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# Management's Discussion and Analysis

*The following management's discussion and analysis ("MD&A") was prepared as of August 6, 2019, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera for the three and six months ended June 30, 2019 and the notes thereto as well as the audited consolidated financial statements of Keyera for the year ended December 31, 2018, and the related MD&A. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as GAAP, and are stated in Canadian dollars. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at [www.sedar.com](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 midstream business with extensive interconnected assets and depth of expertise in delivering midstream energy solutions. Midstream entities operate in the oil and gas industry between the upstream sector, which includes oil and gas exploration and production, and the downstream sector, which includes the refining and marketing of finished products. Keyera is organized into two integrated business units:

1. Gathering and Processing Business Unit – Keyera owns and operates raw gas gathering pipelines and processing plants, which collect and process raw natural gas, remove waste products and separate the economic components, primarily natural gas liquids ("NGLs"), before the sales gas is delivered into long-distance pipeline systems for transportation to end-use markets. Keyera also provides condensate handling services through its condensate gathering pipelines and stabilization facilities.
2. Liquids Business Unit, consisting of the following operating segments:

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

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

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## Overview

Keyera recorded outstanding second quarter 2019 financial results as the Liquids Infrastructure and Gathering and Processing segments delivered strong results, while the Marketing segment generated record quarterly results.

Looking ahead to the second half of the year, the Wapiti gas plant that began operating in May will continue to contribute incremental cash flow. The North Wapiti Pipeline System and the expansion of the Simonette gas plant are on schedule and are expected to be operational in the second half of 2019, adding to Keyera's cash flow. Keyera's business is also currently benefitting from: i) higher average fractionation fees in the Liquids Infrastructure segment; and ii) lower term butane feedstock prices that directly affect iso-octane margins in the Marketing segment. These new fee structures were effective with the new NGL contract year that began on April 1<sup>st</sup>.

During the fourth quarter of 2019, Keyera is planning to take the AEF facility offline for approximately six weeks 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. Keyera will utilize its storage capabilities to maintain higher volumes of low-cost butane to be consumed into 2020. Because of the scope for the outage in 2019, the turnaround at AEF is now expected to occur in the fall of 2021 instead of 2020. Refer to the section of this MD&A, "Liquids Infrastructure: Liquids Infrastructure Activity", for information related to the estimated cost of this maintenance outage.

Keyera expects the following for 2019:

- realized margin from the Marketing segment continues to range between \$280 million and \$320 million despite the planned outage at AEF in the fourth quarter of 2019;
- cash taxes to range between \$90 million and \$105 million (\$54 million expensed in the first half of 2019), while the cash tax estimate for 2020 is estimated to be less than \$10 million;
- maintenance capital expenditures to range between \$105 million and \$115 million, which includes the additional work that is expected to be completed at AEF in the fourth quarter of 2019 (\$48 million has been incurred to June 30, 2019); and
- growth capital expenditures to range between \$800 million and \$900 million (\$525 million invested to June 30, 2019);

Keyera currently has \$2.9 billion of growth capital projects underway, including phase one of the Wapiti gas plant and associated water disposal system that were completed in May 2019, and \$650 million for Keyera's 50% share of KAPS. Of this capital, \$1.3 billion has been expended on this program since inception. With Keyera's strong balance sheet, it is well positioned to fund this capital program without issuing common equity apart from the DRIP and Premium DRIP program.

Effective with the dividend payable on September 16, 2019, Keyera will be increasing its monthly dividend by 7% to \$0.16 per share, or \$1.92 per share annually. Since Keyera became a corporation on January 1, 2011, it has invested over \$5 billion and delivered a compound annual growth rate of approximately 9% for distributable cash flow per share to the end of 2018. Keyera remains confident in its long-term growth and business strategy and is committed to providing its shareholders with stable, long-term dividend growth.

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 three and six months ended June 30, 2019 and 2018:

(Thousands of Canadian dollars, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net earnings	<b>219,447</b>	106,773	<b>253,246</b>	194,488
Net earnings per share (basic)	<b>1.03</b>	0.52	<b>1.19</b>	0.94
Operating margin	<b>282,265</b>	217,495	<b>430,290</b>	439,908
Realized margin <sup>1,2</sup>	<b>279,580</b>	234,863	<b>468,760</b>	448,335
Adjusted EBITDA <sup>3</sup>	<b>249,371</b>	209,906	<b>413,781</b>	399,269
Cash flow from operating activities	<b>191,221</b>	100,926	<b>415,030</b>	289,315
Funds from operations <sup>4</sup>	<b>197,414</b>	179,734	<b>325,980</b>	341,211
Distributable cash flow <sup>4</sup>	<b>143,568</b>	155,781	<b>251,516</b>	310,683
Distributable cash flow per share <sup>4</sup> (basic)	<b>0.67</b>	0.75	<b>1.18</b>	1.51
Dividends declared	<b>96,085</b>	86,882	<b>191,384</b>	173,187
Dividends declared per share	<b>0.45</b>	0.42	<b>0.90</b>	0.84
Payout ratio <sup>5</sup>	<b>67%</b>	56%	<b>76%</b>	56%

## Notes:

<sup>1</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 \$107 and \$663 of unrealized losses from commodity-related risk management contracts for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – \$1,096 and \$698 unrealized losses).

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

<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 respective three and six month periods ended June 30, 2019 were as follows:

- decrease in operating expenses of \$13 million and \$27 million;
- increase in finance costs of \$3 million and \$5 million;
- increase in depreciation, depletion and amortization expenses of \$15 million and \$27 million; and
- a foreign currency gain on U.S. debt and other of \$4 million and \$6 million.

These factors affected certain financial and non-GAAP measures for the respective three and six month periods ended June 30, 2019 as follows:

- increase in net income of \$nil and \$1 million;
- increase in operating margin, realized margin, and cash flow from operating activities of \$13 million and \$27 million;

- decrease in cash flow from financing activities of \$13 million and \$27 million; and
- an increase in funds from operations and adjusted EBITDA of \$13 million and \$27 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 the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information on the adoption of *IFRS 16, Leases*.

### Net Earnings

For the three months ended June 30, 2019, net earnings were \$219 million, \$113 million higher than the same period in 2018. The increase in net earnings was primarily attributable to:

- \$65 million in higher operating margin, lifted by record results in the Marketing segment;
- an income tax recovery of \$48 million in the second quarter of 2019 compared to income tax expense of \$16 million during the same period in 2018, as Alberta Corporate tax rates were lowered in June 2019; and
- a \$15 million net foreign currency gain in the second quarter of 2019 compared to \$nil during the same period in the prior year as the Canadian dollar strengthened relative to the U.S. dollar.

These factors were partly offset by the following:

- \$11 million in higher finance costs in 2019 mainly due to incremental interest expense from the \$600 million subordinated hybrid note issuance in June 2019 as well as the \$400 million public note offering in June 2018; and
- \$15 million in higher depreciation charges in 2019 due to: i) an increase in Keyera's asset base, including phase one of the Wapiti gas plant, 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.

On a year-to-date basis, net earnings were \$253 million, \$59 million higher than the same period in 2018. The higher net earnings in the first six months of 2019 compared to the same period in 2018 was primarily due to: i) an income tax recovery of \$37 million compared to an income tax expense of \$55 million; and ii) a \$19 million net foreign currency gain compared to a net foreign currency loss of \$8 million. Partly offsetting these factors were higher non-cash charges related to depreciation expense and finance costs which increased by \$32 million and \$13 million compared to the prior year, respectively.

