www.keyera.com

Keyera is one of the largest midstream operators in Canada.

First Quarter Report May 6, 2014

2014 First Quarter Report

For the period ended March 31, 2014

HIGHLIGHTS

- Net earnings were $55.2 million ($0.70 per share) in first quarter 2014, $31.8 million ($0.40 per share) higher than the $23.4 million ($0.30 per share) in first quarter 2013.
- Earnings before interest, taxes, depreciation and amortization[1, 2] ("EBITDA") were $107.7 million in first quarter 2014, 10% higher than the $97.8 million posted in first quarter 2013.
- Distributable cash flow[1, 2] was $78.2 million ($0.99 per share) in first quarter 2014 compared to $83.3 million ($1.07 per share) recorded in first quarter 2013.
- Keyera's Gathering and Processing business delivered record operating margin[3] of $48.3 million in first quarter 2014, compared to $39.9 million in the same quarter last year. The NGL Infrastructure segment also delivered record operating margin[3] of $39.1 million in first quarter 2014, 35% higher than the $29.0 million recorded in first quarter 2013. Marketing operating margin[3] was $36.9 million in first quarter 2014, compared to $23.9 million in first quarter 2013.
- Keyera is increasing its dividend by 7.5%, from $0.20 per share per month to $0.215 per share per month, or $2.58 per share annually, beginning with its dividend payable on June 16, 2014. This will be Keyera's twelfth increase since going public in 2003, representing a 7.5% compound annual growth rate in dividends per share.
- On May 1, Keyera closed its previously announced acquisition of ownership interests in certain gas processing assets in west central Alberta and associated oil and gas reserves. The total purchase price was approximately $113 million. Some of the assets are subject to third party claims, including certain reserves which closed in escrow pending the exercise or expiry of rights of first refusal.
- Keyera's turbo expander project at Rimbey has received all regulatory approvals and construction is now underway. The turbo expander is expected to be operational in the first half of 2015.
- Keyera entered into a long-term, take-or-pay and fee-for-service agreement to provide Cenovus Energy Inc. with diluent handling services, including transportation and storage capacity that will increase to the equivalent of approximately three storage caverns by 2018.
- Keyera has developed a plan for the next phase of cavern development at Fort Saskatchewan, which could add approximately four million barrels of additional storage capacity at the site. As part of this program, Keyera expects to begin drilling its fifteenth cavern later this year.
- In April, Keyera closed the final $75 million portion of its private debt placement announced in the third quarter of 2013.
- Total growth capital investment was $198.6 million in the first quarter of 2014, of which $5.8 million was acquisitions. In 2014, growth capital investment estimates, excluding acquisitions, have been updated and are now expected to be between $600 million and $700 million.[4]

1 See "Non-GAAP Financial Measures" on page 36 of the MD&A.
2 See page 32 and 33 of the MD&A for a reconciliation of distributable cash flow to cash flow from operating activities and EBITDA to net earnings.
3 See note 15 to the accompanying financial statements.
4 See "Capital Expenditures and Acquisitions" on page 30 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,** **2014**	 2013
Net earnings	**55,233**	23,445
Per share ($/share) – basic	**0.70**	0.30
Cash flow from operating activities	**119,493**	136,688
Distributable cash flow[1]	**78,220**	83,285
Per share ($/share)	**0.99**	1.07
Dividends declared	**47,605**	42,074
Per share ($/share)	**0.60**	0.54
Payout ratio %[1]	**61%**	50%
EBITDA[2]	**107,747**	97,848
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,356**	1,237
Net processing throughput (MMcf/d)	**1,114**	980
NGL Infrastructure:		
Gross processing throughput (Mbbl/d)	**122**	115
Net processing throughput (Mbbl/d)	**38**	40
Marketing:		
Inventory value	**159,493**	144,263
Sales volumes (bbl/d)	**99,400**	116,800
Acquisitions (including business combination)	**5,783**	3,907
Growth capital expenditures	**198,598**	53,116
Maintenance capital expenditures	**3,279**	2,007
Total capital expenditures	**207,660**	59,030

	As at March 31, **2014**	 2013
Long-term debt	**1,098,347**	625,966
Credit facilities	**—**	80,000
Working capital surplus[3]	**(158,832)**	(93,851)
Net debt	**939,515**	612,115
Common shares outstanding – end of period	**79,417**	78,013
Weighted average number of shares outstanding – basic	**79,301**	77,862
Weighted average number of shares outstanding – diluted	**79,301**	78,381

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 GAAP. See page 32 for a reconciliation of distributable cash flow to its most closely related GAAP measure.

