

## Management's Discussion and Analysis

*The following management's discussion and analysis ("MD&A") was prepared as of February 26, 2020, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying audited consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the years ended December 31, 2019 and 2018 and the notes thereto. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Effective December 31, 2019, Keyera voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Voluntary Change in Accounting Policy" section of this document for a description of the changes and the effect on Keyera's consolidated financial statements. Comparative amounts for periods prior to January 1, 2018 included in this MD&A have not been restated. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on Keyera's website at [www.keyera.com](http://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 energy infrastructure business with extensive interconnected assets and depth of expertise in delivering energy solutions. Keyera operates assets 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 three highly integrated operating segments:

1. **Gathering and Processing**— Keyera owns and operates raw gas gathering pipelines and processing plants, which collect and process raw natural gas, remove waste products and separate the economic components, 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 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.
3. **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.

The Gathering and Processing and Liquids Infrastructure segments provide energy infrastructure solutions to customers on a fee-for-service basis.

## Overview

Keyera recorded outstanding financial results in 2019, as all operating segments set records on a realized margin basis. Net earnings and Adjusted EBITDA also set new records in 2019, while distributable cash flow was lower than the prior year due to higher maintenance capital and cash tax expenses. These results highlight the value of Keyera's integrated asset base.

In 2019, several projects were completed in the Gathering & Processing segment that expand Keyera's footprint in the prolific Montney and Duvernay geological zones, where producers are actively drilling for condensate-rich gas. In the Liquids Infrastructure segment, continued growth in demand for Keyera's condensate handling services contributed to the record results delivered in 2019. Realized margin from the Marketing segment was \$373 million, exceeding Keyera's previous guidance of between \$320 million and \$350 million. These impressive financial results were delivered despite two outages at AEF in 2019, including a five-week planned preventative maintenance outage in the fourth quarter.

Looking ahead to the future, Keyera's strategic priorities include the following:

- continue to be a safe, reliable and environmentally conscious operator of its facilities;
- successfully execute the current organic growth capital program, including the KAPS pipeline system;
- maximize utilization across all of Keyera's facilities, and increase the competitiveness and profitability of the Gathering & Processing segment by optimizing its portfolio of assets. This optimization strategy may include divesting of certain non-core assets, or consolidating certain facilities, so that capacity is reduced and utilization is increased at Keyera's most efficient facilities. The objective of this strategy is to ultimately reduce per unit operating costs, providing producers with higher netbacks and improving Keyera's profitability;
- focus the next phase of Keyera's growth in the Liquids Infrastructure segment, where Keyera has significant competitive advantages, including a highly integrated condensate system in Fort Saskatchewan; and
- utilize Keyera's highly integrated network of assets, including fractionation, storage and logistics expertise, to access high value markets for all products in the Marketing segment, while maintaining a disciplined risk management strategy.

Since Keyera became a corporation on January 1, 2011, it has invested over \$6 billion on primarily fee-for-service infrastructure and has provided a compound annual growth rate of approximately 9% in distributable cash flow per share. Keyera continues to take a disciplined approach to its capital allocation, and in 2019 delivered an impressive return on total in-service capital of approximately 14%. Keyera remains committed to enhancing the quality of its cash flows by continuing to grow the fee-for-service proportion of its business.

Keyera expects the following for 2020:

- a cash tax recovery of between \$15 million to \$25 million (2019 – \$98 million cash tax expense);
- maintenance capital expenditures to range between \$35 million and \$45 million (2019 – \$105 million); and
- growth capital expenditures to range between \$700 million and \$800 million (2019 – \$986 million), excluding acquisitions.

Contribution from the Marketing segment in 2020 is expected to exceed the base guidance of \$180 million to \$220 million, but be lower than the 2019 realized margin of \$373 million, largely due to higher market prices for butane compared to the 2019/2020 contract year. Keyera expects to provide 2020 financial guidance for its Marketing business in the first quarter 2020 MD&A.

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***Funding for Growth Capital***

Keyera currently has a \$2.9 billion growth capital program underway, including \$650 million for Keyera's 50% share of KAPS. Of this capital, \$1.7 billion has been invested since inception, as phase one of the Wapiti gas plant, the North Wapiti Pipeline System and the Simonette expansion were all completed in 2019. With Keyera's strong balance sheet, it is well positioned to fund the remaining \$1.2 billion of this capital program without issuing common equity, apart from the DRIP program.

Keyera's financing decisions incorporate several factors, including the objective of minimizing dilution to its common shareholders while preserving financial flexibility through a strong balance sheet and investment grade credit ratings. As a long-term target, Keyera's objective is to maintain a Net Debt to EBITDA ratio of between 2.5X to 3.0X, including 50% of any subordinated hybrid notes or preferred shares as debt. This range results in a leverage profile that supports Keyera's investment grade credit ratings. Using this methodology, the Net Debt to EBITDA ratio at December 31, 2019 was 2.7X. Refer to the section of the MD&A titled, "Liquidity & Capital Resources: Long-term Debt" for more information related to Keyera's covenant calculations.

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.

## CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the years ended December 31, 2019 and 2018:

(Thousands of Canadian dollars, except per share data)	2019	2018
Net earnings <sup>1</sup>	443,609	402,828
Net earnings per share <sup>1</sup> (basic)	2.07	1.94
Operating margin	1,004,133	976,199
Realized margin <sup>2</sup>	1,053,727	907,299
Adjusted EBITDA <sup>3</sup>	944,101	807,363
Cash flow from operating activities	887,935	604,329
Funds from operations <sup>4</sup>	754,254	696,298
Distributable cash flow <sup>4</sup>	593,584	638,124
Distributable cash flow per share <sup>4</sup> (basic)	2.77	3.08
Dividends declared	396,862	359,269
Dividends declared per share	1.85	1.73
Payout ratio <sup>5</sup>	67%	56%

### Notes:

<sup>1</sup> Net earnings for the year ended December 31, 2018 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

<sup>2</sup> 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 \$1,682 of unrealized losses from commodity-related risk management contracts (2018 – \$1,310 unrealized losses).

<sup>3</sup> 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.

<sup>4</sup> 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.

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

With the adoption of *IFRS 16, Leases* that was effective January 1, 2019, the effects on Keyera's financial results for the year ended December 31, 2019 were as follows:

- decrease in operating expenses of \$53 million;
- increase in finance costs of \$10 million;
- increase in depreciation, depletion and amortization expenses of \$56 million; and
- a foreign currency gain on U.S. debt and other of \$10 million.

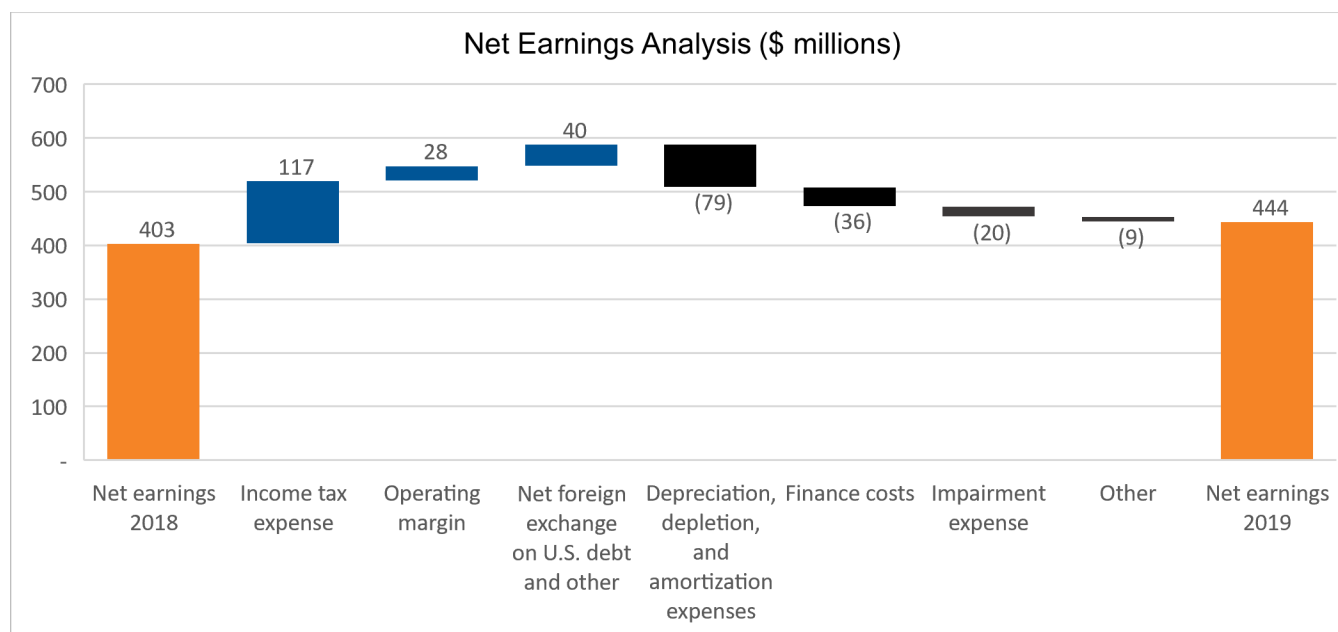
The adoption of *IFRS 16, Leases* also affected certain financial and non-GAAP measures for the year ended December 31, 2019 as follows:

- decrease in net income of \$3 million;
- increase in operating margin, realized margin, and cash flow from operating activities of \$53 million;
- decrease in cash flow from financing activities of \$53 million; and
- an increase in funds from operations and adjusted EBITDA of \$53 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. Refer to note 2, Basis of Preparation and note 17, Lease Liabilities, of the accompanying financial statements for further information on the adoption of *IFRS 16, Leases*.

## Net Earnings

For the year ended December 31, 2019, net earnings were \$444 million, \$41 million higher than the prior year due to the following:



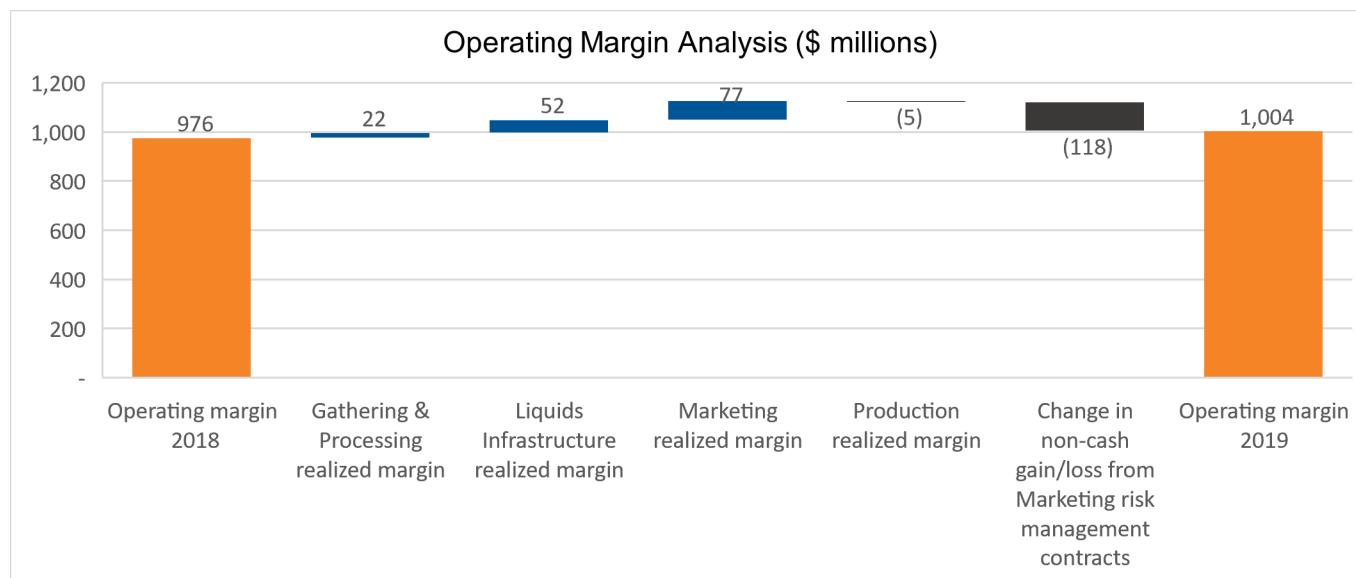
See the section of this MD&A titled, “Operating Margin and Realized Margin”, for more information related to operating margin. For all other charges mentioned above, please see the section of the MD&A titled, “Corporate and Other”, for more information related to these charges.

## Operating Margin and Realized Margin

With the adoption of *IFRS 16, Leases*, 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. Approximately \$44 million of rail car lease costs were included in operating expenses of the Marketing segment for 2018.

