

Keyera Corp.

Condensed Interim Consolidated Statements of Financial Position

(Thousands of Canadian dollars)
(Unaudited)

As at	Note	March 31, 2018 \$	December 31, 2017 \$
ASSETS			
Cash		288,207	326,381
Trade and other receivables		459,789	435,620
Derivative financial instruments	9	9,266	11,561
Inventory	3	120,212	147,831
Other assets	14	45,302	16,604
Total current assets		922,776	937,997
Derivative financial instruments	9	98,389	90,109
Property, plant and equipment		4,993,720	4,792,398
Goodwill		53,624	53,624
Total assets		6,068,509	5,874,128
LIABILITIES AND EQUITY			
Trade and other payables, and provisions		641,915	526,395
Derivative financial instruments	9	23,704	35,398
Dividends payable		28,837	28,637
Current portion of finance lease liability	4	41,928	1,474
Current portion of long-term debt		70,000	—
Current portion of decommissioning liability		8,165	9,584
Total current liabilities		814,549	601,488
Derivative financial instruments	9	—	220
Long-term debt		1,742,763	1,795,530
Decommissioning liability		460,186	456,455
Other long-term liabilities	4	9,958	58,922
Deferred tax liabilities		513,038	482,233
Total liabilities		3,540,494	3,394,848
Equity			
Share capital	5	2,697,818	2,647,836
Accumulated deficit		(169,803)	(168,556)
Total equity		2,528,015	2,479,280
Total liabilities and equity		6,068,509	5,874,128

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 8, 2018.

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

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,	
		2018	2017
		\$	\$
Revenues	13	1,084,011	843,620
Expenses	13	(861,598)	(639,198)
Operating margin		222,413	204,422
General and administrative expenses		(18,873)	(17,320)
Finance costs	11	(18,062)	(17,740)
Depreciation, depletion and amortization expenses		(46,143)	(39,580)
Net foreign currency (loss) gain on U.S. debt	10	(7,867)	479
Long-term incentive plan expense	7	(5,236)	(2,747)
Earnings before income tax		126,232	127,514
Income tax expense	8	(38,517)	(31,172)
Net earnings		87,715	96,342
Other comprehensive income		—	—
Net earnings and comprehensive income		87,715	96,342
Earnings per share			
Basic earnings per share	6	0.43	0.52
Diluted earnings per share	6	0.43	0.52

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,	
		2018 \$	2017 \$
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings:		87,715	96,342
Adjustments for items not affecting cash:			
Finance costs	11	3,563	3,614
Depreciation, depletion and amortization expenses		46,143	39,580
Long-term incentive plan expense	7	5,236	2,747
Unrealized gain on derivative financial instruments	9	(17,899)	(31,701)
Unrealized loss (gain) on foreign exchange		12,969	(4,447)
Deferred income tax expense	8	30,805	30,037
Other		—	(15)
Decommissioning liability expenditures		(1,819)	(5,443)
Changes in non-cash working capital	12	38,393	87,907
Net cash provided by operating activities		205,106	218,621
INVESTING ACTIVITIES			
Acquisitions		(10,000)	(55,087)
Capital expenditures		(244,805)	(181,447)
Proceeds on disposal of property, plant and equipment		4,444	—
Changes in non-cash working capital	12	44,635	103,270
Net cash used in investing activities		(205,726)	(133,264)
FINANCING ACTIVITIES			
Borrowings under credit facility		—	265,000
Repayments under credit facility		—	(320,000)
Financing costs related to credit facilities/long-term debt		—	(961)
Issuance costs and adjustments related to equity offerings	5	(75)	250
Proceeds from issuance of shares related to DRIP	5	47,400	45,618
Repayment of finance lease liabilities		(563)	(563)
Dividends paid to shareholders		(86,105)	(73,966)
Net cash used in financing activities		(39,343)	(84,622)
Effect of exchange rate fluctuations on foreign cash held		1,789	(249)
Net (decrease) increase in cash		(38,174)	486
Cash at the start of the period		326,381	16,477
Cash at the end of the period		288,207	16,963
Income taxes paid in cash		346	638
Interest paid in cash		13,079	8,580

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

Keyera Corp.**Condensed Interim Consolidated Statement of Changes in Equity**

(Thousands of Canadian dollars)

(Unaudited)

	Share Capital \$	Accumulated Deficit \$	Total \$
Balance at December 31, 2016	1,987,341	(145,833)	1,841,508
Common shares issued pursuant to dividend reinvestment plans	45,618	—	45,618
Issuance costs adjustment related to 2016 equity offering	250	—	250
Net earnings and total comprehensive income	—	96,342	96,342
Dividends declared to shareholders	—	(74,125)	(74,125)
Balance at March 31, 2017	2,033,209	(123,616)	1,909,593

	Share Capital \$	Accumulated Deficit \$	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 and total comprehensive income	—	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

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

Keyera Corp.
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three months ended March 31, 2018 and 2017

(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.