[2] EBITDA is defined as earnings before interest, taxes, depreciation, amortization, unrealized gains / losses, accretion, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA is not a standard measure under GAAP. See section titled “EBITDA” on page 33 of the MD&A for a reconciliation of EBITDA to its most closely related GAAP measure.

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

Message to Shareholders

Demand for Keyera's services continued to grow in the first quarter of 2014. This demand is being driven by producer activities that are focused on liquids-rich drilling and oil sands development. Our customers continue to see value in our integrated service offering, which provides them with access to the processing, transportation and logistics facilities necessary to turn their production into cash flow. This is resulting in increased cash flow from our existing business and opportunities to acquire and expand facilities to provide added value for shareholders in the future.

Financially the year had a good start, with EBITDA in the first quarter of 2014 being 10% higher than the same period last year. Operating margins were strong across all business segments once again this quarter, with both of our fee-for-service segments reporting record results. With growing cash flow from our business and a number of new projects under development, we are pleased to announce an increase in our monthly cash dividend. Effective with the May 2014 dividend, payable to shareholders on June 16, 2014, our dividend will increase by 7.5% to 21.5 cents per share per month, or $2.58 per share annually. This is Keyera's twelfth dividend increase since going public in 2003. Since that time, we have provided shareholders with a 7.5% compound annual growth rate in dividends per share.

Our Gathering and Processing business reported operating margin of $48.3 million, 21% higher than in the first quarter of 2013, primarily due to increased throughput at most of Keyera's facilities. Drilling activity around many of our plants continues to be strong and the utilization of several of our gas plants continues to increase. Net throughput increased in the first quarter, averaging 1.1 billion cubic feet per day, 14% higher than the first quarter of last year. This increased throughput is coming from a number of geological horizons, including the Mannville, Cardium, Montney, Duvernay and Glauconite zones.

This increased producer activity has led to several gathering pipelines being built to deliver incremental production to Keyera plants. In west central Alberta, construction proceeded on two gathering pipelines to deliver raw gas to the Rimbey gas plant. Modifications made to the Carlos pipeline system, including construction of a short pipeline segment to connect to other existing pipeline infrastructure, added an additional 40 million cubic feet per day of capacity when the pipeline began operation in April. The Wilson Creek pipeline system was completed in April, although it will not begin operation until producer facilities are completed, which is expected in June. In the first quarter we reached agreement with a producer to construct the Twin Rivers pipeline, which will deliver production to the Brazeau River gas plant from the southeast. Construction of that pipeline is expected to begin later this year.

In the first quarter, we reached agreement with a Deep Basin producer interested in securing the remaining capacity on the Wapiti pipeline. Unfortunately, adverse weather conditions and an early spring breakup hampered construction of the pipeline, requiring us to suspend work prior to completion. The remaining work is expected to be completed in the summer and we currently anticipate putting the pipeline into operation in the third quarter if the remaining construction goes as planned.

In April, we received all regulatory approvals for our turbo expander project at the Rimbey gas plant. Construction is now underway and, assuming there are no further delays, we anticipate the turbo expander will be operational in the first half of 2015.

On May 1 we closed our previously announced acquisition of ownership interests in certain gas processing assets in west central Alberta and associated oil and gas reserves. There are some rights of first refusal that we are working through as we transition ownership of the assets. These assets are complementary to our existing gas facilities in the west central area of Alberta. We were also successful in increasing our ownership at the Rimbey, Strachan, Brazeau River and Bigoray gas plants, increasing our net processing capacity by approximately 13 million cubic feet per day and our ownership in the Strachan and Bigoray gas plants to 100%.

Our NGL Infrastructure segment results also set a new record in the first quarter, with operating margin of $39.1 million, a 35% increase over the first quarter of 2013. The higher operating margin was due to higher level of activity at our facilities, as well as increased fees for many of our services. Our Marketing segment contributed significantly to our results, with operating margin of $36.9 million in the first quarter of 2014 compared to $23.9 million in the first quarter of last year.

Significant progress has been made on the agreements associated with the Norlite pipeline and we anticipate announcing our participation as a 30% non-operating owner shortly. The Norlite pipeline will be a diluent transportation pipeline delivering condensate from the Fort Saskatchewan area to the Athabasca oil sands region in northeast Alberta. Enbridge will construct and operate the pipeline and anticipates having it in service in the second quarter of 2017. The scope of the pipeline will be finalized later this year, at which time we will receive an updated capital cost estimate from Enbridge for the project. 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.

