**2,528,015**

	Share Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2018	**2,846,496**	**(136,258)**	**19,485**	**2,729,723**
Common shares issued pursuant to dividend reinvestment plans	52,961	—	—	52,961
Net earnings	—	33,799	—	33,799
Dividends declared to shareholders	—	(95,299)	—	(95,299)
Other comprehensive loss	—	—	(7,379)	(7,379)
Balance at March 31, 2019	**2,899,457**	**(197,758)**	**12,106**	**2,713,805**

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Keyera Corp.

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2019 and 2018

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

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 March 31, 2019.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements are in accordance with *IAS 34, Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The accounting policies applied are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2018, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2019.

These condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and 2018 do not include all disclosures required for the preparation of annual consolidated financial statements and should be read in conjunction with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2018.

The condensed interim consolidated financial statements were authorized for issuance on May 14, 2019 by the board of directors.

Adoption of new standards

Keyera has applied the following new IFRS standard and IFRS Interpretations Committee ("IFRIC") interpretation in 2019:

IFRS 16, Leases

IFRS 16, Leases ("*IFRS 16*"), is the new accounting standard for lease recognition, measurement and disclosure, and supersedes:

- *IAS 17, Leases*;
- *IFRIC 4, Determining Whether an Arrangement Contains a Lease*; and
- *SIC 15, Operating Leases – Incentives*.

IFRS 16 provides a single lease accounting model for lessees, requiring the recognition of most lease obligations on the consolidated statements of financial position. This results 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 is recognized and consists of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. For lessors, the accounting treatment remained relatively unchanged whereby lessors continue to classify a lease as either a finance or operating lease. Keyera adopted *IFRS 16* on January 1, 2019 in accordance with the transitional provisions of the standard. *IFRS 16* was applied using a modified retrospective approach whereby the cumulative effect of adopting the standard was recognized in the opening consolidated statement of financial position as at January 1, 2019. Accordingly, comparative information for Keyera's consolidated financial statements has not been restated.

(Thousands of Canadian dollars)	**Reported as at December 31, 2018**	**Adjustments**	**Adjusted as at January 1, 2019**
ASSETS			
Right-of-use assets	—	198,519	198,519
	—	**198,519**	**198,519**
LIABILITIES AND EQUITY			
Current portion of lease liabilities	—	41,296	41,296
Long-term lease liabilities	—	161,402	161,402
Trade and other payables, and provisions	532,935	(4,179)	528,756
	532,935	**198,519**	**731,454**

Upon the initial adoption of *IFRS 16*, Keyera elected to measure its right-of-use assets at the value of the lease liabilities, adjusted for any prepaid or accrued lease payments, and lease incentives received; with no adjustment to opening retained earnings required. Keyera adopted *IFRS 16* using the following exemptions and practical expedients permitted under the standard:

- Utilization of hindsight in determining the lease term for contracts that contain extension or termination options;
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- For certain leases with a remaining term of less than 12 months at January 1, 2019, such leases have been accounted for as short-term leases whereby lease payments will be expensed directly to the consolidated statements of net earnings and comprehensive income on a straight-line basis (exemption has been applied on a lease-by-lease basis);
- For certain leases whereby the underlying asset is of low value, lease payments will be expensed directly to the consolidated statements of net earnings and comprehensive income on a straight-line basis (exemption has been applied on a lease-by-lease basis);

- For certain lease arrangements that include non-lease components, such components have not been separated and instead will be accounted for as a single component, together with the lease components of the arrangement (expedient has been applied by class of underlying asset);
- Exclusion of initial direct costs from the measurement of the right-of-use assets at the date of initial application of *IFRS 16*; and
- Instead of assessing the right-of-use assets for impairment on January 1, 2019, utilization of the onerous contract assessment under *IAS 37, Provisions, Contingent Liabilities and Contingent Assets*, immediately prior to the initial application of *IFRS 16*.

Keyera's most material lessee lease contracts are related to rail car arrangements; however, Keyera has also identified significant lease contracts for pipeline transportation and real estate arrangements. Keyera does not have any material lessor lease arrangements.

