May 10, 2016

2016 First Quarter Report

For the period ended March 31, 2016

HIGHLIGHTS

- Keyera delivered strong financial results in the first quarter of 2016, generating adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1,2] of $145 million, as compared to $185 million in the same quarter last year, when non-recurring cash gains of approximately $40 million were realized for the settlement of risk management contracts that were put in place to protect the value of inventory at the end of 2014.
- Net earnings were $70 million ($0.41 per share) for the first quarter compared to $57 million ($0.33 per share) in the same period in 2015.
- All three business segments performed well for the three months ended March 31, 2016 with the Liquids Infrastructure segment setting a new quarterly record for operating margin[3].
- The Gathering and Processing Business Unit generated an operating margin[3] of $68 million in the first quarter of the year (Q1 2015 - $60 million) as gross average throughput volumes remained steady at 1,558 million cubic feet per day compared to 1,541 million cubic feet per day in the previous quarter and 1,528 million cubic feet per day in the first quarter of 2015.
- The Liquids Infrastructure segment's record operating margin[3] was $62 million (Q1 2015 - $54 million) for the quarter, as its capital investments in de-ethanization, storage, transportation and condensate assets generated incremental margin.
- The Marketing segment reported an operating margin[3] of $44 million (Q1 2015 - $36 million) even with lower iso-octane sales volumes due to some unscheduled downtime at Alberta EnviroFuels ("AEF").
- Distributable cash flow[1,2] was $116 million ($0.68 per share) for the quarter, compared to $140 million ($0.83 per share[3]) recorded in the first quarter of 2015, when non-recurring cash gains of approximately $40 million were realized.
- Keyera maintained its strong financial position with a payout ratio[1] of 56% for the first quarter and a net debt to Adjusted EBITDA[1,2] ratio of 2.4 times at March 31, 2016.
- During the first quarter of 2016, total growth capital investment[4] was $143 million, including $32 million for a pipeline, further enhancing Keyera's Hull Terminal infrastructure in the Gulf Coast of the United States.
- Major capital projects under construction are currently on schedule and costs are trending lower than budgeted. The new fractionator at Keyera's Fort Saskatchewan complex is currently being commissioned and we expect to begin commercial operations by June.
- In 2016, Keyera expects growth capital investments[4], excluding acquisitions, to be approximately $600 million, with the majority of this investment focused on Liquids Infrastructure projects backed by customer agreements.

1 See "Non-GAAP Financial Measures" on pages 33-34 of the MD&A.
2 See pages 29 and 30 of the MD&A for a reconciliation of distributable cash flow to cash flow from operating activities and Adjusted EBITDA to net earnings.
3 See note 12 to the accompanying financial statements.
4 See "Capital Expenditures and Acquisitions" on page 28 of the MD&A for further discussion of Keyera's capital investment program.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended March 31,** **2016**	 2015
Net earnings	**70,131**	56,580
Per share ($/share) – basic	**0.41**	0.33
Cash flow from operating activities	**177,691**	277,563
Distributable cash flow[1]	**116,449**	139,794
Per share ($/share)	**0.68**	0.83
Dividends declared	**64,662**	55,769
Per share ($/share)	**0.38**	0.33
Payout ratio %[1]	**56%**	40%
Adjusted EBITDA[2]	**145,062**	184,507
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,558**	1,528
Net processing throughput (MMcf/d)	**1,193**	1,230
Liquids Infrastructure[4]:		
Gross fractionation throughput (Mbbl/d)	**145**	128
Net fractionation throughput (Mbbl/d)	**52**	36
AEF iso-octane production volumes (Mbbl/d)	**11**	13
Marketing:		
Inventory value	**54,340**	81,929
Sales volumes (bbl/d)	**134,800**	119,300
Acquisitions	**32,160**	2,815
Growth capital expenditures	**110,846**	209,929
Maintenance capital expenditures	**6,147**	4,304
Total capital expenditures	**149,153**	217,048

	As at March 31, **2016**	 2015
Long-term debt	**1,118,646**	1,205,274
Credit facilities	**368,877**	30,000
Working capital deficit (surplus)[3]	**117,593**	124,375
Net debt	**1,605,116**	1,359,649
Common shares outstanding – end of period	**172,794**	169,152
Weighted average number of shares outstanding – basic	**172,258**	168,915
Weighted average number of shares outstanding – diluted	**172,258**	168,915

Notes:

[1] Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow. Payout ratio and distributable cash flow are not standard measures under Generally Accepted Accounting Principles ("GAAP"). See page 29 for a reconciliation of distributable cash flow to its most closely related GAAP measure.

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

[3] Working capital is defined as current assets less current liabilities.

[4] Fractionation throughput in the Liquids Infrastructure segment is the aggregation of volumes processed through the fractionators and the de-ethanizers at the Keyera and Dow Fort Saskatchewan facilities.

Message to Shareholders

Keyera continued to generate strong financial results in the first quarter of 2016, reflecting the effectiveness of our strategy and our strategically located network of gas plants, pipelines and facilities. Although oil and natural gas prices reached new lows in the quarter, our results were predominantly driven by our fee-for-service business model and contributions from our growth capital program. Keyera reported Adjusted EBITDA of $145 million for the first quarter of 2016 and Distributable Cash Flow of $116 million. Our financial results for the three months ended March 31, 2016 were comparable to the same period last year after excluding non-recurring cash gains of approximately $40 million that were included in the first quarter of 2015.

While we recognize that the persistent low commodity price environment is challenging for our industry, Keyera takes a long-term view of our business. During the quarter, we continued working with customers to provide efficient and cost-effective services and progressing our growth capital projects that are expected to generate the next level of incremental cash flow growth. The combination of our disciplined strategy, integrated asset base and strong balance sheet positions Keyera to weather the downturn, pursue opportunities, respond quickly to a recovery and create shareholder value.

Gathering and Processing Business Unit

The Gathering and Processing Business Unit reported strong results in the first quarter of 2016 even with producers significantly reducing drilling activity. Overall, Keyera’s average gross throughput volumes have remained steady since the beginning of this economic downturn. In the first quarter of 2016, gross throughput volumes averaged 1,558 million cubic feet per day, slightly over the 1,541 million cubic feet per day in the prior quarter, as a significant portion of previously curtailed volumes on the TCPL system returned to Keyera’s gas plants for processing. These throughput volume gains were partially offset by natural production declines, reduced drilling activity and some producers shutting in gas due to the low commodity price environment. We estimate that the amount of gas shut-in for the first quarter of 2016 was approximately 2% of our gross throughput volumes.

With volumes holding relatively steady and incremental cash flow from recently completed expansion projects and new gas plants, operating margin was $68 million in the first quarter, which represented a 13% increase over the same period in 2015. This segment’s strong results confirm that Keyera’s gathering and processing assets are located in the areas of the Western Canada Sedimentary Basin where producers remain active. We continue to work with our customers to deliver cost-effective and value-added services to help enhance their economics while at the same time increasing throughputs and efficiencies at our facilities.

Liquids Business Unit - Liquids Infrastructure Segment

The Liquids Infrastructure segment reported a record quarter, delivering an operating margin of $62 million for the three months ended March 31, 2016 compared to $54 million for the same period last year. The main drivers for the growth include the incremental cash flows generated from recent capital investments and from increased volumes being handled through our industry-leading condensate system. Demand for our diluent handling services has remained strong as several large scale oil sands projects became operational in 2015. With multiple oil sands projects under construction and planned to come on stream over the next two years, we expect continued demand growth for our diluent transportation, storage and terminalling services in the Edmonton/Fort Saskatchewan area into 2018.

At our Keyera Fort Saskatchewan (“KFS”) complex, the 35,000 barrel per day fractionation expansion is on schedule and under budget, with commissioning currently underway and commercial operations expected by June. We expect our cash flow from fractionation services to grow as the expansion is supported by several long-term contracts.

Supporting meaningful future cash flow growth, a number of capital projects are proceeding on schedule, including the Norlite diluent pipeline joint venture with Enbridge, the Base Line Terminal above ground storage joint venture with Kinder Morgan and the South Grand Rapids diluent pipeline joint venture with

TransCanada PipeLines and Brion Energy. These projects are supported by customer demand and continue to expand and enhance our asset base in the Edmonton/Fort Saskatchewan area. As demand for NGL storage continues to be strong, we are also progressing with the next phase of our cavern development program and expect to begin drilling our 16th and 17th caverns in the second half of this year.

During the quarter, we acquired a pipeline in east Texas for approximately US$24 million to further enhance Keyera's Hull Terminal infrastructure in the Gulf Coast of the United States. The pipeline originates at ExxonMobil's petrochemical facility in Beaumont, extends through Keyera's Hull terminal and ends near Mont Belvieu, North America's largest NGL hub. This pipeline is expected to provide Keyera with proprietary access to transport NGL mix and specification products in and out of the Mont Belvieu area starting by 2018, assuming commercial agreements and pipeline connections are in place.

Liquids Business Unit - Marketing Segment

The Marketing segment once again delivered solid results in a challenging price environment by leveraging Keyera's strategically located storage and transportation assets while managing risk effectively. Operating margin was $44 million in the first quarter of 2016 compared to $36 million in the same period last year. All products handled by the Marketing group (ethane, propane, butane, condensate and iso-octane) contributed positively, although iso-octane volumes were lower as AEF operated at approximately 80% of its capacity during the quarter due to unscheduled downtime. In the fall, iso-octane sales volumes will be lower as we have a six-week maintenance turnaround at AEF scheduled to begin in September.

Outlook

While the difficult economic environment persists for the energy sector, the recent devastating wildfires in the Fort McMurray area have added even more challenges. The residents of Fort McMurray are facing daunting hardships, and thousands of workers who rely on the oil and gas industry are struggling. At Keyera, we will do our part to assist our communities, our industry and our fellow Canadians through this difficult period.

Reflecting on the quarter, I am proud of Keyera's performance as we continue to provide steady results. Our success is a reflection of our disciplined approach and our high-quality assets, and we are managing the business for the long term, working with customers to provide efficient and cost-effective midstream solutions. We continue to invest in assets that strengthen our core infrastructure, provide operational flexibility and are expected to generate a steady stream of cash flows. We also take a conservative approach to our capital structure, which provides us with a solid foundation, access to capital, and the financial flexibility to fund our 2016 capital program and take advantage of acquisition opportunities.

On behalf of Keyera's directors and management team, I would like to thank our employees, customers, shareholders and other stakeholders for their continued support. I am confident that we will weather this low commodity price environment while creating long-term growth and value for shareholders.

David G. Smith
President & Chief Executive Officer
Keyera Corp.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of May 10, 2016, 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 Corp. for the three months ended March 31, 2016, and the notes thereto as well as the audited consolidated financial statements of Keyera Corp. for the year ended December 31, 2015, and the related MD&A. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

Keyera operates one of the largest midstream businesses in Canada. Midstream entities operate in the oil and gas industry between the upstream sector, which includes oil and gas exploration and production businesses, and the downstream sector, which includes the refining, distribution and marketing of finished products. Keyera is organized into two integrated business units:

1. Gathering and Processing Business Unit – Keyera owns and operates raw gas gathering pipelines and processing plants, which collect and process raw natural gas, remove waste products and separate the economic components, primarily natural gas liquids ("NGLs"), before the sales gas is injected into long-distance pipeline systems for transportation to end-use markets.

2. Liquids Business Unit, consisting of the following operating segments:

   Liquids Infrastructure (formerly referred to as NGL Infrastructure) – Keyera owns and operates a network of facilities for the processing, storage and transportation of the by-products of natural gas processing, including NGLs such as ethane, propane, butane and condensate. In addition, this segment includes Keyera's iso-octane facilities also referred to as Alberta EnviroFuels ("AEF") and facilities for handling crude oil.

   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 crude oil midstream activities.

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
(Thousands of Canadian dollars, except per share data)	**2016**	2015
Net earnings	**70,131**	56,580
Net earnings per share (basic)	**0.41**	0.33
Total operating margin[1]	**175,786**	154,051
Adjusted EBITDA[2]	**145,062**	184,507
Cash flow from operating activities	**177,691**	277,563
Distributable cash flow[3]	**116,449**	139,794
Distributable cash flow per share[2,3] (basic)	**0.68**	0.83
Dividends declared	**64,662**	55,769
Dividends declared per share	**0.38**	0.33

Notes:

1 Total operating margin refers to total operating revenues less total operating expenses and general and administrative expenses associated with the Marketing segment. See note 12 of the accompanying financial statements.

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

3 Distributable cash flow is not a standard measure under GAAP. See the section titled, "Dividends: Distributable Cash Flow", for a reconciliation of distributable cash flow to its most closely related GAAP measure.

Keyera recorded strong financial results for the three months ended March 31, 2016. Despite continued low commodity prices, each of Keyera's business segments performed well in the first quarter of 2016 and the Liquids Infrastructure segment set a new record for operating margin. As described in more detail below, these strong results were achieved largely due to the strategic location and capabilities of Keyera's gas plants and Liquids Infrastructure assets, its effective and disciplined approach to risk management in its Marketing business, and incremental cash flow generated from several major capital projects that were completed in 2015.