In January, we announced that we will be adding 35,000 barrels per day of C3+ fractionation capacity at our facility in Fort Saskatchewan. This is in addition to the 30,000 barrels per day de-ethanizer currently under construction and the existing 30,000 barrels per day fractionator at that site. The fractionator and de-ethanizer projects are in response to the growing demand for these types of services and support our customers' liquids-rich drilling programs. Based on the current schedule, we estimate that the de-ethanizer facility will be operational later in 2014, while the fractionation expansion is expected to be onstream in the first quarter of 2016.

In March we entered into a long-term agreement with Cenovus Energy Inc. to provide diluent transportation and storage services using our Fort Saskatchewan Condensate System within the Edmonton/Fort Saskatchewan area. The services will provide Keyera with long-term take-or-pay and fee-for-service revenues.

In order to meet the growing demand for diluent storage, Keyera is continuing to add storage caverns at our facility in Fort Saskatchewan. Development of the thirteenth cavern on the site is well underway and drilling of the well bore for the fourteenth cavern was completed in the first quarter of 2014. We have recently completed a plan that will allow us to wash both caverns simultaneously and expect to begin this process once regulatory approval is received. To support this additional storage capacity, we expect to put our new brine pond into service this year. We have developed a plan for the next phase of cavern development at Fort Saskatchewan, which could add approximately four million barrels of additional storage capacity at the site. As part of this program, Keyera expects to begin drilling its fifteenth cavern later this year.

Late in the first quarter, Keyera completed the work necessary to tie the Cochin pipeline into Keyera's Fort Saskatchewan Condensate System. In April, the Cochin shippers began injecting linefill into the pipeline using condensate previously stored within our caverns at Fort Saskatchewan. Kinder Morgan, owner of the Cochin pipeline, expects to put the pipeline into service in July of this year delivering condensate into Alberta. Keyera's Fort Saskatchewan site is currently the only delivery point for condensate from this pipeline, so all volumes shipped will pass through Keyera's infrastructure.

Keyera has received all necessary approvals for the Alberta Crude Terminal in Edmonton which is being advanced as a 50/50 joint venture with Kinder Morgan. Work on this project is well underway and the terminal is now expected to be completed and operational in the third quarter. Once operational, the Alberta Crude Terminal will provide up to 40,000 barrels per day of crude rail loading services to Irving Oil.

In February, we announced construction of a propane rail loading terminal at Josephburg, located near our fractionation and storage facility in Fort Saskatchewan. The facility will provide an additional propane outlet to meet the growing need for market access for western Canadian producers.

Alberta EnviroFuels performed well in the first quarter and continues to be an important piece of Keyera's butane value chain. We continue to increase our deliveries of iso-octane by rail and are taking advantage of the storage and transportation services we have secured in the Gulf Coast region of the U.S. By increasing our rail delivery capabilities, we have been able to expand our access to new markets since we originally acquired Alberta EnviroFuels and this is supporting increased utilization at the plant.

It is an exciting time for our industry and for Keyera. As a service provider, we continually work with our customers to ensure that we are meeting their infrastructure needs. With approximately $1.5 billion in projects currently under development and several other projects under evaluation, we are well positioned to meet our customers' needs into the future. As we look to the future, we will remain focused on maintaining a customer driven mindset and operating our business safely and reliably.

Jim V. Bertram
Chief Executive Officer
Keyera Corp.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of May 6, 2014 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 condensed interim unaudited consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the quarter ended March 31, 2014 and the notes thereto as well as the audited consolidated financial statements of Keyera Corp. for the year ended December 31, 2013 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 natural gas midstream businesses in Canada. Midstream entities operate in the oil and gas sector between the upstream sector, which includes oil and gas exploration and production businesses, and the downstream sector, which includes the refining, distribution and retail 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 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:

   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 natural gas liquids ("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").

   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, 2014 and 2013:

	Three months ended March 31,	
(Thousands of Canadian dollars, except per share data)	**2014**	2013
Net earnings	**55,233**	23,445
Net earnings per share (basic)	**0.70**	0.30
Total operating margin[1]	**126,735**	94,031
EBITDA[2]	**107,747**	97,848
Cash flow from operating activities	**119,493**	136,688
Distributable cash flow[3]	**78,220**	83,285
Distributable cash flow per share[3] (basic)	**0.99**	1.07
Dividends declared	**47,605**	42,074
Dividends declared per share	**0.60**	0.54

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 15, of the accompanying financial statements.