For the year ended December 31, 2019, operating margin reached a record \$1 billion, \$28 million higher than 2018 due to the following:

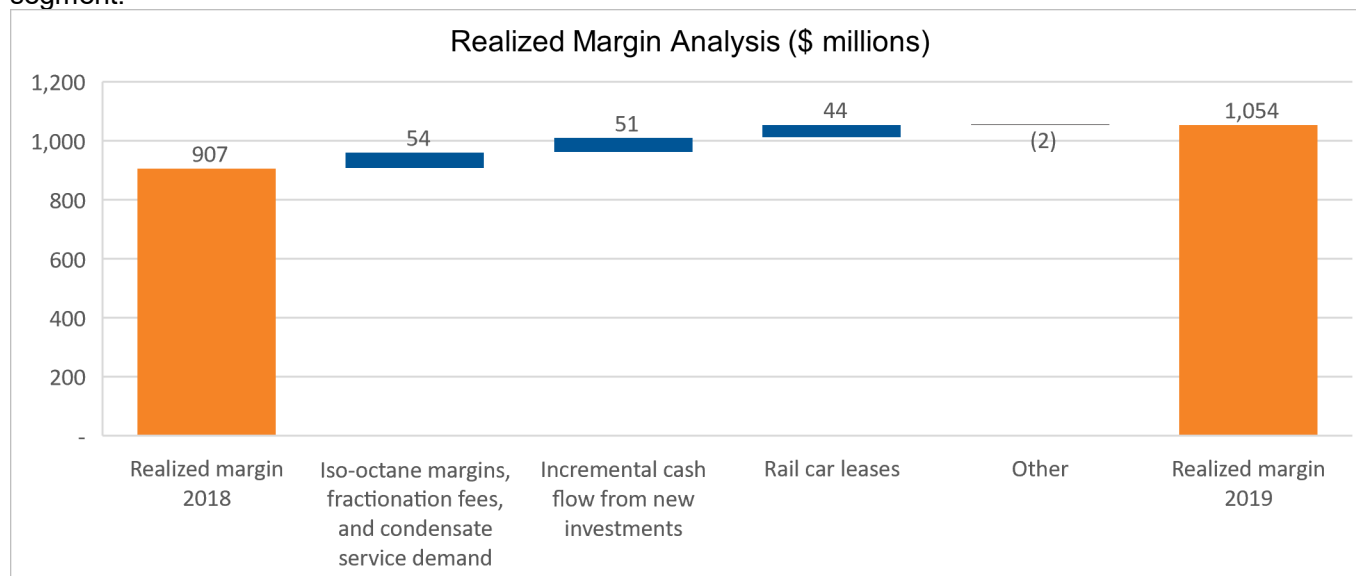
- \$146 million in higher realized margin from all operating segments as detailed below; partly offset by,
- the inclusion of an unrealized non-cash loss of \$48 million associated with risk management contracts from the Marketing segment in 2019, compared to a non-cash gain of \$70 million in 2018.



Realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) also reached a new record of \$1.1 billion, \$146 million or 16% higher than the prior year. The higher realized margin was largely due to the following factors:

- incremental cash flow from recent investments including: phase one of the Wapiti gas plant and associated infrastructure that came into service in 2019, the Pipestone Liquids Hub that began operations in September 2018, and a full year of contribution from the Base Line terminal;
- 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;
- higher fractionation fees effective with the new contract year that began on April 1, 2019; and
- higher iso-octane margins resulting from: i) strong product premiums beginning in mid-April that continued for the remainder of the year; and ii) lower market costs for butane feedstock relative to the prior year.

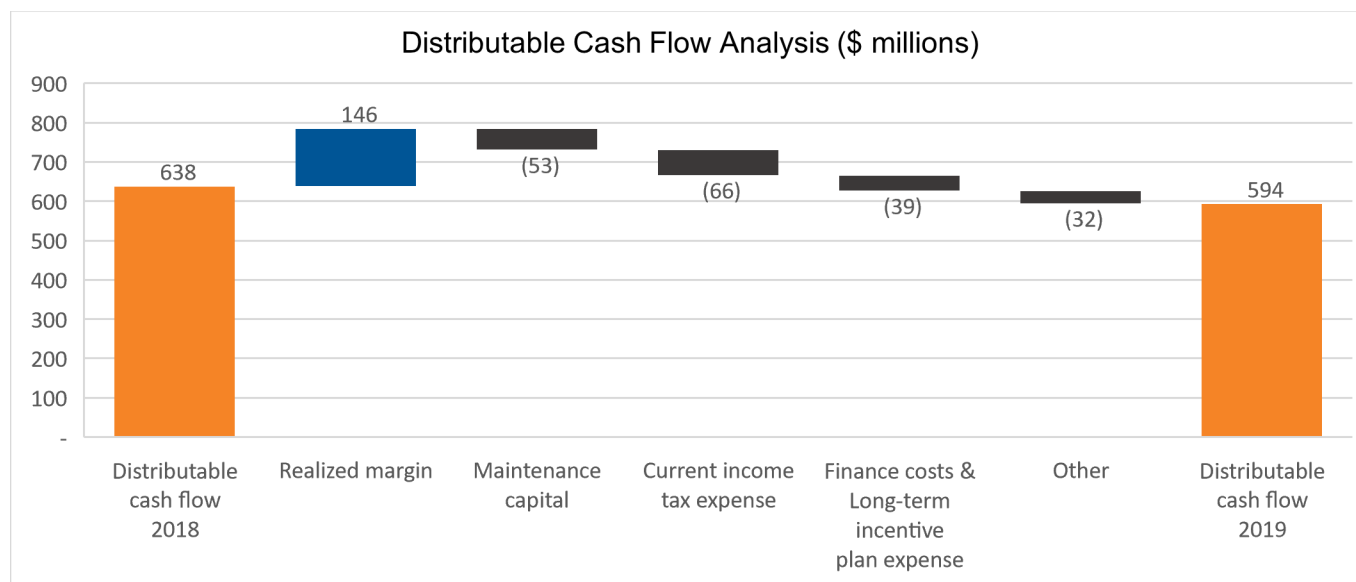
See the section titled "Segmented Results of Operations" for more information on operating results by segment.



## Cash Flow Metrics

Cash flow metrics were also strong in 2019 as a direct result of the outstanding financial results recorded by all operating segments, as described above. Cash flow from operating activities for the year ended December 31, 2019 was \$888 million, \$284 million higher than 2018 because of: i) a reduced cash requirement to fund inventory due to lower average prices and lower volumes for butane and propane at the end of 2019 compared to the end of 2018; and ii) \$146 million in higher realized margin from all operating segments.

Distributable cash flow in 2019 was \$594 million, \$45 million lower than the prior year because of higher current tax and maintenance capital expenses.



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 “Results of Operations: Marketing”, for a reconciliation of operating margin to realized margin related to the Marketing segment.

## SEGMENTED RESULTS OF OPERATIONS

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. These segment measures of profitability for the years ended December 31, 2019 and 2018 are reported in note 32, Segment Information, of the accompanying financial statements. 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](http://www.sedar.com).

### Gathering and Processing

Keyera currently has interests in 16 active gas plants<sup>1</sup> and one gas plant that is under construction, all of which are located in Alberta. Keyera operates 14 of the 16 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:

<b>Operating Margin and Throughput Information</b> (Thousands of Canadian dollars)		
	2019	2018
Revenue <sup>2</sup>	513,452	458,441
Operating expenses <sup>2</sup>	(219,072)	(185,927)
Unrealized loss on electricity and other financial contracts	(664)	(681)
Total operating expenses	(219,736)	(186,608)
<b>Operating margin</b>	<b>293,716</b>	<b>271,833</b>
Gross processing throughput – (MMcf/d)	1,496	1,537
Net processing throughput <sup>3</sup> – (MMcf/d)	1,191	1,193

Notes:

<sup>2</sup> Includes inter-segment transactions.

<sup>3</sup> Net processing throughput refers to Keyera's share of raw gas processed at its processing facilities.

### Operating Margin and Revenues Annual Results

The Gathering and Processing segment posted record financial results in 2019 with operating margin of \$294 million, an increase of \$22 million or 8% compared to 2018 primarily due to:

- \$38 million in incremental operating margin from phase one of the Wapiti gas plant and North Wapiti pipeline system which came into service in May and September 2019, the Pipestone Liquids Hub that began operations in September 2018, and higher liquids volumes processed through the expanded liquids handling infrastructure at Simonette.

These factors were partly offset by:

- \$12 million in lower operating margin due to a reduction in fees provided to two customers in exchange for longer-term commitments of volume, and the ability to process volumes at several Keyera facilities in the west central Alberta area. Agreements with these customers were finalized in the first quarter of 2019 and fourth quarter of 2018; and

<sup>1</sup> Excludes gas plants where Keyera has shut-in or suspended operations.

- a one-time \$6 million upward revenue adjustment in 2018 to reflect the value received from acquiring a 40% ownership interest in a raw gas gathering pipeline which spans across the Willesden Green and Ferrier areas.

### **Revenue**

Gathering and Processing revenue for the year ended December 31, 2019 was \$513 million, \$55 million higher than the same period in 2018. The increased revenues were primarily attributable to the same factors that contributed to higher operating margin, as well as higher ethane sales revenue in 2019. 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**

The year ended December 31, 2019 was a busy year for the Gathering & Processing segment as several major projects were completed. These projects primarily focused on expanding Keyera's footprint in the liquids-rich Montney and Duvernay geological zones where producer activity is strong due to condensate-rich gas. Refer to the tables below, "Gathering and Processing – Completed Projects and Capital Projects Status Update", for detailed information on the projects that were completed during the year.

Phase one of the Wapiti gas plant, which became operational in May 2019, continued to increase its gross processing throughput during the second half of 2019 as the North Wapiti Pipeline became operational in September. The new pipeline began delivering incremental volumes from Pipestone Energy Corp. ("PEC"), while volumes from Paramount Resources Ltd., the primary customer for phase one of the Wapiti gas plant, remained stable.

In early 2020, PEC exercised its option to secure an additional 30 million cubic feet per day of gathering, compression and processing capacity at the Wapiti gas plant beginning in the fourth quarter of 2020. With the exercise of this option, PEC's total throughput commitment increases to 90 million cubic feet per day, and the take-or-pay component increases to 80% of the committed volume beginning in April 2021. To accommodate the additional volumes at the Wapiti gas plant, Keyera will expand its existing compressor station for a capital cost of approximately \$15 million.

In May 2019, Keyera secured an additional long-term volume commitment with a new customer that includes take-or-pay obligations at the Pipestone gas plant that is currently under construction. The new agreement will utilize all of the remaining capacity available in the first phase of that gas plant.

The investments in the newly completed infrastructure at the Wapiti and Simonette facilities will continue to contribute incremental cash flow in 2020, along with phase two of the Wapiti gas plant which is scheduled to be operational by mid-2020. Partly offsetting this incremental cash flow will be reduced volumes and revenue at Keyera's Brazeau River gas plant beginning in the spring of 2020, where a customer will be diverting volumes to their own facility for processing. As previously reported, the financial impact is expected to be a reduction in operating margin of approximately \$10 million relative to 2019.

Gross processing throughput for the Gathering and Processing segment averaged 1,496 million cubic feet per day in 2019, 3% lower than 2018. The lower throughput in 2019 was primarily due to weak natural gas and NGL prices that contributed to lower producer activity levels and production declines across several facilities in west central Alberta, including the Rimbey and Nevis gas plants, and the third party operated Edson gas plant. As a result, Keyera suspended operations at its Nevis gas plant in September.

One of Keyera's strategic priorities for the Gathering and Processing segment is to increase its competitiveness and enhance customer netbacks by reducing operating costs on a per unit basis. To do this, Keyera is currently reviewing various optimization strategies that are intended to reduce redundant costs, attract volumes to its most efficient facilities, increase liquids recoveries and ultimately increase customer netbacks and profitability for Keyera. As an example, in the fourth quarter operations at the Gilby gas plant were suspended and substantially all the volume was successfully redirected to the Rimbey gas

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plant for processing as these two facilities are inter-connected. Rimbey has liquids extraction capabilities, onsite fractionation and competitive market access for NGLs. The cost savings associated with the Gilby turndown will be realized over the next year.