Net Earnings

For the quarter ended March 31, 2016, net earnings were $70 million, $14 million higher than the same period in 2015. Higher net earnings were achieved in 2016 due to $22 million in higher operating margin from all business segments and a $6 million lower long-term incentive plan expense. Partly offsetting these positive variances were: i) higher general and administration costs that included a $6 million charge to write-off previously capitalized project engineering costs that have a lower probability of proceeding and ii) approximately $6 million in higher depreciation charges associated with the growth in Keyera's asset base.

See the section of this MD&A titled, "Non-Operating Expenses and Other Income", for more information related to these charges.

Operating Margin

Keyera recorded strong operating results in the first three months of 2016 despite the ongoing low commodity price environment and low producer activity in Alberta. Operating margin for the quarter ended March 31, 2016 was $176 million, $22 million higher than the same period in 2015. This achievement was a result of:

- Approximately $18 million of incremental cash flow from Keyera's recent investments in strategic assets, some of which included the turbo expander and fractionation expansion at the Rimbey gas plant, the Twin Rivers pipeline system that is delivering additional volume to the Brazeau River and West Pembina gas plants, and the de-ethanizer facility at Fort Saskatchewan;

- higher volumes and operating margin from Keyera's condensate network resulting from long-term, take-or-pay arrangements with several oil sands producers;

- solid iso-octane margins resulting from favourable butane prices (the primary feedstock for iso-octane); and

- Keyera's effective and disciplined approach to risk management in its Marketing business.

The growth in operating margin in the first quarter of 2016 was achieved despite lower iso-octane production at the AEF facility as well as higher rail car lease costs in Keyera's Marketing business. See the section titled "Segmented Results of Operations" for more information on operating results by segment.

Cash Flow Metrics

Cash flow metrics were also strong in the first quarter of 2016. For the three months ended March 31, 2016, cash flow from operating activities was $178 million, $100 million lower than the same period last year due to the following:

- a higher cash requirement to fund inventory in the first quarter of 2016 compared to the same period last year. Although NGL prices continued to trend downward in 2016, the decline in commodity prices was of a greater magnitude in the first quarter of 2015; and

- approximately $40 million of realized cash gains that were included in the 2015 financial results. These one-time realized cash gains related to the settlement of financial and physical risk management contracts that were put in place to protect the value of inventory existing at the end of 2014.

In the determination of distributable cash flow, changes in non-cash working capital are excluded because they are primarily the result of seasonal fluctuations in product inventories. Also deducted from distributable cash flow are maintenance capital expenditures and the long-term incentive plan expense, which are funded from current operating cash flow. Refer to the section of this MD&A titled, "Dividends: Distributable Cash Flow", for a reconciliation of cash flow from operating activities to distributable cash flow.

Distributable cash flow for the three months ended March 31, 2016 was $116 million, $23 million lower than the same period in 2015. The effect of higher operating results in 2016 was more than offset by the effect of the one-time $40 million cash gain from the settlement of financial and physical risk management contracts that were included in the 2015 financial results.

SEGMENTED RESULTS OF OPERATIONS

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

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. These segment measures of profitability for the three months ended March 31, 2016 and 2015 are reported in note 12, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 17 active gas plants in western Canada and is operator of 15 of these facilities, making it one of the largest gas processors in Alberta. 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. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

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

Operating Margin and Throughput Information	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Revenue including inter-segment transactions	**115,634**	106,738
Operating expenses	**(47,436)**	(46,592)
Operating margin	**68,198**	60,146
Gross processing throughput – (MMcf/d)	**1,558**	1,528
Net processing throughput[1] – (MMcf/d)	**1,193**	1,230

Note:
[1] Net processing throughput refers to Keyera's share of raw gas processed at its processing facilities.

Operating Margin and Revenues

The Gathering and Processing segment recorded strong financial results in the first quarter of 2016, despite the continued low commodity price environment and the significant decline in producer drilling activity in Alberta. Operating margin for the three months ended March 31, 2016 was $68 million, $8 million higher than the same period in 2015. The higher operating margin in 2016 compared to the same period last year was largely due to approximately $13 million of incremental cash flow associated with the following projects that came on stream in 2015:

- the Twin Rivers pipeline system that was operational in April 2015 and is delivering additional volume to the Brazeau River and West Pembina gas plants;
- the Rimbey turbo expander and fractionation expansion that was operational in July 2015 and is also providing ethane sales revenue under a long-term contract; and
- the new Alder Flats and Zeta Creek gas plants that were operational in May and September 2015 respectively.

The effect of incremental cash flows generated from new investments in the first quarter of 2016 compared to the same period in 2015 was partly offset by the following:

- $3 million in lower revenue at the Strachan gas plant as the first quarter of 2015 revenue included the recovery of turnaround costs. The cost of the turnaround that was completed in 2014 was fully recovered through higher operating fees by the end of 2015;

- $1 million in higher operating expenses at the Caribou gas plant that ceased operations effective December 1, 2015; and
- $3 million in one-time upward adjustments to revenue that were included in the first quarter of 2015 financial results for the Simonette gas plant.

Gathering and Processing revenues for the three months ended March 31, 2016 was $116 million, $9 million higher than the same period in 2015. The variance in revenues was largely due to the same factors that contributed to the variance in operating margin for the respective periods.

Gathering and Processing Activity

In general, the Gathering and Processing segment is a volume driven business, with operating margin and cash flow influenced by the throughput flowing through its gas plants for processing. Overall, throughput at Keyera's gas plants remained stable in the first quarter of 2016 as gross processing throughput was 1,558 million cubic feet per day, 1% higher than the fourth quarter of 2015. In 2015, several of Keyera's gas plants were affected by the TransCanada sales gas pipeline restrictions. As these restrictions were lifted in December 2015, a significant portion of the previously curtailed volumes have returned to Keyera's gas plants for processing. As an indication, the Brazeau River, Minnehik Buck Lake and Strachan gas plants were the three facilities most affected by the TransCanada restrictions in 2015. Gross processing throughput for these three facilities combined were approximately 15% higher in the first quarter of 2016 compared to the fourth quarter of 2015. However, TransCanada has indicated that they plan to continue their maintenance program in the second and third quarters of 2016, which may affect volumes at some of our facilities.

Although a significant portion of previously curtailed volumes have returned to Keyera's gas plants, lower throughputs have been seen in certain other areas. Keyera estimates that the amount of gas shut in by producers was approximately 2% of the average gross throughput for the first quarter of 2016. In addition, throughput at the Rimbey gas plant was down by approximately 6% in the first quarter of 2016 compared to the fourth quarter of 2015. This reduction in volumes was primarily due to a producer diverting a portion of their gas away from the Rimbey gas plant. Keyera is working closely with the producer to develop a mutually economic solution.

A maintenance turnaround is scheduled to be completed at the Nordegg River gas plant in the third quarter for an estimated cost of $5 million. The turnaround at Nevis originally scheduled for 2016 has been deferred. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangement at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

While the current low commodity price environment has significantly reduced overall producer activity in western Canada, Keyera is continuing to work with its producer customers to deliver cost-effective and value-added services intended to help enhance their economics, while at the same time increasing throughput and efficiencies at Keyera's gathering and processing facilities. Although there may be challenges in the short term, Keyera continues to take a long-term view of its business and believes it is well positioned to weather the low commodity price environment. Keyera's gathering and processing facilities are strategically located in some of the most attractive areas of the Western Canada Sedimentary Basin, where producers' geological opportunities continue to be commercially competitive.

Liquids Infrastructure (formerly NGL Infrastructure)

The Liquids Infrastructure segment provides fractionation, storage, transportation 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 facilities;
- pipeline, rail and truck terminals; and
- the AEF facility.

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**Three months ended March 31,**	
	2016	2015
Revenue including inter-segment transactions	**94,101**	83,828
Operating expenses	**(32,000)**	(29,770)
Unrealized loss on electricity and natural gas contracts	**(577)**	(486)
Total operating expenses	**(32,577)**	(30,256)
Operating margin	**61,524**	53,572

Operating Margin and Revenues

For the quarter ended March 31, 2016, the Liquids Infrastructure segment posted record financial results. Operating margin was $62 million, $8 million or 15% higher than the same period in 2015.

The higher financial results were largely due to the following:

- approximately $5 million in incremental margins generated from recent investments, including the de-ethanizer facility that became operational in April 2015 and the Josephburg Rail Terminal that became operational in July 2015;
- approximately $3 million in higher operating margin from Keyera's condensate network, including higher storage revenue resulting from long-term, take-or-pay arrangements with oil sands producers; and

- approximately $2 million in higher processing fees charged to the Marketing segment for the production of iso-octane. The processing fees were increased to include the higher anticipated cost of the scheduled turnaround that will begin in September.

These factors were partly offset by a reduction in tariffs offered to a customer on the Fort Saskatchewan pipeline in the fourth quarter of 2015, to convert a short term contract to a long term commitment for service. The effect of this fee reduction was approximately $2 million in the first quarter of 2016.

Liquids Infrastructure revenues for the three months ended March 31, 2016, were $10 million higher than the same period in 2015, primarily due to the same factors that contributed to higher operating margin.

Liquids Infrastructure Activity

Over the past several years, Keyera has developed significant infrastructure in the Edmonton/Fort Saskatchewan energy hub to enable it to provide NGL services to producers. An example of these investments is the addition of a 30,000 barrel per day de-ethanizer that was completed in 2015 and is generating long-term, fee-for-service revenue. Another example is the fractionation expansion at Fort Saskatchewan that is expected to be operational by June and will add approximately 35,000 barrels per day of incremental fractionation capacity. A significant portion of this additional capacity is supported by long-term agreements, and Keyera's overall fractionation revenue is expected to grow in the second half of the year due to higher volumes. As the new contract year commenced on April 1st, fractionation rates, on average, will be lower compared to the past year due to the current low commodity price environment, low producer activity and incremental fractionation capacity coming on stream in Alberta in the near term.

Demand for storage continues to be strong and revenues are expected to be stable for the remainder of 2016. Consequently, Keyera is progressing with the next phase of its cavern development program and expects to begin drilling its 16th and 17th caverns in the second half of this year. In conjunction with the expansion of Keyera's underground storage caverns, Keyera has commissioned eight water wells to facilitate the washing of caverns at a faster rate. It is Keyera's experience that it takes approximately two and a half years to bring a large cavern into operation from the time of drilling.

In the first quarter of 2016, Keyera acquired a pipeline from Williams Purity Pipelines LLC ("Wiliams") for approximately US$24 million to further enhance its infrastructure in Texas. The pipeline is a 6-inch, 88-kilometre pipeline that originates at ExxonMobil's petrochemical facility in Beaumont, extends through Keyera's Hull terminal and ends near Mont Belvieu, North America's largest NGL hub. This pipeline is expected to provide Keyera with proprietary access to transport NGLs (NGL mix and specification products) in and out of the Mont Belvieu area, and provides further commercial opportunities for Keyera's Marketing segment in the United States. Keyera is currently negotiating commercial arrangements for fractionation and storage services. The total cost to prepare the pipeline for operational purposes, including the construction of pipeline connections, installation of pumps, metering systems, and completion of pipeline repairs and integrity work, is expected to range between US$25 million and US$30 million. The pipeline is anticipated to be in service by 2018, assuming commercial agreements and pipeline connections are in place.

At Keyera's Alberta Diluent Terminal ("ADT"), rail based imports of condensate may be lower for the remainder of 2016 compared to the prior year as sufficient pipeline infrastructure is in place to supply the condensate to meet the near term growth in demand in Alberta. Enbridge's Southern Lights pipeline and Kinder Morgan's Cochin pipeline now provide a substantial amount of the condensate required for the oil sands. Keyera's diluent handling network at Fort Saskatchewan is connected to these supply sources, and Keyera remains the only condensate delivery point in Alberta for the Cochin pipeline. Cash flow is generated as diluent moves through Keyera's network of integrated assets.

Demand for Keyera's diluent handling services has been strong and continues to grow as both new oil sands projects and phased expansions of existing projects commence operation. Keyera has long-term,

take-or-pay agreements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and CNRL. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area. In 2015, Keyera entered into an agreement to purchase the northern segment of a 49-kilometre, 8-inch pipeline that will be converted into condensate service in order to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement (the "North Condensate Connector pipeline"). Acquisition of this pipeline is expected to close in the fourth quarter of this year at a cost of approximately $18 million.

The AEF facility is operated by the Liquids Infrastructure operating segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. During the first quarter of 2016, AEF operated on average at approximately 80% of its capacity due to unscheduled downtime. Beginning in September, AEF is scheduled to be off-line for approximately six weeks to complete a major maintenance turnaround that occurs every four years. The cost of the turnaround is currently estimated to range between $40 million and $45 million, including the replacement of catalyst. Keyera's investment in the maintenance turnaround at AEF is to ensure the facility runs efficiently and reliably for the long term.