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

### 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; accordingly, the financial results of the Marketing segment are not directly comparable between periods. Approximately \$10 million and \$20 million of rail car lease costs were included in operating expenses of the Marketing segment for the three and six months ended June 30, 2018.

For the three months ended June 30, 2019, operating margin was \$282 million, \$65 million higher than the same period in 2018 due to: i) \$45 million in higher realized margin from all operating segments as described in more detail below; and ii) the inclusion of an unrealized non-cash gain of \$3 million associated with risk management contracts from the Marketing segment in 2019, compared to a non-cash loss of \$16 million in 2018.

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For the three months ended June 30, 2019, realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) was \$280 million, \$45 million higher than the second quarter of 2018 largely due to the following factors:

- incremental operating margin from recent investments including: phase one of the Wapiti gas plant that came into service in May 2019, the Pipestone Liquids Hub that began operations in September 2018, and the Base Line Terminal that was brought into service in phases starting in January 2018, with all 12 tanks operational by October;
- 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 in the second quarter of 2019 that stemmed from: i) lower average butane feedstock costs and strong product premiums in the quarter; and ii) the receipt of insurance proceeds for approximately \$10 million, related to the recovery of a portion of the lost margin associated with the unplanned outage at AEF in 2017.

The strong second quarter 2019 results were achieved despite a three-week outage at the Rimbey gas plant for its scheduled maintenance turnaround.

For the first six months of 2019, operating margin was \$430 million, \$10 million lower than the same period in 2018 due to \$30 million in a higher non-cash unrealized loss on risk management contracts from the Marketing segment. This was partly offset by \$20 million in higher realized margin as described in more detail below.

For the first six months of 2019, realized margin was \$469 million, \$20 million higher than the same period in 2018 because of the same factors discussed for the second quarter results. This was partly offset by lower realized margin from the Marketing segment in the first quarter of 2019 that resulted from:

- lower iso-octane margins as the AEF facility was taken offline for unscheduled repair work in February 2019. Because of the outage, sales volumes were reduced in the month of March which is the beginning of the spring/summer demand season for iso-octane; and
- lower margins from the sale of butane in 2019 as product was sold at low market prices to manage inventory levels resulting from the outage at AEF. Significant realized gains from risk management contracts were recorded in the fourth quarter of 2018 which offset the significant decline in butane prices in early 2019.

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

### **Cash Flow Metrics**

With the adoption of *IFRS 16, Leases* effective January 1, 2019, operating lease payments are excluded from the calculation of cash flow from operating activities and funds from operations as these payments are no longer included in operating expenses. Accordingly, these two cash flow measures are not comparable between periods, as approximately \$11 million and \$10 million in lease expenses were deducted in the first and second quarters of 2018. However, distributable cash flow is comparable between periods as lease expenditures are deducted in both periods to calculate this measure.

Cash flow from operating activities for the three and six months ended June 30, 2019 was \$191 million and \$415 million, \$90 million and \$126 million higher than the same periods last year because of the strong operating results in 2019 and because of a reduced cash requirement to fund inventory due to lower average NGL prices and lower volumes in inventory at June 30, 2019 compared to the end of June 2018.

Distributable cash flow for the three and six months ended June 30, 2019 was \$144 million and \$252 million, \$12 million and \$59 million lower than the same periods in 2018. The strong financial results from all operating segments was more than offset by: i) higher maintenance capital expenditures in 2019 that primarily related to the scheduled turnaround at the Rimbey gas plant in the second quarter; and ii) \$37 million in higher current tax expense in the first half of 2019.

Refer to the sections of this MD&A titled, “Dividends: Funds from Operations and Distributable Cash Flow”, for a reconciliation of cash flow from operating activities to funds from operations and distributable cash flow and “Segmented Results of Operations: Marketing”, for a reconciliation of operating margin to realized margin related to the Marketing segment.

## SEGMENTED RESULTS OF OPERATIONS

Keyera is organized into two integrated businesses: the Gathering and Processing Business Unit and the Liquids Business Unit. The Liquids Business Unit consists of the Liquids Infrastructure and Marketing segments. A complete description of Keyera’s businesses by segment can be found in Keyera’s Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com).

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera’s Gathering and Processing and Liquids Infrastructure segments charge Keyera’s Marketing segment for the use of facilities at market rates. These segment measures of profitability for the three and six months ended June 30, 2019 and 2018 are reported in note 17, Segment Information, of the accompanying financial statements.

### Gathering and Processing

Keyera currently has interests in 19 active gas plants and one gas plant that is under construction, all of which are located in Alberta. Keyera operates 17 of the 19 active gas plants and has the option to become the operator of the gas plant currently under construction, five years after the commencement of its operations. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin (“WCSB”). Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Most of Keyera’s facilities are also equipped with condensate handling capabilities. Keyera’s facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

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

Operating Margin and Throughput Information (Thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue <sup>1</sup>	120,012	107,988	236,659	215,342
Operating expenses <sup>1</sup>	(50,305)	(43,991)	(98,040)	(80,532)
Unrealized gain (loss) on electricity and other financial contracts	6	(96)	(584)	(362)
Total operating expenses	(50,299)	(44,087)	(98,624)	(80,894)
<b>Operating margin</b>	<b>69,713</b>	<b>63,901</b>	<b>138,035</b>	<b>134,448</b>
Gross processing throughput – (MMcf/d)	1,471	1,532	1,543	1,559
Net processing throughput <sup>2</sup> – (MMcf/d)	1,146	1,175	1,222	1,206

Notes:

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

<sup>2</sup> Net processing throughput refers to Keyera’s share of raw gas processed at its processing facilities.

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### ***Operating Margin and Revenues***

The Gathering and Processing segment recorded operating margin of \$70 million in the second quarter of 2019, \$6 million higher than the same period in 2018 due to the following:

- higher operating margin from the Simonette gas plant primarily due to higher liquids volumes processed through the liquids handling infrastructure that became operational in May 2018; and
- incremental operating margin from phase one of the Wapiti gas plant which came into service in May 2019, and the Pipestone Liquids Hub that began operations in September 2018.

The factors above were partly offset by:

- lower processing throughput at the Rimbey gas plant due to: i) a three-week scheduled outage at the facility to complete its maintenance turnaround, and ii) production declines from reduced producer activity levels; and
- 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.

Operating margin for the six months ended June 30, 2019 was \$138 million, \$4 million higher than the same period in 2018. The higher operating margin in the first half of 2019 was largely due to the same factors discussed for the second quarter results.

Gathering and Processing revenue for the three and six months ended June 30, 2019 was \$120 million and \$237 million, \$12 million and \$21 million higher than the same periods in 2018. The increased revenues were primarily related to the same factors that contributed to higher operating margin. On a year-to-date basis, revenues were further increased by higher ethane sales revenues during the first quarter of 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***

Gross processing throughput for the Gathering and Processing segment averaged 1,471 million cubic feet per day in the second quarter of 2019, a decrease of 4% from the same period in 2018 and 9% from the record throughput levels achieved in the first quarter of 2019. The lower processing throughput compared to the first quarter of 2019 was primarily due to: i) lower volumes at the Rimbey gas plant as the facility completed its scheduled three-week maintenance turnaround; and ii) weak natural gas prices which contributed to lower producer activity and shut-in production in certain areas of west central Alberta. The effect of the lower volumes on operating margin was more than offset by incremental revenues associated with the new Wapiti gas plant and an increase in liquids processing volumes at the Pipestone Liquids Hub.

In May 2019, phase one of the Wapiti gas plant and its related water disposal system began operating and generating incremental margin. The primary customer for phase one of the gas plant is Paramount Resources Ltd. Additional processing volumes will be delivered from Pipestone Energy Corp. by way of the North Wapiti Pipeline System once the system becomes operational in the second half of 2019.

