

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of May 12, 2020, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera for the three months ended March 31, 2020 and the notes thereto as well as the audited consolidated financial statements of Keyera for the year ended December 31, 2019, 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. Effective December 31, 2019, Keyera voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Voluntary Change in Accounting Policy" section of this document for a description of changes and the effect on Keyera's consolidated financial statements. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

Keyera operates an integrated Canadian-based energy infrastructure business with extensive interconnected assets and depth of expertise in delivering energy infrastructure solutions. Keyera operates assets in the oil and gas industry between the upstream sector, which includes oil and gas exploration and production, and the downstream sector, which includes the refining and marketing of finished products. Keyera is organized into three highly integrated operating segments:

1. **Gathering and Processing**– Keyera owns and operates raw gas gathering pipelines and processing plants, which collect and process raw natural gas, remove waste products and separate the economic components, primarily natural gas liquids ("NGLs"), before the sales gas is delivered into long-distance pipeline systems for transportation to end-use markets. Keyera also provides condensate handling services through its condensate gathering pipelines and stabilization facilities.
2. **Liquids Infrastructure** – Keyera owns and operates a network of facilities for the gathering, processing, storage and transportation of the by-products of natural gas processing, including NGLs in mix form and specification NGLs such as ethane, propane, butane and condensate. In addition, this segment includes Keyera's iso-octane facilities at Alberta EnviroFuels ("AEF"), its liquids blending facilities and its 50% interest in the crude oil storage facility at the Base Line Terminal.
3. **Marketing** – Keyera markets a range of products associated with its two infrastructure business lines, primarily propane, butane, condensate and iso-octane, and also engages in liquids blending.

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

Overview

Keyera posted impressive first quarter 2020 financial results as the Liquids Infrastructure and Marketing segments each set a new record for quarterly results. Adjusted EBITDA, Cash flow from Operating Activities and Distributable Cash flow also set new records on a quarterly basis. Net earnings were \$86 million and included a non-cash impairment charge of \$194 million associated with certain non-core facilities in the Gathering & Processing segment.

The current COVID-19 global health pandemic is significantly affecting the global economy and the full extent of the impact is unknown at this time. To date, Keyera's pandemic response and business continuity plans have been successfully implemented to ensure the safety of its people, customers and other stakeholders. Keyera continues to plan for the evolving risks associated with COVID-19 and will incorporate information from public health authorities to ensure the safety of its people. Readers are referred to the section of this MD&A titled: "Risk Factors: Risks related to the COVID-19 pandemic", for further discussion of risks associated with the COVID-19 pandemic that could affect Keyera's business operations and financial condition.

Since the beginning of March, the energy industry has been particularly challenged due to the pandemic combined with a sharp decrease in global oil prices. As a result of the unprecedented decline in global energy demand, the Canadian energy sector is currently undergoing a significant market disruption. As there is uncertainty as to when a recovery in energy demand and commodity prices may occur, Keyera remains focused on preserving its financial flexibility and maintaining its financial strength to ensure it is positioned for the long-term.

Keyera's financial position includes the following:

- a strong balance sheet with Net Debt to Adjusted EBITDA of 2.2x as of March 31, 2020, including 50% of the subordinated hybrid notes as debt;
- a conservative payout ratio of 55% for the last 12 months, well within the long-term target range of between 50% and 70%;
- investment grade corporate credit ratings from DBRS Limited and S&P Global;
- a \$1.5 billion line of credit (\$70 million drawn as of March 31, 2020); and
- no material long-term debt maturities in the next five years (approximately 15% of total long-term debt).

To maintain Keyera's financial flexibility, Keyera recently announced that construction of the KAPS pipeline system would be deferred by approximately one year. There have been no changes to the long-term volume commitments resulting from this deferral. With this decision, Keyera also suspended the regular and premium components of the Dividend Reinvestment Plan ("DRIP") effective with the dividend to be paid in May 2020. Readers are referred to the section of this MD&A titled: "Segmented Results: Liquids Infrastructure", for more information related to the KAPS pipeline system.

Keyera's priorities during these uncertain times include the following:

- focus on the health and safety of its employees and contractors as the global COVID-19 pandemic continues to evolve;
- continue to be a safe, reliable and environmentally conscious operator of its facilities;
- maintain Keyera's strong financial position and financial flexibility so that the company is positioned well for a recovery in energy demand;

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- successfully execute the current organic growth capital program, including phase two of the Wapiti gas plant, the Pipestone gas plant, and the Wildhorse Storage and Blending Terminal;
 - maximize utilization across all of Keyera's facilities, including increasing the competitiveness and profitability of the Gathering & Processing segment by optimizing its portfolio of assets; and
 - reduce Keyera's overall cost structure including its operating and general and administrative expenses. In support of this initiative, the company's executive team and Board of Directors agreed to compensation reductions that were effective April 16, 2020.

Keyera expects the following for 2020:

- operating margin from the Gathering & Processing segment will be challenged as producers have announced significant reductions to their capital programs and may consider shutting in production, which would result in lower volumes through Keyera's gas plants. Keyera is working with its customers to develop solutions that are beneficial to the company and its customers during these challenging times;
- operating margin from the Liquids Infrastructure segment is expected to remain relatively resilient in the current environment as its condensate business is supported by long-term, take-or-pay contracts with creditworthy counterparties. In addition, Keyera's storage assets provide significant operational flexibility and value for its customers especially during times of low demand. Fractionation revenue may be lower for the remainder of 2020 as reduced drilling activity and potential shut-in production could reduce utilization;
- realized margin from the Marketing segment to range between \$270 million and \$310 million, which exceeds the base guidance range of between \$180 million and \$220 million. Readers are referred to the section of this MD&A titled, "Segmented Results: Marketing", for the assumptions associated with the 2020 realized margin guidance;
- a cash tax recovery of between \$20 million and \$30 million (2019 – \$98 million cash tax expense);
- maintenance capital expenditures to range between \$30 million and \$35 million (2019 – \$105 million); and
- growth capital expenditures to range between \$475 million and \$525 million (2019 – \$986 million) as construction of the KAPS project has been deferred one year. Growth capital prior to the KAPS deferral was estimated to range between \$700 million and \$800 million.

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. The one-year deferral of the KAPS pipeline system and reduction in the 2020 capital program was previously announced in a news release on April 22, 2020. Guidance related to the Marketing segment's realized margin for 2020 was previously announced in a news release on March 16, 2020. These news releases are available at www.sedar.com.

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the three months ended March 31, 2020 and 2019:

(Thousands of Canadian dollars, except per share data)	Three months ended March 31,	
	2020	2019
Net earnings ¹	85,608	34,952
Net earnings per share ¹ (basic)	0.39	0.17
Operating margin	412,683	148,025
Realized margin ²	332,949	189,180
Adjusted EBITDA ³	327,115	164,410
Cash flow from operating activities	316,684	223,809
Funds from operations ⁴	286,348	128,566
Distributable cash flow ⁴	253,039	107,948
Distributable cash flow per share ⁴ (basic)	1.16	0.51
Dividends declared	105,212	95,299
Dividends declared per share	0.48	0.45
Payout ratio ⁵	42%	88%

Notes:

¹ Net earnings for 2019 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

² Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, "Segmented Results of Operations: Marketing", for a reconciliation of operating margin to realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes \$1,265 of unrealized losses from commodity-related risk management contracts (2019 – \$556 unrealized losses).