Maintenance turnarounds at the Rimbey, Pembina North, Cynthia, and Ricinus gas plants were completed during the second and third quarters of 2019 at a total cost of approximately \$44 million. For 2020, maintenance turnarounds are scheduled to occur at the West Pembina and Zeta Creek gas plants at a total estimated cost of \$11 million. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. 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 following table provides more detail related to previously announced and recently completed major projects in the Gathering and Processing segment:

<b>Gathering and Processing – COMPLETED PROJECTS</b>		
<b>Facility/Area</b>	<b>Project Description</b>	<b>Cost Information</b>
<b>Simonette</b>	<p><b><i>Simonette Acid Gas Injection and Inlet Liquids Separation Facilities:</i></b> The following major assets were constructed with this project:</p> <p>i) Acid gas injection facilities including surface facilities at the plant and well site, and a pipeline connecting the facilities to a disposal well.</p> <p>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.</p> <p>iii) Flare system to accommodate the various growth projects at the Simonette gas plant.</p>	<p>The inlet liquids separation facilities and flare system were completed and commenced operations at the beginning of March 2019.</p> <p>The acid gas injection facilities became operational in July 2019.</p> <p><b><i>Cost to complete:</i></b></p> <ul style="list-style-type: none"> <li>Completed at a cost of \$80 million, \$20 million lower than the original estimate</li> </ul> <p><b><i>Total net costs to December 31, 2019:</i></b></p> <ul style="list-style-type: none"> <li>\$41 million for the year ended December 31, 2019</li> <li>\$80 million since inception</li> </ul>
<b>Simonette</b>	<p><b><i>Simonette Expansion Project:</i></b> The expansion project created 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.</p>	<p>The expansion project became operational at the beginning of September 2019.</p> <p><b><i>Cost to complete:</i></b></p> <ul style="list-style-type: none"> <li>Completed at a total cost of \$71 million, \$14 million lower than the original estimate.</li> </ul> <p><b><i>Total net costs to December 31, 2019:</i></b></p> <ul style="list-style-type: none"> <li>\$46 million for the year ended December 31, 2019</li> <li>\$71 million since inception</li> </ul>

Gathering and Processing – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
Wapiti	<p><b>Wapiti Gas Plant (Phase One):</b> 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.</p> <p><b>Water Disposal System:</b> This project includes the 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.</p> <p><b>North Wapiti Pipeline System:</b> 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.</p> <p><b>Gold Creek Compressor and Gathering System Expansion:</b> This project provides additional compression and includes an expansion of the Wapiti gathering system.</p> <p><b>Wapiti Gas Plant (Phase Two):</b> Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant.</p>	<p><b>Wapiti Gas Plant (Phase One):</b> Phase one of the Wapiti gas plant was completed and began operating in May 2019.</p> <p><b>Water Disposal System:</b> 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 two disposal wells, with the second disposal well coming into service in August 2019.</p> <p><b>North Wapiti Pipeline System:</b> The pipeline system commenced operations in September 2019. An expansion to the compressor station is scheduled to be complete by the fourth quarter of 2020 as a result of PEC's additional volume commitment.</p> <p><b>Gold Creek Compressor and Gathering System Expansion:</b> Construction activities on the compressor station continued to progress in the fourth quarter of 2019. The additional compression and expansion of the Wapiti gathering system is anticipated to be operational by mid-2020.</p> <p><b>Wapiti Gas Plant (Phase Two):</b> Fabrication of major equipment and engineering work was substantially complete while construction activities continued in the fourth quarter of 2019. Phase two of the Wapiti gas plant is expected to be complete by mid-2020.</p> <p><i>Estimated total cost to complete the Wapiti complex and related infrastructure:</i></p> <ul style="list-style-type: none"> <li>• approximately \$1 billion</li> </ul> <p><i>Total net costs to December 31, 2019:</i></p> <ul style="list-style-type: none"> <li>• \$346 million for the year ended December 31, 2019</li> <li>• \$931 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)</li> </ul>

Gathering and Processing – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
Pipestone	<p><b>Pipestone Gas Plant:</b> 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.</p>	<p>Field construction, detailed engineering, and procurement activities continued in the fourth quarter of 2019.</p> <p>The Pipestone gas plant is expected to be operational in early 2021.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> <li>• approximately \$600 million</li> </ul> <p><i>Total net costs to December 31, 2019:</i></p> <ul style="list-style-type: none"> <li>• \$300 million for the year ended December 31, 2019</li> <li>• \$340 million since inception</li> </ul>

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. 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 that contains virtually no sulfur, aromatics or benzene, making this product a clean burning gasoline additive. 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)	2019	2018
Revenue <sup>1</sup>	544,318	478,037
Operating expenses <sup>1</sup>	(167,062)	(152,447)
Unrealized loss on electricity financial contracts	(856)	(1,134)
Total operating expenses	(167,918)	(153,581)
<b>Operating margin</b>	<b>376,400</b>	<b>324,456</b>

Note:

<sup>1</sup> Includes inter-segment transactions.

## Operating Margin and Revenue

### Annual Results

The Liquids Infrastructure segment posted another year of record financial results in 2019. For the year ended December 31, 2019, operating margin was \$376 million, \$52 million or 16% higher than 2018. The higher financial results were primarily due to the following:

- \$17 million in incremental operating margin from the Base Line terminal that was brought into service in phases starting in January 2018, with all 12 tanks operational in October 2018;

- approximately \$13 million in higher margin associated with the overall growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental volumes and revenue from the Norlite pipeline; and
- higher fractionation revenue resulting from an increase in fees effective with the new NGL contract year that began on April 1, 2019.

### **Revenue**

Liquids Infrastructure revenues for the year ended December 31, 2019 were \$544 million, \$66 million higher than 2018 largely due to the same factors that contributed to higher operating margin, as well as the recovery of \$11 million in repair costs associated with the planned maintenance outage at AEF in the fourth quarter of 2019. These costs were fully recovered from the Marketing segment and do not have an impact on operating margin for the Liquids Infrastructure segment.

### **Liquids Infrastructure Activity**

The year ended December 31, 2019, was also a busy year for the Liquids Infrastructure segment as Keyera announced that it is proceeding with the construction of an NGL and condensate gathering system, called "KAPS". This project strengthens Keyera's competitive position by providing an alternative transportation solution to deliver production from Alberta's liquids-rich developments to market. KAPS also provides Keyera with a platform for numerous future potential opportunities including additional condensate and ethane services, fractionation, storage, terminalling and marketing services. KAPS will be an open access system with initial connections into Keyera's fractionation assets and condensate system in Fort Saskatchewan.

KAPS is a 50/50 joint venture with SemCAMS Midstream ULS ("SemCAMS") and 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. Refer to the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to this project, including estimated cost to complete and expected completion time.

The demand for condensate, which is used as a diluent by oilsands producers, has continued to grow in Alberta. Keyera operates an industry-leading condensate hub in Western Canada that includes connections to: i) all major condensate receipt points, including Pembina's Cochin pipeline and Canadian Diluent Hub, Enbridge's Southern Lights pipeline and CRW pool, and the Fort Saskatchewan area fractionators; and ii) all major condensate delivery points, including Inter Pipeline's Polaris and Cold Lake pipelines, the Norlite pipeline and CRW pool, and Wolf's Access pipeline system.

Keyera estimates that it owns and operates 65% to 70% of total condensate storage in Alberta, and transports greater than 50% of the condensate required to meet oil sands demand. 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 slightly above nameplate capacity in 2019, despite the first fractionation unit being taken offline for approximately six weeks beginning in October. During this unplanned outage, Keyera was able to access alternative fractionation capacity to fulfill its customers' needs.

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 90% of nameplate capacity in 2019. In February, AEF was taken offline for approximately 17 days to address an equipment failure.

In October, Keyera took the AEF facility offline to complete preventative maintenance work, as well as to complete some of the work that would have been undertaken during the scheduled turnaround in 2020. The maintenance outage was successful, and the facility was operational by mid-November. Because of the scope of the planned outage in 2019, the next turnaround at AEF is now scheduled to occur in the fall of 2021 instead

of 2020. The incremental costs in 2019 associated with this planned outage was \$22 million. Of this total, approximately half was expensed in the fourth quarter as operating expense and was flowed through in full to the Marketing segment, with the remainder of the costs being treated as maintenance capital.

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:

<b>Liquids Infrastructure – Capital Projects Status Update</b>		
<b>Facility/Area</b>	<b>Project Description</b>	<b>Project Status Update</b>
<b>Fort Saskatchewan</b>	<b>Underground Storage Development:</b> Development of five additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	<p><b>Construction-In-Progress Assets:</b></p> <p>Washing of the 16<sup>th</sup> cavern was completed in December 2019 while washing of the 17<sup>th</sup> cavern continued in the fourth quarter of 2019. These caverns are expected to be in service by mid-2020 and the first half of 2021, respectively.</p> <p>Drilling activities for the 18<sup>th</sup> cavern were completed in the second quarter of 2019. Construction of the cavern's related infrastructure continued in the fourth quarter of 2019. This cavern is anticipated to be operational in the second half of 2022.</p> <p>Engineering work related to the 19<sup>th</sup> cavern commenced in the fourth quarter of 2019.</p> <p><b>Completed Assets:</b></p> <p>The 15<sup>th</sup> cavern and its related infrastructure was put into service in early May 2018.</p> <p><b>Estimated total cost to complete:</b></p> <ul style="list-style-type: none"> <li>Gross cost is approximately \$160 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment</li> <li>Keyera's net share is approximately \$125 million</li> </ul> <p><b>Total net costs to December, 2019:</b></p> <ul style="list-style-type: none"> <li>\$12 million for the year ended December 31, 2019</li> <li>\$93 million since inception (includes costs related to the 15<sup>th</sup> cavern that was completed in May 2018)</li> </ul>

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
<b>KAPS (50/50 joint venture with SemCAMS)</b>	<b>KAPS NGL and Condensate Pipeline System:</b> Development of a 12-inch and 16-inch NGL and condensate pipeline system that will transport Montney and Duvernay production in northwestern Alberta to Keyera's fractionation assets and condensate system in Fort Saskatchewan. Along its route, KAPS will be connected to Keyera's Pipestone, Wapiti, and Simonette gas plants and several third-party gas plants.	<p>Engineering work on the main line and pump station commenced in the fourth quarter of 2019.</p> <p>KAPS is anticipated to be operational in the first half of 2022.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> <li>preliminary gross cost estimate of \$1.3 billion</li> <li>Keyera's net share is approximately \$650 million</li> </ul> <p><i>Total net costs to December 31, 2019:</i></p> <ul style="list-style-type: none"> <li>\$11 million for the year ended December 31, 2019</li> <li>\$11 million since inception</li> </ul>
<b>South Cheecham (50/50 joint venture with Enbridge)</b>	<b>Sulphur Facilities:</b> Development of sulphur handling, forming, and storage facilities at the South Cheecham rail and truck terminal.	<p>Detailed engineering activities continued through the fourth quarter of 2019.</p> <p>The sulphur facilities are anticipated to be operational in 2022.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> <li>preliminary gross cost estimate of \$115 million</li> <li>Keyera's net share is approximately \$58 million</li> </ul> <p><i>Total net costs to December 31, 2019:</i></p> <ul style="list-style-type: none"> <li>\$1 million for the year ended December 31, 2019</li> <li>\$1 million since inception</li> </ul>

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
<b>Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)</b>	<b>Wildhorse Terminal (“Wildhorse”):</b> 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.	<p>During the fourth quarter of 2019 construction of the terminal continued to advance. The terminal is expected to be operational in the second half of 2020.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> <li>gross cost is approximately US\$219 million</li> <li>Keyera’s net share of costs is approximately US\$197 million</li> </ul> <p><i>Total net costs to December 31, 2019:</i></p> <ul style="list-style-type: none"> <li>\$105 million (US\$80 million) for the year ended December 31, 2019</li> <li>\$181 million (US\$140 million) since inception</li> </ul>

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 Keyera’s Fort Saskatchewan facility, the authorization to put the wells into service is applied for after the cavern has been washed. Regarding the Wildhorse Terminal, operational regulatory permitting is applied for at construction completion or prior to startup. Regulatory approvals for KAPS and the South Cheecham Sulphur Facilities projects will be in place for the start of their construction activities. A portion of the costs incurred for completed and ongoing projects is 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.

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](http://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 fee-for-service, 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.

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 and 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](http://www.sedar.com).

For 2019, Keyera significantly outperformed this base range and generated realized margin of \$373 million. This was primarily due to exceptional iso-octane margins as described in more detail below.

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

<b>Operating and Realized Margin</b>		
(Thousands of Canadian dollars, except for sales volume information)	2019	2018
Revenue <sup>1</sup>	2,879,757	3,811,915
Operating expenses <sup>1</sup>	(2,554,769)	(3,445,685)
<b>Operating margin</b>	<b>324,988</b>	366,230
Unrealized loss (gain) on risk management contracts	47,912	(70,210)
<b>Realized margin</b>	<b>372,900</b>	296,020
Sales volumes (Bbl/d)	150,100	152,300

Note:

<sup>1</sup> 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.

<b>Composition of Marketing Revenue</b>		
(Thousands of Canadian dollars)	2019	2018
Physical sales	2,918,108	3,730,386
Realized cash gain on financial contracts <sup>1</sup>	9,561	11,319
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	(41,516)	27,599
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	(5,371)	41,516
Unrealized (loss) gain from change in fair value of fixed price physical contracts <sup>2</sup>	(1,025)	1,095
Total unrealized (loss) gain on risk management contracts	(47,912)	70,210
<b>Total (loss) gain on risk management contracts</b>	<b>(38,351)</b>	81,529
<b>Total Marketing revenue</b>	<b>2,879,757</b>	3,811,915

Notes:

<sup>1</sup> Realized cash gains and losses represent actual cash settlements or receipts under the respective contracts.

<sup>2</sup> 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, 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 \$44 million of rail car lease costs were included in the financial results for year ended December 31, 2018. Refer to note 2, Basis of Preparation and note 17, Lease Liabilities, of the accompanying financial statements for further information on the adoption of *IFRS 16, Leases*.

## **Annual Results**

For the year ended December 31, 2019, the Marketing segment posted outstanding financial results. Operating margin for 2019 was \$325 million, \$41 million lower than the prior year due to the inclusion of a \$48 million non-cash unrealized loss from risk management contracts, compared to a non-cash gain of \$70 million in 2018.