2 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 is not a standard measure under GAAP. See section titled "EBITDA" for a reconciliation of 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 quarter ended March 31, 2014. The Gathering and Processing and NGL Infrastructure operating segments each set a new record for operating margin in the quarter.

Net Earnings

For the first quarter of 2014, net earnings were $55.2 million, $31.8 million higher than the same period in 2013. The increase in net earnings was largely due to: i) higher operating margin from all business segments and ii) a net non-cash foreign currency gain of $13.2 million compared to a non-cash foreign currency loss of $7.7 million in the first quarter of 2013. These positive factors were partly offset by a higher income tax expense in 2014.

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

Operating Margin

Operating margin in the first quarter of 2014 was $126.7 million, $32.7 million higher than the same period in 2013. Keyera's fee-for-service segments (Gathering and Processing and NGL Infrastructure) posted record results in the first quarter of 2014, largely driven by robust drilling activity around many of Keyera's core gas plants, including the Rimbey, Strachan and Minnehik Buck Lake facilities, as well as growing demand for fractionation, storage and transportation services.

The Marketing segment also contributed to the solid financial results in the first quarter of 2014, largely due to strong sales volumes and margins from the sale of iso-octane. Excluding the effect of unrealized, non-cash gains and losses from risk management contracts, operating margin from the Marketing segment was approximately $8.4 million lower in the first quarter of 2014 compared to the same period last year. The lower margin in 2014 resulted from i) modified terms for purchasing propane supply that began on April 1, 2013, combined with lower propane sales volumes; and ii) the inclusion of a $1.5 million inventory write-down. In addition, condensate pricing and margins were unusually high in the first quarter of 2013.

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

Cash Flow Metrics

Cash flow from operating activities in the first quarter of 2014 was $17.2 million lower than the same period in 2013, primarily due to a higher cash requirement to fund higher iso-octane inventory levels. With the recent access to storage capacity at Kinder Morgan's Galena Park facility on the Gulf Coast, Keyera is now storing iso-octane at that location in order to meet demand in that region.

Distributable cash flow for the three months ended March 31, 2014 was $78.2 million, $5.1 million lower than the same period last year. The higher earnings recorded by Keyera's fee-for-service operating segments were more than offset by lower realized margin from the Marketing business as well as higher cash taxes and general and administrative expenses.

SEGMENTED RESULTS OF OPERATIONS

Keyera is organized into two integrated business units: Gathering and Processing and the Liquids Business Unit. The Liquids Business Unit consists of the NGL 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 NGL 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, 2014 and 2013 are reported in note 15, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera has interests in 16 gas plants in western Canada, including the West Pembina 6-28 gas plant ("Cynthia gas plant"), of which it operates 14, 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 (Thousands of Canadian dollars)	**Three months ended March 31,** **2014**	2013
Revenue including inter-segment transactions	**92,445**	78,048
Operating expenses	**(44,191)**	(38,147)
Operating margin	**48,254**	39,901
Gross processing throughput (MMcf/d)	**1,356**	1,237
Net processing throughput[1] (MMcf/d)	**1,114**	980

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 posted record financial results in the first quarter of 2014 largely driven by higher throughput at several core gas plants. Operating margin for the three months ended March 31, 2014 was $48.3 million, $8.4 million higher than the first quarter in 2013. The higher operating margin was primarily due to the following factors:

- higher throughput at the Rimbey, Simonette, Strachan and Minnehik Buck Lake gas plants resulting from strong drilling activity in the areas surrounding these facilities;
- higher revenues relating to fees charged for the use of Keyera's road at Simonette; and
- higher revenues at the Strachan gas plant relating to the recovery of costs associated with the turnaround planned for the second quarter of this year.

Operating margin at the Simonette gas plant was unusually low in the first quarter of 2013. This was due to regulatory restrictions requiring the facility to curtail inlet volumes resulting from difficulties the plant had experienced in meeting the licensed sulphur recovery levels in prior quarters. The required curtailment period was completed as of May 9, 2013.

Gathering and Processing revenues for the first quarter of 2014 were $92.4 million, $14.4 million higher than the same period in 2013. The higher revenues were largely due to the same factors that contributed to higher operating margin in the period.