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, 2018.

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. 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, 2017, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2018 as noted below.

These condensed interim consolidated financial statements as at and for the three months ended March 31, 2018 and 2017 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, 2017.

The condensed interim consolidated financial statements were authorized for issuance on May 8, 2018 by the board of directors.

Adoption of new standards

Keyera has applied the following new IFRS standards in 2018:

IFRS 9, Financial Instruments

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

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

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

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

As a result of applying the transitional requirements of IFRS 15, including the practical expedients noted below, no changes to Keyera's comparative consolidated financial statements were required and an opening balance sheet adjustment was not recognized as at January 1, 2017. In addition, Keyera's cash

flows did not change as a result of adopting the new standard. IFRS 15 did not have a material impact on Keyera's consolidated statement of net earnings and comprehensive income for the period ended March 31, 2018 or its consolidated statement of financial position as at March 31, 2018.

Keyera has applied IFRS 15 using the following practical expedients:

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

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

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

Customer credit worthiness is assessed prior to the signing of any contract, as well as throughout the contract duration. Inter-segment and intra-segment revenues are recorded at current market prices and are eliminated upon consolidation in order to arrive at net earnings in accordance with IFRS.

Future accounting pronouncements update

Keyera is progressing its assessment of the following significant new accounting standard that has been issued, but is not yet effective.

IFRS 16, Leases

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

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

For lessors, the accounting treatment remains the same which provides a lessor the choice of classifying a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15 on or before the initial application of IFRS 16.

Expected impact

Keyera has developed a detailed implementation plan and has commenced its assessment of existing contracts to identify arrangements that would qualify as a lease under the new standard. For contracts that have been identified as being within the scope of the new standard, Keyera has initiated its detailed assessments of such contracts to determine the potential effects on Keyera's consolidated financial statements upon adoption. Furthermore, Keyera is currently evaluating information technology system and process changes that may be necessary to meet the requirements of the new guidance. Once all contracts within the scope of IFRS 16 have been identified and analyzed, Keyera will address any necessary changes to its policies, processes, internal controls, information technology systems, key operating metrics, financial covenants, and significant judgments and estimations required. Keyera will adopt IFRS 16 on January 1, 2019.

3. INVENTORY

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

As at	March 31, 2018	December 31, 2017
	\$	\$
NGLs and iso-octane	114,779	142,356
Other	5,433	5,475
Total inventory	120,212	147,831

For the period ended March 31, 2018, \$120,212 of inventory was carried at cost (December 31, 2017 – \$147,831) and \$nil was carried at net realizable value (December 31, 2017 – \$nil). The cost of inventory expensed for the three months ended March 31, 2018 was \$764,573 (three months ended March 31, 2017 – \$525,157).

4. OTHER LIABILITIES

As at	March 31, 2018 \$	December 31, 2017 \$
Finance lease liabilities	41,928	54,029
Less: current portion of finance lease liabilities	(41,928)	(1,474)
Long-term portion of finance lease liabilities	—	52,555
Long-term incentive plan liability	9,958	6,367
Total other liabilities	9,958	58,922

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

The arrangement included a put option which provided the lessor with the right to require Keyera to purchase the pipeline within six months of the pipeline's in-service date for the approximate amount of \$41,250. The pipeline became operational in January 2018. In March 2018, Keyera received notice that the lessor was exercising the put option and Keyera will be purchasing the pipeline in its current condition by June 2018. With the exercise of the put option, the remaining finance lease liability was re-measured to the expected amount of the put option and the total remaining finance lease liability has been reclassified to current liabilities.