On a realized margin basis, the Marketing segment posted record results in 2019 despite two outages at AEF during the year. Realized margin was \$373 million, \$77 million higher than 2018 primarily due to the following:

- higher iso-octane margins that resulted from i) exceptionally strong product premiums in the second half of the year; and ii) lower average butane feedstock costs relative to the prior year; and
- \$44 million of rail car lease expenses that were included in the 2018 financial results that are now capitalized for accounting purposes; and
- higher contribution from the liquids blending business in 2019, as the Oklahoma Liquids Terminal that was acquired in mid-2018 continues to perform well.

The Marketing segment delivered outstanding financial results despite two outages at AEF in 2019. AEF was taken offline for unscheduled repair work in February 2019 which resulted in lower iso-octane sales volumes during that period. Because of the outage, butane was also sold at low market prices in the first quarter to manage inventory levels.

During the fourth quarter of 2019, AEF was taken offline for approximately five weeks to complete preventative maintenance work, as well as to complete some of the work that would have been undertaken during the turnaround originally scheduled for 2020. Accordingly, the next turnaround has now been pushed out one year and is scheduled to occur in 2021.

## **Revenue**

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the year ended December 31, 2019, revenue from physical sales was \$812 million lower compared to the prior year due to lower average sales prices for substantially all products.

## **Market Overview**

Contribution from the Marketing segment in 2019 was outstanding as Keyera was able to effectively utilize its infrastructure including storage, fractionation and transportation capabilities, as well as the AEF facility to generate record realized margin in the year. In 2019, Keyera significantly exceeded its base realized margin of between \$180 million and \$220 million, because of positive market conditions that contributed to record iso-octane margins during the year. These market factors included:

- strong product premiums that began in mid-April and continued into the fourth quarter due to a growing demand for high-octane blending components throughout the United States; and
- lower market costs for butane feedstock relative to 2018.

Market conditions for iso-octane have been positive and have remained robust into 2020 because of unusually high demand for high-octane blending components resulting from: i) the closing of the Philadelphia Energy Solutions (“PES”) refinery in late June, which was one of the largest suppliers of gasoline on the U.S. east coast; ii) strong export demand for gasoline, in particular from Latin American countries; and iii) the introduction of regulations effective January 2020 that require the reduction of sulphur content in U.S. motor gasoline and in marine fuels (“IMO 2020”). One common solution to reduce sulphur content is for refiners to increase the temperature of their processing units, which results in lower octane gasoline blendstocks. These new regulations effectively reduce the octane produced by traditional refineries, which supports strong demand for iso-octane.

Because butane is the primary feedstock to produce iso-octane, butane costs directly affect iso-octane margins. The majority of Keyera's butane supply is purchased on a one-year term basis. For the contract year that began on April 1, 2019, the market price for butane was significantly lower than the prior contract year. In recent months, butane prices have strengthened, and feedstock costs are expected to be significantly higher for the contract year beginning April 1, 2020 compared to the 2019/2020 contract year.

As oil sands projects have come on stream over the past few years, bitumen production has increased along with demand for condensate that is used as a diluent. This demand for condensate is being met primarily by increased condensate production from the Western Canada Sedimentary Basin and pipeline deliveries from the United States. Also, Keyera imports condensate into Alberta by rail when demand fundamentals support positive product margins. Contributions from the sale of condensate and Keyera's liquids blending business continued to be strong in 2019.

In 2019, Keyera entered into an agreement to provide butane to Kinder Morgan for liquids blending service at their Galena Park facility. The capital investment associated with this butane-on-demand blending system currently being constructed by Kinder Morgan is approximately US\$50 million. This project includes butane storage and pipeline connections and is expected to be operational by the first quarter of 2021, at which time Keyera will reimburse Kinder Morgan for the cost of the project.

Propane prices and margins were strong in the fourth quarter of 2019 due to high demand from a combination of cold weather and crop drying in the U.S. Midwest. Keyera utilized its Josephburg Terminal to export propane by rail to meet this demand. Local demand for propane was also strong as inventory levels were significantly lower compared to a year ago as more volumes were exported to the west coast. In the second quarter of 2019, Keyera began supplying propane on a ratable basis to a west coast export terminal that has helped to reduce some of the seasonality in propane volumes and margins.

### ***Risk Management***

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

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

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

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

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

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

For the year ended December 31, 2019, the total unrealized loss on risk management contracts was \$48 million. Further details are provided in the “Composition of Marketing Revenue” table above.

The fair value of outstanding risk management contracts as at December 31, 2019 resulted in an unrealized (non-cash) loss of \$5 million that primarily related to iso-octane 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 December 31, 2019, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 24, Financial Instruments and Risk Management, of the accompanying financial statements.

## CORPORATE AND OTHER

<b>Non-Operating Expenses and Other Income</b>		
<b>(Thousands of Canadian dollars)</b>		
	<b>2019</b>	<b>2018</b>
Other income (operating margin)	<b>9,029</b>	13,680
General and administrative (net of overhead recoveries on operated facilities)	<b>(83,492)</b>	(85,674)
Finance costs <sup>1</sup>	<b>(113,066)</b>	(77,421)
Depreciation, depletion and amortization expenses <sup>1</sup>	<b>(278,292)</b>	(199,633)
Net foreign currency gain (loss) on U.S. debt and other	<b>34,352</b>	(5,317)
Long-term incentive plan expense	<b>(26,134)</b>	(14,262)
Impairment expense <sup>1</sup>	<b>(77,095)</b>	(56,911)
Income tax expense <sup>1</sup>	<b>(16,797)</b>	(133,867)

Notes:

<sup>1</sup> 2018 amounts have been restated. Refer to the “Voluntary Change in Accounting Policy” section of this MD&A.

### Other Income

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

Other income for the year ended December 31, 2019 was \$9 million, \$5 million lower than the prior year. Production for the year ended December 31, 2019 averaged 3,129 barrels of oil equivalent per day compared to 3,670 barrels of oil equivalent per day 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 2019 were \$83 million, \$2 million lower than the prior year. The higher costs in 2018 were primarily due to \$6 million in interest charges and other costs related to the settlement of a construction dispute. In the fourth quarter of 2019, a one-time charge of \$4 million was incurred to terminate an option agreement on land that was acquired in 2016 near Fort Saskatchewan.

### Finance Costs (including accretion)

Finance costs for the year ended December 31, 2019 were \$113 million, \$36 million higher than the prior year primarily due to incremental interest expense related to:

- the \$600 million subordinated hybrid note that was issued in June 2019; and
- lease liabilities recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to note 17, Lease Liabilities, of the accompanying financial statements for further information.

### Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization (“DD&A”) expenses were \$278 million in 2019, \$79 million higher than the prior year due to: i) an increase in Keyera’s overall asset base including phase one of the Wapiti gas plant, the North Wapiti Pipeline System, South Grand Rapids Pipeline, Simonette Acid Gas Injection and Liquids Separation Facilities, Simonette Expansion, Pipestone Liquids Hub, 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 1, 2019. Refer to note 12, Right-of-Use Assets, of the accompanying financial statements for further information.

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

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

Net Foreign Currency Gain (Loss) on U.S. Debt and Other (Thousands of Canadian dollars)	2019	2018
Translation of long-term debt and interest payable	29,861	(50,297)
Change in fair value of cross-currency swaps – principal and interest portion	(8,800)	42,265
Gain on cross-currency swaps – interest portion <sup>1</sup>	3,116	2,715
Foreign exchange re-measurement of lease liabilities and other	10,175	—
<b>Net foreign currency gain (loss) on U.S. debt and other</b>	<b>34,352</b>	<b>(5,317)</b>

Note:

<sup>1</sup> 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 24, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of \$34 million was recorded for the year ended December 31, 2019. The gain was primarily comprised of: i) a \$30 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; and ii) a \$10 million non-cash gain from the re-measurement of U.S. dollar denominated lease liabilities and other. These factors were partly offset by a \$9 million non-cash loss resulting from the change in fair value of cross currency swaps agreements since the end of 2018.

Lease liabilities were recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to note 17, Lease Liabilities, of the accompanying financial statements for further information.

### Long-Term Incentive Plan Expense

The Long-Term Incentive Plan (“LTIP”) expense was \$26 million for the year ended December 31, 2019, \$12 million higher than the prior year. The higher LTIP expense in 2019 was primarily attributable to the growth in share price at the end of 2019 relative to the end of 2018, compared to a decrease in share price during the prior year.

## 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 fourth quarter of 2019, an impairment charge of \$77 million was recorded to reduce the carrying values of the Bigoray, Gilby, Willesden Green, and Minnehik Buck Lake gas plants, as well as the inactive West Pembina production wells, to their recoverable amounts. For the Bigoray gas plant, underutilization of the facility was the primary factor that resulted in a reduction in the carrying value of the asset. For the Gilby gas plant, the reduction was due to the suspension of operations at the facility, which also triggered a reduction in carrying value for the Willesden Green gas plant as this facility was repurposed. The reduction for the Minnehik Buck Lake gas plant was due to lower throughput in the capture area that surrounds this asset. The West Pembina wells are inactive and were written down to a nominal carrying value.

In 2018, an impairment charge of \$57 million was recorded to reduce the carrying value of the Minnehik Buck Lake and Zeta Creek gas plants to their recoverable amounts as a result of reduced drilling activity and corresponding throughput at these facilities.

Impairment expenses are non-cash charges and do not affect operating margin, funds from operations, distributable cash flow, 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 year ended December 31, 2019 was \$98 million, compared to an expense of \$32 million in 2018. The increase in current tax expense was primarily due to taxable income exceeding the amount of available tax pool deductions.

For 2020 a current income tax recovery between \$15 million to \$25 million is expected as approximately \$1 billion of announced capital projects, primarily from the Gathering and Processing segment, became available for use in 2019, allowing for a tax loss carryback and refund in 2020. The majority of the costs associated with these capital projects attract a 25% tax depreciation rate (Capital Cost allowance or "CCA") with some costs being eligible for accelerated first-year CCA deductions. Accelerated first-year CCA deductions were announced as part of the Accelerated Investment Incentive by the Federal Minister of Finance in November 2018, and became substantively enacted in April 2019. This incentive will remain in effect until 2023, at which point it will be gradually phased out.

The current tax expense estimates for 2020 assumes Keyera's business performs as planned and its capital projects are completed as expected. For 2020 and 2021, a further \$800 million of announced capital projects in the Gathering and Processing segment are expected to be available for use. 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 \$81 million was recorded for the year ended December 31, 2019 compared to a deferred income tax expense of \$102 million in 2018. The deferred income tax recovery in 2019 is primarily the result of a gradual decrease in the Alberta corporate income tax rate from 12% in the first half of 2019 to 8% in 2022. The new tax rates were enacted on June 28, 2019.

Keyera estimates its total tax pools at December 31, 2019 were approximately \$3.7 billion.

## SUMMARY FOURTH QUARTER RESULTS

Fourth Quarter Financial and Operational Highlights (Thousands of Canadian dollars, except per unit and volumetric information)	Three Months Ended	
	December 31, 2019	2018
Operating Margin		
Gathering and Processing	<b>80,878</b>	73,530
Liquids Infrastructure	<b>91,305</b>	83,768
Marketing	<b>87,375</b>	156,623
Other	<b>2,883</b>	2,902
Operating margin	<b>262,441</b>	316,823
Realized margin <sup>1</sup>	<b>295,459</b>	265,577
Net earnings <sup>2</sup>	<b>29,718</b>	165,946
Earnings per share <sup>2</sup> (basic)	<b>0.14</b>	0.79
Adjusted EBITDA <sup>3</sup>	<b>261,387</b>	248,278
Cash flow from operating activities	<b>213,676</b>	245,632
Funds from operations <sup>4</sup>	<b>200,871</b>	219,669
Distributable cash flow <sup>4</sup>	<b>158,261</b>	200,397
Distributable cash flow per share (basic) <sup>4</sup>	<b>0.73</b>	0.96
Dividends declared	<b>104,280</b>	94,437
Dividends declared per share	<b>0.48</b>	0.45
Capital expenditures (including acquisitions)	<b>283,504</b>	248,573
Volumetric Information		
Gathering and Processing:		
Gross processing throughput (MMcf/d)	<b>1,483</b>	1,551
Net processing throughput (MMcf/d)	<b>1,186</b>	1,215
Liquids Infrastructure <sup>5</sup> :		
Gross fractionation throughput (Mbbbl/d)	<b>157</b>	182
Net fractionation throughput (Mbbbl/d)	<b>70</b>	83
AEF iso-octane production volumes (Mbbbl/d)	<b>9</b>	10
Marketing:		
Sales volumes (Bbl/d)	<b>177,300</b>	165,700

## Notes:

- Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the Composition of Marketing Revenue and Operating/Realized Margin table below for a reconciliation of Operating Margin to Realized Margin as it relates to the Marketing segment. Included in Operating margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment is \$385 of unrealized losses from commodity-related risk management contracts (2018 – \$221 unrealized gains).
- Net earnings for the year ended December 31, 2018 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.
- Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, accretion, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and Adjusted EBITDA are not standard measures under GAAP. See the Adjusted EBITDA table below for a reconciliation of Adjusted EBITDA to its most closely related GAAP measure.
- Funds from operations and Distributable cash flow are not standard measures under GAAP. See the Funds from Operations and Distributable Cash Flow table below for a reconciliation of funds from operations and distributable cash flow to its most closely related GAAP measure.
- Fractionation throughput in the Liquids Infrastructure segment is the aggregation of volumes processed through the fractionators and the de-ethanizers at the Keyera and Dow Fort Saskatchewan facilities.