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

Capital Projects Status Update – Liquids Infrastructure		
Facility/Area	**Project Description**	**Project Status Update**
Keyera Fort Saskatchewan	***NGL Fractionation Expansion:*** construction of a 35,000 barrel per day C3+ mix fractionation facility, more than doubling the facility's existing capacity to 65,000 barrels per day. The project includes the construction of new receipt facilities, operational storage and pipeline connections.	The fractionation expansion is currently being commissioned and is expected to be operational by June. *Estimated total cost to complete:* • Gross cost is approximately $210 million (Keyera's share is approximately $161 million). • Total cost estimate has trended downward due to project efficiencies and improved labour costs and productivity. *Total net costs incurred by Keyera to March 31, 2016:* • $18 million in the first quarter of 2016 • $143 million since inception

Facility/Area	Project Description	Project Status Update
Keyera Fort Saskatchewan	***Underground Storage Development:*** development of additional underground storage caverns.	Washing of the 14th and 15th caverns continued. The 14th and 15th caverns are anticipated to be in service in the first half and second half of 2017 respectively. Drilling of the well bores for the 16th and 17th caverns is expected to begin in the second half of 2016 subject to the receipt of regulatory approvals.
Edmonton	***Condensate Tanks:*** construction of four condensate storage tanks, each capable of holding approximately 60,000 barrels of product.	Provincial regulatory approvals have been received and site preparation work is currently underway. Construction will begin once municipal development approvals have been received. The tanks are expected to be operational in mid-2017. *Estimated total cost to complete:* • Cost to Keyera of approximately $90 million *Total net costs incurred by Keyera to March 31, 2016:* • $1 million in the first quarter of 2016 • $3 million since inception
Edmonton/Fort Saskatchewan	***North Condensate Connector and South NGL Connector:*** purchase of the northern segment of a 49-kilometre, 8-inch pipeline ("North Condensate Connector"), that will be used to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement. Acquisition of the north segment of the pipeline for approximately $18 million is expected to close in the fourth quarter of 2016. Keyera will lease the southern portion of this pipeline between Edmonton and Fort Saskatchewan to provide increased flexibility and capacity (up to 60,000 barrels per day) for transportation services in the Edmonton/Fort Saskatchewan area ("South NGL Connector").	Keyera expects to incur approximately $50 million of capital cost for connections and other conversion work required for both segments of the pipeline to be put into service. The North Condensate Connector is expected to be in service by January 2017 and the South NGL Connector is expected to be operational in 2018. The acquisition and lease of the pipeline from Praxair Canada Inc. are subject to completion of final due diligence and receipt of regulatory approvals. *Total net costs incurred by Keyera to March 31, 2016:* • $2 million in the first quarter of 2016 • $3 million since inception

Facility/Area	Project Description	Project Status Update
Norlite Pipeline (30/70 joint venture with Enbridge Pipelines (Athabasca) Inc. (“Enbridge”))	***Norlite Pipeline:*** Keyera has committed to participate as a 30% non-operating owner in the Norlite Pipeline which delivers diluent from the Fort Saskatchewan area to certain oil sands projects. Enbridge will construct and operate the pipeline which is expected to be in service mid-2017. The scope includes a 24-inch pipeline, providing an initial capacity of approximately 224,000 barrels per day of diluent and the potential to be further expanded to 400,000 barrels per day of capacity with the addition of pump stations. Keyera’s diluent transportation system in the Fort Saskatchewan area will deliver product into the Norlite Pipeline, providing the Norlite shippers with access to multiple sources of diluent supply.	Winter construction work was completed on schedule by the end of the first quarter of 2016. *Estimated total cost to complete:* • Gross cost as estimated by Enbridge is approximately $1.3 billion (Keyera’s net share is approximately $390 million). *Total net costs incurred by Keyera to March 31, 2016:* • $38 million in the first quarter of 2016 • $102 million since inception
Edmonton (50/50 joint venture with Kinder Morgan)	***Base Line Terminal:*** construction of 12 above ground crude oil storage tanks with the ability to provide customers with 4.8 million barrels of storage capacity. Kinder Morgan will construct the project and operate the terminal once it is in service. The project is expected to be commissioned in phases, with the first tanks scheduled to be commissioned in the second half of 2017, based on the most recent construction schedule.	Regulatory approvals have been received, allowing construction of the tanks to commence in the second quarter. *Estimated total cost to complete:* • Keyera’s net share of costs is approximately $330 million. *Total net costs incurred by Keyera to March 31, 2016:* • *$17 million in the first quarter of 2016* • $27 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)	***South Grand Rapids Pipeline:*** Keyera has committed to acquire a 50% interest in the southern portion of the 20-inch, 45-kilometre diluent Grand Rapids Pipeline when it is completed in 2017. The pipeline will be constructed by Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada PipeLines Limited and Brion Energy Corporation. The pipeline will extend from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal near Fort Saskatchewan. Keyera will be operator of the pipeline. As part of this project, Keyera is constructing a pump station at its Edmonton Terminal where the pipeline will connect. Keyera will sell a 50% ownership interest in the pump station to GRPLP once the pipeline is complete.	Engineering work associated with the pump station progressed in the first quarter of 2016. The pipeline and associated pump station is expected to be in service in the second half of 2017. *Estimated total cost to complete:* • Keyera's 50% share is $110 million for acquisition of the pipeline and $35 million for construction of the pump station for a total combined cost of approximately $145 million. *Total net costs incurred by Keyera to March 31, 2016:* • $1 million in the first quarter of 2016 • $2 million since inception
Edmonton	***Fort Saskatchewan Condensate System Expansion:*** construction of a 24-inch pipeline and manifold that will connect the Norlite Pipeline and the South Grand Rapids Pipeline to Keyera's existing condensate transportation infrastructure.	Construction of the 24-inch pipeline was completed in the first quarter of 2016. Commencement of service on this line will coincide with the startup of the Norlite Pipeline. Engineering work is progressing on the manifold within the Heartland area and this is expected to be incorporated into Keyera's condensate system in the second half of 2017 commensurate with the South Grand Rapids Pipeline operations. *Estimated total cost to complete:* • Cost is expected to range between $40 and $60 million. *Total net costs incurred by Keyera to March 31, 2016:* • $9 million in the first quarter of 2016 • $12 million since inception

Estimated costs and completion times for the projects currently under development that are discussed above assume that construction proceeds as initially planned, that actual costs are in line with estimates and, where required, that regulatory approvals 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 Information", 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, iso-octane and sulphur. Keyera markets products acquired through processing arrangements, term supply agreements and other purchase transactions. Most NGL volumes are purchased under one-year supply contracts typically with terms beginning in April of each year. In addition, Keyera has long-term supply arrangements with several producers for a portion of its NGL supply. Keyera may also source additional condensate or butane, including from the U.S., when market conditions and associated sales contracts are favourable.

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

Propane markets, in contrast, are more seasonal and geographically diverse. Keyera sells propane in various North American markets, often where the only option for delivery is via rail car 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 being exposed to pricing differentials between different geographic markets. These risks are managed by purchasing and selling product at prices based on the same or similar indices or benchmarks, and through physical and financial contracts that include energy-related forward contracts, price swaps, forward currency contracts and other hedging instruments. A more detailed description of the risks associated with the Marketing segment is available in Keyera's Annual Information Form, which is available at www.sedar.com.

Keyera's primary markets for iso-octane are in the Gulf Coast and Midwestern United States, and Western Canada. Demand for iso-octane is seasonal, with higher demand in the summer months resulting in higher sales prices. 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 crude oil midstream activities, where it operates facilities at various locations in Alberta that allow it to transport, process and blend crude oil. A significant proportion of these activities are undertaken as joint ventures, where Keyera obtains access to various crude oil streams. Crude oil midstream margins are earned by blending products of lower value into higher value product streams. As a result, these transactions are exposed to volatility in price and quality differentials between various product streams. Keyera manages this risk by balancing its purchases and sales and locking in margins through its risk management strategies.

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

Operating margin for the Marketing segment was as follows:

Operating Margin and Sales Volumes Information	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Revenue	**459,017**	517,071
Operating expenses including inter-segment transactions	**(414,896)**	(480,811)
Operating margin	**44,121**	36,260
Sales volumes (Bbl/d)	**134,800**	119,300

Composition of Marketing Revenue	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Physical sales	**438,519**	531,664
Realized cash gain on financial contracts[1]	**13,776**	38,706
Unrealized loss due to reversal of financial contracts existing at end of prior period	**(6,178)**	(42,528)
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	**14,210**	(1,832)
Unrealized loss due to reversal of fixed price physical contracts existing at end of prior period	**(1,310)**	(8,845)
Unrealized loss due to fair value of fixed price physical contracts existing at end of current period[2]	**—**	(94)
Total unrealized gain (loss) on risk management contracts	**6,722**	(53,299)
Total gain (loss) on risk management contracts	**20,498**	(14,593)
Total Marketing revenue	**459,017**	517,071

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 and Operating Margin

The Marketing segment recorded solid first quarter 2016 financial results. Operating margin for the quarter ended March 31, 2016 was $44 million, $8 million higher than the same period in 2015. Excluding the effect of non-cash unrealized gains and losses from risk management contracts in both periods, operating margin was $52 million lower in the first quarter of 2016 compared to the same period last year. The factors that contributed to the lower realized operating results in 2016 included the following:

- the inclusion of an approximately $40 million non-recurring cash gain in the first quarter 2015 financial results. This realized cash gain related to the settlement of financial and physical risk management contracts associated with its 2014 year-end inventory;
- lower sales volumes for iso-octane in the first quarter of 2016 resulting from unscheduled downtime at the AEF facility, which operated on average at approximately 80% of capacity in the first quarter of 2016; and

- approximately $6 million in higher lease and storage costs associated with the receipt of previously ordered rail cars and lower rail car utilization. Keyera entered into lease arrangements to increase its rail fleet based on forecast growth in NGL volumes. However, in the current low commodity price environment these volumes have not increased as expected. The unutilized rail car costs are expected to be lower in the second half of the year as Keyera brings on additional fractionation capacity.

Keyera's crude oil midstream business contributed similar operating margin to the first quarter 2016 financial results as in the first quarter of 2015 as blending volumes were stable and positive margins were captured.

In general, gross revenue in the Marketing segment is influenced by sales volumes as well as commodity prices, in particular prices for NGLs and iso-octane. For the quarter ended March 31, 2016, revenue from physical sales was $93 million lower compared to the same period in 2015 due to reduced average prices for all products. As an indication of lower commodity prices, West Texas Intermediate ("WTI") crude oil averaged US$33 per barrel in the first quarter of 2016 compared to an average of US$49 per barrel in the same period of 2015 and NGL prices are generally priced as a percentage of WTI. Sales volumes were higher primarily due to the increase in sales of ethane associated with Keyera's de-ethanizer facility in Fort Saskatchewan that became operational in April 2015. Ethane sales do not contribute a significant amount to operating margin in the Marketing segment.

Market Overview

Margins from the sale of iso-octane were strong in the first quarter of 2016 due to low butane feedstock costs and an effective risk management strategy. Butane feedstock costs in North America are expected to remain soft for the remainder of 2016 due to a surplus of butane inventory in North America. Low butane costs directly benefit iso-octane margins as it takes approximately 1.4 barrels of butane to yield a barrel of iso-octane when the facility is near full utilization. Keyera expects to continue its disciplined approach to risk management for iso-octane for the remainder of 2016. The section below titled, "Risk Management", provides more information related to Keyera's hedging strategy.

Demand for iso-octane typically increases in the summer months as driving activity and gasoline demand increase, which generally results in premium pricing for gasoline and iso-octane. Keyera expects to utilize its logistics capability to deliver iso-octane to markets in the mid-west United States in order to optimize margins. Conversely, in low demand periods, Keyera will typically transport iso-octane to the storage facility it has contracted at Kinder Morgan's Galena Park site in the Gulf Coast in order to meet iso-octane demand in this market. Access to this facility provides marine delivery options for customers who are otherwise unable to receive iso-octane by rail.

During the first quarter of 2016, AEF experienced unscheduled downtime and on average operated at approximately 80% of its capacity, resulting in lower iso-octane production and sales volumes. Production and sales volumes from the sale of iso-octane are expected to be lower in the second half of 2016 as Keyera's AEF facility will be off-line for approximately six weeks beginning in September for its scheduled turnaround that occurs every four years. Refer to the section of this MD&A, "Segmented Results of Operations: Liquids Infrastructure", for more information relating to the turnaround scheduled at AEF in 2016.

Margins from the sale of butane were solid in the first quarter of 2016, as Keyera maintained its balanced sales strategy that is supported by an effective risk management program. As butane prices seasonally decline in the spring and summer months, Keyera may utilize its logistics and storage capabilities to import butane during these low demand months to effectively manage supply requirements, including the feedstock necessary for the production of iso-octane. Keyera has successfully employed a similar strategy for the past two years.

As certain oil sands projects came on stream in mid-2015, bitumen production increased along with demand for condensate that is used as a diluent. For the near term, Keyera expects its volumes of condensate imported by rail from the U.S. will be lower than in the previous year. Sufficient pipeline infrastructure that has been put in place to deliver the incremental condensate supply required by oil sands producers in the

near term. As a result, condensate supply and demand fundamentals are expected to remain balanced for the remainder of 2016. Keyera imports condensate into Alberta when demand fundamentals support positive operating margins. Keyera expects to continue its balanced sales strategy, aligning sales with supply arrangements, thereby minimizing commodity price risk and providing stable cash flow for the remainder of 2016.