Prior to the adoption of *IFRS 16*, future operating lease obligations were disclosed in the Commitments and Contingencies note. The following is a reconciliation of the operating lease obligations included at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019:

(Thousands of Canadian dollars)	**As at January 1, 2019**[1]
Operating lease obligations at December 31, 2018	**354,284**
Obligations that were re-assessed as not including a lease	**(78,687)**
Variable lease payments not included in the measurement of lease liabilities	**(24,761)**
Recognition exemption for short-term and low-value leases	**(4,082)**
Additional lease liabilities recognized upon the adoption of *IFRS 16*	**2,804**
Other	**(1,543)**
Undiscounted minimum lease payments at January 1, 2019	**248,015**
Effect of discounting[2]	**(45,317)**
Lease liabilities at January 1, 2019	**202,698**

Notes:

[1] Immediately prior to the adoption of *IFRS 16* on January 1, 2019, Keyera did not have any finance lease obligations recognized on its consolidated statement of financial position.

[2] Keyera's weighted average incremental borrowing rates at January 1, 2019 were 3.9% and 4.2%, which have been applied to Canadian dollar and U.S. dollar denominated leases, respectively.

Changes in Accounting Policies with effect from January 1, 2019

Lease identification and initial measurement

Lessee lease arrangements are identified whenever the contract terms provide Keyera with the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognized at the commencement of the lease, which is the date that the underlying asset is made available for use, by recording a lease liability and a corresponding right-of-use asset. The lease liability is initially recognized at the present value of the minimum lease payments that have not been paid at that date. Minimum lease payments include: (i) fixed payments (including in-substance fixed payments), (ii) variable lease payments that depend on an index or a rate, (iii) amounts expected to be payable under residual value guarantees, (iv) if the contract includes a purchase option, the exercise price of the purchase price if Keyera is reasonably certain to exercise the option; and (v) if the contract includes a termination option, payments of penalties for terminating the lease if the lease term reflects Keyera's exercise of the termination option. Variable lease payments that are dependent on future performance or use of the underlying asset are excluded from the measurement of the lease liability, and instead are recognized in the consolidated statements of net earnings and comprehensive income in the period that such payments are incurred.

Minimum lease payments are discounted using Keyera's weighted average incremental borrowing rate when the rate implicit in the lease is not readily determinable. Individual weighted average incremental borrowing rates are calculated for lease payments denominated in Canadian dollars and U.S. dollars.

The right-of-use asset is initially measured at cost, which includes: (i) the amount of the initial measurement of the lease liability, (ii) any lease payments made at or before the lease commencement date, less any lease incentives received, (iii) any initial direct costs incurred, and (iv) an estimate of restoration costs.

Subsequent measurement – lease liabilities
Subsequent to initial measurement, lease payments are allocated to: (i) interest expense on the lease liability, and (ii) repayment of the carrying value of the lease liability. The interest expense in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability and is included in finance costs in the consolidated statements of net earnings and comprehensive income. If there is a change in future lease payments resulting from a change in an index or rate used to determine the payments, the lease liability is remeasured to reflect such changes. For lease payments denominated in U.S. dollars, the lease liability is remeasured to reflect the applicable foreign exchange rate at each reporting period, with the offset recognized in the consolidated statements of net earnings and comprehensive income.

Subsequent measurement – right-of-use assets
If the lease term reflects that Keyera will exercise a purchase option, the right-of-use asset is depreciated from the lease commencement date to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated to the earlier of the end of the useful life of the underlying asset or to the end of the lease term.

Impairment – right-of-use assets
Similar to property plant and equipment, right-of-use assets are subject to the impairment requirements of *IAS 36, Impairment of Assets*. Keyera assesses right-of-use assets for impairment whenever events or changes in circumstances indicate that the carrying value of the right-of-use asset may not be recoverable. A right-of-use asset may be assessed for impairment individually, or as part of a cash-generating unit ("CGU") if the cash flows related to the lease are not independent from the cash flows of the CGU. An impairment loss is recognized immediately in the consolidated statements of net earnings and comprehensive income for the amount that the right-of-use asset's carrying amount exceeds its recoverable amount.