Composition of Marketing Revenue and Operating/Realized Margin (Thousands of Canadian dollars)	Three months ended December 31,	
	2019	2018
<b>Physical sales</b>	<b>812,721</b>	843,888
Realized cash gain on financial contracts <sup>1</sup>	<b>3,811</b>	66,577
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	<b>(26,843)</b>	9,007
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	<b>(5,371)</b>	41,516
Unrealized (loss) gain resulting from change in fair value of fixed price physical contracts <sup>2</sup>	<b>(419)</b>	502
Total unrealized (loss) gain on risk management contracts	<b>(32,633)</b>	51,025
<b>Total (loss) gain on risk management contracts</b>	<b>(28,822)</b>	117,602
Revenue <sup>3</sup>	<b>783,899</b>	961,490
Operating Expenses <sup>3</sup>	<b>(696,524)</b>	(804,867)
<b>Marketing operating margin</b>	<b>87,375</b>	156,623
Unrealized loss (gain) on risk management contracts	<b>32,633</b>	(51,025)
<b>Marketing realized margin</b>	<b>120,008</b>	105,598

## Notes:

<sup>1</sup> Realized cash gains and losses represent actual cash settlements or receipts under the respective contracts.

<sup>2</sup> Unrealized gains and losses represent the change in fair value of fixed price physical contracts that meet the GAAP definition of a derivative instrument.

<sup>3</sup> Includes inter-segment transactions.

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

Funds from Operations and Distributable Cash Flow (Thousands of Canadian dollars)	Three months ended December 31,	
	2019	2018
<b>Cash flow from operating activities</b>	<b>213,676</b>	245,632
Add (deduct):		
Changes in non-cash working capital	<b>(12,805)</b>	(25,963)
<b>Funds from operations</b>	<b>200,871</b>	219,669
Maintenance capital	<b>(29,732)</b>	(14,419)
Leases	<b>(12,878)</b>	—
Inventory write-down	<b>—</b>	(4,853)
<b>Distributable cash flow</b>	<b>158,261</b>	200,397
<b>Dividends declared to shareholders</b>	<b>104,280</b>	94,437

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

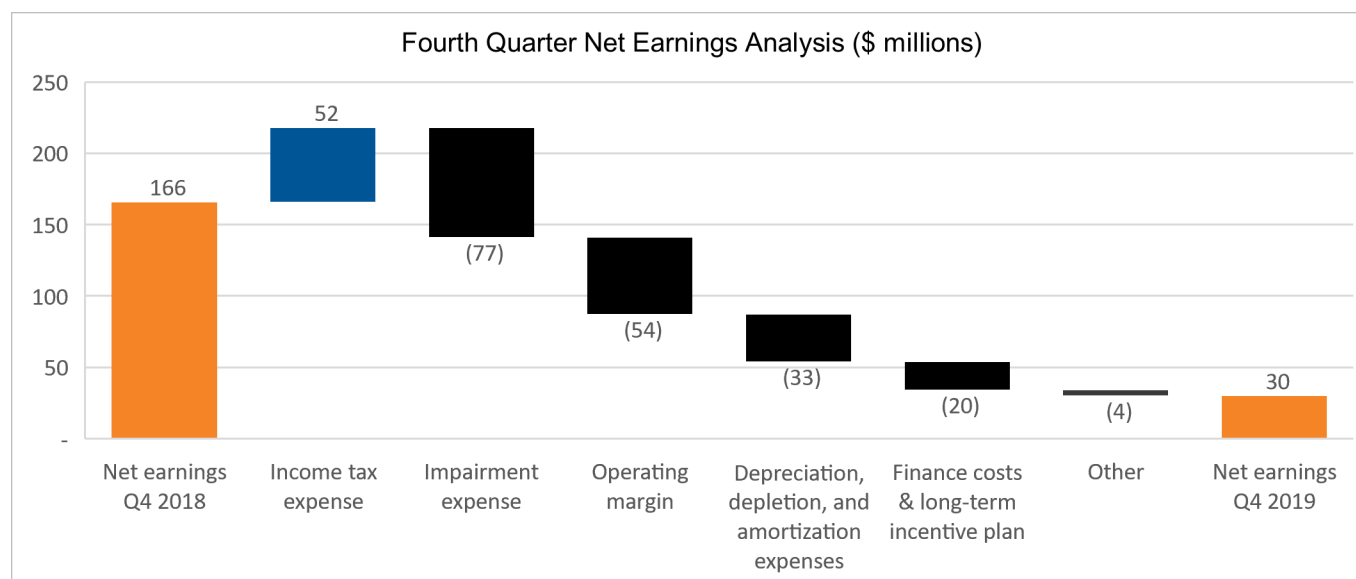
EBITDA (Thousands of Canadian dollars)	Three months ended December 31,	
	2019	2018
<b>Net Earnings<sup>1</sup></b>	<b>29,718</b>	165,946
Add (deduct):		
Finance costs <sup>1</sup>	<b>30,729</b>	20,478
Depreciation, depletion and amortization expenses <sup>1</sup>	<b>85,542</b>	52,720
Income tax expense <sup>1</sup>	<b>10,617</b>	62,374
<b>EBITDA</b>	<b>156,606</b>	301,518
Unrealized loss (gain) on commodity-related contracts	<b>33,018</b>	(51,246)
Net foreign currency gain on U.S. debt and other	<b>(5,332)</b>	(1,994)
Impairment expense <sup>1</sup>	<b>77,095</b>	—
<b>Adjusted EBITDA</b>	<b>261,387</b>	248,278

Notes:

<sup>1</sup> 2018 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

### Net Earnings

Net earnings in the fourth quarter of 2019 were \$30 million, \$136 million lower than the same period in 2018 due to the following:



### Operating Margin and Realized Margin

Total operating margin for the fourth quarter of 2019 was \$262 million, \$54 million lower than the same period in 2018 largely due to a non-cash loss of \$33 million from risk management contracts in 2019. This is compared to a non-cash gain of \$51 million recorded in the fourth quarter of 2018.

Realized margin (excluding the non-cash gains and losses from commodity-related risk management contracts) was \$295 million, \$30 million higher than the prior year. The fourth quarter operating results are discussed in more detail below.

### Gathering and Processing

Operating margin for the Gathering and Processing business segment was \$81 million in the fourth quarter of 2019, \$7 million higher than the same period in 2018. The higher operating margin was primarily due to incremental cash flow from phase one of the Wapiti gas plant which came into service in May 2019. This was

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partly offset by a one-time \$6 million upward revenue adjustment recorded in the fourth quarter of 2018, to reflect the value received from acquiring a 40% ownership interest in a raw gas gathering pipeline.

Gross processing throughput averaged 1,483 million cubic feet per day for the fourth quarter of 2019, 4% lower than the same period in 2018. The decrease in volumes was primarily due to lower producer activity levels and production declines across several facilities in west central Alberta. The volume declines across multiple facilities were partly offset by incremental gross processing throughput from phase one of the Wapiti gas plant.

#### *Liquids Infrastructure*

Operating margin from the Liquids Infrastructure segment was \$91 million in the fourth quarter of 2019, \$8 million higher than the same period in 2018. The higher financial results for the quarter were largely due to:

- incremental revenue from the growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental volumes from the Norlite pipeline; and
- higher fractionation revenue resulting from an increase in fees effective with the new NGL contract year that began on April 1, 2019.

Contribution from the Liquids Infrastructure segment was strong in the fourth quarter of 2019 despite the first fractionation unit at Keyera's Fort Saskatchewan complex being taken offline for approximately six weeks to complete repair work.

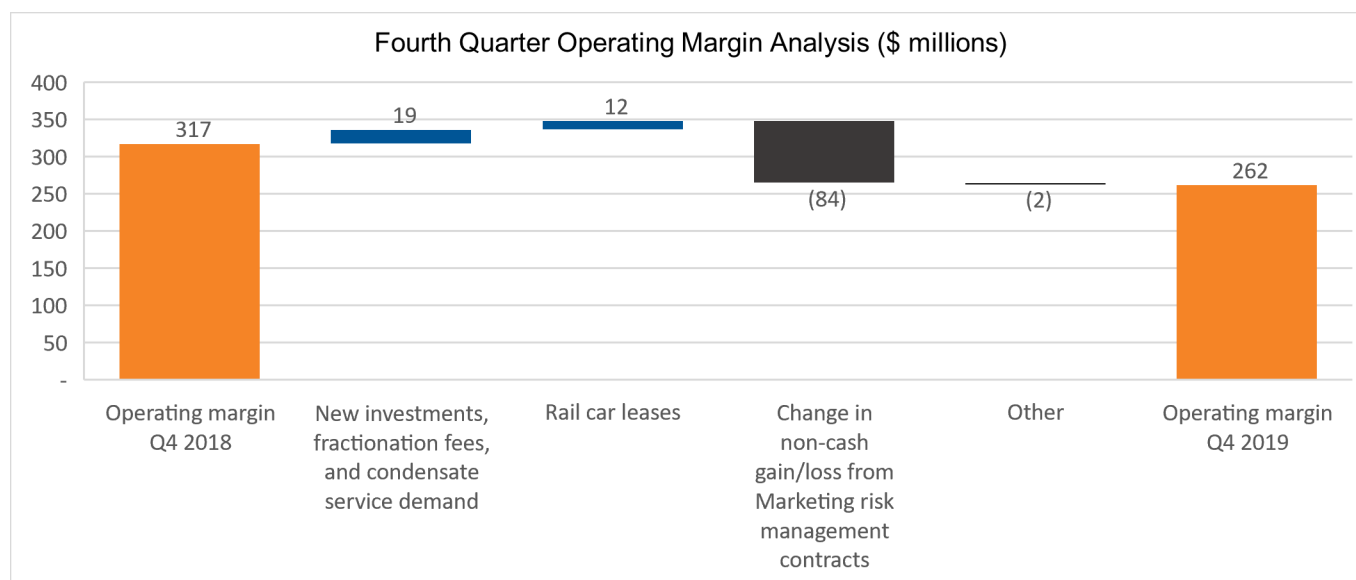
#### *Marketing*

Operating margin from the Marketing segment was \$87 million in the fourth quarter of 2019, \$69 million lower than the same period in 2018 due to the inclusion of a \$33 million non-cash unrealized loss from risk management contracts in 2019. This is compared to a non-cash gain of \$51 million in the fourth quarter of 2018.

Realized margin (excluding the effect of non-cash gains and losses from commodity-related risk management contracts) was \$120 million in the fourth quarter of 2019, or \$14 million higher than the same period in the prior year. The higher financial results in 2019 primarily resulted from the inclusion of \$12 million of rail car lease expenses in the 2018 fourth quarter results.

Contribution from the Marketing segment was strong in the fourth quarter despite lower iso-octane production and sales volumes stemming from the preventative maintenance outage at AEF, whereby the facility was taken offline for approximately five weeks. Iso-octane margins remained robust in the fourth quarter because of unusually high premiums and lower butane feedstock costs relative to the prior year. Iso-octane premiums remained strong during the winter season due to a continued shortage of high octane blending components throughout the United States.

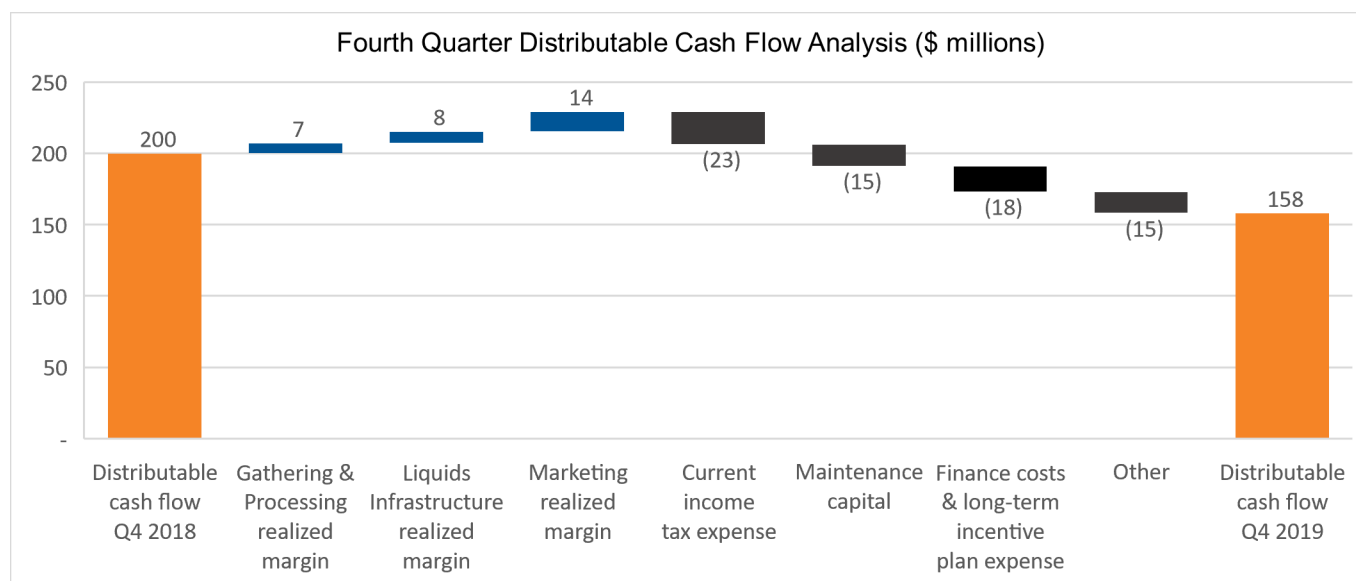
The section of this MD&A titled, "Segmented Results of Operations", provides more information related to the performance of each of the operating segments.