Propane prices reached historically low levels in the second half of 2015 and this trend continued into 2016 due to unseasonably warm winter weather and a surplus of inventory in North America. Propane prices recovered toward the end of the first quarter with the increase in the price of crude oil. Despite historically low prices and unusually warm weather in Alberta, Keyera exported propane out of Western Canada from its Josephburg Rail Terminal to meet demand in other markets. Propane margins were protected as a result of Keyera's effective risk management strategy. Refer to the section of this MD&A, "Marketing: Risk Management", for more information relating to Keyera's risk management strategies.

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 mitigate the effect of iso-octane price fluctuations on its future operating margins. The sales price for iso-octane is generally based at a premium to the price of Reformulated Blendstock for Oxygen Blending ("RBOB"). RBOB is the highest volume refined product sold in the United States 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 in particular, contracts are generally put in place as inventory builds and are settled when products are expected to be withdrawn from inventory and 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. For the past few years, Keyera has used propane physical and financial forward contracts to hedge its propane inventory.

Keyera may also 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 sales contracts for both butane and condensate are typically priced as a percentage of WTI crude oil and the supply cost in certain cases 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 are also generally priced in relation to WTI. When butane or condensate is physically purchased, the financial contract is settled and a realized gain or loss is recorded in income.

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

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

For the quarter ended March 31, 2016, the total unrealized gain on risk management contracts was $7 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding financial contracts as at March 31, 2016 resulted in an unrealized (non-cash) gain of $14 million that includes the following significant items:

- a $4 million non-cash gain relating to propane inventory risk management;
- a $1 million non-cash gain relating to butane and iso-octane supply and sales risk management contracts;
- a $7 million non-cash gain relating to condensate supply and inventory risk management contracts; and
- a $2 million non-cash gain relating to foreign currency and other financial contracts.

Fixed price physical contracts are also marked-to-market at the end of each period. The fair value of outstanding fixed price physical contracts as at March 31, 2016 was $nil.

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, 2016, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 8, Financial Instruments and Risk Management, of the accompanying financial statements.

NON-OPERATING EXPENSES AND OTHER INCOME

Non-Operating Expenses and Other Income	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Other income (operating margin)	**1,943**	4,073
General and administrative (net of overhead recoveries on operated facilities)	**(21,607)**	(13,913)
Finance costs	**(19,348)**	(11,838)
Depreciation, depletion and amortization expenses	**(44,724)**	(38,253)
Net foreign currency gain on U.S. debt	**5,508**	6,850
Long-term incentive plan expense	**(4,729)**	(10,763)
Impairment expense	—	(19,908)
Income tax expense	**(20,755)**	(9,646)

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.

Other income for the three months ended March 31, 2016 was $2 million. Production for the three months ended March 31, 2016 averaged 5,347 barrels of oil equivalent per day compared to 6,870 barrels of oil equivalent per day for the same period in 2015.

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, 2016 were $22 million, $8 million higher than the prior year primarily due to a $6 million charge to write-off previously capitalized project engineering costs. Management has determined that these projects are at a reduced probability of proceeding.

Finance Costs (including accretion)

Finance costs for the three months ended March 31, 2016 were $19 million, $8 million higher than the same period in 2015. The higher interest expense in 2016 was due to: i) higher short-term borrowings; and ii) lower interest capitalized on qualifying projects as several large scale projects were completed in 2015.

Interest capitalized on qualifying projects was $3 million for the quarter ended March 31, 2016, compared to $8 million in the same period of 2015.

Depreciation, Depletion and Amortization Expenses
Depreciation, depletion and amortization expenses were $45 million for the quarter ended March 31, 2016, $6 million higher than the same period in 2015. The increase in depreciation expense was largely due to an increase in Keyera's asset base resulting from significant growth capital projects that were completed in 2015.

Net Foreign Currency Gain on U.S. Debt
The net foreign currency gain associated with the U.S. debt was as follows:

Net Foreign Currency Gain on U.S. Debt	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Translation of long-term debt, Libor loans and interest payable	**69,639**	(54,934)
Change in fair value of the cross currency swap – principal and interest portion	**(47,141)**	61,681
(Loss) gain on cross currency swap – principal and interest portion[1]	**(16,990)**	103
Net foreign currency gain on U.S. debt	**5,508**	6,850

Notes:
[1] A foreign currency (loss) gain resulted from the exchange of currencies relating to the interest payments on the long-term cross currency swaps and the settlement of short term foreign 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 Canadian 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. Note 8, "Financial Instruments and Risk Management", to the accompanying financial statements contains more information on the swap agreements.

A net foreign currency gain of $5.5 million was recorded for the quarter ended March 31, 2016. The translation of U.S. dollar denominated debt into Canadian dollars resulted in a $70 million non-cash gain as the Canadian dollar strengthened relative to the U.S. dollar as at March 31, 2016 compared to the end of 2015. This unrealized gain was partly offset by a $47 million non-cash loss resulting from the change in fair value of cross currency swap agreements since the end of 2015.

Long-Term Incentive Plan Expense
The Long-Term Incentive Plan ("LTIP") expense was $5 million for the three months ended March 31, 2016, $6 million lower than the prior year primarily due to: i) a lower price for Keyera shares at the end of first quarter of 2016 relative to the same time last year; and ii) a lower payout multiplier associated with the 2015 LTIP grant compared to the 2012 grant that was paid out to employees in the third quarter of last year.

Impairment Expense
Keyera reviews its assets for indications of impairment on a quarterly basis and no impairment charges were recorded in the first quarter of 2016. In the first quarter of 2015, an impairment expense of $20 million was recorded. This impairment expense related to a reduction in the carrying value of the Bonnie Glen pipeline system (including line-fill), a crude oil transportation pipeline owned 50% by Keyera. The operator of the pipeline determined there was not sufficient business to warrant keeping the pipeline in active service.

Impairment expenses are non-cash charges and do not affect operating margin, distributable cash flow, EBITDA, or Adjusted EBITDA.

Taxes

In general, as earnings before taxes increase, total tax expense (current and deferred taxes) will also be higher. If sufficient tax pools exist, current taxes will be reduced and deferred income taxes will increase as these tax pools are utilized or drawn down. 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).

Deferred Income Taxes

For the quarter ended March 31, 2016, a deferred income tax expense of $17 million was recorded. This is compared to a deferred income tax recovery of $10 million recorded in the prior year. The higher deferred income tax expense in 2016 was partly due to higher earnings before taxes compared to the same period last year. In addition, the deferred income tax recovery recorded in the first quarter of 2015 largely related to the reduction in a valuation allowance associated with non-capital losses residing in Keyera's U.S. subsidiary due to certain corporate tax filing adjustments between Keyera's Canadian and U.S. subsidiaries.

Current Income Taxes

Current income tax expense for the quarter ended March 31, 2016 was $4 million, compared to a current income tax expense of $20 million in the same period of 2015. On an annual basis, current income tax expense for 2016 is expected to range between $15 million and $25 million which is largely based on 2015 taxable income from the Partnership that was allocated to Keyera Corp. in 2016. This income deferral is available to Keyera as its corporate structure includes a deferral partnership. The significantly lower current tax expense in 2016 compared to the prior year is a direct result of higher capital cost allowance deductions associated with several major capital projects that became available for use in 2015.

Keyera estimates its tax pools at March 31, 2016 were approximately $1.7 billion. The largest single undepreciated capital cost ("UCC") balance relates to class 41, which are generally depreciated at a rate of 25%.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's accompanying financial statements in accordance with GAAP, management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The methodologies and assumptions used in developing these estimates have not significantly changed since December 31, 2015. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2015 year end MD&A available at www.sedar.com. The most significant estimates include the following:

- the key economic assumptions used to determine the present value of future cash flows used in testing long-lived assets and goodwill for impairment;
- the estimated useful lives of assets and the resulting estimates for depreciation expense and the fair value of the decommissioning liabilities, also known as provisions;
- the decommissioning liabilities and associated accretion expense;
- the discount rate used to determine the present value of future cash flows used for testing the impairment of long-lived assets and goodwill;
- the discount rate used to calculate the present value of decommissioning liabilities;
- the amount and composition of deferred income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- the allowance for doubtful accounts;
- the fair values of certain fixed price physical derivative instruments and financial contracts;
- the volumes for one month of purchases and sales for the Marketing segment;
- the volumes for one month of operating expenses and fees earned for the Gathering and Processing and NGL Infrastructure segments; and

- equalization adjustments under flow-through revenue arrangements.

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

At March 31, 2016, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately $50 million primarily for March 2016 operations.

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

At March 31, 2016, the Marketing sales and accounts receivable contained an estimate for March 2016 revenues of approximately $84 million.

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

At March 31, 2016, operating expenses and accounts payable contained an estimate of approximately $16 million primarily for March 2016 operations.

Marketing:
NGL mix feedstock and specification products such as propane, butane and condensate are purchased from facilities located throughout western Canada and in some locations in the United States. The majority of NGL mix purchases are estimated each month as actual volume information is generally not available until the next month. The estimates are prepared based upon a three month rolling average of production volumes for each facility and an estimate of price based upon historical information. Specification product volumes and prices are based upon contract volumes and prices. Accordingly, the financial statements contain an estimate for one month of these purchases.

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of approximately $73 million at March 31, 2016.

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

and operating costs to other plant owners is also reviewed. Appropriate adjustments to revenue and operating expenses are recognized in the quarter and allocations to other owners are recorded.

For the Gathering and Processing segment, an equalization adjustment of $9 million was included in revenue and accounts receivable at March 31, 2016. Operating expenses and accounts payable contained an equalization adjustment of $27 million.

Decommissioning Liability

Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its facilities at the end of their economic life. The determination of the estimate by management is based on Keyera's net ownership in facilities, estimated costs to abandon and reclaim the facilities and the estimated timing of the costs to be incurred in future periods.

Keyera has estimated the net present value of its total decommissioning liability to be approximately $487 million at March 31, 2016, compared to $485 million at December 31, 2015. In determining the net present value of the liability, a risk free interest rate of 2.15% was used at March 31, 2016 (December 31, 2015 – 2.15%). The decommissioning obligation is generally expected to be incurred over the next 25 years.

For an investor to compare Keyera's decommissioning liability with that of midstream peers who use a credit adjusted discount rate, the net present value of Keyera's decommissioning liability would have been $248 million as of March 31, 2016 (December 31, 2015 - $244 million), assuming an estimated credit adjusted interest rate of 5.65%,

For more information on the critical accounting estimates see note 15 of the December 31, 2015 annual audited financial statements.

Derivative Financial Instruments

Keyera utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices or foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spreads. Note 8, "Financial Instruments and Risk Management", of the accompanying financial statements provides a summary of the fair value of derivative financial instruments existing at March 31, 2016.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter-party. The allowance for doubtful accounts was $4.0 million as at March 31, 2016 compared to $4.0 million at December 31, 2015.

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, 2016 and 2015:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended March 31, 2016	2015	Increase (decrease)	Explanation
Operating	**177,691**	277,563	(99,872)	Lower cash from operating activities in 2016 was partly due to the increase in cash required to fund inventory compared to the first quarter of 2015. Although NGL prices continued to trend downward in the first quarter of 2016, the decline in commodity prices was of a greater magnitude in the same period last year. Cash flow from operating activities was unusually high in the first quarter of 2015, due to the inclusion of approximately $40 million of realized cash gains from the settlement of financial and physical risk management contracts that related to inventory existing at the end of 2014.
Investing	**(152,462)**	(189,364)	36,902	Capital spending in 2016 primarily related to growth capital projects in the Liquids Infrastructure segment, including the fractionation expansion at Fort Saskatchewan, the Baseline Tank Terminal and the Norlite Pipeline. Capital spending also included the acquisition of a pipeline from Williams located in the U.S. for US$24 million. Capital spending in the first quarter of 2015 primarily related to several internal growth projects, including completion of the de-ethanizer project at Fort Saskatchewan, the Simonette plant expansion and continued work on the Rimbey turbo expander.
Financing	**(25,312)**	(96,171)	70,859	In the first quarter of 2016, cash generated from operating activities was used to finance capital expenditures and pay dividends to shareholders. In the first quarter of 2015, cash generated from operating activities was used to repay $60 million on Keyera's credit facilities.

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. For the production of iso-octane, higher levels of butane inventory are maintained, as butane is the primary feedstock used in the production of this product. 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 typically higher gasoline demand in the summer months.

A working capital deficit (current assets less current liabilities) of $118 million existed at March 31, 2016 largely due to $100 million of long-term debt that was due in early May. This is compared to a deficit of $74 million at December 31, 2015. Keyera has access to a Credit Facility in the amount of $1.5 billion of which $369 million was drawn as at March 31, 2016 in order 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 Credit Facility.

Dividend Reinvestment Plan

Keyera's dividend reinvestment plan (the "Plan"), which was amended effective May 5, 2015, consists of two components: a Premium Dividend™ ("Premium DRIP™") reinvestment component and a regular dividend reinvestment component ("DRIP"). The DRIP component allows eligible shareholders of Keyera to direct their cash dividends to be reinvested in additional shares issued from treasury at a 3% discount to the Average Market Price (as defined in the Plan) on the applicable dividend date.