5. CAPITAL

	Number of Common Shares	Share Capital \$
Balance at December 31, 2017	204,547,142	2,647,836
Common shares issued pursuant to dividend reinvestment plans	1,434,504	47,400
Issuance costs related to 2017 equity offering	—	(75)
Other adjustments	—	2,657
Balance at March 31, 2018	205,981,646	2,697,818

6. 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,	
	2018	2017
	\$	\$
Basic and diluted earnings per share	0.43	0.52
Net earnings – basic and diluted	87,715	96,342

	Three months ended March 31,	
	2018	2017
(in thousands)		
Weighted average number of shares – basic and diluted	205,267	186,286

7. 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, 2018 share price of Keyera, which was \$33.51 per share (December 31, 2017 – \$35.42 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended March 31,	
	2018	2017
	\$	\$
Performance Awards	4,415	2,261
Restricted Awards	821	486
Total long-term incentive plan expense	5,236	2,747

Employee Stock Purchase Plan

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

Defined Contribution Pension Plan

For the three months ended March 31, 2018, Keyera made pension contributions of \$2,386 (three months ended March 31, 2017 – \$2,247) 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 settlement. For the three months ended March 31, 2018, Keyera recorded \$196 (three months ended March 31, 2017 – \$177) in general and administrative expenses related to the DSU plan.

The following table shows the number of DSUs granted:

As at	March 31, 2018	December 31, 2017
Balance at beginning of period	46,171	19,827
Granted	9,430	26,344
Balance at end of period	55,601	46,171

8. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended March 31,	
	2018	2017
	\$	\$
Current	7,712	1,135
Deferred	30,805	30,037
Total income tax expense	38,517	31,172

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments include cash, trade and other receivables, derivative financial instruments, trade and other payables, dividends payable, credit facilities, finance lease liabilities and current and long-term debt. 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 classified as fair value through profit or loss in the consolidated statement of net earnings and comprehensive income and are measured at fair value. 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 statement of financial position are categorized into levels within a fair value hierarchy based on the nature of valuation inputs.

The fair value hierarchy has the following levels:

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

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

Financial instruments with fair value equal to carrying value

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

Fair value of senior fixed rate debt

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 at March 31, 2018 was \$1,843,623 (December 31, 2017 – \$1,831,467) 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.

	Notional Volume ¹	Weighted Average Price \$	Fair Value Hierarchy Level ²	Net Fair Value \$	Carrying Value Asset \$	Carrying Value Liability \$
As at March 31, 2018						
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by March 31, 2019)	2,610,000 Bbls	77.76/Bbl	Level 2	(12,870)	174	(13,044)
Buyer of fixed price WTI swaps (maturing by March 31, 2019)	24,000 Bbls	76.15/Bbl	Level 2	113	113	—
Seller of fixed price NGL swaps (maturing by April 30, 2018)	660,000 Bbls	36.42/Bbl	Level 2	(281)	174	(455)
Buyer of fixed price NGL swaps (maturing by March 31, 2019)	1,108,000 Bbls	55.41/Bbl	Level 2	1,107	2,047	(940)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	2,380,000 Bbls	20.71/Bbl	Level 2	(4,973)	942	(5,915)
Currency:						
Seller of forward contracts (maturing by November 30, 2018)	US\$163,000,000	1.28/USD	Level 2	(2,291)	311	(2,602)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	139,080 MWhs	41.33/MWh	Level 2	2,749	2,749	—
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2018)	26,400 MWhs	44.65/MWh	Level 2	485	485	—
Emission Performance Credits:						
Seller of emission performance credits	282,597 credits	23.54/credit	Level 2	594	594	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	28,560 MWhs	41.76/MWh	Level 2	562	562	—
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2018)	90,000 Bbls	73.47/Bbls	Level 2	(748)	—	(748)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US\$572,688,800	0.98/USD - 1.22/USD	Level 2	99,504	99,504	—
				83,951	107,655	(23,704)

Notes:

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

² A description of the fair value hierarchy is discussed in the fair value section.

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

Notes:

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

² A description of the fair value hierarchy is discussed in the fair value section.

Derivative instruments are recorded on the consolidated statement of financial position at fair value. Changes in the fair value of these financial instruments are recognized through profit or loss in the consolidated statement 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 statement of net earnings and comprehensive income line items and the related reportable operating segments:

Derivative Contracts Related To	Reportable Operating Segments	Consolidated Net Earnings and Comprehensive Income Line Item
Natural gas, crude oil and NGLs, and iso-octane	Marketing; Corporate and Other	Marketing revenue; Corporate and Other revenue
Electricity	Liquids Infrastructure; Gathering and Processing; Corporate and Other	Liquids Infrastructure expenses; Gathering and Processing expenses; Corporate and Other revenues and expenses
Cross-currency swaps	Corporate and Other	Net foreign currency gain/(loss) on U.S. debt
Emission performance credits	Gathering and Processing	Gathering and Processing expenses
		Three months ended
		March 31,
		2018
		2017
		\$
		\$
Unrealized gain (loss)		
Marketing revenue		8,543
Liquids Infrastructure expenses		616
Gathering and Processing expenses		(266)
Corporate and Other:		
Corporate and Other revenues and expenses		48
Net foreign currency gain/(loss) on U.S. debt		8,958
Total unrealized gain		17,899
		31,701

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 functional currency is the Canadian dollar. 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.