Use of Critical Accounting Estimates and Judgments in Lease Measurement

In applying the requirements of *IFRS 16*, management must utilize significant judgments and estimates, which affect the valuation of lease liabilities and right-of-use assets, including the following:

- ***Determination of lease term*** – In determining lease term, management must consider all relevant facts and circumstances that create an economic incentive for Keyera, and as a result, make it reasonably certain, that Keyera will exercise a lease extension option or not exercise a termination option. Upon the occurrence of a significant event or change in circumstances, Keyera reviews its assessment and if required, revises the lease term.

- ***Estimation uncertainty arising from variable lease payments*** – Some of Keyera's lessee lease contracts contain lease payments that are only payable if certain options are elected under the arrangement. In these scenarios, there is more than one set of payments that Keyera can be expected to make: (i) $nil if the option is not elected, or (ii) the fixed payment outlined in the arrangement if the option is elected. As a result, these payments are only included in the measurement of the lease liability when they become in-substance fixed lease payments, which is if and when the variability associated with electing the option is resolved.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued *IFRIC 23, Uncertainty over Income Tax Treatments* ("*IFRIC 23*"), clarifying the recognition and measurement requirements in *IAS 12, Income Taxes* when there is uncertainty over income tax treatments. Under *IFRIC 23*, entities consider uncertain tax treatments independently or together depending on which method better predicts the resolution of the uncertainty. Entities are required to assume that a taxation authority with the right to examine any amounts reported to it will do so and will have full knowledge of all relevant information when examining such amounts. In addition, entities must consider the probability that the relevant taxation authority will accept the tax treatments used in income tax filings. If it is not probable that the uncertain tax position will be accepted, the tax position must reflect that uncertainty. If facts and circumstances change from the original assessment, judgments and estimates used to determine tax treatments must be reassessed. *IFRIC 23* is applicable for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Upon Keyera's prospective adoption of *IFRIC 23* on January 1, 2019, the application of this interpretation did not have an effect on Keyera's consolidated financial statements.

Future accounting pronouncements update

There were no significant new accounting standards or interpretations issued during the quarter.

3. 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**	
(Thousands of dollars)	**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.

4. INVENTORY

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

As at *(Thousands of Canadian dollars)*	**March 31, 2019**	December 31, 2018
NGLs and iso-octane	**169,127**	230,489
Other	**15,576**	5,067
Total inventory	**184,703**	235,556

For the period ended March 31, 2019, $184,703 of inventory was carried at cost (December 31, 2018 – $204,149) and $nil was carried at net realizable value (December 31, 2018 – $31,407). The cost of inventory expensed for the three months ended March 31, 2019 was $566,665 (three months ended March 31, 2018 – $764,573).

5. RIGHT-OF-USE ASSETS

Cost *(Thousands of Canadian dollars)*	**Rail cars**	**Pipeline Transportation**	**Real Estate**	**Other**	**Total**
Balance at January 1, 2019	**141,356**	**44,669**	**10,269**	**2,225**	**198,519**
Additions and adjustments	79,028	—	—	—	79,028
Balance at March 31, 2019	**220,384**	**44,669**	**10,269**	**2,225**	**277,547**

Accumulated depreciation *(Thousands of Canadian dollars)*	**Rail cars**	**Pipeline Transportation**	**Real Estate**	**Other**	**Total**
Balance at January 1, 2019	**—**	**—**	**—**	**—**	**—**
Depreciation expense	(12,117)	(447)	(263)	(50)	(12,877)
Balance at March 31, 2019	**(12,117)**	**(447)**	**(263)**	**(50)**	**(12,877)**

Carrying value *(Thousands of Canadian dollars)*	**Rail cars**	**Pipeline Transportation**	**Real Estate**	**Other**	**Total**
As at January 1, 2019	**141,356**	**44,669**	**10,269**	**2,225**	**198,519**
As at March 31, 2019	**208,267**	**44,222**	**10,006**	**2,175**	**264,670**