Effective with the May 2015 dividend, Keyera reinstated the Premium DRIP™ component of the Plan. The Premium DRIP™ component permits eligible shareholders to elect to have the additional shares issued at the 3% discount delivered to the designated Plan Broker in exchange for a premium cash payment equal to 101% of the regular, declared cash dividend that was reinvested on their behalf under the Plan. A copy of the Plan (as amended) 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 $40 million for the three months ended March 31, 2016. This is compared to $18 million for the same period in 2015 when only the DRIP component of the plan was operating.

Long-term Debt (including Credit Facilities)

Below is a summary of Keyera's long-term debt obligations as at March 31, 2016:

As at March 31, 2016 (Thousands of Canadian dollars)	**Total**	**2016**	**2017**	**2018**	**2019**	**2020**	**After 2020**
Credit Facilities							
Bank credit facilities	368,877	—	—	—	—	368,877	—
	368,877	—	—	—	—	368,877	—
Canadian dollar denominated debt							
7.87% due May 1, 2016	35,000	35,000	—	—	—	—	—
5.89% due December 3, 2017	60,000	—	60,000	—	—	—	—
5.01% due January 4, 2019	70,000	—	—	—	70,000	—	—
4.35% due June 19, 2019	52,000	—	—	—	52,000	—	—
5.68% due September 8, 2020	2,000	—	—	—	—	2,000	—
6.14% due December 3, 2022	60,000	—	—	—	—	—	60,000
4.91% due June 19, 2024	17,000	—	—	—	—	—	17,000
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	591,000	35,000	60,000	—	122,000	2,000	372,000
US dollar denominated debt							
8.40% due May 1, 2016 (US$50,000)	64,855	64,855	—	—	—	—	—
3.42% due June 19, 2019 (US$3,000)	3,891	—	—	—	3,891	—	—
5.14% due September 8, 2020 (US$103,000)	133,601	—	—	—	—	133,601	—
4.19% due June 19, 2024 (US$128,000)	166,029	—	—	—	—	—	166,029
4.75% due November 20, 2025 (US$140,000)	181,594	—	—	—	—	—	181,594
4.95% due November 20, 2028 (US$65,000)	84,312	—	—	—	—	—	84,312
	634,282	64,855	—	—	3,891	133,601	431,935
Less: current portion of long-term debt	(99,855)	(99,855)	—	—	—	—	—
Total long-term debt	**1,494,304**	—	**60,000**	—	**125,891**	**504,478**	**803,935**

As at March 31, 2016, Keyera had $591 million and US$489 million of unsecured senior notes including amounts drawn under the uncommitted notes facility. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at March 31, 2016, Keyera had entered into cross-currency agreements with a syndicate of Canadian banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.2425, $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" provides more information.

Keyera has an unsecured revolving credit facility (the "Credit Facility") with a syndicate of nine lenders to 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, 2016, $369 million was drawn under these facilities (December 31, 2015 - $370 million). The term of the Credit Facility is through to December 6, 2020. Management expects that upon maturity of the Credit Facility, an adequate replacement will be established.

The Credit Facility and senior note agreements contain a number of covenants, all of which were met as at March 31, 2016. 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 all of Keyera's long-term debt, including its Credit Facility, is the Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to deduct working capital surpluses or add working capital deficits. As at March 31, 2016, Keyera's Debt to EBITDA ratio was 2.43 for covenant test purposes (March 31, 2015 – 2.29).

In addition, the Royal Bank of Canada has provided a $10 million unsecured revolving demand facility and the Toronto Dominion Bank has provided a further $25 million unsecured revolving demand facility. The revolving credit facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. base rate loans, Libor loans or bankers' acceptances.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three months ended March 31, 2016 and 2015:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	**Three months ended March 31,** **2016**	 2015
Acquisitions	**32,160**	2,815
Growth capital expenditures	**110,846**	209,929
Maintenance capital expenditures	**6,147**	4,304
Total capital expenditures	**149,153**	217,048

Growth capital expenditures for the three months ended March 31, 2016 amounted to $111 million and primarily related to projects in the Liquids Infrastructure operating segment. Acquisitions included the purchase of the pipeline system from Williams for US$24 million (approximately $32 million). Refer to the section of this MD&A, "Results of Operations: Liquids Infrastructure", for information related to the various growth capital projects, including estimated costs to complete, costs incurred in 2016 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 $4 million for the quarter ended March 31, 2016, and $6 million for the same period in 2015. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

Keyera's ongoing operations are not heavily dependent on capital expenditures to maintain current levels of cash flow. However, to grow future cash flow, Keyera is investing growth capital to expand its current asset base and capture new opportunities. Keyera anticipates that its growth capital investment, excluding acquisitions, for 2016 will be approximately $600 million. Maintenance capital for 2016 is expected to be between $75 million and $85 million, including the scheduled turnaround at AEF and replacement of catalyst. The capital program is expected to be funded by cash flow from operating activities, the DRIP and Premium DRIP™ program and existing credit facilities, augmented if necessary by incremental debt and equity financing. Access to debt and equity financing is dependent on Keyera's ongoing financial performance and general market conditions. Readers are referred to the section of the MD&A titled, "Forward-Looking Information" for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

Distributable Cash Flow

Distributable cash flow is not a standard measure under GAAP, and therefore may not be comparable to similar measures reported by other entities. 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.

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

Distributable Cash Flow	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Cash flow from operating activities	**177,691**	277,563
Add (deduct):		
Changes in non-cash working capital	**(50,366)**	(122,702)
Long-term incentive plan expense	**(4,729)**	(10,763)
Maintenance capital	**(6,147)**	(4,304)
Distributable cash flow	**116,449**	139,794
Dividends declared to shareholders	**64,662**	55,769

For the quarter ended March 31, 2016, dividends declared were $65 million, or 56% of distributable cash flow, compared to dividends declared of $56 million, or 40% of distributable cash flow in the same period of 2015.

Keyera recorded strong distributable cash flow in the first quarter of 2016 despite the ongoing low commodity price environment and low producer activity in Alberta. These robust financial results stem from: i) incremental cash flow generated from the various projects completed in the prior year; ii) overall relatively stable throughput in Keyera's Gathering and Processing business; iii) strong demand for Keyera's diluent handling services including storage and transportation services; and iv) strong margins from the sale of iso-octane due to favourable butane feedstock prices and an effective risk management strategy. Refer to the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the quarter ended March 31, 2016.

Distributable cash flow for the quarter ended March 31, 2016 was $23 million lower than the same period last year. Distributable cash flow was unusually high in the first quarter of 2015 due to the inclusion of approximately $40 million of realized cash gains relating to the settlement of financial and physical risk management contracts associated with Keyera's year-end 2014 inventory.

Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of seasonal fluctuations in product inventories or other temporary changes and are

generally funded with short-term debt. Also deducted from distributable cash flow are maintenance capital expenditures and the long-term incentive plan expense, which are funded from current operating cash flow.

Dividend Policy
Keyera increased its dividend per share twice in 2015, to $0.125 per share per month ($1.50 per share annually). 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 retained operating cash flow, along with proceeds from 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, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment.

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

EBITDA	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2016**	2015
Net earnings	**70,131**	56,580
Add (deduct):		
Finance costs	**19,348**	11,838
Depreciation, depletion and amortization expenses	**44,724**	38,253
Income tax expense	**20,755**	9,646
EBITDA	**154,958**	116,317
Unrealized (gain) loss on commodity contracts	**(4,388)**	55,132
Impairment expense	—	19,908
Net foreign currency gain on U.S. debt	**(5,508)**	(6,850)
Adjusted EBITDA	**145,062**	184,507

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, 2015 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, 2015 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, 2015 MD&A and Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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, 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 an engineering consulting firm to compile inventories of greenhouse gas emissions and reports these inventories in accordance with federal and provincial programs. Second party audits or verifications of inventories are conducted for facilities that are required to meet regulatory targets.

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, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014
Revenue before inter-segment eliminations [2]								
Gathering and Processing	**115,634**	129,074	123,752	107,169	106,738	115,131	105,355	113,524
Liquids Infrastructure	**94,101**	90,958	87,310	85,095	83,828	84,784	77,067	75,034
Marketing	**459,017**	472,114	497,951	480,590	517,071	800,126	746,591	735,513
Other	**6,426**	9,141	10,600	10,723	9,724	16,463	17,525	9,117
Operating Margin								
Gathering and Processing	**68,198**	73,564	69,237	56,147	60,146	52,079	53,982	63,981
Liquids Infrastructure	**61,524**	55,886	55,531	54,869	53,572	54,976	45,775	48,955
Marketing	**44,121**	54,731	99,307	53,483	36,260	67,769	79,931	52,791
Other	**1,943**	4,441	4,400	6,691	4,073	12,829	10,947	445
Net earnings [1]	**70,131**	20,215	109,538	15,587	56,580	29,387	82,439	62,930
Net earnings per share ($/share)								
Basic	**0.41**	0.12	0.64	0.09	0.33	0.17	0.49	0.39
Diluted	**0.41**	0.12	0.64	0.09	0.33	0.17	0.49	0.39
Weighted average common shares (basic)	**172,258**	171,199	170,191	169,411	168,915	168,470	168,080	162,162
Weighted average common shares (diluted)	**172,258**	171,199	170,191	169,411	168,915	168,470	168,080	162,162
Dividends declared to shareholders	**64,662**	64,259	62,178	58,479	55,769	54,353	54,226	51,044

Notes:

[1] Keyera has no transactions that require the use of other comprehensive income and therefore comprehensive income equals net earnings.

[2] Keyera's Gathering and Processing and NGL 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.

The Gathering and Processing segment has continued to grow as a result of acquiring ownership interests in new or existing facilities as well as its investment in extensive gathering systems and plant expansions that are

now generating incremental cash flow. However, throughput and revenue were lower in 2015 at certain facilities, including the Strachan, Brazeau River and Minnehik Buck Lake gas plants, due to curtailments imposed by TransCanada on its sales gas pipelines. These restrictions were lifted at several facilities in mid-December. A significant portion of this curtailed gas has returned to Keyera's gas plants for processing in 2016. As an indication, gross processing throughput for the Strachan, Brazeau River and Minnehik Buck Lake facilities combined were approximately 15% higher in the first quarter of 2016 compared to the fourth quarter of 2015.

In the Liquids Infrastructure segment, continued demand for storage, fractionation, transportation and rail services have contributed to the growth in operating margin. The demand for diluent services increased in 2015 as Imperial Oil began producing from the next phase of its Kearl project and Husky's Sunrise project also commenced production. Keyera has long-term agreements in place to provide diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area for the Sunrise and Kearl oil sands projects, as well as for other customers.

Operating margin from the Marketing segment can be affected by seasonal factors. The demand for iso-octane is typically highest in the second and third quarters as the demand for gasoline tends to be higher in the summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. Changes in foreign currency exchange rates can have an effect on iso-octane margins as the sales price is primarily in U.S. dollars. Keyera manages its exposure to foreign currency exchange rate fluctuations through its hedging strategy. Unrealized non-cash gains and losses resulting from the change in value of risk management contracts can also have a material effect on quarterly operating margin for this segment. Keyera continues to maintain its disciplined approach to risk management for its NGL and iso-octane products.

Compared to the 2015 year-end results, all operating segments are performing well as Keyera's investments in gathering systems, new gas plants and expansion of its liquids infrastructure are generating incremental cash flow. In the Gathering and Processing segment, while previously curtailed volumes have substantially returned to the three most affected gas plants for processing, Keyera has seen a decline in throughput at other facilities, including the Rimbey gas plant. Keyera is working closely with its producer customers to deliver cost effective and value added services intended to help enhance their economics, while at the same time increasing throughput and efficiencies at Keyera's gathering and processing facilities. In the Liquids Infrastructure segment, overall fractionation operating margin is expected to be higher in 2016 due to higher volumes as the fractionation expansion at Fort Saskatchewan becomes operational in June. The effect of higher fractionation volumes will be partly offset by lower average fractionation rates effective April 1, 2016. In the Marketing segment, operating margin from the sale of iso-octane is expected to be lower in 2016 as sales volumes will be affected by the scheduled six week maintenance turnaround at the AEF facility in September.

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, 2016.

ADOPTION OF NEW AND AMENDED IFRS STANDARDS

Effective January 1, 2016, Keyera has adopted the following new and amended IFRS standards and have applied them to its financial results in accordance with the transitional provisions outlined in the respective standards.

Amendments to IFRS 11, Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

Effective January 1, 2016, Keyera adopted the amendments to IFRS 11, which requires entities acquiring an interest in a joint operation to apply, for its share of the business, all of the principles of a business combination set out in IFRS 3 on a prospective basis. The amendments clarify that for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, the acquirers of

such interests are to apply the relevant accounting principles of IFRS 3, Business Combinations and other standards, as well as disclosing the relevant information specified in these standards for business combinations.

Keyera's adoption of the amendments to IFRS 11 did not have an impact on Keyera's consolidated financial statements for the current period.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortization)

Effective January 1, 2016, Keyera adopted the amendments to IAS 16 Property, Plant and Equipment and IAS 38, Intangible Assets which no longer allow entities to depreciate property, plant and equipment or amortize intangible assets using the ratio of revenue generated to total revenue expected methodology.