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

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In addition to these projects, the Simonette gas plant expansion is anticipated to be completed in the third quarter of this year. Once the Simonette gas plant expansion and the Wapiti (phases one and two) and Pipestone gas plants are completed, Keyera will have approximately 950 million cubic feet per day of sour gas processing capacity and 90,000 barrels per day of condensate handling facilities in the liquids-rich Montney and Duvernay region of Alberta. Refer to the tables below, "Gathering and Processing – Capital Projects Status Update", for more information related to the projects, including estimated cost to complete and expected completion time.

As drilling activity around the Nevis gas plant has continued to decline in recent years, gross processing throughput at the gas plant has correspondingly remained low. As a result, effective September 30, 2019, Keyera will suspend operations at the gas plant.

During the second quarter of 2019, maintenance turnarounds were completed on time and on budget at the Rimbey and Pembina North gas plants. Maintenance turnarounds at the Cynthia and Ricinus gas plants are scheduled to be completed in the third quarter of 2019. The estimated total cost of all the maintenance turnarounds in 2019 is approximately \$50 million. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangements at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

The table below provides more detail related to major projects in the Gathering and Processing segment:

<b>Gathering and Processing – Capital Projects Status Update</b>		
<b>Facility/Area</b>	<b>Project Description</b>	<b>Project Status Update</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><b><i>Completed Assets:</i></b> 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>Estimated total cost to complete:</i></b></p> <ul style="list-style-type: none"> <li>• approximately \$80 million, \$20 million lower than the original estimate</li> </ul> <p><b><i>Total net costs to June 30, 2019:</i></b></p> <ul style="list-style-type: none"> <li>• \$13 million and \$34 million for the three and six months ended June 30, 2019</li> <li>• \$73 million since inception</li> </ul>
<b>Simonette</b>	<p><b><i>Simonette Expansion Project:</i></b> The expansion project will create an additional 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day.</p>	<p>The project is expected to be complete during the third quarter of 2019.</p> <p><b><i>Estimated total cost to complete:</i></b></p> <ul style="list-style-type: none"> <li>• approximately \$75 million, \$10 million lower than the original estimate</li> </ul> <p><b><i>Total net costs to June 30, 2019:</i></b></p> <ul style="list-style-type: none"> <li>• \$22 million and \$38 million for the three and six months ended June 30, 2019</li> <li>• \$62 million since inception</li> </ul>

<b>Gathering and Processing – Capital Projects Status Update</b>		
<b>Facility/Area</b>	<b>Project Description</b>	<b>Project Status Update</b>
<b>Wapiti</b>	<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> Construction on the pipeline system continued in the second quarter of 2019. The system is expected to be in service in the second half of 2019.</p> <p><b>Gold Creek Compressor and Gathering System Expansion:</b> Detailed engineering work continued while ordering of long lead equipment was completed in the second 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 continued in the second 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 June 30, 2019:</i></p> <ul style="list-style-type: none"> <li>• \$71 million and \$216 million for the three and six months ended June 30, 2019</li> <li>• \$800 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	<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>Field construction commenced in the second quarter of 2019 while detailed engineering and procurement activities continued.</p> <p>The Pipestone gas plant is expected to be operational in 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 June 30, 2019:</i></p> <ul style="list-style-type: none"> <li>• \$80 million and \$119 million for the three and six months ended June 30, 2019</li> <li>• \$159 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. Outstanding regulatory approvals for the projects discussed above include the Pipestone gas plant and related acid gas injection well. A delay in receipt of these approvals would cause a delay in on stream dates. A portion of the costs incurred for completed and ongoing projects are based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, "Forward-Looking Statements", provides more information on factors that could affect the development of these projects.

## Liquids Infrastructure

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

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

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

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

Keyera's Liquids Infrastructure assets are closely integrated with its Marketing segment, providing the ability to source, transport, process, store and deliver products across North America. A portion of the revenues earned by this segment relate to services provided to Keyera's Marketing segment. All of the revenues in this segment that are associated with the AEF facility and the Oklahoma Liquids Terminal relate to services provided to the Marketing segment.

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue <sup>1</sup>	130,955	115,880	263,776	225,356
Operating expenses <sup>1</sup>	(38,300)	(38,883)	(76,683)	(67,172)
Unrealized (loss) gain on electricity financial contracts	(95)	(426)	(83)	190
Total operating expenses	(38,395)	(39,309)	(76,766)	(66,982)
<b>Operating margin</b>	<b>92,560</b>	<b>76,571</b>	<b>187,010</b>	<b>158,374</b>

Note:

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

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### ***Operating Margin and Revenue***

For the second quarter of 2019, the Liquids Infrastructure segment recorded strong financial results once again. For the three and six months ended June 30, 2019, operating margin was \$93 million and \$187 million, an increase of \$16 million or 21% and \$29 million or 18% compared to the same periods in 2018. This increase was primarily due to the following:

- incremental operating margin from the Base Line Terminal that was brought into service in phases starting in January 2018, with all 12 tanks operational in October;
- higher fractionation revenue resulting from an increase in fees effective with the new NGL contract year that began on April 1, 2019; and
- 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.

In the second quarter of 2019, condensate storage volumes were reduced to complete maintenance integrity work that resulted in a decrease in storage revenue of approximately \$2 million. Storage revenues are expected to return to normal levels in the third quarter of 2019.

Liquids Infrastructure revenues for the three and six months ended June 30, 2019 were \$15 million and \$38 million higher than the same periods in 2018, primarily due to the same factors that contributed to higher operating margin as described above.

### ***Liquids Infrastructure Activity***

Keyera operates an industry-leading condensate hub in Western Canada, with multiple receipt points including the Kinder Morgan Cochin pipeline and Enbridge's Southern Lights pipeline, CRW pool, and a pipeline connection to Pembina Pipeline's Canadian Diluent Hub. In early 2019, Keyera completed construction of a condensate connection to Inter Pipeline's Cold Lake pipeline system, which added another delivery point to Keyera's condensate system. Keyera has long-term take-or-pay arrangements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and Canadian Natural Resources Limited. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area. The volume of condensate delivered through Keyera's condensate system to the oil sands grew by 13% in the second quarter of 2019 compared to the same period last year.

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

In May, Keyera announced that it will be proceeding with the development of an NGL and condensate gathering system, called "KAPS", under a 50/50 joint venture agreement with SemCAMS Midstream ULC. KAPS will transport growing Montney and Duvernay production in northwestern Alberta to Fort Saskatchewan. KAPS will be an open access system with initial connections into Keyera's fractionation assets and condensate system in Fort Saskatchewan.

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

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The project is anchored by multiple long-term agreements, averaging 14 years in length with 75% take-or-pay commitments, as well as specific facility and area dedications. The customer base for KAPS is broad and includes investment grade counterparties. The firm volume commitments over the length of the agreements make up over 70% of the initial aggregate capacity of the pipeline system, including volume commitments from the Marketing segment.

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

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

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

The AEF facility is operated by the Liquids Infrastructure segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. Iso-octane production averaged approximately 86% of nameplate capacity in the first quarter of 2019 and slightly above 100% in the second quarter of 2019. In February, AEF was taken offline for approximately 17 days to address an equipment failure.