6. LEASE LIABILITIES

As at *(Thousands of Canadian dollars)*	**March 31, 2019**
Lease liabilities at January 1, 2019	**202,698**
Additions	**79,028**
Interest on leases	**2,061**
Lease payments	**(13,260)**
Foreign exchange re-measurement	**(2,715)**
Total lease liabilities	**267,812**
Less: current portion of lease liabilities	**(37,443)**
Long-term lease liabilities	**230,369**

Keyera's most significant lease payments are incurred for rail car, pipeline transportation and real estate arrangements. The longest initial lease term for Keyera's lease contracts is 15 years. For certain lease arrangements, Keyera has the option to extend the lease for additional terms, up to 5 years each. As at March 31, 2019, the incremental borrowing rates used to measure the lease liabilities were 3.9% and 4.2%, which have been applied to Canadian dollar and U.S. dollar denominated leases, respectively.

(Thousands of Canadian dollars)	**Three months ended March 31, 2019**
Variable lease payments[1]	**54**
Short-term and low-value leases	**492**
Total lease payments expensed for the period	**546**

Note:
[1] The variable lease payments recognized have been reduced for lease incentives received. Total variable lease payments prior to the inclusion of the lease incentives were $719 for the three months ended March 31, 2019.

The variable lease payments primarily relate to operating expenses and property taxes for real estate contracts. Short-term leases include certain contracts which have a lease term that is 12 months or less. Low-value lease arrangements include certain contracts whereby the value of the underlying asset is of low-value, and are therefore insignificant to Keyera.

As at March 31, 2019, the expected undiscounted cash payments related to leases are:

(Thousands of Canadian dollars)	
Remainder of 2019	36,107
2020	43,766
2021	40,401
2022	34,139
2023	24,446
After 2023	155,549
Total undiscounted cash lease payments	**334,408**

7. OTHER LONG-TERM LIABILITIES

As at *(Thousands of Canadian dollars)*	**March 31, 2019**	December 31, 2018
Long-term incentive plan	**11,121**	7,830
Other	**8,404**	8,584
Total other long-term liabilities	**19,525**	16,414

8. SHARE CAPITAL

		(Thousands of Canadian dollars)
	Number of Common Shares	**Share Capital**
Balance at December 31, 2018	**210,478,743**	**2,846,496**
Common shares issued pursuant to dividend reinvestment plans	**1,889,561**	**52,961**
Balance at March 31, 2019	**212,368,304**	**2,899,457**

9. 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.

	Three months ended March 31,	
(Thousands of Canadian dollars, except per share amounts)	**2019**	2018
Basic and diluted earnings per share	**0.16**	0.43
Net earnings – basic and diluted	**33,799**	87,715

	Three months ended March 31,	
(Thousands)	**2019**	2018
Weighted average number of shares – basic and diluted	**211,480**	205,267

10. 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, the Performance Award and the Time Vested ("Restricted") Award.

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 March 31, 2019 share price of Keyera, which was $31.51 per share (December 31, 2018 – $25.81 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended March 31,	
(Thousands of Canadian dollars)	**2019**	2018
Performance Awards	**4,395**	4,415
Restricted Awards	**1,115**	821
Total long-term incentive plan expense	**5,510**	5,236

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 three months ended March 31, 2019, Keyera made pension contributions of $2,543 (three months ended March 31, 2018 – $2,386) 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 three months ended March 31, 2019, Keyera recorded $704 (three months ended March 31, 2018 – $196) in general and administrative expenses related to the DSU plan.

The following table reconciles the number of DSUs outstanding:

	March 31, 2019	December 31, 2018
Balance at beginning of period	**80,521**	46,171
Granted	**9,777**	37,686
Redeemed	**—**	(3,336)
Balance at end of period	**90,298**	80,521

11. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended March 31,	
(Thousands of Canadian dollars)	**2019**	2018
Current	**22,314**	7,712
Deferred	**(11,842)**	30,805
Total income tax expense	**10,472**	38,517

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments include cash, trade and other receivables, derivative financial instruments, bank indebtedness, trade and other payables, dividends payable, current and long-term lease liabilities, credit facilities, 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 facilities approximates fair value due to their floating rates of interest.