Keyera's adoption of the amendments to IAS 16 and IAS 38 did not have an impact on Keyera's consolidated financial statements as Keyera does not use the ratio of revenue method of depreciation or amortization.

FUTURE ACCOUNTING PRONOUNCEMENTS

With the exception of IFRS 16, Leases which was issued by International Accounting Standards Board ("IASB") in January 2016, there have been no significant amendments or introduction of new standards issued for the three months ended March 31, 2016. Refer to Keyera Corp.'s audited consolidated financial statements as at and for the year ended December 31, 2015 for details of IFRS standards issued but not in effect.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of March 31, 2016, Keyera's disclosure controls and procedures have provided 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 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, 2016 and ending March 31, 2016 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

During the first quarter, there were 1,092,148 common shares issued under the DRIP and the Premium DRIP™ for consideration of $40.4 million, bringing the total common shares outstanding at March 31, 2016 to 172,793,863.

Subsequent to March 31, 2016, 352,399 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP™ for consideration of $13.2 million, bringing the total common shares outstanding at May 10, 2016 to 173,146,262.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with GAAP. Measures such as distributable cash flow (cash flow from operating activities adjusted for changes

in non-cash working capital, long-term incentive plan costs, inventory write-down and maintenance capital expenditures); distributable cash flow per share (distributable cash flow divided by weighted average number of shares – basic); EBITDA (earnings before finance costs, taxes, depreciation, and amortization); and Adjusted EBITDA (calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment) 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. 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. 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

Certain statements contained in this MD&A and accompanying documents contain forward-looking statements. These statements relate to future events or Keyera's future performance. Such statements are predictions only and actual events or results may differ materially. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "plan", "intend", "believe", and similar expressions, including the negatives thereof, is intended to identify forward-looking statements. All statements other than statements of historical fact contained in this document are forward-looking statements.

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

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward-looking statements. Such factors include but are not limited to: general economic, market and business conditions; access to capital and debt markets; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; access to third party facilities, competitive action by other companies; activities of producers and other customers and overall industry activity levels; changes in gas composition; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; availability of construction crews and materials; fluctuations in interest rates and foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; compliance with regulatory requirements; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on shareholders, and in particular any differential effects relating to shareholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 10, 2016, filed on SEDAR and available on the Keyera website at *www.keyera.com*.

Proposed construction and completion schedules and budgets for capital projects are subject to many variables, including weather; availability and prices of materials; labour; customer project schedules and expected in service dates; contractor productivity; contractor disputes; quality of cost estimating; decision processes and approvals by joint venture partners; changes in project scope at the time of project sanctioning; regulatory approvals, conditions or delays (including possible intervention by third parties); and

macro socio-economic trends. Pipeline projects are also subject to Keyera's ability to secure the necessary rights of way; and underground cavern development is dependent on sufficient water supply. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions in this MD&A. Further, some of the projects discussed in this MD&A 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.

Readers are cautioned that they should not unduly rely on the forward-looking statements in this MD&A and accompanying documents. Further, readers are cautioned that the forward-looking statements in this document speak only as of the date of this MD&A.

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

All forward-looking statements contained in this MD&A and 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.

Investor Information

DIVIDENDS TO SHAREHOLDERS

Adjusted to reflect Keyera's two-for-one split of its outstanding common shares effective April 1, 2015, dividends declared to shareholders totaled $1.415 per share in 2015. Effective with the August 2015 dividend and payable to shareholders on September 15, 2015, Keyera's dividend increased by 9% to $0.125 per share per month or $1.50 per share annually. Dividends declared to shareholders were $0.375 per share in the first quarter of 2016. Keyera is focused on providing stable long-term dividends per share that grow over time.

TAXABILITY OF DIVIDENDS

Keyera's dividends are considered to be eligible dividends for the purpose of the Income Tax Act (Canada). For non-resident shareholders, Keyera's dividends are subject to Canadian withholding tax.

SUPPLEMENTARY INFORMATION

A breakdown of Keyera's operational and financial results, including volumetric and operating margin information by major business unit, is available on our website at www.keyera.com/ir/reports.

FIRST QUARTER 2015 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the first quarter 2016 results at 8:00 am mountain time (10:00 am eastern) on May 11, 2016. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until midnight, May 25, 2016, by dialing 1-855-859-2056 or 1-416-849-0833 and entering pass code 91220458.

Internet users can listen to the call live on Keyera's website at www.keyera.com/news/events. Shortly after the call, an audio archive will be posted on the website for 90 days.

QUESTIONS

We welcome questions from interested parties. Calls should be directed to Keyera's Investor Relations Department at 403-205-7670, toll free at 1-888-699-4853 or via email at ir@keyera.com. Information about Keyera can also be found on our website at www.keyera.com.

Keyera Corp.

Condensed Interim Consolidated Statements of Financial Position

(Thousands of Canadian dollars)
(Unaudited)

As at	Note	**March 31, 2016 $**	December 31, 2015 $
ASSETS			
Cash		**13,205**	13,447
Trade and other receivables		**295,262**	344,006
Derivative financial instruments	8	**34,418**	46,862
Inventory	3	**54,340**	76,989
Other assets		**7,491**	8,860
Total current assets		**404,716**	490,164
Derivative financial instruments	8	**109,894**	141,770
Property, plant and equipment		**3,715,004**	3,610,427
Intangible assets		**438**	584
Goodwill		**53,624**	53,624
Total assets		**4,283,676**	4,296,569
LIABILITIES AND EQUITY			
Trade and other payables		**365,585**	400,245
Derivative financial instruments	8	**25,684**	27,309
Dividends payable		**21,599**	21,463
Current portion of long-term debt		**99,855**	104,200
Current portion of decommissioning liability		**9,586**	10,569
Total current liabilities		**522,309**	563,786
Derivative financial instruments	8	**410**	352
Credit facilities		**368,877**	370,000
Long-term debt		**1,118,646**	1,156,486
Long-term incentive plan	7	**18,314**	16,346
Decommissioning liability		**477,084**	474,477
Deferred tax liabilities		**333,941**	316,852
Total liabilities		**2,839,581**	2,898,299
Equity			
Share capital	5	**1,523,732**	1,483,376
Accumulated deficit		**(79,637)**	(85,106)
Total equity		**1,444,095**	1,398,270
Total liabilities and equity		**4,283,676**	4,296,569

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors of Keyera Corp. on May 10, 2016.

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

Keyera Corp.

Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income

(Thousands of Canadian dollars, except share information)
(Unaudited)

		Three months ended March 31,	
		2016	2015
	Note	**$**	$
Operating revenues	12	**602,519**	644,992
Operating expenses	12	**(426,733)**	(490,941)
Operating margin		**175,786**	154,051
General and administrative expenses		**(21,607)**	(13,913)
Finance costs	10	**(19,348)**	(11,838)
Depreciation, depletion and amortization expenses		**(44,724)**	(38,253)
Net foreign currency gain on U.S. debt	9	**5,508**	6,850
Long-term incentive plan expense	7	**(4,729)**	(10,763)
Impairment expense		**—**	(19,908)
Earnings before income tax		**90,886**	66,226
Income tax expense	4	**(20,755)**	(9,646)
Net earnings		**70,131**	56,580
Other comprehensive income		**—**	—
Net earnings and comprehensive income		**70,131**	56,580
Earnings per share			
Basic earnings per share	6	**0.41**	0.33
Diluted earnings per share	6	**0.41**	0.33

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

Keyera Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended March 31, 2016 $	2015 $
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings:		**70,131**	56,580
Adjustments for items not affecting cash:			
Finance costs	10	**2,935**	2,816
Depreciation, depletion and amortization expenses		**44,724**	38,253
Long-term incentive plan expense	7	**4,729**	10,763
Unrealized loss (gain) on derivative financial instruments	8	**42,753**	(6,549)
Unrealized (gain) loss on foreign exchange		**(54,052)**	45,494
Deferred income tax expense (recovery)	4	**17,088**	(10,485)
Impairment expense		**—**	19,908
Decommissioning liability expenditures		**(983)**	(1,919)
Changes in non-cash working capital	11	**50,366**	122,702
Net cash provided by operating activities		**177,691**	277,563
INVESTING ACTIVITIES			
Acquisitions		**(32,160)**	(2,815)
Capital expenditures		**(116,993)**	(214,234)
Proceeds on sale of assets		**—**	60
Changes in non-cash working capital	11	**(3,309)**	27,625
Net cash used in investing activities		**(152,462)**	(189,364)
FINANCING ACTIVITIES			
Borrowings under credit facilities		**378,877**	80,000
Repayments under credit facilities		**(380,000)**	(140,000)
Financing costs related to credit facilities		**(19)**	(58)
Proceeds from issuance of shares related to DRIP	5	**40,356**	18,337
Dividends paid to shareholders		**(64,526)**	(54,450)
Net cash used in financing activities		**(25,312)**	(96,171)
Effect of exchange rate fluctuations on foreign cash held		**(159)**	1,792
Net decrease in cash		**(242)**	(6,180)
Cash at the start of the period		**13,447**	11,309
Cash at the end of the period		**13,205**	5,129

The following amounts are included in Cash Flows from Operating Activities:

	2016	2015
Income taxes paid in cash	**54,303**	36,837
Interest paid in cash	**8,473**	7,373

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

Keyera Corp.

Condensed Interim Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)
(Unaudited)

	Stated Share Capital $	Accumulated Deficit $	Total $
Balance at December 31, 2014	**1,364,522**	**(46,341)**	**1,318,181**
Common shares issued pursuant to dividend reinvestment plans	18,337	—	18,337
Net earnings and total comprehensive income	—	56,580	56,580
Dividends declared to shareholders	—	(55,769)	(55,769)
Balance at March 31, 2015	**1,382,859**	**(45,530)**	**1,337,329**

	Stated Share Capital $	Accumulated Deficit $	Total $
Balance at December 31, 2015	**1,483,376**	**(85,106)**	**1,398,270**
Common shares issued pursuant to dividend reinvestment plans	40,356	—	40,356
Net earnings and total comprehensive income	—	70,131	70,131
Dividends declared to shareholders	—	(64,662)	(64,662)
Balance at March 31, 2016	**1,523,732**	**(79,637)**	**1,444,095**

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

Keyera Corp.
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three months ended March 31, 2016 and 2015
(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)
(Unaudited)

1. GENERAL BUSINESS DESCRIPTION

The operating subsidiaries of Keyera Corp. include Keyera Partnership (the "Partnership"), Keyera Midstream Ltd. ("KML"), Keyera Energy Ltd. ("KEL"), Keyera Energy Inc. ("KEI"), Keyera Rimbey Ltd. ("KRL"), Keyera RP Ltd. ("KRPL"), Rimbey Pipeline Limited Partnership ("RPLP"), Alberta Diluent Terminal Ltd. ("ADT") and Alberta EnviroFuels Inc. ("AEF"). Keyera Corp. and its subsidiaries are involved in the business of natural gas gathering and processing; as well as transportation, storage and marketing of natural gas liquids ("NGLs"), and iso-octane in Canada and the U.S. In addition, Keyera Partnership is involved in crude oil midstream activities in Canada.

Pursuant to its Articles of Amalgamation, Keyera Corp. is authorized to issue an unlimited number of common shares (the "Shares"). The Shares trade on the Toronto Stock Exchange under the symbol "KEY".

Keyera is approved to issue two classes of preferred shares (one class referred to as the "First Preferred Shares", a second class referred to as the "Second Preferred Shares"), and collectively both classes being referred to as the "Preferred Shares". Each are issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the Board of Directors may at any time and from time to time determine, subject to an aggregate maximum number of authorized Preferred Shares. No preferred shares had been issued as at March 31, 2016.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements are in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. The accounting policies applied are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2015, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2016 as noted below.

These condensed interim consolidated financial statements as at and for the three months ended March 31, 2016 and 2015 do not include all disclosures required for the preparation of annual consolidated financial statements and should be read in conjunction with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2015.

The condensed interim consolidated financial statements were authorized for issuance on May 10, 2016 by the Board of Directors.

New and amended IFRS standards adopted by Keyera

Keyera has applied the following new IFRS amendments in 2016:

Amendments to IFRS 11, Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
Effective January 1, 2016, Keyera adopted the amendments to IFRS 11, which requires entities acquiring an interest in a joint operation to apply, for its share of the business, all of the principles of a business combination set out in IFRS 3 on a prospective basis. The amendments clarify that for the acquisition of

an interest in a joint operation in which the activity of the joint operation constitutes a business, the acquirers of such interests are to apply the relevant accounting principles of IFRS 3, Business Combinations and other standards, as well as disclosing the relevant information specified in these standards for business combinations.

Keyera's adoption of the amendments to IFRS 11 did not have an impact on Keyera's consolidated financial statements for the current period.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortization)

Effective January 1, 2016, Keyera adopted the amendments to IAS 16 Property, Plant and Equipment and IAS 38, Intangible Assets which no longer allow entities to depreciate property, plant and equipment or amortize intangible assets using the ratio of revenue generated to total revenue expected methodology.