Beginning in mid-October, Keyera is planning to take the AEF facility offline for approximately six weeks 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. Because of the scope of this planned outage in 2019, the turnaround at AEF is now expected to occur in the fall of 2021 instead of 2020. The incremental costs in 2019 associated with this planned outage are currently expected to range between \$15 million and \$20 million depending on the scope of work to be completed. Of these costs, approximately \$5 million are expected to be expensed in the fourth quarter as operating expenses with the remainder of the costs being treated as maintenance capital. Refer to the section of this MD&A, "Marketing: Market Overview", for more information related to the effect of the outage on realized margin from the Marketing segment in 2019.

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>	<p><b>Underground Storage Development:</b> Development of four additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.</p> <p>Once complete, Keyera will have 18 underground storage caverns in its portfolio.</p>	<p><b>Construction-In-Progress Assets:</b> Washing of the 16<sup>th</sup> and 17<sup>th</sup> caverns continued in the second quarter of 2019. These caverns are expected to be in service in the first half of 2020 and 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 commenced in July. This cavern is anticipated to be operational in the second half of 2022.</p> <p><b>Completed Assets:</b> 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 \$145 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment</li> <li>Keyera's net share is approximately \$110 million</li> </ul> <p><b>Total net costs to June 30, 2019:</b></p> <ul style="list-style-type: none"> <li>\$6 million and \$8 million for the three and six months ended June 30, 2019</li> <li>\$89 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>Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)</b>	<p><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> <p>An affiliate of Lama Energy Group will own 10% of the project.</p>	<p>During the second quarter of 2019 construction of the terminal continued to advance. The terminal is expected to be operational by mid-2020.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> <li>gross cost is approximately US\$205 million</li> <li>Keyera’s net share of costs is approximately US\$185 million</li> </ul> <p><i>Total net costs to June 30, 2019:</i></p> <ul style="list-style-type: none"> <li>\$24 million (US\$18 million) and \$56 million (US\$42 million) for the three and six months ended June 30, 2019</li> <li>\$132 million (US\$100 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 KFS, 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. 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.

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## Marketing

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

Keyera negotiates sales contracts with customers in Canada and the U.S. based on the volumes it has contracted to purchase. In the case of condensate sales, the majority of the product is sold to customers in Alberta shortly after it is purchased. Butane is used as the primary feedstock in the production of iso-octane at Keyera's AEF facility and therefore a significant portion of the contracted butane supply is retained for Keyera's own use, and the balance is generally sold into the Alberta market shortly after it is purchased.

Propane markets are seasonal and geographically diverse. Keyera sells propane in various North American markets, often where the only option for delivery is via railcar or truck. Keyera is well positioned to serve these markets due to its extensive infrastructure and rail logistics expertise. Further, because demand for propane is typically higher in the winter, Keyera can utilize its NGL storage facilities to build an inventory of propane during the summer months when prices are typically lower to fulfill winter term-sales commitments.

Keyera manages its NGL supply and sales portfolio by monitoring its inventory position and purchase and sale commitments. Nevertheless, the Marketing business is exposed to commodity price fluctuations arising between the time contracted volumes are purchased and the time they are sold, as well as pricing differentials between different geographic markets. These risks are managed by purchasing and selling product at prices based on the same or similar indices or benchmarks, and through physical and financial contracts that include energy-related forward contracts, price swaps, forward currency contracts and other hedging instruments. A more detailed description of the risks associated with the Marketing segment is available in Keyera's Annual Information Form, which is available at [www.sedar.com](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 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).

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

Operating and Realized Margin (Thousands of Canadian dollars, except for sales volume information)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue <sup>1</sup>	785,736	927,554	1,451,717	1,858,648
Operating expenses <sup>1</sup>	(668,257)	(853,417)	(1,352,366)	(1,718,659)
<b>Operating margin</b>	<b>117,479</b>	<b>74,137</b>	<b>99,351</b>	<b>139,989</b>
Unrealized (gain) loss on risk management contracts	(2,792)	16,272	37,807	7,729
<b>Realized margin</b>	<b>114,687</b>	<b>90,409</b>	<b>137,158</b>	<b>147,718</b>
Sales volumes (Bbl/d)	139,700	134,600	145,100	147,700

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.

Composition of Marketing Revenue (Thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Physical sales	775,775	961,329	1,489,083	1,895,374
Realized cash gain (loss) on financial contracts <sup>1</sup>	7,169	(17,503)	441	(28,997)
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	(1,741)	19,194	(41,516)	27,599
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	4,399	(35,786)	4,399	(35,786)
Unrealized gain (loss) from fixed price physical contracts <sup>2</sup>	134	320	(690)	458
Total unrealized gain (loss) on risk management contracts	2,792	(16,272)	(37,807)	(7,729)
<b>Total gain (loss) on risk management contracts</b>	<b>9,961</b>	<b>(33,775)</b>	<b>(37,366)</b>	<b>(36,726)</b>
<b>Total Marketing revenue</b>	<b>785,736</b>	<b>927,554</b>	<b>1,451,717</b>	<b>1,858,648</b>

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 approximately \$10 million and \$20 million of rail car lease costs were included in the financial results for the three and six months ended June

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30, 2018, respectively. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information related to the adoption of *IFRS 16, Leases*.

For the second quarter of 2019, operating margin was \$117 million or \$43 million higher than the same period in 2018 due to:

- the inclusion of a \$3 million non-cash unrealized gain from risk management contracts in 2019 compared to a non-cash loss of \$16 million in the second quarter 2018; and
- \$24 million in higher realized margin as described in more detail below.

Realized margin (excluding the effect of non-cash unrealized gains and losses from risk management contracts) was \$115 million in the second quarter of 2019, \$24 million higher than the same period in 2018 and set a new record for financial results generated in a quarter. The higher realized margin in the second quarter of 2019 was primarily due to the following factors:

- \$10 million of rail car lease expenses that were included in the 2018 second quarter results that are now capitalized for accounting purposes with the adoption of *IFRS 16, Leases* effective January 1, 2019; and
- higher iso-octane margins in the second quarter of 2019 that resulted from: i) lower average butane feedstock costs and strong product premiums in the quarter; and ii) the receipt of additional insurance proceeds for approximately \$10 million, related to the recovery of a portion of the lost margin associated with the unplanned outage at AEF in 2017.

Iso-octane margins were also strong in the second quarter of 2018 as approximately 25% of sales volumes during that period attracted high premiums to meet short-term demand.

On a year to date basis, operating margin was \$99 million for the first six months of 2019, \$41 million lower than the same period of 2018 due to: i) \$30 million in a higher non-cash unrealized loss on risk management contracts in 2019; and ii) lower realized margin described in more detail below.

For the first six months of 2019, realized margin was \$137 million, \$11 million lower than the same period in 2018 primarily resulting from the following factors:

- lower iso-octane margins in the first quarter of 2019 as the AEF facility was taken offline for unscheduled repair work in February. Because of the outage, sales volumes were reduced in the month of March which is the beginning of the higher demand season for iso-octane; and
- lower margins from the sale of butane in the first quarter of 2019 as product was sold at low market prices to manage inventory levels resulting from the February outage at AEF. Keyera typically maintains its butane inventory to produce iso-octane. Significant realized gains from risk management contracts were recorded in the fourth quarter of 2018 which offset the significant decline in butane prices in early 2019.

These factors were partly offset by the strong second quarter 2019 results as described above.

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the three and six months ended June 30, 2019, revenue from physical sales was \$186 million and \$406 million lower than the same periods in 2018 due to lower average sales prices for substantially all products.

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### **Market Overview**

The demand for iso-octane typically increases in the spring and summer months as driving activity and gasoline demand increase, which generally translates into premium pricing for gasoline and iso-octane. Because butane is the primary feedstock 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 annual term supply contracts that began on April 1, 2019, the price for butane as a percentage of crude oil is substantially lower than the prior contract year.