Gathering and Processing Activity

Drilling activity increased around several of Keyera's core gas plants in the first quarter of 2014, as producers continued to target gas containing high levels of NGLs. In particular, throughput at the Rimbey, Strachan and Minnehik Buck Lake gas plants were strong in the quarter. Overall, gross processing throughput in the first quarter of 2014 was 1,356 million cubic feet per day, 10% higher than the same period in 2013 despite lower volumes at the Edson gas plant resulting from operational issues. Throughput was unusually low in the first quarter of 2013 due to the curtailment of inlet volumes at the Simonette facility. Keyera is continuing to manage throughput at the Simonette gas plant in an effort to optimize sulphur and NGL recoveries, while advancing expansion projects that when completed, should allow Keyera to accept increased volumes.

In response to the growth in liquids-rich gas and NGLs being delivered to the Rimbey gas plant, Keyera plans to expand the plant's fractionation and NGL truck offload capacity. These expansions are expected to add approximately 6,900 barrels per day of fractionation capacity and between 6,300 and 9,400 barrels per day of additional offload capacity at the NGL truck offload rack. These expansions are anticipated to cost approximately $20 million and are expected to be operational in the second quarter of 2015, assuming the timely receipt of regulatory approvals and construction proceeds as planned.

In the first quarter of 2014, Keyera acquired the final 1.8% ownership interest in the Strachan gas plant, bringing Keyera's ownership in that facility to 100%. Keyera also acquired an additional 0.6% and 0.5% ownership interests in the Brazeau River and Rimbey gas plants.

On May 1, 2014, Keyera closed a transaction with a third party and acquired the following assets:

- an 85% ownership interest in the Cynthia gas plant,, along with the corresponding working interest in lands from which gas is produced into the plant;
- an additional 4.6% ownership interest in the Bigoray gas plant (bringing its ownership in that plant to 100%), along with certain associated reserves which produce into the plant; and
- varying ownership interests in certain associated oil batteries, compressors and gathering pipelines.

The acquired reserves are all from the Nisku formation.

All of these assets are located in Alberta and the total consideration was approximately $113 million. Some of the assets are subject to third party claims, including certain reserves which closed in escrow pending the exercise or expiry of rights of first refusal.

The reserves and production are not material to Keyera's business and do not have a material effect on its financial results. Accordingly, the income from the reserves and production will be reported in the "Corporate and Other" operating segment.

In the first quarter of 2014, Keyera entered into another long-term, fee-for-service agreement with a major producer for the remaining capacity on the Wapiti pipeline system and capacity for gathering and processing services at the Simonette gas plant. Keyera was also successful in developing definitive agreements with producers to underpin the construction of the Twin Rivers pipeline which will bring gas to the Brazeau River gas plant from the southeast.

The following is a status update of previously announced major projects in the Gathering and Processing segment:

Facility/Area	Project Name and Description	Project Status Update
Simonette	***Wapiti pipeline system:*** consists of a 90-kilometre, 12-inch sour gas gathering pipeline and 6-inch condensate pipeline from the Wapiti region of Northwest Alberta to the Simonette gas plant.	The Wapiti pipeline is now expected to be complete in the third quarter of 2014, due to delays caused by inclement weather and spring break-up. The total estimated cost for this pipeline system is approximately $180 million.
Simonette	***Simonette gas plant expansion:*** i) the addition of a refrigeration train to increase the raw gas handling capacity by 100 million cubic feet per day and; ii) the construction of condensate stabilization facilities to handle the expected growth in condensate volumes being delivered to the plant.	i) Regulatory applications for the refrigeration capacity expansion will be submitted in the second quarter and assuming they are approved in a timely manner, the plant expansion is expected to be complete in the second half of this year. ii) Regulatory approvals have been received for the condensate stabilizer, fabrication of equipment is progressing and on-site construction is commencing. The total estimated cost for both projects is approximately $90 million.
Rimbey	***Rimbey Turbo Expander:*** addition of a 400 million cubic feet per day turbo expander designed to extract up to 20,000 barrels per day of ethane.	Regulatory approval was received for this project in April and construction is expected to ramp up in the second quarter. The turbo expander is expected to be operational in the first half of 2015. The total estimated cost for this project is approximately $210 million.
Rimbey	***Carlos Pipeline Offload*:** involves the construction of two 25-kilometre pipelines: an 8-inch raw gas pipeline and a 6-inch condensate pipeline that will deliver raw gas and condensate to the Rimbey gas plant.	Construction of the pipelines was completed in April and they are now in service. The cost of this gathering system was approximately $25 million.
Rimbey	***Wilson Creek gathering system*:** consists of two 30-kilometre pipelines: a 12-inch raw gas pipeline and a 6-inch condensate pipeline that will deliver raw gas and condensate to Rimbey from west of the plant.	Construction of the pipelines was completed in April. The pipelines will not begin operation until a producer owned compressor station is completed, which is expected to be in June 2014. The cost of this gathering system was approximately $45 million.