Fair value of senior fixed rate debt

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 total fair value of Keyera's unsecured senior notes and medium-term notes at March 31, 2019 was $2,184,900 (December 31, 2018 – $2,261,400) and this was determined by reference to inputs other than quoted market prices in active markets for identical liabilities under Level 2 of the fair value hierarchy.

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.

				(Thousands of Canadian dollars)		
As at March 31, 2019	**Notional Volume[1]**	**Weighted Average Price**	**Fair Value Hierarchy Level**	**Net Fair Value**	**Carrying Value Asset**	**Carrying Value Liability**
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI[2] swaps (maturing by December 31, 2020)	4,332,831 Bbls	77.54/Bbl	Level 2	(11,837)	1,095	(12,932)
Buyer of fixed price WTI[2] swaps (maturing by March 31, 2020)	817,050 Bbls	72.64/Bbl	Level 2	6,348	6,348	—
Seller of fixed price NGL swaps (maturing by March 31, 2020)	1,832,300 Bbls	42.38/Bbl	Level 2	6,428	8,315	(1,887)
Buyer of fixed price NGL swaps (maturing by December 31, 2020)	2,075,380 Bbls	46.65/Bbl	Level 2	(6,709)	759	(7,468)
Seller of fixed price RBOB[3] basis spreads (iso-octane) (maturing by March 31, 2020)	2,245,000 Bbls	23.31/Bbl	Level 2	9,036	10,969	(1,933)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by April 30, 2019)	105,000 Bbls	32.89/Bbl	Level 2	199	199	—
Buyer of fixed price NGL forward contracts (maturing by April 30, 2019)	20,000 Bbls	34.37/Bbl	Level 2	(67)	—	(67)
Currency:						
Seller of forward contracts (maturing by December 31, 2019)	US$258,000,000	1.33/USD	Level 2	(1,525)	279	(1,804)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	79,320 MWhs	44.90/MWh	Level 2	1,012	1,043	(31)
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	6,600 MWhs	45.45/MWh	Level 2	74	74	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	25,680 MWhs	45.94/MWh	Level 2	293	301	(8)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$520,021,075	0.98/USD - 1.22/USD	Level 2	121,012	121,012	—
				124,264	**150,394**	**(26,130)**

Notes:
1. All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
2. West Texas Intermediate ("WTI") crude oil.
3. Reformulated Blendstock for Oxygen Blending ("RBOB").

As at December 31, 2018	Notional Volume[1]	Weighted Average Price	Fair Value Hierarchy Level	Net Fair Value	Carrying Value Asset	Carrying Value Liability
				(Thousands of Canadian dollars)		
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI[2] 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[2] 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[3] 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 West Texas Intermediate ("WTI") crude oil.
3 Reformulated Blendstock for Oxygen Blending ("RBOB").

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 and other
Emission performance credits	Gathering and Processing	Gathering and Processing expenses

(Thousands of Canadian dollars)	**Three months ended March 31, 2019**	2018
Marketing revenue	**(40,599)**	8,543
Liquids infrastructure operating expenses	**12**	616
Gathering and processing expenses	**(590)**	(266)
Corporate and Other:		
Corporate and Other revenues and expenses	**22**	48
Change in fair value of the cross currency swaps on U.S. debt[1]	**(11,797)**	8,958
Total unrealized (loss) gain	**(52,952)**	17,899

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 Gathering and Processing and Liquids Infrastructure segments have very little foreign currency risk as sales and purchases are primarily denominated in Canadian dollars.

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 as well as short-term cross-currency swaps relating to the LIBOR loans drawn under the credit facility. These cross-currency contracts are accounted for as derivative instruments. Refer to note 13 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 March 31, 2019, fixed rate borrowings comprised 89% of total debt outstanding (December 31, 2018 – 97%). 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 March 31, 2019.

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 forecasted 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.