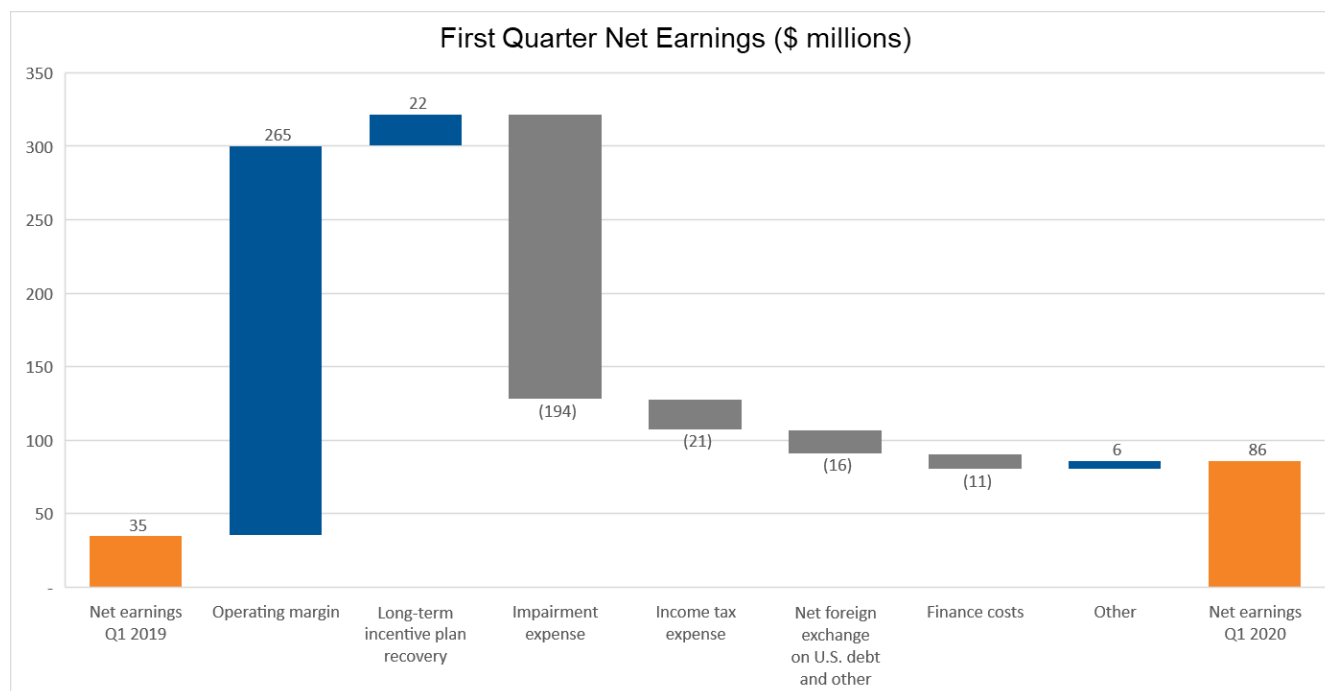
³ Adjusted EBITDA is defined as earnings before finance costs, taxes, depreciation, amortization, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and adjusted EBITDA are not standard measures under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

⁴ Funds from operations and distributable cash flow are not standard measures under GAAP. See the section titled, "Dividends: Funds from Operations and Distributable Cash Flow", for a reconciliation of funds from operations and distributable cash flow to the most closely related GAAP measure.

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

Net Earnings

For the three months ended March 31, 2020, net earnings were \$86 million, \$51 million higher than the same period in 2019, due to the following:



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

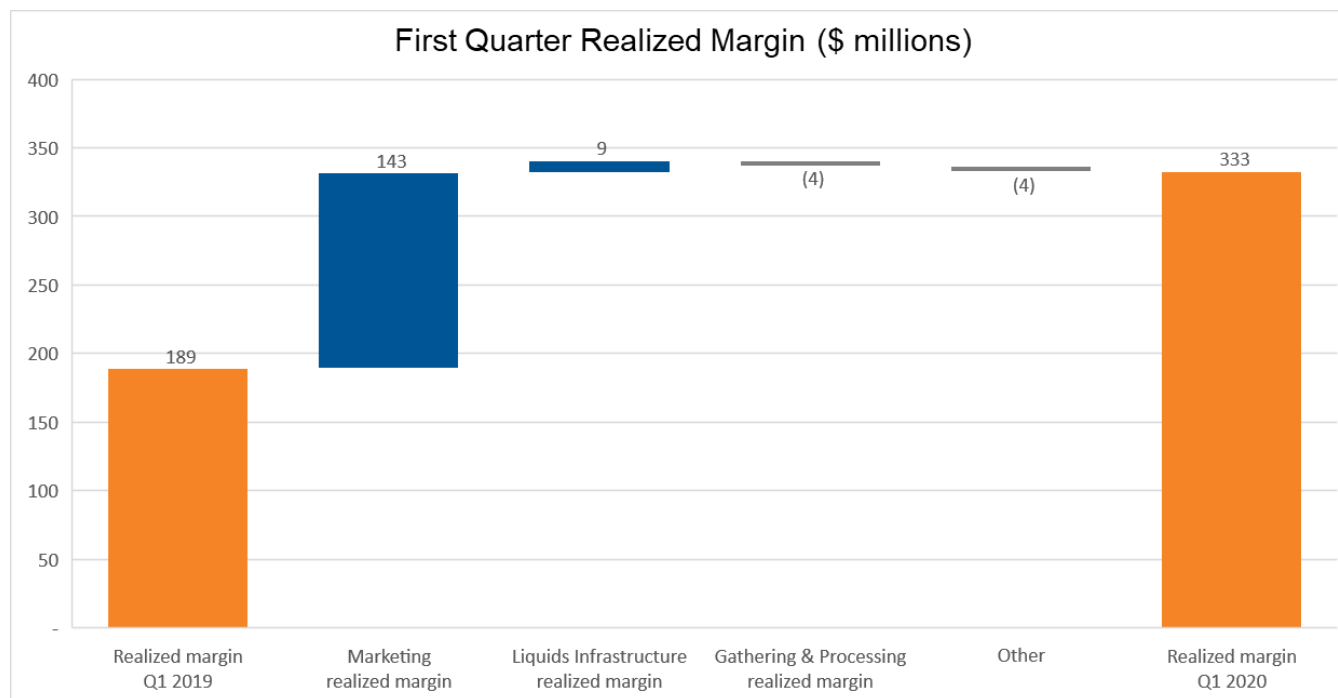
Operating Margin and Realized Margin

For the three months ended March 31, 2020, operating margin was \$413 million, \$265 million higher than the same period in 2019 primarily due to: i) the inclusion of an unrealized non-cash gain of \$81 million associated with risk management contracts from the Marketing segment in 2020 compared to an unrealized non-cash loss of \$41 million in 2019; and ii) higher realized margin primarily attributable to the Marketing segment as described in more detail below.

In the first quarter of 2020, total realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) was \$333 million, \$144 million higher than the same period in 2019 due to the following factors:

- record margins from the Marketing segment that resulted from:
 - significantly higher iso-octane margins because of: i) strong product premiums that continued from the second half of 2019; and ii) lower average butane feedstock costs relative to the first quarter of 2019;
 - higher contributions from the sale of condensate and Keyera’s liquids blending business in 2020; and
 - an effective risk management program that protected margins and inventory from the sharp decline in commodity prices beginning in March; and
- higher fractionation fees effective April 1, 2019, and an increase in volumes through Keyera’s condensate network that contributed to another record quarter for the Liquids Infrastructure segment.

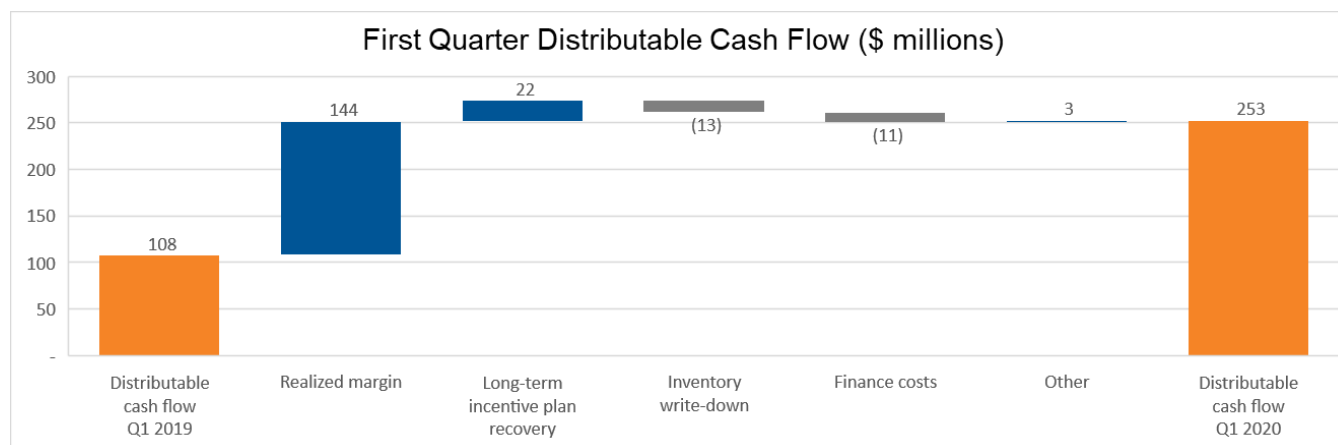
Partly offsetting the factors above was lower operating margin from the Gathering and Processing segment as lower processing throughput and fee reductions at certain facilities exceeded the incremental operating margin associated with the Wapiti gas plant and related infrastructure.



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

Cash Flow Metrics

Cash flow metrics were exceptional in the first quarter of 2020 primarily due to the record results from the Marketing and Liquids Infrastructure segments. Cash flow from operating activities was \$317 million and distributable cash flow was \$253 million in the first quarter of 2020, \$93 million and \$145 million higher than the same period last year.