Overall, iso-octane margins were strong in the second quarter of 2019 due to a combination of various factors including: i) strong sales volumes in the quarter due to AEF operating slightly above its nameplate capacity; ii) low butane feedstock costs relative to 2018; and iii) strong premiums from a growing shortage of high octane blending components throughout the United States beginning in mid-April. Also, the closure 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, contributed to a spike in gasoline prices as well as the premium for iso-octane into July. It is expected that imports of high octane components will balance the market to more normal seasonal levels.

During the fourth quarter of 2019, Keyera is planning to take the AEF facility offline for approximately six weeks 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. Keyera still expects to generate realized margin of between \$280 million and \$320 million from the Marketing segment in 2019, and will utilize its storage capabilities to maintain higher volumes of low cost butane to be consumed in 2020. Refer to the section of this MD&A, "Liquids Infrastructure: Liquids Infrastructure Activity", for information related to the estimated cost of this maintenance outage.

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. Contribution from the sale of condensate and Keyera's liquids blending business continued to be strong in the first six months of 2019. The Oklahoma Liquids Terminal, a liquids blending business, was acquired in June 2018 and is performing as expected.

In the second quarter of 2019, propane margins returned to seasonally lower levels and Keyera began to build propane inventory to meet winter heating demand in markets across North America. Also in the second quarter of 2019, Keyera began supplying propane on a regular basis to an export terminal in British Columbia that helps reduce some of the seasonality in propane margins. On an annual basis, propane margins are expected to remain a relatively small contributor to Keyera's overall Marketing operating margin.

### **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.

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

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

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

For the quarter ended June 30, 2019, the total unrealized gain on risk management contracts was \$3 million. Further details are provided in the “Composition of Marketing Revenue” table above.

The fair value of outstanding risk management contracts as at June 30, 2019 resulted in an unrealized (non-cash) gain of \$4 million that included the following significant items:

- a \$5 million non-cash loss relating to iso-octane risk management contracts;
- a \$1 million non-cash loss relating to propane, butane and condensate risk management contracts; and
- a \$10 million non-cash gain relating to foreign currency and other financial contracts.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at June 30, 2019, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 13, Financial Instruments and Risk Management, of the accompanying financial statements.

## CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Other income (operating margin)	2,513	2,886	5,894	7,097
General and administrative (net of overhead recoveries on operated facilities)	(19,615)	(18,289)	(38,875)	(37,162)
Finance costs	(29,283)	(18,309)	(49,152)	(36,371)
Depreciation, depletion and amortization expenses	(66,218)	(50,848)	(129,171)	(96,991)
Net foreign currency gain (loss) on U.S. debt and other	15,201	(272)	19,039	(8,139)
Long-term incentive plan expense	(10,594)	(6,668)	(16,104)	(11,904)
Income tax recovery (expense)	47,691	(16,050)	37,219	(54,567)

### Other Income

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

Other income for the three months ended June 30, 2019 was \$3 million, virtually unchanged from the same period in 2018. On a year-to-date basis, other income was \$6 million, \$1 million lower than the prior year. Production for the three and six months ended June 30, 2019 averaged 3,451 and 3,522 barrels of oil equivalent per day compared to 3,724 and 3,865 barrels of oil equivalent per day for the same periods in 2018.

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

### General and Administrative Expenses

General and administrative ("G&A") expenses for the three and six months ended June 30, 2019 were \$20 million and \$39 million, \$1 million and \$2 million higher than the same periods in 2018 primarily due to higher consulting expenses and employee related costs.

### Finance Costs

Finance costs for the three and six months ended June 30, 2019 were \$29 million and \$49 million, \$11 million and \$13 million higher than the same periods in 2018 primarily due to incremental interest expense related to:

- the \$600 million subordinated hybrid note issuance in June 2019 as well as the \$400 million public note offering in June 2018; and
- lease liabilities recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information.

### Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization ("DD&A") expenses for the three and six months ended June 30, 2019 were \$66 million and \$129 million, \$15 million and \$32 million higher than the same periods in 2018 due to: i) an increase in Keyera's overall asset base including phase one of the Wapiti gas plant, 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 the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information on the adoption of *IFRS 16, Leases*.

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

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

<b>Net Foreign Currency Gain (Loss) on U.S. Debt and Other</b> (Thousands of Canadian dollars)	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Translation of long-term debt and interest payable	<b>11,773</b>	(10,794)	<b>24,356</b>	(27,835)
Change in fair value of cross-currency swaps – principal and interest portion	<b>(1,578)</b>	9,483	<b>(13,375)</b>	18,441
Gain on cross-currency swaps – interest portion <sup>1</sup>	<b>1,329</b>	1,039	<b>1,698</b>	1,255
Foreign exchange re-measurement of lease liabilities and other	<b>3,677</b>	—	<b>6,360</b>	—
<b>Net foreign currency gain (loss) on U.S. debt and other</b>	<b>15,201</b>	<b>(272)</b>	<b>19,039</b>	<b>(8,139)</b>

Note:

<sup>1</sup> Foreign currency gains 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 13, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of \$15 million and \$19 million was recorded for the three and six months ended June 30, 2019 that largely related to the translation of U.S. dollar denominated debt into Canadian dollars. This translation resulted in a \$12 million and \$24 million non-cash gain for the respective periods as the Canadian dollar strengthened relative to the U.S. dollar as at June 30, 2019 compared to March 31, 2019 and December 31, 2018.

In addition to the translation of debt, a foreign exchange re-measurement of U.S. dollar denominated lease liabilities resulted in a \$4 million and \$6 million non-cash gain for the three and six month periods ended June 30, 2019, respectively. These lease liabilities were recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information.

**Long-Term Incentive Plan Expense**

The Long-Term Incentive Plan (“LTIP”) expense was \$11 million and \$16 million for the three and six months ended June 30, 2019, \$4 million higher than the same periods in 2018. For the three months ended June 30, 2019, the higher LTIP expense was primarily due to an increase in the estimated payout multipliers associated with all outstanding LTIP grants compared to the prior year. On a year-to-date basis, the increase in LTIP expense was largely attributable to a larger growth in share price compared to the same period in 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 first six months of 2019 and 2018, no impairment charges or impairment reversals were recorded.

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

## Taxes

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

### *Current Income Taxes*

Current income tax expense for the three and six months ended June 30, 2019 was \$31 million and \$54 million, compared to an expense of \$8 million and \$16 million in the same periods of 2018. The increase in current tax expense was primarily due to taxable income exceeding the amount of available tax pool deductions. For 2019, current income tax expense is expected to range between \$90 million and \$105 million.

Current income tax expense for 2020 is estimated to be less than \$10 million as approximately \$1 billion of announced capital projects, primarily from the Gathering and Processing segment, become available for use in 2019. 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 2019 and 2020 assumes Keyera's business performs as planned and its capital projects are completed as expected. For 2020 and 2021, a further \$775 million of announced capital projects in the Gathering and Processing segment are expected to be available for use. In addition, the cost of turnarounds are fully deductible in the year they are incurred for income tax purposes.

### *Deferred Income Taxes*

For the three and six months ended June 30, 2019, a deferred income tax recovery of \$79 million and \$91 million was recorded compared to an expense of \$8 million and \$38 million during the same periods in 2018. The recovery of deferred income tax in the second quarter of 2019 was primarily the result of a decrease in the Alberta corporate 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 June 30, 2019 were approximately \$3.2 billion.

## CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's accompanying financial statements in accordance with GAAP, management is required to make estimates and assumptions that are not readily apparent from other sources, and are subject to change based on revised circumstances and the availability of new information. Actual results may differ from the estimates, which could materially affect the company's consolidated financial statements. Management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The methodologies and assumptions used in developing these estimates have not significantly changed since December 31, 2018. A description of the accounting estimates and the methodologies and assumptions

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underlying the estimates are described in the 2018 annual MD&A and note 4 of the audited consolidated financial statements for the year ended December 31, 2018, which are available at [www.sedar.com](http://www.sedar.com).

### LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the three months ended June 30, 2019 and 2018:

<b>Cash inflows (outflows)</b>				
<b>(Thousands of Canadian dollars)</b>				
	<b>Three months ended June 30,</b>		<b>Increase</b>	<b>Explanation</b>
	<b>2019</b>	<b>2018</b>	<b>(decrease)</b>	
<b>Operating</b>	<b>191,221</b>	100,926	90,295	Cash generated from operating activities was higher in the second quarter of 2019 because of: i) \$45 million in higher realized margin from all operating segments; and ii) a reduced cash requirement to fund inventory due to lower average prices and lower volumes for propane, butane and condensate at June 30, 2019 compared to the end of June 2018.
<b>Investing</b>	<b>(297,394)</b>	(476,333)	178,939	<p>Capital spending in the second quarter of 2019 primarily related to construction activities associated with: i) phase two of the Wapiti gas plant and associated projects; and ii) the Wildhorse Terminal. These projects are described in more detail in the "Segmented Results of Operations" section of this MD&amp;A.</p> <p>Capital spending in the second quarter of 2018 included \$212 million of acquisitions, including \$39 million for the purchase of the Pipestone project from Encana; \$110 million for the Oklahoma Liquids Terminal; and \$41 million for the Keyera Butane System.</p>
<b>Financing</b>	<b>223,515</b>	356,272	(132,757)	<p>Cash generated from financing activities was lower in 2019 as Keyera issued \$600 million of subordinated hybrid notes in June, and proceeds were used to repay \$260 million under its credit facility and \$56 million of long-term senior unsecured notes.</p> <p>Comparatively, in 2018 Keyera issued \$400 million of senior unsecured medium-term notes in June and did not have any repayments under its credit facilities or other long-term debt.</p>
Refer to the consolidated statements of cash flows of the accompanying financial statements for more detailed information.				

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the six months ended June 30, 2019 and 2018:

<b>Cash inflows (outflows)</b> (Thousands of Canadian dollars)				
	<b>Six months ended June 30,</b>		<b>Increase</b>	<b>Explanation</b>
	<b>2019</b>	<b>2018</b>	<b>(decrease)</b>	
<b>Operating</b>	<b>415,030</b>	289,315	125,715	Cash generated from operating activities was higher in the first six months of 2019 primarily due to a lower cash requirement to fund inventory resulting from lower average prices and volumes for NGLs at the end of June 2019 compared to the end of June 2018.
<b>Investing</b>	<b>(561,486)</b>	(665,342)	103,856	<p>Capital spending in the first six months of 2019 primarily related to construction activities associated with the Wapiti and Wildhorse Terminal projects as described in the “Segmented Results of Operations” section of this MD&amp;A.</p> <p>Capital spending in the first half of 2018 included \$222 million in acquisitions as described above for the three months ended June 30, 2018.</p>
<b>Financing</b>	<b>278,168</b>	316,929	(38,761)	<p>Cash generated from financing activities in the first half of 2019 was comparable to the same period in 2018. In 2019, Keyera issued \$600 million of subordinated hybrid notes in June and repaid \$206 million of long-term debt and outstanding borrowings under its credit facility.</p> <p>Comparatively, in 2018 Keyera issued \$400 million of senior unsecured medium-term notes in June and did not have any long-term debt or credit facility repayments.</p>
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.

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A working capital surplus (current assets less current liabilities) of \$84 million existed at June 30, 2019. This is compared to a surplus of \$1 million at December 31, 2018. Keyera has access to a credit facility in the amount of \$1.5 billion, of which no amounts were drawn as at June 30, 2019, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility ("Credit Facility").

### **Dividend Reinvestment Plan**

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

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

The DRIP and Premium DRIP generated cash of \$54 million and \$107 million for the three and six months ended June 30, 2019. In the same periods in 2018, the plan generated cash of \$46 million and \$94 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 June 30, 2019:

<b>As at June 30, 2019</b> (Thousands of Canadian dollars)	<b>Total</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>After 2023</b>
Credit facilities	—	—	—	—	—	—	—
Canadian dollar denominated debt							
Senior unsecured notes	1,134,000	—	2,000	—	60,000	30,000	1,042,000
Senior unsecured medium-term notes	400,000	—	—	—	—	—	400,000
Subordinated hybrid notes	600,000	—	—	—	—	—	600,000
	<b>2,134,000</b>	<b>—</b>	<b>2,000</b>	<b>—</b>	<b>60,000</b>	<b>30,000</b>	<b>2,042,000</b>
Senior unsecured U.S. dollar denominated notes	570,767	—	134,837	—	—	—	435,930
<b>Total debt</b>	<b>2,704,767</b>	<b>—</b>	<b>136,837</b>	<b>—</b>	<b>60,000</b>	<b>30,000</b>	<b>2,477,930</b>
Less: current portion of long-term debt	—	—	—	—	—	—	—
<b>Total long-term debt</b>	<b>2,704,767</b>	<b>—</b>	<b>136,837</b>	<b>—</b>	<b>60,000</b>	<b>30,000</b>	<b>2,477,930</b>

*Credit Facilities*

Keyera has an unsecured revolving Credit Facility with a syndicate of nine lenders under which it can borrow up to \$1.5 billion, with the potential to increase that limit to \$1.85 billion subject to certain conditions. As at June 30, 2019, there were no amounts drawn under this facility (December 31, 2018 – \$80 million).

In December 2018, the Credit Facility was amended to extend the term from December 6, 2022 to December 6, 2023. Management expects to extend the Credit Facility prior to maturity, and in the event of reaching maturity, expects an adequate replacement will be established.

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

*Long-term Debt*

Keyera's long-term debt structure consists of a number of senior unsecured notes, 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, 2079 in the Canadian public debt market. 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. Starting June 13, 2029, on every interest reset date (September 13, December 13, March 13, and June 13) until June 13, 2049, the interest rate will be reset to the three-month banker's acceptance rate plus 5.17%. Starting June 13, 2049, on every interest reset date until June 13, 2079, the interest rate will be reset to the banker's acceptance rate plus 5.92%. The notes are subject to optional redemption by Keyera, whereby on or after June 13, 2029, Keyera may redeem the notes in whole at any time, or in part on any interest payment date. 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 will be used to fund Keyera's ongoing capital program and for general corporate purposes.

In June 2018, Keyera issued \$400 million of medium-term notes in the Canadian public debt market at an interest rate of 3.934% and maturing on June 21, 2028. Keyera has an uncommitted private shelf agreement with Prudential Capital Group ("Prudential") under which it may issue notes subject to certain conditions. The aggregate amount that can be issued under the Prudential facility is US\$375 million with an issuance period

to December 15, 2019. As at June 30, 2019, there was approximately US\$122 million of capacity under the Prudential shelf facility.

As at June 30, 2019, Keyera had \$2,134 million and US\$436 million of long-term debt (including amounts drawn under the Prudential shelf facility, medium-term notes and subordinated hybrid notes). To manage the foreign currency exposure on the U.S. dollar denominated debt existing at June 30, 2019, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of \$1.0425, \$0.9838 and \$1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled, "Net Foreign Currency Gain (Loss) on U.S. Debt and Other", provides more information.