U.S. dollar sales and purchases in the Marketing segment were as follows:

	Three months ended March 31,	
	2018	2017
U.S. dollar sales and purchases	\$	\$
Sales priced in U.S. dollars	387,390	224,873
Purchases priced in U.S. dollars	(107,819)	(89,772)

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

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt and U.S. dollar denominated LIBOR loans 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 10 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, 2018, fixed rate borrowings comprised 100% of total debt outstanding (December 31, 2017 – 100%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

The majority of trade and other receivables are due from entities in the oil and gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad domestic and international customer base. Keyera evaluates and monitors the financial strength of its customers in accordance with its credit policy.

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is \$459,789 at March 31, 2018 (December 31, 2017 – \$435,620). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at March 31, 2018. With respect to counterparties for derivative financial instruments, the credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which significantly reduce overall counterparty credit risk. In addition, Keyera incorporates the credit risk associated with counterparty default, as well as Keyera's own credit risk, into the estimates of fair value.

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

(f) Liquidity risk

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

Risk Management Sensitivities

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

Risk sensitivities	Impact on income before tax March 31, 2018		Impact on income before tax March 31, 2017	
	Increase \$	Decrease \$	Increase \$	Decrease \$
Commodity price changes				
+ 10% in electricity price	1,192	—	695	—
- 10% in electricity price	—	(1,192)	—	(695)
+ 10% in NGL, crude oil and iso-octane prices	—	(23,734)	—	(16,496)
- 10% in NGL, crude oil and iso-octane prices	23,734	—	16,496	—
Foreign currency rate changes				
+ \$0.01 in U.S./Canadian dollar exchange rate	—	(405)	296	—
- \$0.01 in U.S./Canadian dollar exchange rate	405	—	—	(296)
Interest rate changes				
+ 1% in interest rate	—	—	—	(582)
- 1% in interest rate	—	—	582	—

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

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

	Three months ended March 31,	
	2018	2017
	\$	\$
Foreign currency (loss) gain resulting from:		
Translation of long-term debt and interest payable	(17,041)	4,553
Change in fair value of the cross-currency swaps – principal and interest portion	8,958	(4,434)
Gain from cross-currency swaps – interest portion ¹	216	360
Total foreign currency (loss) gain on U.S. debt	(7,867)	479

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.

11. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended March 31,	
	2018	2017
	\$	\$
Interest on bank overdrafts and credit facilities	1,167	2,563
Interest on long-term debt	20,179	17,626
Interest capitalized	(5,639)	(6,073)
Other interest (income) expense	(695)	525
Total interest expense on current and long-term debt	15,012	14,641
Unwinding of discount on decommissioning liability	2,631	2,749
Unwinding of discount on long-term debt	419	350
Non-cash expenses in finance costs	3,050	3,099
Total finance costs	18,062	17,740

For the three months ended March 31, 2018, \$5,639 of borrowing (interest) costs were capitalized (three months ended March 31, 2017 – \$6,073) at a weighted average capitalization rate of 4.87% on funds borrowed (three months ended March 31, 2017 – 4.34%).

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31,	
	2018	2017
	\$	\$
Inventory	27,619	19,830
Trade and other receivables	(24,169)	51,800
Other assets	(38,140)	(9,877)
Trade and other payables, and provisions	73,083	26,154
Changes in non-cash working capital from operating activities	38,393	87,907

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

	Three months ended March 31,	
	2018	2017
	\$	\$
Trade and other payables, and provisions	44,635	48,216
Other assets	—	55,054
Changes in non-cash working capital from investing activities	44,635	103,270

13. SEGMENT INFORMATION

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

Marketing

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

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 iso-octane. These services are provided to customers through an extensive network of facilities that include underground NGL storage caverns, NGL fractionation facilities, NGL and crude oil pipelines as well as rail and truck terminals, the AEF facility, and a 50% interest in the Base Line Terminal, a crude oil storage facility.