### Cash Flow Metrics

For the three months ended December 31, 2019, cash flow from operating activities was \$214 million, \$32 million lower than the same period in 2018. Funds from operations was \$201 million for the fourth quarter of 2019, \$19 million lower than the same period in the prior year. Distributable cash flow was \$158 million for the fourth quarter of 2019, \$42 million lower than the same period in the prior year.

For the three months ended December 31, 2019, dividends declared were \$104 million, or 66% of distributable cash flow, compared to dividends declared of \$94 million, or 47% of distributable cash flow for the same period in 2018.



### CRITICAL ACCOUNTING ESTIMATES

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

## Operating Revenues

### *Gathering and Processing and Liquids Infrastructure:*

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

At December 31, 2019, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately \$81 million primarily for December 2019 operations.

### *Marketing:*

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

At December 31, 2019, the Marketing sales and accounts receivable contained an estimate for December 2019 revenues of approximately \$183 million.

## Operating Expenses and Product Purchases

### *Gathering and Processing and Liquids Infrastructure:*

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

At December 31, 2019, operating expenses and accounts payable contained an estimate of approximately \$24 million primarily for December 2019 operations.

### *Marketing:*

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

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of approximately \$141 million at December 31, 2019.

## Equalization Adjustments

Much of the revenue from the Gathering and Processing assets includes a recovery of operating costs. Under this method, the operating component of the fee is a pro rata share of the operating costs for the facility, calculated based upon total throughput. Users of each facility are charged a fee per unit based upon estimated costs and throughput, with an adjustment to actual throughput completed after the end of the year. Each quarter, throughput volumes and operating costs are reviewed to determine whether the estimated unit fee charged during the quarter properly reflects the actual volumes and costs, and the allocation of revenues and operating costs to other plant owners is also reviewed. Appropriate adjustments to revenue and operating expenses are recognized in the quarter and allocations to other owners are recorded.

For the Gathering and Processing segment, an equalization adjustment of \$4 million was included in revenue and accounts receivable at December 31, 2019. Operating expenses and accounts payable contained an equalization adjustment of \$10 million.

**Depreciation of property, plant and equipment**

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

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

**Allowance for Expected Credit Losses**

The allowance for expected credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counterparty. The allowance for expected credit losses was \$2 million as at December 31, 2019, virtually unchanged from the prior year end.

**Derivative Financial Instruments**

Keyera utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices or foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spreads. Refer to note 24, Financial Instruments and Risk Management, of the accompanying financial statements for a summary of the fair value of derivative financial instruments existing at December 31, 2019.

**Fair value estimates of property, plant and equipment**

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

**Impairment of property, plant and equipment and goodwill**

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

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

Refer to note 11, Property, Plant and Equipment and note 13, Goodwill, of the accompanying financial statements for further details of the impairment expense recorded for the year ended December 31, 2019.

**Long-term incentive plan liability**

The LTIP is accounted for using the liability method and is measured at fair value. Determining the fair value requires management to estimate Keyera's financial performance over a three-year period to determine the appropriate payout multiplier associated with the Performance Awards. The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the three-year period and 30% on the relative total shareholder return over the same period. The payout multiplier determines the number of shares expected to be settled following the third anniversary of the grant date of the Performance Awards. Refer to note 23, Share-based Compensation and Pension Plans, of the accompanying financial statements for further details.

**Decommissioning liability**

Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its gathering and processing, fractionation, iso-octane and storage facilities, pipelines and terminals at the end of their economic life. The majority of decommissioning obligations are generally expected to be incurred over the next 25 to 55 years. While the provision is based on the best estimate of future costs and the economic lives of these assets, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

The process, overseen by Keyera's Health, Safety and Environment Committee, is undertaken by professionals involved in activities that deal with the design, construction, operation and decommissioning of assets. Specialists with knowledge and assessment processes specific to environmental and decommissioning activities and costs are also utilized in the process. Ultimately, all medium and large facilities will be independently assessed in accordance with regulatory requirements.

Effective December 31, 2019, Keyera voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Voluntary Change in Accounting Policy" section of this document for a description of the changes and the effect on Keyera's consolidated financial statements.

Keyera has estimated the net present value of its total decommissioning liability to be approximately \$250 million at December 31, 2019, compared to \$262 million at December 31, 2018. The fair value of the decommissioning liability is calculated by using a credit-adjusted risk-free discount rate of 4.3% (December 31, 2018 – 5.1%).

Refer to note 16, Decommissioning Liability, of the accompanying financial statements for a reconciliation of the beginning and ending carrying amount of the decommissioning liability. Additional information related to decommissioning, abandonment and reclamation is also provided in Keyera's Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Deferred tax assets and liabilities**

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. Refer to note 19, Income Taxes, of the accompanying financial statements for a reconciliation of income taxes to the income tax provision recognized for the year ended December 31, 2019.

## LIQUIDITY AND CAPITAL RESOURCES

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

<b>Cash inflows (outflows)</b> (Thousands of Canadian dollars)				
	<b>2019</b>	<b>2018</b>	<b>Increase (decrease)</b>	<b>Explanation</b>
<b>Operating</b>	<b>887,935</b>	604,329	283,606	Cash generated from operating activities was higher in 2019 because of: i) a reduced cash requirement to fund inventory due to lower average prices and lower volumes of butane and propane at the end of 2019 compared to the end of 2018; and ii) \$146 million in higher realized margin from all operating segments.
<b>Investing</b>	<b>(1,125,327)</b>	(1,258,968)	133,641	Capital investment in 2019 primarily related to construction activities associated with the Wapiti and Pipestone gas plants and Wildhorse terminal projects as described in the "Segmented Results of Operations" section of this MD&A.  Capital spending in 2018 included \$309 million in acquisitions (net of disposals) associated with: the South Grand Rapids Pipeline, Oklahoma Liquids Terminal; the Keyera Butane System that was previously leased; and the Pipestone project purchased from Encana.
<b>Financing</b>	<b>259,009</b>	314,912	(55,903)	Cash flow from financing activities in 2019 was lower due to higher cash generated from operations to fund Keyera's capital program. In 2019, Keyera issued \$600 million of subordinated hybrid notes to fund its capital program.

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

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

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

A working capital deficit (current assets less current liabilities) of \$161 million existed at December 31, 2019. This is compared to a surplus of \$1 million at December 31, 2018. Keyera has access to a credit facility in

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the amount of \$1.5 billion of which \$90 million was drawn as at December 31, 2019 (December 31, 2018 – \$80 million). Refer to the section below of this MD&A titled, “Long-term Debt”, for more information related to Keyera’s unsecured revolving 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](http://www.keyera.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

The DRIP and Premium DRIP generated cash of \$227 million for the year ended December 31, 2019. In 2018, the plan generated cash of \$196 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. The subordinated hybrid notes issued in June 2019 have been assigned credit ratings of “BB+” by S&P and “BB (high)” by DBRS and are currently treated as 50% equity by these two credit rating agencies.

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

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

**Long-term Debt (including Credit Facilities)**

Below is a summary of Keyera's long-term debt obligations as at December 31, 2019:

<b>As at December 31, 2019</b> (Thousands of Canadian dollars)	<b>Total</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>After 2024</b>
<b>Credit facilities</b>							
Bank credit facility	90,000	—	—	—	—	90,000	—
<b>Total credit facilities</b>	<b>90,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>90,000</b>	<b>—</b>
<b>Canadian dollar denominated debt</b>							
<b>Senior unsecured notes:</b>							
5.68% due September 8, 2020	2,000	2,000	—	—	—	—	—
6.14% due December 3, 2022	60,000	—	—	60,000	—	—	—
3.50% due June 16, 2023	30,000	—	—	—	30,000	—	—
4.91% due June 19, 2024	17,000	—	—	—	—	17,000	—
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
4.15% due June 16, 2026	30,000	—	—	—	—	—	30,000
3.96% due October 13, 2026	200,000	—	—	—	—	—	200,000
3.68% due September 20, 2027	400,000	—	—	—	—	—	400,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
4.11% due October 13, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	1,134,000	2,000	—	60,000	30,000	17,000	1,025,000
<b>Senior unsecured medium-term notes:</b>							
3.93% due June 21, 2028	400,000	—	—	—	—	—	400,000
<b>Subordinated hybrid notes</b>							
6.88% due June 13, 2079	600,000	—	—	—	—	—	600,000
	2,134,000	2,000	—	60,000	30,000	17,000	2,025,000
<b>U.S. dollar denominated debt</b>							
<b>Senior unsecured notes:</b>							
5.14% due September 8, 2020 (US\$103,000)	133,540	133,540	—	—	—	—	—
4.19% due June 19, 2024 (US\$128,000)	165,952	—	—	—	—	165,952	—
4.75% due November 20, 2025 (US\$140,000)	181,510	—	—	—	—	—	181,510
4.95% due November 20, 2028 (US\$65,000)	84,273	—	—	—	—	—	84,273
	565,275	133,540	—	—	—	165,952	265,783
Less: current portion of long-term debt	(135,540)	(135,540)	—	—	—	—	—
<b>Total long-term debt</b>	<b>2,563,735</b>	<b>—</b>	<b>—</b>	<b>60,000</b>	<b>30,000</b>	<b>182,952</b>	<b>2,290,783</b>

**Credit Facilities**

Keyera's Credit Facility is with a syndicate of eight lenders under which it can borrow up to \$1.5 billion, with the potential to increase that limit to \$1.85 billion subject to certain conditions. As at December 31, 2019, \$90 million was drawn under this facility (December 31, 2018 – \$80 million).

In December 2019, the Credit Facility was amended to extend the term from December 6, 2023 to December 6, 2024. 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, medium-term notes and subordinated hybrid notes. In June 2019, Keyera issued \$600 million of fixed-to-floating rate subordinated hybrid notes due June 13, 2029 in the Canadian public debt market which receive 50% equity treatment by Keyera's rating agencies. The subordinated notes were issued under Keyera's short form base shelf prospectus and a prospectus supplement dated June 11, 2019. The interest rate of 6.875% is payable in equal semi-annual payments for the period December 13, 2019 to June 13, 2029. A portion of the proceeds from the note offering were used to repay indebtedness under Keyera's credit facility and \$56 million of long-term senior unsecured notes. The remaining proceeds were used to fund Keyera's ongoing capital program and for general corporate purposes.

As at December 31, 2019, Keyera had \$2,134 million and US\$436 million of long-term debt. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at December 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" provides more information.

The Credit Facility, senior note agreements, and note indenture for the medium-term notes contain a number of covenants, all of which were met as at December 31, 2019. The agreements are available at [www.sedar.com](http://www.sedar.com). Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for Keyera's senior unsecured notes and its Credit Facility, is the Net Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to deduct working capital surpluses or add working capital deficits.

As at December 31, 2019, Keyera's Net Debt to EBITDA ratio was 2.20X for covenant test purposes (December 31, 2018 – 2.60X). The covenant test used for debt purposes excludes 100% of the \$600 million subordinated hybrid note in the calculation. As a long-term target, Keyera's objective is to maintain a Net Debt to EBITDA ratio of between 2.5X to 3.0X, including 50% of any subordinated hybrid notes and preferred shares as debt. This range results in a leverage profile that supports Keyera's investment grade credit ratings. Using this approach, the Net Debt to EBITDA ratio at December 31, 2019 was 2.7X.

## Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the years ended December 31, 2019 and 2018:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	2019	2018
Acquisitions	<b>599</b>	333,204
Growth capital expenditures	<b>986,125</b>	935,435
Maintenance capital expenditures	<b>105,077</b>	51,882
<b>Total capital expenditures</b>	<b>1,091,801</b>	1,320,521

Growth capital expenditures for the year ended December 31, 2019 totaled \$986 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.

There were no significant acquisitions in 2019. Acquisitions in 2018 totaled \$333 million and included the following significant items:

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

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 \$60 million for the year ended December 31, 2019, compared to \$52 million in 2018.