Facility/Area	Project Name and Description	Project Status Update
Strachan	***Sulphur projects*****:** i) A 50/50 joint venture with Sulvaris Inc ("Sulvaris") that involves the construction of a sulphur handling fertilizer production facility at the Strachan gas plant site. ii) A long-term, fee-for-service agreement with Suncor to provide sulphur handling and forming services at the Strachan gas plant. This project involves the replacement of the existing sulphur forming facility with a new 1,500 tonne per day sulphur forming and degassing unit, expanding the molten sulphur rail off-loading capability and adding additional storage capacity to the site.	i) Construction of the new sulphur fertilizer facility continued in the first quarter of 2014 and is expected to be operational in the first half of 2015. Keyera is currently re-evaluating the costs of this project and anticipates that its share of the costs for this facility will be greater than the initial estimate. ii) Current cost estimates for the sulphur forming facilities and associated modifications at the plant are estimated to be approximately $60 million, up from the initial estimate of $40 million. Keyera and Suncor are evaluating the project based on the higher cost estimate.
Brazeau River	***Twin Rivers pipeline:*** consists of a 25-kilometre, 12-inch gathering system that will deliver raw gas to Keyera's Brazeau River gas plant.	Construction of the pipeline is expected to begin later this year and be operational in the first quarter of 2015. The estimated cost of this pipeline is approximately $25 million.

Estimated completion times for the projects discussed above assume that construction proceeds as planned and where required, that regulatory approvals are received on a timely basis. For more detailed information relating to these projects, readers are referred to Keyera's 2013 year end MD&A available on SEDAR at www.sedar.com.

Maintenance turnarounds have been scheduled for the second quarter of 2014 at the following gas plants:

Facility/Area	Estimated Duration of Turnaround	Estimated Cost of Turnaround	Period Over Which Costs Are Recovered
Strachan	14 days	$15 million	Costs are expected to be recovered through higher operating fee revenue over a period of two years.
West Pembina	14 days	$8 million	Costs are expected to be recovered in the current year.
Caribou	14 days	$10 million	The majority of the costs will not be recovered through higher operating fee revenue, as the Caribou gas plant is primarily a fixed fee facility.

The duration of the turnarounds and estimated costs indicated above are approximations only and are subject to change. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will 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 the cost of the turnarounds, as these costs are included in Keyera's financial results as maintenance capital expenditures.

The Simonette gas plant is also scheduled to have a 10-day outage in the second quarter of 2014, in order to debottleneck the facility and complete work associated with the plant expansion scheduled for later this year.

NGL Infrastructure

The NGL Infrastructure segment provides gathering, 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:

- underground NGL storage caverns;
- NGL fractionation facilities;
- NGL and crude oil pipelines;
- pipeline, rail and truck terminals; and
- the AEF facility.

The AEF facility has the capacity to produce up to 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, and sells large volumes of butane.

Most of Keyera's NGL Infrastructure assets are located in, or connected to, the Edmonton/Fort Saskatchewan area in Alberta, one of four key energy 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 several 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 in order 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 the needs for blending and feedstock needs for the production of iso-octane. These assets also support Keyera's 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 associated with the AEF facility relate to processing services provided to the Marketing segment for the production of iso-octane.

Operating margin for the NGL Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**Three months ended March 31,** **2014**	 2013
Revenue including inter-segment transactions	**69,180**	49,820
Operating expenses	**(30,172)**	(21,653)
Unrealized gain (loss) on electricity and natural gas contracts	**42**	846
Total operating expenses	**(30,130)**	(20,807)
Operating margin	**39,050**	29,013

The NGL Infrastructure segment posted record financial results in the first quarter of 2014, largely due to the strong demand for storage, fractionation and transportation services in the Edmonton/Fort Saskatchewan area. Operating margin was $39.1 million in the first quarter of 2014, $10.0 million higher than the same period in 2013. This increase was primarily due to the following factors:

- higher fees for NGL fractionation and storage services, resulting from continued strong demand for these services;
- higher volumes and tariffs on the Fort Saskatchewan pipeline, as well as an increase in volumes on the Fort Saskatchewan Condensate System;
- higher fees charged to the Marketing segment for the production of iso-octane, due to higher production rates at AEF; and
- incremental margins from the South Cheecham rail and truck terminal, which began operation in October 2013.