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 rates and interest rates could have resulted in unrealized gains (losses) affecting income before tax as follows:

	Impact on income before tax March 31, 2019		Impact on income before tax March 31, 2018	
(Thousands of Canadian dollars)	**Increase**	**(Decrease)**	Increase	(Decrease)
Commodity price changes				
+ 10% in electricity price	**642**	**—**	1,192	—
- 10% in electricity price	**—**	**(642)**	—	(1,192)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(30,914)**	—	(23,734)
- 10% in NGL, crude oil and iso-octane prices	**30,914**	**—**	23,734	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(1,125)**	—	(405)
- $0.01 in U.S./Canadian dollar exchange rate	**1,125**	**—**	405	—
Interest rate changes				
+ 1% in interest rate	**—**	**(2,600)**	—	—
- 1% in interest rate	**2,600**	**—**	—	—

13. NET FOREIGN CURRENCY GAIN (LOSS) ON U.S. DEBT AND OTHER

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

	Three months ended March 31,	
(Thousands of Canadian dollars)	**2019**	2018
Foreign currency gain (loss) resulting from:		
Translation of long-term debt and interest payable	**12,583**	(17,041)
Change in fair value of cross-currency swaps – principal and interest portion	**(11,797)**	8,958
Gain on cross-currency swaps – interest portion[1]	**369**	216
Foreign exchange re-measurement of lease liabilities and other	**2,683**	—
Total net foreign currency gain (loss) on U.S. debt and other	**3,838**	(7,867)

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.

14. FINANCE COSTS

The components of finance costs were as follows:

(Thousands of Canadian dollars)	**Three months ended March 31, 2019**	2018
Interest on bank indebtedness and credit facilities	**2,988**	1,167
Interest on long-term debt	**23,543**	20,179
Interest capitalized	**(11,942)**	(5,639)
Interest on leases	**2,061**	—
Other interest income	**(53)**	(695)
Total interest expense on leases, and current and long-term debt	**16,597**	15,012
Unwinding of discount on decommissioning liabilities	**2,802**	2,631
Unwinding of discount on long-term debt	**470**	419
Non-cash expenses in finance costs	**3,272**	3,050
Total finance costs	**19,869**	18,062

For the three months ended March 31, 2019, $11,942 of borrowing (interest) costs were capitalized (three months ended March 31, 2018 – $5,639) at a weighted average capitalization rate of 4.75% on funds borrowed (three months ended March 31, 2018 – 4.87%).

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

(Thousands of Canadian dollars)	**Three months ended March 31, 2019**	2018
Inventory	**49,006**	27,619
Trade and other receivables	**22,573**	(24,169)
Other assets	**(1,342)**	(38,140)
Trade and other payables, and provisions	**25,006**	78,319
Changes in non-cash working capital from operating activities	**95,243**	43,629

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

(Thousands of Canadian dollars)	**Three months ended March 31, 2019**	2018
Trade and other payables, and provisions	**34,032**	44,635
Changes in non-cash working capital from investing activities	**34,032**	44,635

16. 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, NGLs 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.

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.

Three months ended March 31, 2019

(Thousands of Canadian dollars)	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Segmented revenue	116,647	132,821	665,981	6,487	(85,190)	836,746
Segmented expenses	(48,325)	(38,371)	(684,109)	(3,106)	85,190	(688,721)
Operating margin (loss)	68,322	94,450	(18,128)	3,381	—	148,025
General and administrative expenses	—	—	—	(19,260)	—	(19,260)
Finance costs	—	—	—	(19,869)	—	(19,869)
Depreciation, depletion and amortization expenses	—	—	—	(62,953)	—	(62,953)
Net foreign currency gain on U.S. debt and other	—	—	—	3,838	—	3,838
Long-term incentive plan expense	—	—	—	(5,510)	—	(5,510)
Earnings (loss) before income tax	68,322	94,450	(18,128)	(100,373)	—	44,271
Income tax expense	—	—	—	(10,472)	—	(10,472)
Net earnings (loss)	**68,322**	**94,450**	**(18,128)**	**(110,845)**	**—**	**33,799**