Keyera's adoption of the amendments to IAS 16 and IAS 38 did not have an impact on Keyera's consolidated financial statements as Keyera does not use the ratio of revenue method of depreciation or amortization.

Future accounting pronouncements

With the exception of IFRS 16, Leases which was issued by International Accounting Standards Board ("IASB") in January 2016, there have been no significant amendments or introduction of new standards issued for the three months ended March 31, 2016. Refer to Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2015 for details of IFRS standards issued but not in effect.

3. INVENTORY

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

As at	**March 31, 2016 $**	December 31, 2015 $
NGLs and iso-octane	**47,812**	71,148
Other	**6,528**	5,841
Total inventory	**54,340**	76,989

For the period ended March 31, 2016, $54,340 of inventory was carried at cost (December 31, 2015 – $66,100) and $nil (December 31, 2015 - $10,889) was carried at net realizable value.

For the three months ended March 31, 2016, there were no charges to operating expenses to write down the cost of NGL inventory and iso-octane to net realizable value (three months ended March 31, 2015 – $nil).

4. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended March 31,	
	2016	2015
	$	$
Current	**3,667**	20,131
Deferred	**17,088**	(10,485)
Total income tax expense	**20,755**	9,646

5. CAPITAL

	Share Capital	
	Number of Common Shares	**Share Capital $**
Balance at December 31, 2015	**171,701,715**	**1,483,376**
Common shares issued pursuant to dividend reinvestment plans	1,092,148	40,356
Balance at March 31, 2016	**172,793,863**	**1,523,732**

On May 5, 2015, Keyera amended and reinstated the Premium DRIP™ that was previously suspended since April 2010. Effective with the May 2015 dividend, the Premium DRIP™ now permits eligible shareholders to elect to have additional shares issued from treasury at a 3% discount to the Average Market Price (as defined in the Plan) delivered to the designated Plan Broker in exchange for a premium cash payment equal to 101% of the regular, declared cash dividend.

6. EARNINGS PER SHARE

Basic earnings per share was calculated by dividing net earnings by the weighted average number of shares outstanding for the related period.

	Three months ended March 31,	
	2016	2015
	$	$
Basic and diluted earnings per share	**0.41**	0.33

	Three months ended March 31,	
	2016	2015
	$	$
Net earnings – basic and diluted	**70,131**	56,580

(in thousands)	Three months ended March 31, 2016	2015
Weighted average number of shares – basic and diluted	**172,258**	168,915

7. SHARE-BASED COMPENSATION AND PENSION PLANS

Long-term incentive plan

Keyera has a Long-Term Incentive Plan ("LTIP") which compensates officers and key employees by delivering shares of Keyera or paying cash in lieu of shares. Participants in the LTIP are granted rights ("share awards") to receive shares of Keyera on specified dates in the future. Grants of share awards are authorized by the Board of Directors. Shares delivered to employees are acquired in the marketplace and not issued from treasury. The acquired shares are placed in a trust account established for the benefit of the participants until the share awards vest.

The LTIP consists of two types of share awards, the Performance Award and the Time Vested ("Restricted") Award.

The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The fair value of the liability is measured by applying a fair value pricing model. At March 31, 2016 the fair value of shares granted was $39.42 per share (December 31, 2015 – $40.26 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended March 31, 2016 $	2015 $
Performance awards	**4,122**	9,971
Restricted awards	**607**	792
Total long-term incentive plan expense	**4,729**	10,763

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**March 31, 2016**	December 31, 2015
Issued July 1, 2013 – Performance Awards	**306,420**	307,050
Issued July 1, 2014 – Performance Awards	**337,398**	339,182
Issued July 1, 2015 – Performance Awards	**335,951**	333,412
Issued July 1, 2013 – Restricted Awards	**18,534**	18,604
Issued July 1, 2014 – Restricted Awards	**39,896**	40,422
Issued July 1, 2015 – Restricted Awards	**62,499**	61,508

Employee Stock Purchase Plan

Keyera maintains an employee stock purchase plan ("ESPP") whereby eligible employees can purchase common shares of Keyera. Keyera will contribute an amount equal to 5% of the employee's contribution. To participate in the plan, eligible employees select an amount to be deducted from their semi-monthly remuneration. Employees may elect to withhold up to 25% of their base compensation for the stock purchases. The shares of Keyera are acquired on the Toronto Stock Exchange on a semi-monthly basis

consistent with the timing of the semi-monthly remuneration. The cost of the shares purchased to match the employee's contribution is expensed as incurred.

Defined Contribution Pension Plan

For the three months ended March 31, 2016, Keyera made pension contributions of $2,217 (three months ended March 31, 2015 - $2,106) on behalf of its employees. The contributions were recorded in general and administrative expenses.

Deferred Share Unit Plan

Effective January 1, 2016, Keyera implemented a deferred share unit ("DSU") plan, for non-employee directors. Each DSU vests on the date the grant is awarded but cannot be redeemed until a director ceases to be a member of the board. The grant value is determined based on a 20-day weighted average trading share price. DSUs are settled in cash (on an after-tax basis) based on the prevailing Keyera share price at the date of settlement.

The following table reconciles the number of DSUs for the quarter ended March 31, 2016:

	Three months ended March 31,	
Deferred Share Units	**2016**	2015
Balance at beginning of period	—	—
Granted	**5,428**	—
Adjustment in accordance with grant	—	—
Redeemed	—	—
Forfeited	—	—
Balance at end of period	**5,428**	—

For the three months ended March 31, 2016, Keyera recorded $213 (three months ended March 31, 2015 - $nil) in general and administrative expenses related to the DSU.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments include cash, trade and other receivables, derivative financial instruments, trade and other payables, dividends payable, credit facilities, current and long-term debt. Derivative financial instruments include foreign exchange contracts, cross-currency swaps, NGLs, crude oil, motor gasoline and natural gas price contracts, electricity price contracts and physical fixed price commodity contracts. Derivative instruments are classified as fair value through the statement of net earnings and are measured at fair value. All other financial instruments are measured at amortized cost.

Financial Instruments

(a) Fair value

Fair value represents Keyera's estimate of the price at which a financial instrument could be exchanged between knowledgeable and willing parties in an orderly arm's length transaction motivated by normal business considerations.

Fair value measurement of assets and liabilities recognized on the consolidated statement of financial position are categorized into levels within a fair value hierarchy based on the nature of valuation inputs.

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

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

Financial instruments with fair value equal to carrying value
The carrying values of cash, trade and other receivables, trade and other payables and dividends payable approximate their fair values because the instruments are near maturity or have no fixed repayment terms. The carrying value of the credit facilities approximates fair value due to their floating rates of interest.

Fair value of senior fixed rate debt
The fair value of long-term debt is based on third party estimates for similar issues or current rates offered to Keyera for debt of the same maturity. The fair value of Keyera's unsecured senior notes at March 31, 2016 was $1,269,862 (December 31, 2015 — $1,179,951) and this was determined by reference to inputs other than quoted market prices in active markets for identical liabilities under Level 2 of the fair value hierarchy.

The fair values and carrying values of the derivative instruments are listed below and represent an estimate of the amount that Keyera would receive (pay) if these instruments were settled at the end of the period.

As at March 31, 2016	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Liability $
Marketing: NGLs, Natural Gas and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by December 31, 2016)	1,324,000 Bbls	52.78/Bbl	Level 2	(689)	1,091	(1,780)
Buyer of fixed price WTI swaps (maturing by September 30, 2016)	1,052,490 Bbls	51.12/Bbl	Level 2	1,793	3,323	(1,530)
Seller of fixed price NGL swaps (maturing by December 31, 2016)	3,487,550 Bbls	25.15/Bbl	Level 2	(3,838)	1,694	(5,532)
Buyer of fixed price NGL swaps (maturing by September 30, 2016)	897,000 Bbls	16.02/Bbl	Level 2	5,737	5,737	—
Seller of fixed price NGL Basis Spreads (maturing by September 30, 2016)	309,450 Bbls	23.62/Bbl	Level 2	359	598	(239)
Buyer of fixed price NGL Basis Spreads (maturing by March 31, 2017)	1,629,000 Bbls	9.06/Bbl	Level 2	6,653	6,653	—
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by August 31, 2016)	1,480,000 Bbls	26.31/Bbl	Level 2	(725)	1,479	(2,204)
Seller of fixed price Natural Gas Swaps (maturing by September 30, 2016)	5,842,350 Gjs	2.12/Gj	Level 2	4,898	4,898	—
Buyer of fixed price Natural Gas Swaps (maturing by September 30, 2016)	5,572,350 Gjs	1.60/Gj	Level 2	(1,689)	—	(1,689)
Physical contracts:						
Seller of fixed price forward NGL contracts (maturing by April 30, 2016)	30,000 Bbls	21.25/Bbl	Level 2	(8)	—	(8)
Currency:						
Seller of forward contracts (maturing by August 1, 2016)	US$50,000,000	1.36/USD	Level 2	3,018	3,018	—
Buyer of forward contracts (maturing by September 1, 2016)	US$11,099,998	1.42/USD	Level 2	(1,308)	—	(1,308)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2017)	218,700 MWhs	40.42/MWh	Level 2	(1,899)	52	(1,951)
Corporate and Other						
Natural Gas:						
Seller of fixed price swaps (maturing by October 31, 2016)	655,000 Gjs	2.12/Gj	Level 2	595	595	—
Buyer of fixed price swaps (maturing by August 31, 2016)	153,370 Gjs	1.73/Gj	Level 2	(74)	—	(74)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by March 31, 2017)	165,000 Bbls	43.00/Bbls	Level 2	(504)	51	(555)
Long-term Debt						
Buyer of cross-currency swaps (maturing May 1, 2016 - November 20, 2028)	US$880,838,600	0.98/USD - 1.34/USD	Level 2	105,899	115,123	(9,224)
				118,218	**144,312**	**(26,094)**

Notes:
[1] All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
[2] A description of the fair value hierarchy is discussed in the fair value section.

As at December 31, 2015	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing: NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by December 31, 2016)	2,057,441 Bbls	64.87/Bbl	Level 2	25,274	25,446	(172)
Buyer of fixed price WTI swaps (maturing by September 30, 2016)	445,562 Bbls	57.36/Bbl	Level 2	(981)	108	(1,089)
Seller of fixed price NGL swaps (maturing by September 30, 2016)	1,505,290 Bbls	27.01/Bbl	Level 2	3,784	4,521	(737)
Buyer of fixed price NGL swaps (maturing by March 31,2016)	840,524 Bbls	44.67/Bbl	Level 2	(9,961)	—	(9,961)
Seller of fixed price NGL basis spreads (maturing by September 30, 2016)	125,550 Bbls	28.06/Bbl	Level 2	75	132	(57)
Buyer of fixed price NGL basis spreads (maturing by March 31, 2017)	465,000 Bbls	8.32/Bbl	Level 2	908	916	(8)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by June 30, 2016)	1,640,000 Bbls	25.24/Bbl	Level 2	(5,452)	522	(5,974)
Physical contracts:						
Seller of fixed price forward NGL contracts (maturing by March 31, 2016)	680,000 Bbls	21.80/Bbl	Level 2	1,302	1,623	(321)
Currency:						
Seller of forward contracts (maturing by March 1, 2016)	USD 117,000,000	1.32/USD	Level 2	(7,767)	51	(7,818)
Buyer of forward contracts (maturing by February 28, 2016)	USD 10,000,000	1.35/USD	Level 2	298	298	—
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31,2017)	254,664 MWhs	40.50/MWh	Level 2	(1,070)	187	(1,257)
Corporate and Other						
Natural Gas:						
Seller of fixed price swaps (maturing by April 30, 2016)	3,404,000 Gjs	2.33/Gj	Level 2	(12)	255	(267)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing March 31, 2016)	68,400 Bbls	60.74/Bbl	Level 2	1,533	1,533	—
Long-term Debt						
Buyer of cross-currency swaps (maturing May 1, 2016 – November 20, 2028)	US$668,485,700	0.98/USD - 1.24/USD	Level 2	153,040	153,040	—
				160,971	**188,632**	**(27,661)**

Notes:
[1] All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
[2] A description of the fair value hierarchy is discussed in the fair value section.

Derivative instruments are recorded on the consolidated statement of financial position at fair value. Changes in the fair value of these financial instruments are recognized in the statement of net earnings and comprehensive income in the period in which they arise.

For the Marketing, Liquids Infrastructure and Corporate and Other segments, unrealized gains (losses), representing the change in fair value of derivative contracts, are recorded in Marketing operating revenue, Liquids Infrastructure operating expense, Gathering and Processing expense and Corporate and Other revenue (for derivative contracts related to natural gas, crude oil and NGLs) and Corporate and Other expense (for derivative contracts related to electricity). Unrealized gains (losses) relating to the cross-currency swaps are recorded in net foreign currency gain (loss).

The unrealized gains (losses) representing the change in fair value relating to derivative instruments were as follows:

	Three months ended March 31,	
	2016	2015
Unrealized (loss) gain	**$**	$
Marketing revenue	**6,722**	(53,299)
Liquids Infrastructure operating expense	**(577)**	(486)
Production (net expense)	**(1,717)**	(1,316)
Gathering and processing expense	**(40)**	(31)
Other:		
Foreign currency (loss) gain on U.S. debt	**(47,141)**	61,681
Total unrealized (loss) gain	**(42,753)**	6,549

Risk Management

Market risk is the risk that the fair value of future cash flows of a financial asset or a financial liability will fluctuate because of changes in market prices. Market risk is comprised of commodity price risk, interest rate risk, and foreign currency risk, as well as credit and liquidity risks.