The Credit Facility, senior note agreements, and note indenture for the medium-term notes and subordinated hybrid notes contain a number of covenants, all of which were met as at June 30, 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: i) deduct working capital surpluses or add working capital deficits; ii) utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date; and iii) exclude subordinated debt (as approved by the lenders and the senior note holders). Keyera is required to maintain a Net Debt to EBITDA ratio of less than 4.0; however, the company has the flexibility to increase this ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters.

As at June 30, 2019, Keyera's Net Debt to EBITDA ratio was 2.3 for covenant test purposes (December 31, 2018 – 2.6). The covenant test used for debt purposes is calculated differently compared to the leverage ratios that are used by credit rating agencies.

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

### Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three and six months ended June 30, 2019 and 2018:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Acquisitions	332	212,355	549	222,355
Growth capital expenditures	234,193	254,300	524,742	493,093
Maintenance capital expenditures	40,487	23,077	47,845	29,089
Total capital expenditures	275,012	489,732	573,136	744,537

Growth capital expenditures for the three and six months ended June 30, 2019 amounted to \$234 million and \$525 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 the first half of 2019. In the first six months of 2018, acquisitions totaled \$222 million and were largely related to the following items:

- \$39 million for the Pipestone project purchased from Encana that closed in April 2018;
- \$110 million (US\$83 million including inventory and purchase price adjustments) for the Oklahoma Liquids Terminal that closed in June 2018;

- \$41 million for the purchase of the Keyera Butane System that had previously been leased since December 2016;
- \$11 million for a newly constructed 10-inch gathering pipeline that connects Keyera's Strachan and Ricinus gas plants; and
- \$10 million for the purchase of the Willesden Green gas plant.

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 \$10 million and \$19 million for the three and six months ended June 30, 2019, virtually unchanged from the same periods in 2018. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

To grow future cash flow, Keyera is investing growth capital to expand its current asset base and capture new opportunities. Based on current plans, Keyera anticipates that its growth capital investment in 2019 will be between \$800 million and \$900 million, excluding acquisitions. Maintenance capital for 2019 is expected to be between \$105 million and \$115 million, including approximately \$50 million for the scheduled turnarounds in the Gathering and Processing segment.

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

At December 31, 2018, Keyera had a \$2.1 billion capital program underway, mainly focused on establishing a strong position in the liquids-rich Montney and Duvernay development areas. The addition of the sulphur handling project at the South Cheecham rail and truck terminal 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 \$1.3 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 earn an annual return on capital of 10% to 15% starting in 2024. This is based on Keyera's current cash flow projections, and assumes the KAPS project is completed on a timely basis.

## **Dividends**

### *Funds from Operations and Distributable Cash Flow*

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

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

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

<b>Funds from Operations and Distributable Cash Flow</b> (Thousands of Canadian dollars)	<b>Three months ended</b> <b>June 30,</b>		<b>Six months ended</b> <b>June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Cash flow from operating activities</b>	<b>191,221</b>	100,926	<b>415,030</b>	289,315
Add (deduct):				
Changes in non-cash working capital	<b>6,193</b>	78,808	<b>(89,050)</b>	51,896
<b>Funds from operations</b>	<b>197,414</b>	179,734	<b>325,980</b>	341,211
Maintenance capital	<b>(40,487)</b>	(23,077)	<b>(47,845)</b>	(29,089)
Leases	<b>(13,359)</b>	(876)	<b>(26,619)</b>	(1,439)
<b>Distributable cash flow</b>	<b>143,568</b>	155,781	<b>251,516</b>	310,683
<b>Dividends declared to shareholders</b>	<b>96,085</b>	86,882	<b>191,384</b>	173,187
<b>Payout ratio</b>	<b>67%</b>	56%	<b>76%</b>	56%

Distributable cash flow for the three and six months ended June 30, 2019 was \$144 million and \$252 million, \$12 million and \$59 million lower than the same periods in 2018 due to: i) higher maintenance capital expenditures that primarily related to the scheduled turnaround at the Rimbey gas plant in the second quarter; and ii) \$37 million in higher current income tax expense in the first half of this year. The effect of these higher expenditures in 2019 were partly offset by incremental cash flow from recent investments, including phase one of the Wapiti gas plant and the Base Line Terminal, and record realized margin from the Marketing segment in the second quarter.

#### *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 payable 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 contracts, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. Management believes that these supplemental measures facilitate the understanding of Keyera's results from operations.

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

EBITDA (Thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Net earnings</b>	<b>219,447</b>	106,773	<b>253,246</b>	194,488
Add (deduct):				
Finance costs	<b>29,283</b>	18,309	<b>49,152</b>	36,371
Depreciation, depletion and amortization expenses	<b>66,218</b>	50,848	<b>129,171</b>	96,991
Income tax (recovery) expense	<b>(47,691)</b>	16,050	<b>(37,219)</b>	54,567
<b>EBITDA</b>	<b>267,257</b>	191,980	<b>394,350</b>	382,417
Unrealized (gain) loss on commodity contracts	<b>(2,685)</b>	17,368	<b>38,470</b>	8,427
Net foreign currency (gain) loss on U.S. debt and other	<b>(15,201)</b>	272	<b>(19,039)</b>	8,139
Loss on settlement of finance lease	<b>—</b>	286	<b>—</b>	286
<b>Adjusted EBITDA</b>	<b>249,371</b>	209,906	<b>413,781</b>	399,269

### CONTRACTUAL OBLIGATIONS

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

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

### RELATED PARTY TRANSACTIONS

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

### RISK FACTORS

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

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## ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

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

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

Keyera's year-over-year compliance costs are increasing as a result of the changes in emissions regulation and are expected to continue to increase. Overall, the increased costs are not expected to be material to Keyera; however, Keyera is looking at opportunities to reduce its costs and enhance the management of its emissions profile. For a detailed discussion of environmental regulations that affect Keyera, political and legislative developments as they relate to climate change and the risks associated therewith, see Keyera's Annual Information Form which is available at [www.sedar.com](http://www.sedar.com).

**SUMMARY OF QUARTERLY RESULTS**

The following table presents selected financial information for Keyera:

	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
<b>Revenue<sup>1</sup></b>								
Gathering and Processing	120,012	116,647	125,511	117,588	107,998	107,354	120,422	116,635
Liquids Infrastructure	130,955	132,821	128,980	123,701	115,880	109,476	114,525	103,872
Marketing	785,736	665,981	961,490	991,777	927,554	931,094	864,730	612,526
Other	5,570	6,487	5,696	6,578	5,921	7,241	5,303	5,065
<b>Operating margin (loss)</b>								
Gathering and Processing	69,713	68,322	73,530	63,855	63,901	70,547	72,744	69,381
Liquids Infrastructure	92,560	94,450	83,768	82,314	76,571	81,803	81,905	71,718
Marketing	117,479	(18,128)	156,623	69,618	74,137	65,852	54,032	(15,130)
Other	2,513	3,381	2,902	3,681	2,886	4,211	2,408	2,265
<b>Net earnings</b>	<b>219,447</b>	<b>33,799</b>	<b>165,052</b>	<b>34,684</b>	<b>106,773</b>	<b>87,715</b>	<b>88,052</b>	<b>38,464</b>
<b>Net earnings per share (\$/share)</b>								
Basic	1.03	0.16	0.79	0.17	0.52	0.43	0.45	0.20
Diluted	1.03	0.16	0.79	0.17	0.52	0.43	0.45	0.20
Weighted average common shares (basic)	213,239	211,480	209,585	208,037	206,646	205,267	193,552	188,650
Weighted average common shares (diluted)	213,239	211,480	209,585	208,037	206,646	205,267	193,552	188,650
<b>Dividends declared to shareholders</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>	<b>81,801</b>	<b>79,317</b>

Note:

<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.