Three months ended March 31, 2018

(Thousands of Canadian dollars)	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Segmented revenue	107,354	109,476	931,094	7,241	(71,154)	1,084,011
Segmented expenses	(36,807)	(27,673)	(865,242)	(3,030)	71,154	(861,598)
Operating margin	70,547	81,803	65,852	4,211	—	222,413
General and administrative expenses	—	—	—	(18,873)	—	(18,873)
Finance costs	—	—	—	(18,062)	—	(18,062)
Depreciation, depletion and amortization expenses	—	—	—	(46,143)	—	(46,143)
Net foreign currency loss on U.S. debt and other	—	—	—	(7,867)	—	(7,867)
Long-term incentive plan expense	—	—	—	(5,236)	—	(5,236)
Earnings (loss) before income tax	70,547	81,803	65,852	(91,970)	—	126,232
Income tax expense	—	—	—	(38,517)	—	(38,517)
Net earnings (loss)	**70,547**	**81,803**	**65,852**	**(130,487)**	**—**	**87,715**

DISAGGREGATION OF REVENUE

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

Three months ended March 31, 2019

(Thousands of Canadian dollars)	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	100,480	24,887	—	—	125,367
Fractionation and storage services	1,784	55,116	—	—	56,900
Transportation and terminalling services	—	52,494	—	—	52,494
Marketing of NGLs and iso-octane	—	—	665,981	—	665,981
Other[2]	14,383	324	—	6,487	21,194
Revenue before inter-segment eliminations	**116,647**	**132,821**	**665,981**	**6,487**	**921,936**
Inter-segment revenue eliminations	(4,866)	(69,078)	(3,756)	(7,490)	(85,190)
Revenue from external customers	**111,781**	**63,743**	**662,225**	**(1,003)**	**836,746**

Three months ended March 31, 2018

(Thousands of Canadian dollars)	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	91,206	16,321	—	—	107,527
Fractionation and storage services	1,875	44,983	—	—	46,858
Transportation and terminalling services	—	47,831	—	—	47,831
Marketing of NGLs and iso-octane	—	—	931,094	—	931,094
Other[2]	14,273	341	—	7,241	21,855
Revenue before inter-segment eliminations	**107,354**	**109,476**	**931,094**	**7,241**	**1,155,165**
Inter-segment revenue eliminations	(5,531)	(56,652)	(1,015)	(7,956)	(71,154)
Revenue from external customers	**101,823**	**52,824**	**930,079**	**(715)**	**1,084,011**

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.

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 *(Thousands of Canadian dollars)*	**Three months ended March 31,** **2019**	2018
Canada	**669,629**	903,453
U.S.	**167,117**	180,558
Total revenue	**836,746**	1,084,011

Non-current assets[1] as at *(Thousands of Canadian dollars)*	**March 31, 2019**	December 31, 2018
Canada	**6,052,480**	5,593,006
U.S.	**349,344**	302,381
Total non-current assets	**6,401,824**	5,895,387

Note:

1 Non-current assets are comprised of property, plant and equipment, right-of-use assets, intangible assets, and goodwill.

Information about major customers

For the three months ended March 31, 2019 and 2018, Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue.

17. COMMITMENTS AND CONTINGENCIES

Adoption of *IFRS 16, Leases*

On January 1, 2019, Keyera adopted *IFRS 16* which required the recognition of lease liabilities on the consolidated statement of financial position for arrangements that were previously classified as operating leases. Prior to the adoption of *IFRS 16,* future operating lease obligations were disclosed as commitments. Refer to note 2 for a reconciliation of the operating lease obligations included in the Commitments and Contingencies note at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019.

18. SUBSEQUENT EVENTS

On April 11, 2019, Keyera declared a dividend of $0.15 per share, payable on May 15, 2019, to shareholders of record as of April 23, 2019.

On May 14, 2019, Keyera declared a dividend of $0.15 per share, payable on June 17, 2019, to shareholders of record as of May 23, 2019.

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
Denver, Colorado

Charlene Ripley(5)
Corporate Director
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

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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

Kelly Hill
Vice President, Information Technology

John Hunszinger
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, Finance

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 Q1 2019

TSX:KEY – Cdn $	
High	$33.29
Low	$26.32
Close March 31, 2019	$31.51
Volume	71,568,471
Average Daily Volume	1,154,330

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