At December 31, 2018, Keyera had a \$2.1 billion capital program underway, mainly focused on establishing a strong position in the condensate-rich Montney and Duvernay development areas. The addition of the sulphur handling project at the South Cheecham rail and truck terminal in the second quarter of 2019, also expected to be operational in 2022, increased the cost of the capital program to \$2.2 billion. This portion of the 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 \$1.7 billion has been expended on this program since inception.

With the announcement of KAPS, Keyera's capital program increases to approximately \$2.9 billion. KAPS is anticipated to commence operations in 2022 and 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.

Keyera's remaining \$1.2 billion capital program is expected to be funded without the issuance of common equity, apart from the DRIP and Premium DRIP program. Readers are referred to the section of the MD&A titled, "Forward-Looking Statements" for a further discussion of the assumptions and risks that could affect future performance and plans.

## Dividends

### *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 infrastructure companies within 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. 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)	2019	2018
<b>Cash flow from operating activities</b>	<b>887,935</b>	604,329
Add (deduct):		
Changes in non-cash working capital	<b>(133,681)</b>	91,969
<b>Funds from operations</b>	<b>754,254</b>	696,298
Maintenance capital	<b>(105,077)</b>	(51,882)
Leases	<b>(52,647)</b>	(1,439)
Inventory write down	<b>(2,946)</b>	(4,853)
<b>Distributable cash flow</b>	<b>593,584</b>	638,124
<b>Dividends declared to shareholders</b>	<b>396,862</b>	359,269
<b>Payout ratio</b>	<b>67%</b>	56%

Distributable cash flow for the year ended December 31, 2019 was \$594 million, \$45 million lower than 2018 because of \$53 million in higher maintenance capital largely associated with the turnaround at the Rimbey gas plant and maintenance work at AEF, and \$66 million in higher cash taxes. The effect of higher maintenance capital and cash tax expenditures in 2019, more than offset the stronger financial results generated by all operating segments in 2019. The strong financial results in 2019 largely stemmed from: i) incremental revenue from recent investments including the Wapiti gas plant and associated projects, and a full year of revenue from the Base Line Terminal; ii) continued growth in demand for Keyera's condensate services and higher fractionation fees; and iii) strong realized margin from the sale of iso-octane in the Marketing segment.

### *Dividend Policy*

Keyera increased its dividend by 7% from \$0.15 per share per month to \$0.16 per share per month, or \$1.92 per share annually, beginning with its dividend paid on September 16, 2019. 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](http://www.sedar.com).

**EBITDA**

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

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

<b>EBITDA</b> (Thousands of Canadian dollars)	<b>2019</b>	<b>2018</b>
<b>Net earnings<sup>1</sup></b>	<b>443,609</b>	402,828
Add (deduct):		
Finance costs <sup>1</sup>	<b>113,066</b>	77,421
Depreciation, depletion and amortization expenses <sup>1</sup>	<b>278,292</b>	199,633
Income tax expense <sup>1</sup>	<b>16,797</b>	133,867
<b>EBITDA</b>	<b>851,764</b>	813,749
Unrealized loss (gain) on commodity-related contracts	<b>49,594</b>	(68,900)
Net foreign currency (gain) loss on U.S. debt and other	<b>(34,352)</b>	5,317
Impairment expense <sup>1</sup>	<b>77,095</b>	56,911
Loss on settlement of finance lease	—	286
<b>Adjusted EBITDA</b>	<b>944,101</b>	807,363

Notes:

<sup>1</sup> 2018 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

**CONTRACTUAL OBLIGATIONS**

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2019, the obligations that represent known future cash payments that are required under existing contractual arrangements were as follows:

**Payments Due by Period**

<b>Contractual obligations</b> (Thousands of Canadian dollars)	<b>Total</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>After 2024</b>
Derivative financial instruments	31,213	31,213	—	—	—	—	—
Dividends payable	34,867	34,867	—	—	—	—	—
Credit facility	90,000	—	—	—	—	90,000	—
Long-term debt <sup>1</sup>	2,699,275	135,540	—	60,000	30,000	182,952	2,290,783
Lease liabilities <sup>2</sup>	307,726	47,801	42,989	34,529	24,727	22,352	135,328
Other liabilities <sup>3</sup>	34,557	17,645	9,997	5,083	1,832	—	—
Decommissioning liabilities <sup>4</sup>	249,753	16,533	—	—	—	—	233,220
Service obligations <sup>5</sup>	48,592	14,467	12,167	10,594	4,452	3,078	3,834
Purchase obligations <sup>6,7</sup>	425,878	425,878	—	—	—	—	—
<b>Total contractual obligations</b>	<b>3,921,861</b>	<b>723,944</b>	<b>65,153</b>	<b>110,206</b>	<b>61,011</b>	<b>298,382</b>	<b>2,663,165</b>

Notes:

<sup>1</sup> Long-term debt obligations are principal only and exclude interest payments. For the U.S. denominated senior unsecured notes, the principal obligations are converted at the December 31, 2019 spot foreign exchange rate of 1.2965.

<sup>2</sup> Lease liabilities include the expected undiscounted cash payments related to leases.

<sup>3</sup> Other liabilities include the current portion of the LTIP and certain trade and other payable balances.

<sup>4</sup> The majority of these obligations are expected to be settled between 2020 and 2073. No assets have been legally restricted for settlement of the liability.

<sup>5</sup> Keyera has service obligations related to terminal storage and natural gas transportation.

<sup>6</sup> Purchase obligations include third party contractual commitments related to assets under construction.

<sup>7</sup> Keyera through its operating entities has assumed commitments in various contractual purchase agreements in the normal course of its operations. The agreements involve the purchase of NGL production from producers in the areas specified in the agreements. The purchase prices are based on current market prices. The future volumes and prices for these contracts cannot be reasonably determined and therefore no amount has been included in purchase obligations to reflect these contractual agreements.

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## RELATED PARTY TRANSACTIONS

Keyera has provided compensation to key management personnel who are comprised of its directors and executive officers. There have been no other material related party transactions or significant changes to the annual compensation amounts disclosed in note 30, Related Party Transactions, of the accompanying December 31, 2019 financial statements.

## RISK FACTORS

The majority of Keyera's cash flow is derived from the Gathering and Processing and Liquids Infrastructure fee-for-service business segments. The contribution generated from Gathering and Processing facilities can be exposed to changes in operating costs, depending on the fee structures of the facilities which may or may not provide a mechanism for the recovery of operating costs.

The most significant exposure faced by the Gathering and Processing and Liquids Infrastructure segments over the long term is related to declines in throughput volumes. Without reserve additions, third party production will decline over time, as reserves are depleted. Declining production volumes may translate into lower throughput and revenues at Keyera's plants and facilities; however, the effect of any reduction in throughput would likely be gradual. Many of Keyera's facilities are located in significant liquids-rich natural gas supply areas of the Western Canada Sedimentary Basin or major liquids hubs, and capital costs present barriers to entry for new competitors.

The most significant exposure faced by the Marketing business is the fluctuation in the prices of the commodities that Keyera buys and sells. Refer to the section below titled, "Marketing Risk", for more information related to these risks.

For a further discussion of the risks identified in this MD&A, other risks and trends that could affect Keyera's performance and the steps that Keyera takes to mitigate these risks, readers are referred to the descriptions in this MD&A and Keyera's Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Regulatory Risk*

Keyera is subject to a range of laws and regulations imposed by various levels of government and regulatory bodies in the jurisdictions in which it operates. In particular, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on Keyera's business.

While these laws and regulations affect all dimensions of Keyera's activities, Keyera does not believe that they affect its operations in a manner materially different from other comparable businesses operating in the same jurisdictions. A more complete discussion of regulatory risks can be found in the Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) and in the section of this MD&A titled, "Environmental Regulation and Climate Change".

### *Credit Risk*

Keyera assumes credit risk with respect to its fee-for-service business, the purchase and sale of commodities in its Marketing business, the hedging of commodity prices and the other financial contracts into which it enters. In particular, Keyera is exposed to credit-related losses in the event that counterparties to contracts become insolvent or otherwise fail to fulfill their present or future financial obligations to Keyera. The majority of Keyera's accounts receivable are due from entities in the oil and gas business and are subject to normal industry credit risks. Concentration of credit risk is mitigated to some degree by having a broad based domestic and international customer base. With respect to counterparties for financial instruments used for economic hedging purposes, Keyera limits its credit risk by dealing with recognized futures exchanges, or investment grade financial institutions, or by adherence to credit policies that significantly reduce overall counterparty credit risk.

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

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

As at December 31, 2019, the allowance for expected credit losses was \$2 million (December 31, 2018 – \$2 million) to provide for specific accounts receivable amounts that may be uncollectible. Despite Keyera's efforts in the monitoring and collection of accounts receivable, actual losses from defaults may be greater than that provided for.

For a discussion of the risks that could affect Keyera's liquidity and working capital and the steps Keyera takes to mitigate these risks, readers are referred to note 24, Financial Instruments and Risk Management, of the accompanying financial statements and to Keyera's Annual Information Form, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *Credit Ratings*

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

#### *Marketing Risk*

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

The prices of the products that are marketed by Keyera are subject to fluctuations as a result of such factors as seasonal demand changes, changes in crude oil, gasoline and natural gas markets and other factors. In many circumstances, particularly in NGL marketing, purchase and sale contracts are not perfectly matched as they are entered into at different times, locations and values. Further, Keyera normally has a long position in propane that it markets and in butane that it uses as a feedstock for the production of iso-octane, and it may store these products in order to meet seasonal demand and take advantage of seasonal pricing differentials, resulting in inventory price risk. In Keyera's NGL, iso-octane and liquids blending marketing businesses, margins can vary significantly from period to period and volatility in the markets for these products may cause distortions in financial results from period to period that are not replicable.

To some extent, Keyera can lessen certain elements of risk exposure through the integration of its marketing business with its facilities businesses. In spite of this integration, Keyera remains exposed to market and commodity price risk. Keyera manages this commodity risk in a number of ways, including the use of financial and physical hedging contracts and by offsetting some physical and financial contracts in terms of volumes, timing of performance and delivery obligations. There is no guarantee that hedging and other efforts to manage the marketing and inventory risks will generate profits or mitigate all the market and inventory risk associated with these activities. If Keyera hedges its commodity price exposure, it may forego the benefits that may otherwise be experienced if commodity prices were to change and it is subject to credit risks associated with the counterparties with whom it contracts. Refer to the section of this MD&A titled, "Marketing: Risk Management", for more information of Keyera's risk management strategies.

#### *Operational Risk*

Keyera's cash flows may be adversely affected by the occurrence of common hazards and environmental risks related to the natural gas gathering, processing and pipeline transportation business, such as the failure of equipment, systems or processes, operator error, labour disputes, disputes with owners of interconnected facilities, catastrophic events or acts of terrorism. To mitigate these operational and environmental risks, Keyera provides training to its employees, maintains written standard operating practices, formally assesses and documents employee competency, and maintains formal inspection,

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maintenance, safety and environmental programs. In addition, Keyera carries property, casualty and business interruption insurance, although there can be no assurance that the proceeds of such insurance will compensate Keyera fully for any losses, nor can it be assured that such insurance will be available in the future. For a further discussion of operational risks and the steps that Keyera takes to mitigate these risks, readers are referred to Keyera's Annual Information Form which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *Foreign Currency Risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency. Keyera's functional currency is the Canadian dollar. The Marketing segment has foreign currency risk associated with its sales and purchases denominated in U.S. dollars; however, the Gathering and Processing and Liquids Infrastructure segments have very little foreign currency risk as sales and purchases are primarily denominated in Canadian dollars. Foreign currency risk is actively managed by using forward currency contracts and cross currency swaps. Management monitors the exposure to foreign currency risk and regularly reviews its risk management strategies and all outstanding positions.

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

#### *Cyber Security*

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

### **ENVIRONMENTAL REGULATION AND CLIMATE CHANGE**

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

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

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

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

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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](http://www.sedar.com).

**SELECTED FINANCIAL INFORMATION**

The following table presents selected annual financial information for Keyera:

(Thousands of Canadian dollars, except per share information)	2019	2018	2017
<b>Revenue before intersegment eliminations<sup>1</sup></b>			
- Gathering and Processing	<b>513,452</b>	458,441	466,473
- Liquids Infrastructure	<b>544,318</b>	478,037	418,822
- Marketing	<b>2,879,757</b>	3,811,915	2,803,950
- Other	<b>21,167</b>	25,436	26,667
<b>Operating margin</b>			
- Gathering and Processing	<b>293,716</b>	271,833	275,284
- Liquids Infrastructure	<b>376,400</b>	324,456	285,271
- Marketing	<b>324,988</b>	366,230	128,370
- Other	<b>9,029</b>	13,680	14,616
<b>Realized margin</b>			
- Gathering and Processing	<b>294,380</b>	272,514	273,913
- Liquids Infrastructure	<b>377,256</b>	325,590	282,506
- Marketing	<b>372,900</b>	296,020	128,192
- Other	<b>9,191</b>	13,175	13,604
<b>Net earnings<sup>2</sup></b>	<b>443,609</b>	402,828	289,920
<b>Earnings per share<sup>2</sup> (\$/share):</b>			
- Basic	<b>2.07</b>	1.94	1.53
- Diluted	<b>2.07</b>	1.94	1.53
<b>Dividends to shareholders</b>	<b>396,862</b>	359,269	312,643
<b>Dividends per share (basic)</b>	<b>1.85</b>	1.73	1.65
<b>Shares outstanding (thousands)</b>			
- Weighted average (basic)	<b>214,186</b>	207,397	189,002
- Weighted average (diluted)	<b>214,186</b>	207,397	189,002
<b>Total assets<sup>2</sup></b>	<b>7,514,188</b>	6,627,812	5,874,128
<b>Total long-term liabilities<sup>2</sup></b>	<b>3,643,376</b>	3,089,147	2,793,360

## Notes:

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

<sup>2</sup> Net earnings for the year ended December 31, 2018 and total assets and total liabilities as at December 31, 2018 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A. Comparative amounts for 2017 have been prepared in accordance with Keyera's previous accounting policies.