In the Gathering and Processing segment, Keyera has continued to focus on delivering cost-effective and value-added services intended to enhance its customers' economics, while at the same time maximizing throughput and efficiencies at its facilities. Drilling activity in the Montney and Duvernay geological zones has remained high, resulting in throughput and operating margin growth at Keyera's Simonette gas plant and incremental volumes and operating margin from the recently completed Wapiti gas plant (phase one) which came into service in May 2019. This has helped to offset some of the financial effect of lower throughput at certain other facilities where drilling activity is less robust.

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

Operating margin from the Marketing segment is affected by seasonal factors. The demand for iso-octane is typically highest in the second and third quarters as the demand for gasoline tends to be higher in the spring and summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. Beginning in 2017, Keyera saw more pronounced seasonal variability in its propane results due to the pricing strategy it implemented to purchase volumes. Unrealized non-cash gains and losses resulting from the change in fair value of risk management contracts and the timing of settling these contracts can also have a material effect on quarterly operating margin for this segment. As a result, it is important to view Keyera's Marketing business on an annual basis.

Compared to the 2018 year-end results, operating margin from the Liquids Infrastructure segment continues to grow in 2019 due to: i) higher fractionation revenues resulting from an increase in fees; ii) continued demand for

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Keyera's diluent handling services; and iii) incremental cash flow associated with the Base Line Terminal as all crude oil tanks became operational in October 2018. In the Gathering and Processing segment, producers continue to be active in liquids-rich areas, particularly in areas close to the Simonette gas plant and the Wapiti gas plant. Incremental volumes from these facilities have helped to offset some of the volume declines experienced at other facilities including the Rimbey gas plant. Incremental cash flows in the last half of 2019 are expected from the North Wapiti Pipeline System and the Simonette gas plant expansion. Fourth quarter 2018 financial results included a one-time \$6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a gathering pipeline, in exchange for a reduction in take-or-pay fees effective July 1, 2018. Refer to the 2018 year-end MD&A for more information related to this adjustment.

In the Marketing segment, the seasonality associated with the sale of iso-octane and propane has continued in 2019. For 2019, the Marketing segment is expected to generate realized margin between \$280 million and \$320 million despite the planned outage at AEF in the fourth quarter of 2019. This is primarily due to lower butane feedstock prices effective with the annual term supply contracts that began on April 1, relative to 2018. On an annual basis, propane margins are estimated to remain a small part of Keyera's overall Marketing margin.

See the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the three and six months ended June 30, 2019.

#### **ADOPTION OF NEW STANDARDS**

Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 for the details of new IFRS standards and IFRS Interpretations Committee ("IFRIC") interpretations adopted by Keyera.

#### **FUTURE ACCOUNTING PRONOUNCEMENTS**

There were no significant new accounting standards or interpretations issued during the three and six months ended June 30, 2019.

#### **CONTROL ENVIRONMENT**

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

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of June 30, 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 June 30, 2019 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

#### **COMMON SHARES**

During the three and six months ended June 30, 2019, there were 1,758,473 and 3,648,034 common shares issued under the DRIP and the Premium DRIP for consideration of \$54 million and \$107 million, bringing the total common shares outstanding at June 30 to 214,126,777.

Subsequent to June 30, 2019, 583,716 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of \$19 million, bringing the total common shares outstanding at August 6, 2019 to 214,710,493.

## NON-GAAP FINANCIAL MEASURES

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

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

are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. Management believes that these supplemental measures facilitate the understanding of Keyera's results of operations, leverage, liquidity and financial position. Funds from operations is used to assess the level of cash flow generated from operating activities excluding the effect of changes in non-cash working capital, as they are primarily the result of seasonal fluctuations in product inventories or other temporary changes. Funds from operations is also a valuable measure that allows investors to compare Keyera with other companies within the midstream oil and gas industry. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. EBITDA and adjusted EBITDA are measures used as an indication of earnings generated from operations after consideration of administrative and overhead costs. Realized margin is used to assess the financial performance of Keyera's ongoing operations without the effect of unrealized gains and losses on commodity-related risk management contracts related to future periods. Return on capital and return on capital for the KAPS project are used to reflect the expected profitability and value-creating potential for: (i) certain growth projects that have been sanctioned and are currently under development as of the date hereof, and (ii) for the KAPS project. Compound annual growth rate provides investors with the rate at which distributable cash flow 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.

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## FORWARD-LOOKING STATEMENTS

In order to provide readers with information regarding Keyera, including its assessment of future plans, operations and financial performance, certain statements contained herein (and in the documents incorporated by reference) are forward-looking. These forward-looking statements relate to future events or Keyera's future performance. Such statements are predictions only and actual events or results may differ materially. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "plan", "intend", "believe", and similar expressions, including the negatives thereof, is intended to identify forward-looking statements. All statements other than statements of historical fact contained in this document are forward-looking statements.

The forward-looking statements reflect management's current beliefs and assumptions with respect to such things as the outlook for general economic trends, industry trends, commodity prices, capital markets, and the governmental, regulatory and legal environment. In some instances, forward-looking statements may be attributed to third party sources. Management believes that its assumptions and analysis are reasonable and that the expectations reflected in the forward-looking statements contained herein are also reasonable. However, Keyera cannot assure readers that these expectations will prove to be correct.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward-looking statements. Such factors include but are not limited to: general economic, market and business conditions; access to capital and debt markets to fund capital requirements and future growth plans; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; access to third-party facilities; competitive action by other companies; activities of producers and customers, including the performance of contractual obligations by customers and demand for services aligned with production profiles; oil sands development activity and overall industry activity levels; changes in gas composition; pipeline product specification changes; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; availability of construction crews and materials; fluctuations in interest rates, ability to maintain current credit ratings; foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; compliance with regulatory requirements; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on shareholders, and in particular any differential effects relating to shareholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 21, 2019, filed on SEDAR at [www.sedar.com](http://www.sedar.com) and available on the Keyera website at [www.keyera.com](http://www.keyera.com).

Proposed construction and completion schedules and budgets for capital projects are subject to many variables, including weather; availability and prices of materials; labour; customer project schedules and expected in-service dates; contractor productivity; contractor disputes; quality of cost estimating; decision processes and approvals by joint venture partners; changes in project scope at the time of project sanctioning; regulatory approvals, conditions or delays (including possible intervention by third parties); Keyera's ability to secure adequate land rights and water supply; and macro socio-economic trends. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions contained herein. Further, some of the projects discussed are subject to securing sufficient producer/customer interest and may not proceed if sufficient commitments are not obtained. Typically, the earlier in the engineering process that projects are sanctioned, the greater the likelihood that the schedule and budget may change.

In addition to the factors referenced above, Keyera's expectations with respect to future returns associated with: (i) the growth capital projects that have been sanctioned and are in development as of the date hereof, and (ii) the KAPS project, are based on a number of assumptions, estimates and projections that have been developed based on past experience and anticipated trends, including but not limited to: capital cost estimates assuming no material unforeseen costs; timing for completion of growth capital projects; customer performance of contractual obligations; reliability of production profiles; commodity prices, margins and

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volumes; tax and interest rates; availability of capital at attractive prices; and no changes in regulatory or approval requirements, including no delay in securing any outstanding regulatory approvals.

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

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

Further information about the factors affecting forward-looking statements and management’s assumptions and analysis thereof, is available in filings made by Keyera with Canadian provincial securities commissions, which can be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).