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

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. These segment measures of profitability for the three months ended March 31, 2020 and 2019 are reported in note 15, Segment Information, of the accompanying financial statements. A complete description of Keyera's businesses by segment can be found in Keyera's Annual Information Form, which is available at www.sedar.com.

Gathering and Processing

Keyera currently has interests in 16 active gas plants¹ and one gas plant that is under construction, all of which are located in Alberta. Keyera operates 14 of the 16 active gas plants and has the option to become the operator of the gas plant currently under construction, five years after the commencement of its operations. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin ("WCSB"). Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Most of Keyera's facilities are also equipped with condensate handling capabilities. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB. Keyera's Simonette and Wapiti gas plants as well as the Pipestone gas plant that is currently under construction, are generally referred to as its "Northern" or "North" gas plants due to their geographic location and proximity to one another. Gas plants in the North are generally dedicated to processing gas and handling condensate from the Montney Formation. All of Keyera's other Gathering and Processing plants are generally referred to as its "Southern" or "South" gas plants.

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

Operating Margin and Throughput Information (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Revenue ¹	128,759	116,647
Operating expenses ¹	(64,288)	(47,735)
Unrealized loss on electricity and other financial contracts	—	(590)
Total operating expenses	(64,288)	(48,325)
Operating margin	64,471	68,322
Gross processing throughput – (MMcf/d)	1,386	1,616
Net processing throughput ² – (MMcf/d)	1,142	1,299

Notes:

¹ Includes inter-segment transactions.

² Net processing throughput refers to Keyera's share of raw gas processed at its processing facilities.

¹ Excludes gas plants where Keyera has shut-in or suspended operations.

Operating Margin and Revenues

First Quarter Results

The Gathering and Processing segment recorded operating margin of \$64 million in the first quarter of 2020, \$4 million lower than the same period in 2019 primarily due to:

- lower processing throughput at certain facilities including the Rimbey, Strachan, Simonette, Alder Flats, and Minnehik Buck Lake gas plants, resulting from natural declines and lower producer activity levels; and
- fee reductions provided to customers at certain gas plants in the South, effective January 1, 2020. Keyera's optimization plan is intended to reduce per unit operating costs and improve its competitiveness and profitability for its portfolio of gas plants in the South as described in more detail below.

The factors above were partly offset by incremental operating margin from: i) phase one of the Wapiti gas plant and North Wapiti pipeline system which came into service in May and September 2019, respectively; and ii) higher liquids volumes processed at the Pipestone Liquids Hub.

Operating margin was \$16 million lower in the first three months of 2020 compared to the fourth quarter of 2019, partly due to the same factors described above. In addition, the Wapiti gas plant experienced higher operating expenses and lower processing throughput resulting from unscheduled repair work that required the facility to be taken off-line for approximately four weeks over the course of the quarter.

Revenue

Gathering and Processing revenue for the three months ended March 31, 2020 was \$129 million, \$12 million higher than the same period in 2019 primarily due to incremental revenue from the Wapiti gas plant and related infrastructure.

Gathering and Processing Activity

The rapid and steep decline in global energy demand and commodity prices that began in March has created a significant challenge for producers across Western Canada. In particular, producers that are active in the Montney are further challenged given the sharp decline in condensate demand and prices resulting from recently announced oil sands production cuts. As a result, gross processing volumes from Keyera's gas plants in the North are expected to be weak in 2020 as several producers have announced significant reductions to their capital programs, combined with the potential for shut-in production given current commodity prices. Keyera will work with its customers to develop solutions that are structured in a beneficial way to both its customers and to Keyera. These solutions may include providing short-term fee relief to customers in exchange for longer term value to Keyera.

Earlier this year, Pipestone Energy Corp. ("PEC") exercised its option to secure an additional 30 million cubic feet per day of gathering, compression and processing capacity at the Wapiti gas plant beginning in the fourth quarter of 2020. With the exercise of this option, PEC's total throughput commitment increases to 90 million cubic feet per day. Due to the current economic and low commodity price environment, Keyera and PEC have agreed to a staged volume commitment that aligns with its projected activity levels. As a result, the take-or-pay component will increase in stages and will reach 80% of the committed volume beginning in January 2022 instead of April 1, 2021 as previously disclosed.

With construction of phase two of the Wapiti gas plant being substantially complete, Keyera expects to commission the plant in the fourth quarter of this year. Given the revised capital plans of Keyera's customers, the additional capacity is not anticipated to be required in 2020.

The Pipestone gas plant is progressing ahead of schedule and is now expected to be operational this fall. Keyera has a 20-year infrastructure development and midstream service agreement with Ovintiv to support their condensate focused Pipestone Montney development near Grande Prairie, Alberta. This Montney development remains one of Ovintiv's top three capital investment priorities.

To enhance customer netbacks and increase Keyera's long-term competitiveness for its portfolio of gas plants in the South, one of Keyera's strategic priorities is to reduce operating costs on a per unit basis. To do this, Keyera is continuing to develop and execute optimization strategies that are intended to reduce redundant costs, consolidate volumes to its most efficient facilities, and ultimately increase customer netbacks and profitability for Keyera. As part of this optimization strategy, Keyera expects to suspend operations at its Minnehik Buck Lake gas plant in May 2020 and at its West Pembina gas plant in the second half of this year. The closure of the Ricinus and Nordegg River gas plants are expected to occur in 2021. Keyera will utilize its interconnected network of gathering systems to redirect volumes from these facilities to other Keyera gas plants in the area, to the extent it is commercially and operationally possible. This optimization plan also aligns with Keyera's environmental efforts by reducing its overall greenhouse gas emissions. Keyera will continue to advance the plan over the coming months and expects to provide more information with its second quarter 2020 financial release.

Gross processing throughput for the Gathering and Processing segment declined in the first quarter of 2020, averaging 1,386 million cubic feet per day, as lower producer activity levels and natural declines affected processing throughput levels at multiple gas plants. In addition, the Wapiti gas plant was taken off-line for unscheduled repair work for approximately four weeks over the course of the quarter. As a result, average gross processing throughput in the first quarter of 2020 was 14% lower than the same period in 2019, and 7% lower than the fourth quarter of 2019. Gross processing throughput is expected to be weak in 2020 as several producers have announced significant reductions and deferrals to their capital programs, combined with the potential for shut-in production given current commodity prices.

In the fourth quarter of 2019, Bellatrix Exploration Ltd. ("Bellatrix"), which is a customer of Keyera and joint venture partner at the Alder Flats gas plant, commenced restructuring proceedings under the Companies' Creditors Arrangement Act ("CCAA"). In the first quarter of 2020, Bellatrix disclaimed a take-or-pay capacity agreement at the Alder Flats gas plant effective March 27, 2020. In April, Bellatrix entered into an asset purchase agreement with Return Energy Inc., which will acquire substantially all of Bellatrix's assets. The current expectation is that volumes will continue to flow to Alder Flats albeit at a lower revenue amount than the disclaimed take-or-pay contract. The financial impact of the disclaimed contract on 2020 operating margin is not expected to be material because of a letter of credit that will offset a portion of the lost revenue. Beyond 2020 and based on current information and estimates, the reduction to operating margin associated with the disclaimed contract is approximately \$10 million on an annual basis.

In April 2020, a customer at Keyera's Brazeau River gas plant began diverting volumes to their own facility for processing. As previously reported in February 2020, the financial effect for 2020 is expected to be a reduction in operating margin of approximately \$10 million relative to 2019.