With the recent completion of several capital projects in the Gathering and Processing segment, operating margin for the segment set a new record in 2019. These results were primarily attributable to incremental cash flow from new infrastructure including phase one of the Wapiti gas plant, North Wapiti pipeline system, Pipestone Liquids Hub, and liquids handling infrastructure at the Simonette facility, that was built to service the needs of customers active in the liquids-rich Montney and Duvernay geological zones. Keyera continues to focus on completing its remaining growth capital projects that are currently underway which will expand Keyera's infrastructure footprint in this prolific area. See the section of this MD&A, "Segmented Results of Operations: Gathering and Processing", for more information related to these capital projects.

The Liquids Infrastructure operating segment also set a new record for financial results in 2019 that largely stemmed from: i) a full year of revenue associated with the Base Line Terminal; ii) continued demand for Keyera's diluent handling services; and iii) higher fractionation fees effective April 1, 2019.

Contribution from the Marketing segment was strong in 2019 as it was able to effectively utilize Keyera's infrastructure assets including storage, rail and pipeline transportation capabilities to generate record realized margins. Overall, iso-octane margins set a record in 2019 combined with strong liquids blending margins as described throughout this MD&A.

## SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018
<b>Revenue<sup>1</sup></b>								
Gathering and Processing	143,736	133,057	120,012	116,647	125,511	117,588	107,998	107,354
Liquids Infrastructure	142,885	137,657	130,955	132,821	128,980	123,701	115,880	109,476
Marketing	783,899	644,141	785,736	665,981	961,490	991,777	927,554	931,094
Other	5,772	3,338	5,570	6,487	5,696	6,578	5,921	7,241
<b>Operating margin (loss)</b>								
Gathering and Processing	80,878	74,803	69,713	68,322	73,530	63,855	63,901	70,547
Liquids Infrastructure	91,305	98,085	92,560	94,450	83,768	82,314	76,571	81,803
Marketing	87,375	138,262	117,479	(18,128)	156,623	69,618	74,137	65,852
Other	2,883	252	2,513	3,381	2,902	3,681	2,886	4,211
<b>Operating margin</b>	<b>262,441</b>	<b>311,402</b>	<b>282,265</b>	<b>148,025</b>	<b>316,823</b>	<b>219,468</b>	<b>217,495</b>	<b>222,413</b>
<b>Realized margin<sup>2</sup></b>								
Gathering and Processing	80,910	74,851	69,707	68,912	73,599	64,105	63,997	70,813
Liquids Infrastructure	91,628	98,535	92,655	94,438	83,999	83,407	76,997	81,187
Marketing	120,008	115,734	114,687	22,471	105,598	42,704	90,409	57,309
Other	2,913	388	2,531	3,359	2,381	3,171	3,460	4,163
<b>Realized margin<sup>2</sup></b>	<b>295,459</b>	<b>289,508</b>	<b>279,580</b>	<b>189,180</b>	<b>265,577</b>	<b>193,387</b>	<b>234,863</b>	<b>213,472</b>
<b>Net earnings<sup>3</sup></b>	<b>29,718</b>	<b>154,428</b>	<b>224,511</b>	<b>34,952</b>	<b>165,946</b>	<b>40,389</b>	<b>107,774</b>	<b>88,719</b>
<b>Net earnings per share<sup>3</sup> (\$/share)</b>								
Basic	0.14	0.72	1.05	0.17	0.79	0.19	0.52	0.43
Diluted	0.14	0.72	1.05	0.17	0.79	0.19	0.52	0.43
Weighted average common shares (basic)	216,938	215,016	213,239	211,480	209,585	208,037	206,646	205,267
Weighted average common shares (diluted)	216,938	215,016	213,239	211,480	209,585	208,037	206,646	205,267
<b>Dividends declared to shareholders</b>	<b>104,280</b>	<b>101,198</b>	<b>96,085</b>	<b>95,299</b>	<b>94,437</b>	<b>91,645</b>	<b>86,882</b>	<b>86,305</b>

### Notes:

<sup>1</sup> 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.

<sup>2</sup> 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 \$385 of unrealized losses from commodity-related risk management contracts for the three months ended December 31, 2019 (three months ended December 31, 2018 – \$221 unrealized gains).

<sup>3</sup> Comparative 2019 and 2018 periods have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this document.

In the Gathering and Processing segment, incremental cash flow from several recently completed capital projects including phase one of the Wapiti gas plant, North Wapiti pipeline system, Pipestone Liquids Hub, and liquids handling infrastructure at the Simonette facility, has contributed to a growth in operating margin for the

segment. Fourth quarter 2018 financial results included a one-time \$6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a gathering pipeline, in exchange for a reduction in take-or-pay fees effective July 1, 2018.

In the Liquids Infrastructure segment, incremental cash flow from recent investments, including the 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. Unrealized non-cash gains and losses resulting from the change in fair value of risk management contracts and the timing of settling these contracts can also have a material effect on quarterly operating margin for this segment. Keyera continues to maintain its disciplined approach to risk management for its NGL and iso-octane products.

See the section of this MD&A, “Segmented Results of Operations”, for more information on the financial results of Keyera’s operating segments for the year ended December 31, 2019.

#### **VOLUNTARY CHANGE IN ACCOUNTING POLICY**

Under Keyera’s previous accounting policy for decommissioning liabilities, the present value of the liability was calculated at each statement of financial position date using a risk-free interest rate based on the Government of Canada’s benchmark long-term bond yield. Effective December 31, 2019, Keyera voluntarily changed this accounting policy to utilize a credit-adjusted risk-free interest rate instead. Keyera believes that using a credit-adjusted risk-free rate results in reliable and more relevant information for the readers of the company’s consolidated financial statements as this methodology is a more accurate representation of the value at which such liabilities could be transferred to a third party, is a better indicator of the risk associated with such liabilities, and increases the comparability of Keyera’s financial statements to peer entities.

This change in accounting policy was applied retrospectively and the effect of this change is described below. In addition, comparative amounts in this MD&A and the accompanying consolidated financial statements have been restated.

#### Reconciliation of the Consolidated Statements of Financial Position

As at (Thousands of Canadian dollars)	December 31, 2019	December 31, 2018			January 1, 2018		
	Adjustments	Previous accounting policy	Adjustments	Restated	Previous accounting policy	Adjustments	Restated
<b>ASSETS</b>							
Property, plant, and equipment	(199,673)	5,749,350	(157,023)	5,592,327	4,792,398	(113,259)	4,679,139
Goodwill	2,137	53,624	2,137	55,761	53,624	2,137	55,761
<b>LIABILITIES AND EQUITY</b>							
Decommissioning liability	(289,050)	502,535	(252,026)	250,509	456,455	(196,469)	259,986
Deferred tax liabilities	24,357	598,486	25,651	624,137	482,233	22,462	504,695
Accumulated deficit	67,157	(136,258)	71,489	(64,769)	(168,556)	62,885	(105,671)

Reconciliation of the Consolidated Statements of Net Earnings and Comprehensive Income

For the periods ended (Thousands of Canadian dollars)	December 31, 2019	December 31, 2018		
		Adjustments	Previous accounting policy	Adjustments
Finance costs	979	75,689	1,732	77,421
Depreciation, depletion, and amortization expenses	3,907	206,719	(7,086)	199,633
Impairment expense	740	63,350	(6,439)	56,911
Income tax expense	(1,294)	130,678	3,189	133,867
Net earnings	(4,332)	394,224	8,604	402,828
<b>Earnings per share</b>				
Basic earnings per share	(0.02)	1.90	0.04	1.94
Diluted earnings per share	(0.02)	1.90	0.04	1.94

Reconciliation of the Consolidated Statements of Cash Flow

For the periods ended (Thousands of Canadian dollars)	December 31, 2019	December 31, 2018		
		Adjustments	Previous accounting policy	Adjustments
Net earnings	(4,332)	394,224	8,604	402,828
Items not affecting cash	4,332	311,827	(8,604)	303,223

**ADOPTION OF NEW AND AMENDED 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 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 year ended December 31, 2019.

### **CONTROL ENVIRONMENT**

#### **Disclosure Controls and Procedures**

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

### **COMMON SHARES**

There were 7,437,050 common shares issued under the DRIP and the Premium DRIP for consideration of \$227 million, bringing the total common shares outstanding at December 31, 2019 to 217,915,793.

Subsequent to December 31, 2019, 1,217,482 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of \$41 million, bringing the total common shares outstanding at February 26, 2020 to 219,133,275.

## 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 in-service capital (defined as realized margin divided by weighted average growth capital including maintenance capital and excluding decommissioning assets, depreciation, impairment, and work-in-progress capital); 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. Annual return on capital and annual 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 per share 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, and operations, certain statements contained herein (and in the documents incorporated by reference) contain forward-looking statements under applicable securities laws. These statements relate to future events or Keyera's future performance. Such statements are predictions only and actual events or results may differ materially. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "plan", "intend", "believe", and similar words or expressions, including the negatives or variations thereof. All statements other than statements of historical fact contained in this document are forward-looking statements, including, without limitation, statements regarding:

- industry, market and economic conditions and any anticipated effects on Keyera;
- Keyera's future financial position and operational performance and future financial contributions and margins from its business segments;
- future dividends and taxes;
- business strategy, anticipated growth and plans of management;
- budgets, including future capital, operating or other expenditures and projected costs;
- expected costs, in-service dates and schedules for capital projects (including projects under construction/development) and sources of funding for such projects;
- anticipated timing for future revenue streams;
- the operation and effectiveness of risk management programs; and
- expectations regarding Keyera's ability to maintain its competitive position, raise capital and add to its assets through acquisitions or internal growth opportunities.

The forward-looking statements reflect Keyera's beliefs and assumptions with respect to such things as the outlook for general economic trends, industry trends, commodity prices, capital markets, the integrity and reliability of Keyera's assets, and the governmental, regulatory and legal environment. Management believes that its assumptions and analysis in this 2019 Management's Discussion and Analysis are reasonable and that the expectations reflected in the forward-looking statements contained herein are also reasonable based on the information available on the date such statements are made and the process used to prepare the information. However, it 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:

- Keyera's ability to implement its strategic priorities and business plan and achieve the expected benefits;
- general industry, market and economic conditions;
- activities of customers, producers and other facility owners;
- operational hazards and performance;
- the effectiveness of Keyera's risk management programs;
- competition;
- changes in commodity composition and prices, inventory levels, supply/demand trends and other market conditions and factors;
- processing and marketing margins;
- climate change risks, including the effects of unusual weather and natural catastrophes;
- climate change effects and regulatory and market compliance and other costs associated with climate change;
- variables associated with capital projects, including costs and timing;
- fluctuations in interest, tax and foreign currency exchange rates;
- counterparty performance and credit risk;
- changes in operating and capital costs;
- cost and availability of financing;
- ability to expand, update and adapt infrastructure on a timely and effective basis;

- decommissioning, abandonment and reclamation costs;
- reliance on key personnel and third parties;
- relationships with external stakeholders, including Indigenous stakeholders;
- technology, security and cybersecurity risks;
- potential litigation and disputes;
- uninsured and underinsured losses;
- ability to service debt and pay dividends;
- changes in credit ratings;
- reputational risks;
- changes in environmental and other laws and regulations;
- actions by governmental authorities;

and other factors, many of which are beyond the control of Keyera, some of which are discussed under “Risk Factors” herein and in Keyera’s Annual Information Form. Further, because there is interconnectivity between many of the risks Keyera faces, it is possible that different constellations of risk could materialize which could result in unanticipated outcomes or consequences.

Proposed construction and completion schedules and budgets for capital projects described herein 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; 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 described are subject to securing sufficient producer/customer interest and may not proceed if sufficient commitments are not obtained. 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.

Readers are cautioned that the foregoing list of important factors is not exhaustive and they should not unduly rely on the forward-looking statements included in this 2019 Management’s Discussion and Analysis. Further, readers are cautioned that the forward-looking statements contained herein are made as of the date of this document. Unless required by law, Keyera does not intend and does not assume any obligation to update its forward-looking statements. All forward-looking statements contained in this document are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements and management’s assumptions and analysis thereof, is available in filings made by Keyera with Canadian provincial securities commissions available on SEDAR at [www.sedar.com](http://www.sedar.com).