Corporate and Other

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

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

Reclassification

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

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

	Marketing \$	Gathering & Processing \$	Liquids Infrastructure \$	Corporate and Other \$	Inter-segment Eliminations \$	Total \$
Three months ended March 31, 2018						
Segmented revenue	931,094	107,354	109,476	7,241	(71,154)	1,084,011
Segmented expenses	(865,242)	(36,807)	(27,673)	(3,030)	71,154	(861,598)
Operating margin	65,852	70,547	81,803	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	—	—	—	(7,867)	—	(7,867)
Long-term incentive plan expense	—	—	—	(5,236)	—	(5,236)
Earnings (loss) before income tax	65,852	70,547	81,803	(91,970)	—	126,232
Income tax expense	—	—	—	(38,517)	—	(38,517)
Net earnings (loss)	65,852	70,547	81,803	(130,487)	—	87,715

	Marketing \$	Gathering & Processing \$	Liquids Infrastructure \$	Corporate and Other \$	Inter-segment Eliminations \$	Total \$
Three months ended March 31, 2017						
Segmented revenue	699,043	112,727	101,027	8,381	(77,558)	843,620
Segmented expenses	(630,608)	(46,390)	(36,452)	(3,306)	77,558	(639,198)
Operating margin	68,435	66,337	64,575	5,075	—	204,422
General and administrative expenses	—	—	—	(17,320)	—	(17,320)
Finance costs	—	—	—	(17,740)	—	(17,740)
Depreciation, depletion and amortization expenses	—	—	—	(39,580)	—	(39,580)
Net foreign currency gain on U.S. debt	—	—	—	479	—	479
Long-term incentive plan expense	—	—	—	(2,747)	—	(2,747)
Earnings (loss) before income tax	68,435	66,337	64,575	(71,833)	—	127,514
Income tax expense	—	—	—	(31,172)	—	(31,172)
Net earnings (loss)	68,435	66,337	64,575	(103,005)	—	96,342

DISAGGREGATION OF REVENUE

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

	Marketing	Gathering & Processing	Liquids Infrastructure	Corporate and Other	Total
	\$	\$	\$	\$	\$
Three months ended March 31, 2018					
Marketing of NGLs and iso-octane	931,094	—	—	—	931,094
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
Other ²	—	14,273	341	7,241	21,855
Revenue before inter-segment eliminations	931,094	107,354	109,476	7,241	1,155,165
Inter-segment revenue eliminations	(1,015)	(5,531)	(56,652)	(7,956)	(71,154)
Revenue from external customers	930,079	101,823	52,824	(715)	1,084,011
	Marketing	Gathering & Processing	Liquids Infrastructure	Corporate and Other	Total
	\$	\$	\$	\$	\$
Three months ended March 31, 2017					
Marketing of NGLs and iso-octane	699,043	—	—	—	699,043
Gas handling and processing services ¹	—	89,037	25,919	—	114,956
Fractionation and storage services	—	2,781	40,430	—	43,211
Transportation and terminalling services	—	—	34,389	—	34,389
Other ²	—	20,909	289	8,381	29,579
Revenue before inter-segment eliminations	699,043	112,727	101,027	8,381	921,178
Inter-segment revenue eliminations	—	(6,664)	(61,934)	(8,960)	(77,558)
Revenue from external customers	699,043	106,063	39,093	(579)	843,620

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.

	Three months ended March 31,	
	2018	2017
Revenue from external customers located in	\$	\$
Canada	903,453	699,766
U.S.	180,558	143,854
Total revenue	1,084,011	843,620

	March 31, 2018	December 31, 2017
Non-current assets ¹ as at	\$	\$
Canada	4,945,392	4,752,164
U.S.	101,952	93,858
Total non-current assets	5,047,344	4,846,022

Note:

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

Information about major customers

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

14. OTHER ASSETS

Other assets includes a prepayment of \$38,758 to acquire a liquids hub that is currently under construction. The agreement to acquire the liquids hub project was not fully executed until April 2, 2018 and therefore the prepayment resides in other current assets.

15. ACQUISITION

On February 28, 2018, the Company completed the acquisition of a gas processing plant for cash consideration of \$10 million. The transaction was accounted for using the acquisition method of accounting. The fair value assigned to the gas processing plant was \$10 million with a negligible decommissioning liability. The operating results of this gas processing plant are reported in the Gathering and Processing segment.

16. SUBSEQUENT EVENTS

On April 11, 2018, Keyera declared a dividend of \$0.14 per share, payable on May 15, 2018, to shareholders of record as of April 23, 2018.

On May 8, 2018, Keyera declared a dividend of \$0.14 per share, payable on June 15, 2018, to shareholders of record as of May 23, 2018.

As referenced in note 14, on April 2, 2018, Keyera acquired a liquids hub that is currently under construction. The cost of the acquisition was \$38,758.