As operations are expected to be suspended at the West Pembina gas plant, the facility will no longer complete a maintenance turnaround in 2020. The Zeta Creek gas plant is currently scheduled to complete a maintenance turnaround in the fall of 2020; however, Keyera is evaluating a potential deferral to 2021. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

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

Gathering and Processing – Capital Projects Status Update		
Facility/ Area	Project Description	Project Status Update
Wapiti	<p>Wapiti Gas Plant (Phase One): Phase one includes the construction of a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system, field compressor stations, and condensate treating facilities.</p> <p>Water Disposal System: 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>North Wapiti Pipeline System: The North Wapiti Pipeline System extends the capture area of Keyera’s Wapiti gas plant and includes a 12-inch sour gas gathering pipeline, an 8-inch condensate and water pipeline, and a compressor station.</p> <p>Gold Creek Compressor and Gathering System Expansion: This project provides additional compression and includes an expansion of the Wapiti gathering system.</p> <p>Wapiti Gas Plant (Phase Two): Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant.</p>	<p>Wapiti Gas Plant (Phase One): Phase one of the Wapiti gas plant was completed and began operating in May 2019.</p> <p>Water Disposal System: The water disposal system became operational with the start-up of phase one of the Wapiti gas plant in May 2019. The system is currently equipped with two disposal wells, with the second disposal well coming into service in August 2019.</p> <p>North Wapiti Pipeline System: The pipeline system commenced operations in September 2019. An expansion to the compressor station is scheduled to be complete by the fourth quarter of 2020.</p> <p>Gold Creek Compressor and Gathering System Expansion: Construction activities on the compressor station were complete in Q1 2020. The additional compression and expansion of the Wapiti gathering system is anticipated to be complete by mid-2020.</p> <p>Wapiti Gas Plant (Phase Two): Construction activities were substantially complete in the first quarter of 2020. Commissioning and completion activities are expected to occur in the fourth quarter of 2020.</p> <p><i>Estimated total cost to complete the Wapiti complex and related infrastructure:</i></p> <ul style="list-style-type: none"> • approximately \$1 billion <p><i>Total net costs to March 31, 2020:</i></p> <ul style="list-style-type: none"> • \$43 million in the first quarter of 2020 • \$973 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
Pipestone	Pipestone Gas Plant: The Pipestone gas plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, 24,000 barrels per day of condensate processing capacity, and associated water disposal facilities.	<p>Field construction and procurement activities continued in the first quarter of 2020.</p> <p>The Pipestone gas plant is expected to be operational in the fall of 2020.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> • approximately \$600 million <p><i>Total net costs to March 31, 2020:</i></p> <ul style="list-style-type: none"> • \$116 million in the first quarter of 2020 • \$456 million since inception

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

Liquids Infrastructure

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

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

The AEF facility has a licensed capacity of 13,600 barrels per day of iso-octane. Iso-octane is a low vapour pressure, high-octane gasoline blending component that contains virtually no sulfur, aromatics or benzene, making this product a clean burning gasoline additive. AEF uses butane as the primary feedstock to produce iso-octane. As a result, AEF's business creates positive synergies with Keyera's Marketing business, which purchases, handles, stores and sells large volumes of butane.

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Revenue ¹	144,787	132,821
Operating expenses ¹	(41,705)	(38,383)
Unrealized (loss) gain on electricity financial contracts	(960)	12
Total operating expenses	(42,665)	(38,371)
Operating margin	102,122	94,450

Note:

¹ Includes inter-segment transactions.

Operating Margin and Revenues

First Quarter Results

The Liquids Infrastructure segment posted record financial results for the first quarter of 2020. Operating margin was \$102 million, an increase of \$8 million or 8% compared to the same period in 2019, primarily due to: i) higher fractionation revenue associated with higher fees effective April 1, 2019 and ii) an increase in volumes handled within Keyera's condensate network, including the Norlite pipeline.

Revenue

Liquids Infrastructure revenues for the three months ended March 31, 2020 were \$12 million higher than the same period in 2019, primarily due to the same factors that contributed to higher operating margin as described above.

Liquids Infrastructure Activity

In response to the significant challenges faced by the energy industry, Keyera along with its partner, SemCAMS Midstream ULC, made a decision to defer construction of the KAPS pipeline system for approximately one year resulting in an expected in-service date of 2023 instead of 2022. Regulatory activities will continue throughout 2020, positioning the project for construction activities in the second half of 2021. The project remains highly desired by industry as it provides an additional and alternative transportation solution for condensate and natural gas liquids from liquids-rich developments in northwestern Alberta.

With the support of the KAPS customers, all transportation agreements were amended to align with the one-year deferral. There have been no changes to the long-term volume commitments resulting from the deferral. Assuming a recovery in energy demand and commodity prices, Keyera expects the project will generate an annual return on capital of between 10% and 15% starting in 2025. 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. Refer to the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to this project, including estimated cost to complete and expected completion time.

The demand for condensate, which is used as a diluent by oilsands producers, continued to grow in the first quarter of 2020. The volume of condensate handled within Keyera's condensate system for the oil sands grew by 28% in the first quarter of 2020 compared to the same period last year. Compared to the fourth quarter of 2019, condensate deliveries were 9% higher in the first three months of 2020. Keyera operates an industry-leading condensate hub in Western Canada that includes connections to: i) all major condensate receipt points, including Pembina's Cochin pipeline and Canadian Diluent Hub, Enbridge's Southern Lights pipeline and CRW pool, and the Fort Saskatchewan area fractionators; and ii) all major condensate delivery points, including Inter Pipeline's Polaris and Cold Lake pipelines, the Norlite pipeline, Enbridge's CRW pool, and Wolf's Access pipeline system.

In light of the sharp decline in global oil prices, several oil sands producers have announced production cuts that began in April, with a few facilities announcing full shut-ins starting in May. Accordingly, the demand for condensate has declined dramatically in Alberta. To rebalance local supply and demand, it is expected that reduced condensate imports from the Southern Lights and Cochin pipelines, combined with WCSB supply cuts, will be necessary. This will reduce volumes flowing through Keyera's condensate system until supply and demand fundamentals rebalance. At this time, Keyera does not expect the reduction in condensate volumes through its system to have a material financial impact in 2020 due to long-term, take-or-pay arrangements in place with several major oil sands producers. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area.

Keyera's storage assets at Fort Saskatchewan provide significant operational flexibility and value for its customers especially during times of low demand. The 16th underground storage cavern was put into service in April and provides additional storage capacity. Accordingly, storage revenue is expected to be strong in 2020.

In the first quarter of 2020, utilization of the two fractionation units at Keyera's Fort Saskatchewan complex averaged slightly above nameplate capacity. For the contract year beginning April 1, 2020, Keyera has

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contracted fractionation fees that are comparable to the prior year. However, as producers reduce drilling activity or potentially shut-in production in response to the current commodity price environment, fractionation revenue may be lower in 2020 compared to the prior year.

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 slightly above its nameplate capacity in the first quarter of 2020.

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

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
Fort Saskatchewan	Underground Storage Development: Development of five additional underground storage caverns (caverns 15-19), including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	<p>Construction-In-Progress Assets: Washing of the 17th cavern continued throughout the first quarter of 2020 while washing of the 18th cavern commenced at the end of the quarter. These caverns are expected to be in service during the second half of 2021, and second half of 2022, respectively.</p> <p>Work associated with the planning of the 19th cavern has been deferred for the near-term.</p> <p>Completed Assets: The 16th cavern was completed and came into service in April 2020.</p> <p>The 15th cavern and its related infrastructure was put into service in early May 2018.</p> <p>Since inception, \$96 million or approximately 77% of the total cavern program costs have been expended.</p>

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)	Wildhorse Terminal (“Wildhorse”): Development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. Wildhorse will initially be pipeline connected to two existing storage terminals in Cushing.	<p>Construction of the terminal continued to advance during the first quarter of 2020. The terminal is expected to be operational in the fourth quarter of 2020.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> gross cost is approximately US\$219 million Keyera’s net share of costs is approximately US\$197 million <p><i>Total net costs to March 31, 2020:</i></p> <ul style="list-style-type: none"> \$16 million (US\$11 million) in the first quarter of 2020 \$197 million (US\$148 million) since inception
South Cheecham (50/50 joint venture with Enbridge)	Sulphur Facilities: Development of sulphur handling, forming, and storage facilities at the South Cheecham rail and truck terminal.	<p>Detailed engineering and regulatory activities continued through the first quarter of 2020.</p> <p>The sulphur facilities are anticipated to be operational in 2022.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> preliminary gross cost estimate of \$115 million Keyera’s net share is approximately \$58 million <p><i>Total net costs to March 31, 2020:</i></p> <ul style="list-style-type: none"> \$1 million in the first quarter of 2020 \$2 million since inception

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	Project Description	Project Status Update
KAPS (50/50 joint venture with SemCAMS)	<i>KAPS NGL and Condensate Pipeline System:</i> Development of a 12-inch and 16-inch NGL and condensate pipeline system that will transport Montney and Duvernay production in northwestern Alberta to Keyera's fractionation assets and condensate system in Fort Saskatchewan. Along its route, KAPS will be connected to Keyera's Pipestone, Wapiti, and Simonette gas plants and several third-party gas plants.	<p>Engineering and regulatory work on the main line continued in the first quarter of 2020.</p> <p>As a result of the decision to delay construction of the pipeline by one year, KAPS is now anticipated to be operational in 2023.</p> <p><i>Estimated total cost to complete:</i></p> <ul style="list-style-type: none"> preliminary gross cost estimate of \$1.3 billion Keyera's net share is approximately \$650 million <p><i>Total net costs to March 31, 2020:</i></p> <ul style="list-style-type: none"> \$9 million in the first quarter of 2020 \$19 million since inception

Estimated costs and completion times for the projects currently under development that are discussed above assume that construction proceeds as planned, that actual costs are in line with estimates and, where required, that regulatory approvals and any other third-party approvals or consents are received on a timely basis. With respect to regulatory approvals for underground storage caverns at Keyera's Fort Saskatchewan facility, the authorization to put the wells into service is applied for after the cavern has been washed. Regarding the Wildhorse Terminal, operational regulatory permitting is applied for at construction completion or prior to startup. Regulatory approvals for KAPS and the South Cheecham Sulphur Facilities projects are expected to be in place for the start of their construction activities. A portion of the costs incurred for completed and ongoing projects is based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e., capitalized interest). The section of this MD&A titled, "Forward-Looking Statements", provides more information on factors that could affect the development of these projects.