(b) Commodity price risk

Subsidiaries of Keyera enter into contracts to purchase and sell primarily NGLs and iso-octane, as well as natural gas and crude oil. These contracts are exposed to commodity price risk between the times contracted volumes are purchased and sold and foreign currency risk for those sales denominated in U.S. dollars. These risks are actively managed by utilizing physical and financial contracts which include commodity related forward contracts, price swaps and forward currency contracts. A risk management committee meets regularly to review and assess the risks inherent in existing contracts and the effectiveness of the risk management strategies. This is achieved by modeling future sales and purchase contracts to monitor the sensitivity of changing prices and volumes.

Significant amounts of electricity and natural gas are consumed by certain facilities. Due to the fixed fee nature of some service contracts in place with customers, these facilities are unable to flow increases in the cost of electricity and natural gas to customers in all situations. In order to mitigate this exposure to fluctuations in the prices of electricity and natural gas, price swap agreements may be used. These agreements are accounted for as derivative instruments.

Certain NGL contracts that require physical delivery at fixed prices are accounted for as derivative instruments.

(c) Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency. Keyera's functional currency is the Canadian dollar. Keyera's foreign currency risk largely arises from the Marketing segment where a significant portion of sales and purchases are denominated in U.S. dollars. Foreign currency risk is actively managed by using forward currency contracts and cross-currency swaps. Management monitors the exposure to foreign currency risk and regularly reviews its financial instrument activities and all outstanding positions.

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

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

	Three months ended March 31,	
	2016	2015
U.S. dollar sales and purchases	**$**	$
Sales priced in U.S. dollars	**123,520**	198,892
Purchases priced in U.S. dollars	**(68,070)**	(91,238)

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

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt and U.S. dollar denominated LIBOR loans drawn under Keyera's bank credit facilities. To manage this currency exposure, Keyera has entered into long-term cross-currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt as well as short-term cross-currency swaps relating to the LIBOR loans drawn under the credit facilities. These cross-currency contracts are accounted for as derivative instruments. Refer to note 9 for a summary of the foreign currency gains (losses) associated with the U.S. dollar denominated long-term debt.

(d) Interest rate risk

The majority of Keyera's interest rate risk is attributed to its fixed and floating rate debt, which is used to finance capital investments and operations. Keyera's remaining financial instruments are not significantly exposed to interest rate risk. The floating rate debt creates exposure to interest rate cash flow risk, whereas the fixed rate debt creates exposure to interest rate price risk. At March 31, 2016, fixed rate borrowings comprised 77% of total debt outstanding (December 31, 2015 – 77%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

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

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is $295,262 at March 31, 2016 (December 31, 2015 – $344,006). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at March 31, 2016. With respect to counterparties for derivative financial instruments, the credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which significantly reduce overall counterparty

credit risk. In addition, Keyera incorporates the credit risk associated with counterparty default, as well as Keyera's own credit risk, into the estimates of fair value.

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

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

Risk Management Sensitivities

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

	Impact on income before tax March 31, 2016		Impact on income before tax March 31, 2015	
Risk sensitivities	**Increase $**	**Decrease $**	Increase $	Decrease $
Commodity price changes				
+ 10% in natural gas price	**—**	**(87)**	—	(472)
- 10% in natural gas price	**87**	**—**	472	—
+ 10% in electricity price	**694**	**—**	682	—
- 10% in electricity price	**—**	**(694)**	—	(682)
+ 10% in NGL and iso-octane prices	**—**	**(13,389)**	—	(14,474)
- 10% in NGL and iso-octane prices	**13,389**	**—**	14,474	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(949)**	2,000	—
- $0.01 in U.S./Canadian dollar exchange rate	**949**	**—**	—	(2,000)
Interest rate changes				
+ 1% in interest rate	**—**	**(945)**	—	(158)
- 1% in interest rate	**945**	**—**	158	—

9. NET FOREIGN CURRENCY GAIN ON U.S. DEBT

The components of foreign currency gain were as follows:

	Three months ended March 31,	
	2016	2015
	$	$
Foreign currency gain resulting from:		
Translation of long-term debt, LIBOR loans and interest payable	**69,639**	(54,934)
Change in fair value of the cross currency swaps - principal and interest portion	**(47,141)**	61,681
(Loss) gain from cross currency swaps – principal and interest portion[1]	**(16,990)**	103
Total foreign currency gain on U.S. debt	**5,508**	6,850

Note:
[1] A foreign currency (loss) gain resulted from the exchange of currencies relating to the interest payments on the long-term cross currency swaps and the settlement of short term foreign currency swaps.

10. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended March 31,	
	2016	2015
	$	$
Interest on bank overdrafts and credit facilities	**3,121**	1,213
Interest on long-term debt	**16,363**	16,280
Interest capitalized	**(3,093)**	(8,462)
Other interest expense (income)	**22**	(9)
Total interest expense on current and long-term debt	**16,413**	9,022
Unwinding of discount on decommissioning liability	**2,607**	2,527
Unwinding of discount on long-term debt	**328**	289
Non-cash expenses in finance costs	**2,935**	2,816
Total finance costs	**19,348**	11,838

For the three months ended March 31, 2016, $3,093 of borrowing (interest) costs were capitalized (three months ended March 31, 2015 – $8,462) at a weighted average capitalization rate of 4.86% on funds borrowed (three months ended March 31, 2015 – 5.24%).

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31,	
	2016	2015
	$	$
Inventories	**22,649**	42,363
Trade and other receivables	**31,436**	49,798
Other assets	**1,528**	87
Trade and other payables	**(5,247)**	30,454
Changes in non-cash working capital from operating activities	**50,366**	122,702

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

	Three months ended March 31,	
	2016	2015
	$	$
Trade and other payables	**(3,309)**	27,625
Changes in non-cash working capital from investing activities	**(3,309)**	27,625

12. SEGMENT INFORMATION

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

Marketing
The Marketing segment is involved in the marketing of NGLs, such as propane, butane, condensate, and iso-octane to customers in Canada and the United States, as well as various crude oil midstream activities.

Gathering and Processing
The Gathering and Processing segment includes raw gas gathering systems and processing plants located in the natural gas production areas primarily on the western side of the Western Canada Sedimentary Basin. The operations primarily involve providing natural gas gathering and processing, including liquids extraction, services to customers.

Liquids Infrastructure
The Liquids Infrastructure segment provides fractionation, storage, transportation and terminalling services for NGLs and crude oil. As well, it provides processing services to Keyera's Marketing business related to iso-octane. These services are provided to customers through an extensive network of facilities that include underground NGL storage caverns, NGL fractionation facilities, NGL and crude oil pipelines as well as rail and truck terminals and the AEF facility.

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

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

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

Three months ended March 31, 2016	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	459,017	115,634	94,101	6,426	675,178
Operating expenses before inter-segment eliminations	(414,896)	(47,436)	(32,577)	(4,483)	(499,392)
Operating margin	44,121	68,198	61,524	1,943	175,786
Inter-segment revenue eliminations	—	(6,706)	(60,507)	(5,446)	(72,659)
Inter-segment expense eliminations	66,721	1,146	2,131	2,661	72,659
	110,842	62,638	3,148	(842)	175,786
General and administrative expenses	—	—	—	(21,607)	(21,607)
Finance costs	—	—	—	(19,348)	(19,348)
Depreciation, depletion and amortization expenses	—	—	—	(44,724)	(44,724)
Net foreign currency gain on U.S. debt	—	—	—	5,508	5,508
Long-term incentive plan expense	—	—	—	(4,729)	(4,729)
Earnings (loss) before income tax	110,842	62,638	3,148	(85,742)	90,886
Income tax expense	—	—	—	(20,755)	(20,755)
Net earnings (loss)	**110,842**	**62,638**	**3,148**	**(106,497)**	**70,131**
Revenue from external customers	459,017	108,928	33,594	980	602,519

Three months ended March 31, 2015	Marketing $	Gathering & Processing $	Liquids Infrastructure $	Corporate and Other $	Total $
Revenue before inter-segment eliminations	517,071	106,738	83,828	9,724	717,361
Operating expenses before inter-segment eliminations	(480,811)	(46,592)	(30,256)	(5,651)	(563,310)
Operating margin	36,260	60,146	53,572	4,073	154,051
Inter-segment revenue eliminations	—	(7,749)	(53,158)	(11,462)	(72,369)
Inter-segment expense eliminations	68,607	—	—	3,762	72,369
	104,867	52,397	414	(3,627)	154,051
General and administrative expenses	—	—	—	(13,913)	(13,913)
Finance costs	—	—	—	(11,838)	(11,838)
Depreciation, depletion and amortization expenses	—	—	—	(38,253)	(38,253)
Net foreign currency gain on U.S. debt	—	—	—	6,850	6,850
Long-term incentive plan expense	—	—	—	(10,763)	(10,763)
Impairment expense	—	—	(19,908)	—	(19,908)
Earnings (loss) before income tax	104,867	52,397	(19,494)	(71,544)	66,226
Income tax expense	—	—	—	(9,646)	(9,646)
Net earnings (loss)	**104,867**	**52,397**	**(19,494)**	**(81,190)**	**56,580**
Revenue from external customers	517,071	98,989	30,670	(1,738)	644,992

Geographical information

Keyera operates in two geographical areas, Canada and the United States (U.S.). Keyera's revenue from external customers and information about its non-current assets by geographical location are detailed below based on the country of origin.

Revenue from external customers located in	Canada $	U.S. $
For the three months ended March 31, 2016	**491,300**	**111,219**
For the three months ended March 31, 2015	485,607	159,385

	Canada $	U.S. $
Non-current assets[1] at March 31, 2016	**3,690,456**	**78,610**
Non-current assets[1] at December 31, 2015	3,617,162	47,473

Note:
[1] Non-current assets are comprised of property, plant and equipment, intangible assets, and goodwill.

Information about major customers

For the three months ended March 31, 2016, Keyera earned $71,161 of revenues from one external customer that accounted for more than 10% of its total revenue for the quarter (for the three months ended March 31, 2015 this 10% threshold was not met by a single external customer). The revenue was generated from an investment grade customer in the Marketing and NGL Infrastructure segments.

13. CONTINGENCIES

Keyera has agreed to arbitration with a contractor involved in the construction of the Simonette Wapiti pipeline to resolve a dispute over the final amounts due under the construction contract. Details of the contractor's claim have not yet been provided. The arbitration will address Keyera's counterclaim for damages caused by the contractor's performance and associated delays. Keyera does not expect the financial impact of the dispute to have a material impact on its financial statements.

14. SUBSEQUENT EVENTS

In April 2016, Keyera declared a dividend of $0.125 per share, payable on May 16, 2016, to shareholders of record as of April 22, 2016.

In May 2016, Keyera declared a dividend of $0.125 per share, payable on June 15, 2016, to shareholders of record as of May 24, 2016.

Corporate Information

Board of Directors

Jim V. Bertram [(1)]
Corporate Director
Calgary, Alberta

Douglas Haughey [(2)(4)]
Corporate Director
Calgary, Alberta

Nancy M. Laird [(3)(5)]
Corporate Director
Calgary, Alberta

Donald J. Nelson [(4)(5)]
President
Fairway Resources Inc.
Calgary, Alberta

Michael Norris [(3)]
Corporate Director
Toronto, Ontario

Thomas C. O'Connor[(3)]
Corporate Director
Evergreen, Colorado

David G. Smith
President and Chief Executive Officer
Keyera Corp.
Calgary, Alberta

William R. Stedman [(4)(5)]
Chairman and CEO
ENTx Capital Corporation
Calgary, Alberta

Janet Woodruff [(5)]
Corporate Director
Vancouver, British Columbia

(1) Executive Chair of the Board
(2) Independent Lead Director
(3) Member of the Audit Committee
(4) Member of the Compensation and Governance Committee
(5) Member of the Health, Safety and Environment Committee

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Officers

Jim V. Bertram
Executive Chair of the Board of Directors

David G. Smith
President and Chief Executive Officer

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President Operations, Liquids Business Unit

Michael Freeman
Vice President, Commercial

Suzanne Hathaway
Vice President, General Counsel and Corporate Secretary

Jim Hunter
Vice President, NGL Facilities

Rick Koshman
Vice President, Engineering

Dion O. Kostiuk
Vice President, Human Resources and Corporate Services

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

Bradley W. Lock
Senior Vice President, Gathering and Processing Business Unit

Eileen Marikar
Vice President, Controller

Brian Martin
Vice President, Business Development, NGL Facilities

C. Dean Setoguchi
Senior Vice President, Liquids Business Unit

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q1 2016

TSX:KEY – Cdn $	
High	$40.16
Low	$33.71
Close March 31, 2016	$39.42
Volume	49,073,717
Average Daily Volume	791,512

Auditors

Deloitte LLP
Chartered Accountants
Calgary, Canada

Investor Relations

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