Marketing

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

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

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

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

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

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

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

Keyera expects its Marketing business to contribute, on average, a "base realized margin" of between \$180 million and \$220 million annually. This base contribution assumes: i) AEF operates near capacity; ii) butane feedstock costs are comparable to the 2018 contract year; iii) there are no significant logistics or transportation curtailments; and iv) 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.

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

Operating and Realized Margin (Thousands of Canadian dollars, except for sales volume information)	Three months ended March 31,	
	2020	2019
Revenue ¹	873,163	665,981
Operating expenses ¹	(627,140)	(684,109)
Operating margin (loss)	246,023	(18,128)
Unrealized (gain) loss on risk management contracts	(80,999)	40,599
Realized margin	165,024	22,471
Sales volumes (Bbl/d)	171,000	150,600

Note:

¹ Includes inter-segment transactions.

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

Composition of Marketing Revenue (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Physical sales	736,170	713,308
Realized cash gain (loss) on financial contracts ¹	55,994	(6,728)
Unrealized gain (loss) due to reversal of financial contracts existing at end of prior period	5,371	(41,516)
Unrealized gain due to fair value of financial contracts existing at end of current period	75,810	1,741
Unrealized loss from fixed price physical contracts ²	(182)	(824)
Total unrealized gain (loss) on risk management contracts	80,999	(40,599)
Total gain (loss) on risk management contracts	136,993	(47,327)
Total Marketing revenue	873,163	665,981

Notes:

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

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

Revenue, Operating and Realized Margin First Quarter Results

For the quarter ended March 31, 2020, the Marketing segment posted record financial results. Operating margin for the first quarter of 2020 was \$246 million, \$264 million higher than the prior year due to: i) the inclusion of an unrealized gain on risk management contracts of \$81 million in 2020 compared to an unrealized loss of \$41 million in the first quarter of 2019; and ii) 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 \$165 million in the first quarter of 2020, \$143 million higher than the same period in 2019 due to the following factors:

- significantly higher iso-octane margins because of: i) strong product premiums that continued from the second half of 2019; and ii) lower market values for butane feedstock costs relative to the prior year. Market conditions for iso-octane were positive in 2019 and remained robust into the early part of 2020 because of historically high demand for high-octane blending components that resulted from:
 - the closing of the Philadelphia Energy Solutions refinery in mid-2019, which was one of the largest suppliers of gasoline on the U.S. east coast;
 - strong export demand for gasoline, in particular from Latin American countries; and
 - the introduction of regulations effective January 2020 that require the reduction of sulfur content in U.S. motor gasoline and in marine fuels (“IMO 2020”). These regulations typically result in lower octane gasoline blendstocks, supporting strong demand for iso-octane;
- higher contributions from the sale of condensate and Keyera’s liquids blending business in 2020; and
- an effective risk management program that protected margins and inventory values from the sharp decline in commodity prices beginning in March.

Realized margin was unusually low in the first quarter of 2019 due to a 17-day outage at the AEF facility that reduced iso-octane production and sales volumes in that period. In addition, butane was sold at low market prices to manage inventory levels associated with this outage.

Revenue

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the three months ended March 31, 2020, revenue from physical sales was \$23 million higher than the same period in 2019. The effect of higher average sales volumes was partly offset by lower average sales prices for substantially all products.

Market Overview

Energy markets continue to evolve as the ongoing COVID-19 pandemic has caused significant changes in energy supply and demand patterns. In response to this global crisis and the sharp decline in commodity prices, oil sands, natural gas and condensate producers in Alberta have announced substantial reductions to capital spending and overall production.

Under normal economic conditions, the demand for iso-octane typically increases in the spring and summer months as driving activity and gasoline demand increase. Given the ongoing COVID-19 pandemic, the U.S. Energy Information Administration (“EIA”) estimates that U.S. motor gasoline demand was on average lower by 40% in April relative to 2019. The current expectation is that the months of April and May are the trough for the decline in motor gasoline demand. With this sharp decline in demand, motor gasoline prices fell drastically in March and April and refiners responded with significant production cuts that have helped to support near term prices. However, until there is more certainty as to when gasoline demand will improve for a sustained period of time, iso-octane prices and product premiums are expected to remain weak for the 2020 spring/summer driving season.

Because butane is the primary feedstock for the production of iso-octane, butane costs directly affect iso-octane margins. The majority of Keyera’s butane supply is purchased on a one-year term basis. For the annual term supply contracts that began on April 1, 2020, the price for butane as a percentage of crude oil is higher than the 2019 contract year but lower compared to the average of the previous five years. With the expected reduction in NGL supply in Alberta, Keyera will seek opportunities to import butane from the U.S. and utilize its storage assets in Fort Saskatchewan to maintain adequate butane for the production of iso-octane.

As several oil sands producers have announced production cuts beginning in April and May, the demand for condensate has declined significantly. Contribution from the sale of condensate as well as Keyera’s liquids blending business is expected to be significantly lower until supply and demand fundamentals rebalance. Due

to take-or-pay contractual arrangements, the financial effect of lower condensate volumes on Keyera's Liquids Infrastructure segment is not expected to be significant.

Propane supply is expected to decline in Alberta resulting from potential shut-in of production combined with reduced drilling activity. The lower anticipated supply could put upward pressure on propane prices during the 2020/2021 winter heating season. Keyera intends to utilize its storage assets to build propane inventory in the summer to meet local winter heating demand as well as utilize its Josephburg Terminal to export propane by rail.

For 2020, Keyera expects annual realized margin for the Marketing segment to range between \$270 million and \$310 million, which exceeds the base guidance range of between \$180 million and \$220 million. The expected range for 2020 reflects Keyera's effective risk management program, Marketing's record contribution in the first quarter and the following assumptions: i) current forward pricing for any unhedged volumes in the remainder of 2020; ii) AEF operating near capacity; iii) no significant logistics or transportation curtailments; and iv) a risk adjustment for contracted NGL supply volumes.

Risk Management

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

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

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

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

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

For the three months ended March 31, 2020, the total unrealized gain on risk management contracts was \$81 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding risk management contracts as at March 31, 2020 resulted in an unrealized (non-cash) gain of \$76 million that primarily related to the following significant items:

- a \$68 million non-cash gain relating to iso-octane risk management contracts;
- a \$12 million non-cash gain relating to propane, butane and condensate risk management contracts; and
- a \$4 million non-cash loss relating to foreign currency and other financial contracts.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at March 31, 2020, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 11, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Other income (operating margin)	67	3,381
General and administrative (net of overhead recoveries on operated facilities)	(22,761)	(19,260)
Finance costs ¹	(31,136)	(19,853)
Depreciation, depletion and amortization expenses ¹	(52,230)	(61,429)
Net foreign currency (loss) gain on U.S. debt and other	(12,013)	3,838
Long-term incentive plan recovery (expense)	16,927	(5,510)
Impairment expense	(194,001)	—
Income tax expense ¹	(31,861)	(10,859)

Notes:

¹ 2019 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

Other Income

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

Other income for the three months ended March 31, 2020 was \$nil, \$3 million lower than the same period in 2019. Production for the three months ended March 31, 2020 averaged 2,500 barrels of oil equivalent per day compared to 3,594 barrels of oil equivalent per day for the same period in 2019.

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

General and Administrative Expenses

General and administrative ("G&A") expenses for the three months ended March 31, 2020 were \$23 million, \$4 million higher than the same period in 2019 mainly due to severance costs related to the closure of the Nevis and Gilby gas plants, and an increase to the company's allowance for expected credit losses.

Finance Costs

Finance costs for the three months ended March 31, 2020 were \$31 million, \$11 million higher than the same period in 2019 primarily due to \$10 million in incremental interest expense related to the \$600 million subordinated hybrid note that was issued in June 2019.

Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization (“DD&A”) expenses for the three months ended March 31, 2020 were \$52 million, \$9 million lower than the same period in 2019 primarily due to a reduction in Keyera’s decommissioning asset base. This was partly offset by incremental depreciation from assets that came into service during the last three quarters of 2019 including: i) the Phase One of the Wapiti Gas Plant and related Wapiti infrastructure, ii) the Simonette inlet liquids separation and acid gas injection facilities, and iii) the Simonette gas plant expansion.

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

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

Net Foreign Currency Gain (Loss) on U.S. Debt and Other (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Translation of long-term debt and interest payable	(50,808)	12,583
Change in fair value of cross-currency swaps – principal and interest portion	52,322	(11,797)
Gain on cross-currency swaps – interest portion ¹	354	369
Foreign exchange re-measurement of lease liabilities and other	(13,881)	2,683
Net foreign currency (loss) gain on U.S. debt and other	(12,013)	3,838

Note:

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

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Additional information on the swap agreements can be found in note 11, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency loss of \$12 million was recorded for the three months ended March 31, 2020 and was comprised of the following:

- a \$51 million non-cash loss from the translation of U.S. dollar denominated debt into Canadian dollars as the Canadian dollar weakened relative to the U.S. dollar since the end of 2019. This unrealized loss was more than offset by a \$52 million non-cash gain resulting from the change in fair value of cross currency swap agreements since the end of 2019; and
- a \$13 million non-cash loss resulting from the re-measurement of U.S. dollar denominated lease liabilities.

Long-Term Incentive Plan Recovery (Expense)

A Long-Term Incentive Plan (“LTIP”) recovery of \$17 million was recorded for the three months ended March 31, 2020, compared to an expense of \$6 million in the same period of 2019. The recovery in the first quarter of 2020 resulted from the significant decline in Keyera’s share price on March 31, 2020 relative to the end of 2019.

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 quarter of 2020, Keyera identified through its impairment review that certain gas plants in the Gathering and Processing segment had carrying values that were greater than their recoverable amounts. As a result, a total impairment charge of \$194 million was recorded in relation to the Central Foothills and Drayton Valley North Cash-Generating Units (“CGU”s).

The impairment expense recorded for the Central Foothills CGU is a result of Keyera's gathering and processing optimization strategy. As part of this optimization strategy, Keyera expects to suspend operations at its Minnehik Buck Lake gas plant in May 2020 and at its West Pembina gas plant in the second half of this year. The closure of the Ricinus and Nordegg River gas plants are expected to occur in 2021. Impairment charges were recorded against all of these facilities in the first quarter of 2020 with the exception of the Minnehik Buck Lake gas plant as this facility was previously impaired to its salvage value in 2019.

The impairment expense recorded for the Drayton Valley North CGU was a result of underutilization of the Brazeau North and Pembina North gathering and processing complex.

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 months ended March 31, 2020 was \$19 million, compared to an expense of \$22 million in 2019. The decrease in current tax expense is primarily due to lower taxable income as a result of higher available tax pool deductions.

For 2020 a current income tax recovery between \$20 million to \$30 million is expected as approximately \$1 billion of announced capital projects, primarily from the Gathering and Processing segment, became available for use in 2019, allowing for a tax loss carryback and refund in 2020. The majority of the costs associated with these capital projects attract a 25% tax depreciation rate (Capital Cost allowance or "CCA") with some costs being eligible for accelerated first-year CCA deductions. Accelerated first-year CCA deductions were announced as part of the Accelerated Investment Incentive by the Federal Minister of Finance in November 2018, and became substantively enacted in April 2019. This incentive will remain in effect until 2023, at which point it will be gradually phased out.

The current tax recovery estimates for 2020 assumes Keyera's business performs as planned and its capital projects are completed as expected. In 2020, approximately \$800 million of announced capital projects in the Gathering and Processing segment are expected to be available for use. In addition, the cost of turnarounds are fully deductible in the year they are incurred for income tax purposes.

Deferred Income Taxes

A deferred income tax expense of \$13 million was recognized for the three months ended March 31, 2020, compared to a deferred income tax recovery of \$11 million during the same period in 2019. The deferred income tax recovery in the first quarter of 2019 was mainly attributable to a shift between deferred income taxes to higher current income taxes as sufficient tax pools were not available to shelter taxable income in 2019.

Keyera estimates its total tax pools at March 31, 2020 were approximately \$3.7 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, 2019. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2019 annual MD&A and note 4 of the audited consolidated financial statements for the year ended December 31, 2019, which are available at www.sedar.com.

LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the three months ended March 31, 2020 and 2019:

Cash inflows (outflows) (Thousands of Canadian dollars)				
	Three months ended March 31,		Increase	Explanation
	2020	2019	(decrease)	
Operating	316,684	223,809	92,875	<p>Cash generated from operating activities was significantly higher in the first quarter of 2020 compared to the same period in 2019 primarily due to \$144 million in higher realized margin mainly attributable to the Marketing segment. This was partly offset by lower cash generated from changes in operating working capital since year-end. These changes in operating working capital are merely timing differences associated with the collection and settlement of Keyera's accounts receivable and accounts payable balances.</p> <p>Details of changes in non-cash working capital from operating activities can be found in note 14, Supplemental Cash Flow Information, of the accompanying financial statements.</p>
Investing	(218,669)	(264,092)	45,423	<p>Capital investment in the first quarter of 2020 was primarily related to construction activities associated with the Wapiti and Pipestone gas plants and Wildhorse terminal projects as described in the "Segmented Results of Operations" section of this MD&A.</p> <p>Compared to the first quarter of 2019, capital spending on the Wapiti and Wildhorse terminal projects was lower in 2020.</p>
Financing	(75,775)	54,653	(130,428)	<p>Cash generated from operations was significantly higher in 2020 compared to 2019, thereby reducing funding requirements for Keyera's capital expenditures while allowing for the reduction of its credit facility. Keyera reduced its outstanding credit facility balance with a net repayment of \$20 million, compared to net borrowings of \$180 million from its credit facility and a \$70 million senior note repayment during the same period in 2019.</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 months.

A working capital deficit (current assets less current liabilities) of \$101 million existed at March 31, 2020. This is compared to a deficit of \$161 million at December 31, 2019. Keyera has access to a credit facility in the amount of \$1.5 billion, of which \$70 million was drawn as at March 31, 2020, 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

In April, Keyera announced that it was suspending the dividend reinvestment plan (the "Plan"). Shareholders who had been participating in either component of the Plan will receive the full cash dividend declared beginning with the dividend to be paid in May 2020.

Prior to its suspension, the Plan consisted of two components: a Premium Dividend™ ("Premium DRIP") reinvestment component and a regular dividend reinvestment component ("DRIP"). The DRIP component allowed eligible shareholders of Keyera to direct their cash dividends to be reinvested in additional shares issued from treasury at a discount to the Average Market Price (as defined in the Plan) on the applicable dividend date, with no incremental finance costs. The discount on the additional shares issued from treasury was 3% prior to the March 2020 dividend declaration. In March 2020, Keyera amended its Premium Dividend™ and Dividend Reinvestment Plan, reducing the common share discount from 3% to 2%.

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

The DRIP and Premium DRIP generated cash of \$62 million for the three months ended March 31, 2020. In the same period in 2019, the plan generated cash of \$53 million.

Corporate Credit Ratings

In light of the sharp decline in commodity prices and S&P Global's ("S&P") outlook for the industry, in April, S&P lowered Keyera's corporate credit rating from "BBB/stable" to a "BBB-/stable". At the same time, S&P lowered Keyera's medium term notes issued in June 2018 to 'BBB-' from 'BBB', and the rating on its subordinated hybrid notes issued in June 2019 to 'BB' from 'BB+'. Keyera's corporate credit rating and issuer rating on its medium term notes assigned by DBRS Limited ("DBRS") remain unchanged at "BBB" with a "stable" trend. The issuer-rating assigned by DBRS on Keyera's subordinated hybrid notes also remain at "BB (high)". Both credit agencies currently treat the subordinated hybrid notes as 50% equity.

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

Rating agencies will regularly evaluate Keyera, including its financial strength. In addition, factors not entirely within Keyera's control may also be considered, including conditions affecting the industry in which it operates. A credit rating downgrade could impair Keyera's ability to enter into arrangements with suppliers or

counterparties and could limit its access to private and public credit markets in the future and increase the costs of borrowing.

Long-term Debt (including Credit Facilities)

Below is a summary of Keyera's long-term debt obligations as at March 31, 2020:

As at March 31, 2020 (Thousands of Canadian dollars)	Total	2020	2021	2022	2023	2024	After 2024
Credit facilities	70,000	—	—	—	—	70,000	—
Total credit facilities	70,000	—	—	—	—	70,000	—
Canadian dollar denominated debt							
Senior unsecured notes	1,134,000	2,000	—	60,000	30,000	17,000	1,025,000
Senior unsecured medium-term notes	400,000	—	—	—	—	—	400,000
Subordinated hybrid notes	600,000	—	—	—	—	—	600,000
	2,134,000	2,000	—	60,000	30,000	17,000	2,025,000
U.S. dollar denominated debt	615,632	145,436	—	—	—	180,736	289,460
Total debt	2,749,632	147,436	—	60,000	30,000	197,736	2,314,460
Less: current portion of long-term debt	(147,436)	(147,436)	—	—	—	—	—
Total long-term debt	2,602,196	—	—	60,000	30,000	197,736	2,314,460

Credit Facilities

Keyera has an unsecured revolving Credit Facility with a syndicate of eight lenders under which it can borrow up to \$1.5 billion, with the potential to increase that limit to \$1.85 billion subject to certain conditions. As at March 31, 2020, \$70 million was drawn under this facility (December 31, 2019 – \$90 million).

In December 2019, the Credit Facility was amended to extend the term from December 6, 2023 to December 6, 2024. Management expects to extend the Credit Facility prior to maturity, and in the event of reaching maturity, expects an adequate replacement will be established.

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

Long-term Debt

Keyera's long term debt structure consists of a number of senior unsecured notes, medium-term notes and subordinated hybrid notes. In June 2019, Keyera issued \$600 million of fixed-to-floating rate subordinated hybrid notes due June 13, 2079 in the Canadian public debt market which receive 50% equity treatment by Keyera's rating agencies. The subordinated notes were issued under Keyera's short form base shelf prospectus and a prospectus supplement dated June 11, 2019. The interest rate of 6.875% is payable in equal semi-annual payments for the period December 13, 2019 to June 13, 2029.

As at March 31, 2020, Keyera had \$2,134 million and US\$436 million of long-term debt. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at March 31, 2020, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of \$1.0425, \$0.9838 and \$1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled, "Net Foreign Currency Gain (Loss) on U.S. Debt and Other", provides more information.

The Credit Facility, senior note agreements, and note indenture for the medium-term notes contain a number of covenants, all of which were met as at March 31, 2020. The agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for Keyera's private senior unsecured notes and its Credit Facility is a Net Debt to Adjusted EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to: i) include senior debt; ii) deduct working capital surpluses or add working capital deficits; and iii) utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date.

As at March 31, 2020, Keyera's Net Debt to Adjusted EBITDA ratio was 1.9x for covenant test purposes (December 31, 2019 – 2.2x). The covenant test used for debt purposes excludes 100% of the \$600 million subordinated hybrid note in the calculation. As a long-term target, Keyera's objective is to maintain a Net Debt to Adjusted EBITDA ratio of between 2.5x to 3.0x, including 50% of any subordinated hybrid notes and preferred shares as debt. This range results in a leverage profile that supports Keyera's investment grade credit ratings. Using this approach, the Net Debt to Adjusted EBITDA ratio at March 31, 2020 was 2.2x (December 31, 2019 was 2.7x).

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three months ended March 31, 2020 and 2019:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Acquisitions	—	217
Growth capital expenditures	210,614	290,549
Maintenance capital expenditures	8,208	7,358
Total capital expenditures	218,822	298,124

Growth capital expenditures for the three months ended March 31, 2020 amounted to \$211 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 2020 and since inception of the project, and estimated completion timeframes.

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 \$13 million for the three months ended March 31, 2020, \$4 million higher than the same period in the prior year.

At December 31, 2019, Keyera had a \$2.9 billion capital program underway. Excluding KAPS, the capital program has an estimated total cost of \$2.2 billion with the majority of projects dedicated to establishing a strong position in the liquids-rich Montney and Duvernay development areas. Of this capital program, approximately \$1.9 billion has been expended since inception. The \$2.2 billion growth capital program is expected to earn an annual return on capital of 10% to 15% in 2022, once all projects achieve their annual run rate. This return on capital estimate is unchanged from the December 31, 2019 year end MD&A. However, if current market conditions persist for an extended period of time, actual returns in 2022 may fall below this estimated range.

With the recently announced one-year deferral of KAPS, this project is now anticipated to earn an annual return on capital of 10% to 15% starting in 2025. This assumes the project is completed on a timely basis and assumes energy demand and commodity prices recover from current levels.

Readers are referred to the section of the MD&A titled, "Forward-Looking Statements" for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

Funds from Operations and Distributable Cash Flow

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

Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. Deducted from the determination of distributable cash flow are maintenance capital expenditures, lease expenditures and inventory write-downs.

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

Funds from Operations and Distributable Cash Flow (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Cash flow from operating activities	316,684	223,809
Add (deduct):		
Changes in non-cash working capital	(30,336)	(95,243)
Funds from operations	286,348	128,566
Maintenance capital	(8,208)	(7,358)
Leases	(12,316)	(13,260)
Inventory write-down	(12,785)	—
Distributable cash flow	253,039	107,948
Dividends declared to shareholders	105,212	95,299
Payout ratio	42%	88%

Distributable cash flow in the first quarter of 2020 was \$253 million, \$145 million higher than the same period in 2019 due to: i) \$144 million in higher realized margin mainly attributable to the Marketing segment, and ii) \$22 million in lower LTIP expenses. Partly offsetting these factors were inventory write-downs of \$13 million and \$11 million in higher finance costs in 2020.

Dividend Policy

Keyera increased its dividend by 7% from \$0.15 per share per month to \$0.16 per share per month, or \$1.92 per share annually, beginning with its dividend paid on September 16, 2019. In determining the level of cash dividends to shareholders, Keyera's board of directors considers current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

Keyera expects to pay dividends from distributable cash flow; however, credit facilities may be used to stabilize dividends from time to time. Growth capital expenditures will be funded from cash, retained operating cash flow, and additional debt or equity, as required. Although Keyera intends to continue to make regular, monthly cash dividends to its shareholders, these dividends are not guaranteed. For a more detailed discussion of the risks that could affect the level of cash dividends, refer to Keyera's Annual Information Form available at www.sedar.com.

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

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

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

EBITDA (Thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
Net earnings¹	85,608	34,952
Add (deduct):		
Finance costs ¹	31,136	19,853
Depreciation, depletion and amortization expenses ¹	52,230	61,429
Income tax expense ¹	31,861	10,859
EBITDA	200,835	127,093
Unrealized (gain) loss on commodity contracts	(79,734)	41,155
Net foreign currency loss (gain) on U.S. debt and other	12,013	(3,838)
Impairment expense	194,001	—
Adjusted EBITDA	327,115	164,410

Notes:

¹ 2019 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. There were no material changes in contractual obligations since the December 31, 2019 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, 2019 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, 2019 MD&A and Keyera's Annual Information Form dated February 26, 2020, which are available on SEDAR at www.sedar.com.

Risks related to the COVID-19 pandemic

Keyera's business operations and financial condition may be materially adversely affected by public health emergencies, including the COVID-19 pandemic, and related government responses. The risk of COVID-19 to Keyera includes the health and safety of its employees and contractors; the temporary suspension of operations in geographic locations in which Keyera operates; operational restrictions and restrictions on gatherings of individuals; delays in the completion, or deferral, of growth and expansion projects; counterparty credit risk; volatility in financial and commodity markets; and supply chain disruptions, all or any of which could materially adversely affect Keyera's business operations and financial results.

In the event that the spread (or fear of spreading) of COVID-19 continues, governments may increase or extend restrictions, directives, orders or regulations that could adversely affect Keyera's operations, suppliers, customers, counterparties, shippers or partners, employee health, workforce productivity, insurance premiums and coverage, and ability to advance its existing and future growth projects or carry out its ongoing business plan.

Keyera is monitoring recommendations from applicable government agencies and public health authorities to ensure the continued safe operation of its business operations and has implemented business continuity plans and steps to ensure the ongoing health of its workforce. However, such measures may not be effective, necessitating the closure of the affected facilities or projects. Such measures and mandates may increase Keyera's expenses and limit, or potentially suspend, throughput volumes and processing handling capabilities at Keyera's facilities.

The full extent, effect and duration of the COVID-19 pandemic is unknown at this time and the degree to which it may affect Keyera's business operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted with any degree of confidence.

Depending on the duration and severity of the COVID-19 pandemic, such events may increase the effect of the other risks described in Keyera's December 31, 2019 MD&A and Annual Information Form dated February 26, 2020, including, but not limited to, risks relating to the successful completion of Keyera's growth and expansion projects and expected return on investments; its ability to maintain its credit ratings; restricted access to capital and increased borrowing costs; its ability to pay dividends and service obligations under its debt securities and other debt obligations; and otherwise complying with Keyera's existing debt covenants.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

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

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

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

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018
Revenue¹								
Gathering and Processing	128,759	143,736	133,057	120,012	116,647	125,511	117,588	107,998
Liquids Infrastructure	144,787	142,885	137,657	130,955	132,821	128,980	123,701	115,880
Marketing	873,163	783,899	644,141	785,736	665,981	961,490	991,777	927,554
Other	3,486	5,772	3,338	5,570	6,487	5,696	6,578	5,921
Operating margin (loss)								
Gathering and Processing	64,471	80,878	74,803	69,713	68,322	73,530	63,855	63,901
Liquids Infrastructure	102,122	91,305	98,085	92,560	94,450	83,768	82,314	76,571
Marketing	246,023	87,375	138,262	117,479	(18,128)	156,623	69,618	74,137
Other	67	2,883	252	2,513	3,381	2,902	3,681	2,886
Operating margin	412,683	262,441	311,402	282,265	148,025	316,823	219,468	217,495
Realized margin²								
Gathering and Processing	64,471	80,910	74,851	69,707	68,912	73,599	64,105	63,997
Liquids Infrastructure	103,082	91,628	98,535	92,655	94,438	83,999	83,407	76,997
Marketing	165,024	120,008	115,734	114,687	22,471	105,598	42,704	90,409
Other	372	2,913	388	2,531	3,359	2,381	3,171	3,460
Realized margin²	332,949	295,459	289,508	279,580	189,180	265,577	193,387	234,863
Net earnings³	85,608	29,718	154,428	224,511	34,952	165,946	40,389	107,774
Net earnings per share³ (\$/share)								
Basic	0.39	0.14	0.72	1.05	0.17	0.79	0.19	0.52
Diluted	0.39	0.14	0.72	1.05	0.17	0.79	0.19	0.52
Weighted average common shares (basic)	218,860	216,938	215,016	213,239	211,480	209,585	208,037	206,646
Weighted average common shares (diluted)	218,860	216,938	215,016	213,239	211,480	209,585	208,037	206,646
Dividends declared to shareholders	105,212	104,280	101,198	96,085	95,299	94,437	91,645	86,882

Note:

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

² Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, "Segmented Results of Operations: Marketing", for a reconciliation of operating margin to realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes \$1,265 of unrealized losses from commodity-related risk management contracts for the three months ended March 31, 2020 (three months ended March 31, 2019 – \$556 unrealized losses).

³ Comparative 2019 and 2018 periods have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

For the periods in the table above, Keyera's results were affected by the following factors and trends:

- incremental margin from new investments including the Base Line Terminal, the Wapiti gas plant and related infrastructure, and the Pipestone liquids hub;
- declining volumes and fees for certain gas plants in the south portfolio of the Gathering and Processing segment that has led to asset impairments;
- growth in demand for diluent handling services in the Liquids Infrastructure segment backed by long-term, take-or-pay contracts with credit worthy counterparties;
- strong demand and market fundamentals for iso-octane in the Marketing segment;

- a prudent and effective risk management program; and
- a steady increase to dividends declared to shareholders.

See the section of this MD&A, “Segmented Results of Operations”, for more information on the financial results of Keyera’s operating segments for the three months ended March 31, 2020.

VOLUNTARY CHANGE IN ACCOUNTING POLICY

As detailed in note 2 of the most recent annual consolidated financial statements, effective December 31, 2019, Keyera voluntarily changed its accounting policy for decommissioning liabilities to utilize a credit-adjusted risk-free interest rate instead of a risk-free interest rate to determine the present value of the liability at each statement of financial position date. This change in accounting policy was applied retrospectively, including the restatement of certain comparative amounts in the accompanying condensed interim consolidated financial statements, which have been summarized below.

Reconciliation of the Condensed Interim Consolidated Statement of Net Earnings and Comprehensive Income

For the period ended March 31, 2019 <i>(Thousands of Canadian dollars)</i>	Previous accounting policy	Adjustments	Restated
Finance costs	19,869	(16)	19,853
Depreciation, depletion and amortization expenses	62,953	(1,524)	61,429
Income tax expense	10,472	387	10,859
Net earnings	33,799	1,153	34,952
Earnings per share			
Basic earnings per share	0.16	0.01	0.17
Diluted earnings per share	0.16	0.01	0.17

Reconciliation of the Condensed Interim Consolidated Statement of Cash Flows

For the period ended March 31, 2019 <i>(Thousands of Canadian dollars)</i>	Previous accounting policy	Adjustments	Restated
Net earnings	33,799	1,153	34,952
Items not affecting cash	95,067	(1,153)	93,914

ADOPTION OF NEW STANDARDS

There were no new IFRS standards adopted by Keyera during the quarter.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of March 31, 2020, 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, 2020 and ending March 31, 2020 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

During the three months ended March 31, 2020, there were 1,988,946 common shares issued under the DRIP and the Premium DRIP for consideration of \$62 million, bringing the total common shares outstanding at March 31, 2020 to 219,904,739.

Subsequent to March 31, 2020, 1,118,134 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of \$16 million, bringing the total common shares outstanding at May 12, 2020 to 221,022,873.

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); payout ratio (defined as dividends declared to shareholders divided by distributable cash flow); 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, net foreign currency gains/losses on U.S. debt and other, 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); annual return on capital (defined as realized margin divided by weighted average in-service growth capital including maintenance capital and excluding decommissioning assets, depreciation, impairments, and work-in-progress capital); annual return on capital for the growth capital program excluding KAPS (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); annual return on capital for the KAPS project (defined as expected operating margin divided by the estimated capital cost for the development of the KAPS project); and compound annual growth rate for distributable cash flow per share, calculated as:

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

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

FORWARD-LOOKING STATEMENTS

In order to provide readers with information regarding Keyera, including its assessment of future plans, 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. Forward looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "plan", "intend", "believe", and similar expressions, including the negatives thereof. 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, the integrity and reliability of Keyera's assets, and the governmental, regulatory and legal environment. In some instances, forward-looking statements contained herein may be attributed to third party sources. Management believes that its assumptions and analysis herein are reasonable and that the expectations reflected in the forward-looking statements contained herein are also reasonable based on the information available on the date such statements were made, and the process used to prepare the information. 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: Keyera's ability to implement its strategic priorities and business plan and achieve the expected benefits; general economic, market and industry conditions; activities of customers, producers and other facility owners; operational hazards and performance; the effectiveness of Keyera's risk management programs; competition; changes in commodity composition and prices, inventory levels, supply/demand trends and other market conditions and factors; global pandemics (including COVID-19); regional or global conflicts; processing and marketing margins; climate change risks, including the effects of unusual weather and natural catastrophes; climate change effects and regulatory and market compliance and other costs associated with climate change; variables associated with capital projects, including costs and timing; fluctuations in interest, tax and foreign currency exchange rates; counterparty performance and credit risk; changes in operating and capital costs; costs and availability of financing; ability to expand, update and adapt infrastructure on a timely and effective basis; decommissioning, abandonment and reclamation costs; reliance on key personnel and third parties including joint venture partners and third-party facility owners; relationships with external stakeholders, including Indigenous stakeholders; technology, security and cybersecurity risks; potential litigation and disputes; uninsured and underinsured losses; ability to service debt and pay dividends; changes in credit rating; reputational risks; changes in environmental and other laws and regulations; actions by government authorities; 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 26, 2020, filed on SEDAR at www.sedar.com and available on the Keyera website at www.keyera.com. Further, because there is interconnectivity between many of the risks Keyera faces, it is possible that different constellations of risk could materialize which could result in unanticipated outcomes or consequences.

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

In addition to the factors referenced above, Keyera's expectations with respect to future returns associated with: (i) the growth capital projects that have been sanctioned and are in development as of the date hereof,

and (ii) the KAPS project, are based on a number of assumptions, estimates and projections that have been developed based on past experience and anticipated trends, including but not limited to: capital cost estimates assuming no material unforeseen costs; timing for completion of growth capital projects; customer performance of contractual obligations; reliability of production profiles; commodity prices, margins and volumes; tax and interest rates; availability of capital at attractive prices; and no changes in regulatory or approval requirements, including no delay in securing any outstanding regulatory approvals.

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

Readers are cautioned that the foregoing is not exhaustive, that they should not unduly rely on these forward looking statements, that the information contained in the forward-looking statements may not be appropriate for other purposes and that the forward looking statements in this document speak only as of the date hereof. Unless required by law, Keyera does not intend and does not assume any obligation to update its forward looking statements. All forward looking statements contained herein or in the accompanying documents are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements and management’s assumptions and analysis thereof, is available in filings made by Keyera with Canadian provincial securities commissions, which can be viewed on SEDAR at www.sedar.com.