These positive factors were partly offset by approximately $1.6 million of expenses incurred in the first quarter of 2014 for work on a storage tank at ADT, and higher utility costs at AEF.

NGL Infrastructure revenues in the first quarter of 2014 were $19.4 million higher than the same period last year, largely due to the same factors that contributed to higher operating margin.

NGL Infrastructure Activity

Demand for fractionation, storage and transportation services was strong in the first quarter of 2014 and is expected to remain strong for the remainder of the year. In January 2014, Keyera announced an expansion at its NGL fractionation and storage facility in Fort Saskatchewan. The project will involve more than doubling the facility's existing C3+ mix fractionation capacity from 30,000 barrels per day to 65,000 barrels per day. Keyera is targeting completion of this expansion in the first quarter of 2016, assuming timely receipt of regulatory approvals and construction proceeds as planned.

Demand for diluent handling services continues to grow in Alberta. In the first quarter of 2014, Keyera entered into a long-term, take-or-pay and fee-for-service agreement with Cenovus Energy Inc. ("Cenovus") to provide diluent handling services in the Edmonton/Fort Saskatchewan area beginning immediately. Under the terms of this agreement, Keyera will provide diluent transportation services, as well as diluent storage services that will increase up to the equivalent of approximately three storage caverns by 2018. The transportation services will be provided on Keyera's Fort Saskatchewan Condensate System between various diluent supply sources and certain delivery points in the Edmonton/Fort Saskatchewan area.

In the first quarter, Keyera completed construction of a pipeline connection at its Fort Saskatchewan site to Kinder Morgan's Cochin pipeline and began supplying the linefill required for the pipeline in April. The installation of pumps and other necessary receipt facilities for this connection is expected to be completed in the second quarter as Keyera prepares to receive condensate from the pipeline when it begins diluent service in the third quarter of 2014. The connection to the Cochin pipeline provides Keyera's customers with another source of diluent and, because Keyera is currently the only receipt point for condensate delivered into Alberta on the Cochin pipeline, all volumes shipped will pass through Keyera's condensate network in Fort Saskatchewan. The total estimated cost for this pipeline connection is approximately $22 million.

In order to meet the growing demand for diluent storage, Keyera is continuing to add storage caverns at its facility in Fort Saskatchewan. The thirteenth and fourteenth underground storage caverns on the site are currently under development. Keyera has developed a plan for the next phase of cavern development at Fort Saskatchewan, which could add approximately four million barrels of additional storage capacity at the site. As part of this program, Keyera expects to begin drilling its fifteenth cavern later this year. Based on Keyera's experience, the development of an underground cavern typically takes two and a half years.

Significant progress has been made on the agreements associated with the Norlite pipeline and Keyera anticipates announcing its participation as a 30% non-operating owner shortly. The Norlite pipeline will be a diluent transportation pipeline delivering condensate from the Fort Saskatchewan area to the Athabasca oil sands region in northeast Alberta. Enbridge will construct and operate the pipeline and anticipates having it in service in the second quarter of 2017. The scope of the pipeline will be finalized later this year, at which time we will receive an updated capital cost estimate from Enbridge for the project. 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.

The AEF facility operated as expected in the first quarter of 2014. In order to increase rail loading capacity for iso-octane, Keyera is expecting to complete modifications to enable iso-octane to be loaded at additional rail spots at the Edmonton Terminal. These modifications are expected to be complete in the second quarter of 2014.

The following is a status update of previously announced major projects in the NGL Infrastructure segment:

Facility/Area	Project Name and Description	Project Status Update
Keyera Fort Saskatchewan	***De-ethanizer Project:*** consists of the construction of a 30,000 barrel per day C2+ mix fractionation and storage facility in Fort Saskatchewan.	Fabrication and installation of major pieces of equipment continued in the first quarter of 2014. This project is expected to be complete in late 2014 and Keyera's share of the costs are approximately $135 million.
Keyera Fort Saskatchewan	***NGL Fractionation and Storage Expansion:*** consists of the 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.	Detailed engineering work continued in the first quarter of 2014. The estimated total gross cost for the project is approximately $220 million with Keyera's share being approximately $170 million.
Keyera Fort Saskatchewan	***Underground Storage Development:*** consists of the development of the thirteenth and fourteenth underground storage caverns and the construction of a new brine pond.	Washing of the thirteenth cavern continued in the first quarter. Drilling of the well bore for the fourteenth cavern was recently completed and washing is expected to begin in the second quarter of this year. The new brine pond is substantially complete and is expected to be put into service in 2014.
Josephburg	***Josephburg Rail Terminal:*** consists of the construction of a propane rail loading terminal at Josephburg, located near Keyera's Fort Saskatchewan fractionation and storage facility, to facilitate propane movements out of western Canada by rail. Increased propane rail loading became necessary with Kinder Morgan's decision to no longer use its Cochin pipeline to deliver western Canadian propane to market.	Civil engineering work is expected to commence in May 2014. The estimated cost of this project is approximately $95 million and the terminal is expected to be operational by mid-2015.
Edmonton	***Alberta Crude Terminal ("ACT"):*** consists of a 50/50 joint venture with Kinder Morgan Energy Partners L.P. ("Kinder Morgan") to build a crude oil rail loading facility in Edmonton. The first phase of the terminal will have 20 loading spots capable of loading up to approximately 40,000 barrels per day of crude oil.	Construction of the Alberta Crude Terminal continued in the first quarter of 2014. Start-up of the terminal is now expected in the third quarter of 2014. The estimated cost of this project to Keyera is approximately $65 million, including the land acquired in 2013. Keyera is in discussions with parties interested in securing capacity for the second phase of development at ACT.

Facility/Area	Project Name and Description	Project Status Update
Hull	***Hull Terminal:*** consists of refurbishing a rail and truck terminal located in Hull, Texas that will be used to handle NGL mix, propane, butane and iso-butane.	Refurbishment of the terminal is nearing completion. Commissioning of the terminal is expected to be operational in the second quarter.

The estimated completion times for the projects described above assume construction proceeds as planned and, where applicable, that regulatory approval is obtained in a timely basis.

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. In addition, Keyera has long-term supply arrangements with major producers that provides a portion of its NGL supply. Keyera may also source additional condensate or butane when market conditions and associated sales contracts are favourable. When this occurs, these products may be delivered in current or future periods and may be held in storage until sold or consumed.

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 historically significantly 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 in order 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, and pricing differentials between different geographic locations. These risks are managed by purchasing and selling product at prices based on similar indices or benchmarks, and through physical and financial contracts that include energy related forward contracts, price swaps and forward currency contracts. 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.

The primary markets for iso-octane are refiners in California, British Columbia, Alberta and the Gulf Coast. Plant production volumes can be managed to correspond with contracted and spot sales opportunities. However, iso-octane inventory may fluctuate depending on market conditions and apportionment issues on the Kinder Morgan Trans Mountain pipeline system, which is currently a key link for transporting iso-octane to west coast markets. Demand for iso-octane is seasonal with higher demand in the summer months. Not all risks can be completely hedged and therefore there can be significant variability in iso-octane margins. As with Keyera's other marketing activities, there are strategies available to try to mitigate the risks associated with the commodity 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.

Overall, the integration of Keyera's business lines means that its Marketing segment can draw on the resources available through its two facilities segments (NGL 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 Volume Information (Thousands of Canadian dollars)	**Three months ended March 31,** **2014**	2013
Revenue	**841,305**	697,538
Operating expenses including inter-segment transactions	**(804,357)**	(673,614)
Operating margin	**36,948**	23,924
Sales volumes (bbl/d)	**99,400**	116,800

Composition of Marketing Revenue (Thousands of Canadian dollars)	**Three months ended March 31,** **2014**	2013
Physical sales	**853,164**	721,567
Realized cash loss on financial contracts[1]	**(13,793)**	(4,573)
Unrealized gain (loss) due to reversal of financial contracts existing at end of prior period	**4,161**	(10,564)
Unrealized loss due to fair value of financial contracts existing at end of current period	**(3,739)**	(10,460)
Unrealized gain due to reversal of fixed price physical contracts existing at end of prior period[2]	**1,577**	1,525
Unrealized (loss) gain due to fair value of fixed price physical contracts existing at end of current period[2]	**(65)**	43
Total unrealized gain (loss) on risk management contracts	**1,934**	(19,456)
Total loss on risk management contracts	**(11,859)**	(24,029)
Total marketing revenue	**841,305**	697,538

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

For the three months ended March 31, 2014, product sales volumes averaged 99,400 barrels per day, 15% lower than the same period last year primarily due to lower sales volumes for propane. Although overall sales volumes were lower, revenue from physical sales was $131.6 million higher in the first quarter of 2014 compared to the same period in 2013 as a result of higher sales prices for all products in 2014.

The Marketing segment posted strong operating results in the first quarter of 2014, largely driven by higher sales volumes and margins for iso-octane. Operating margin was $13.0 million higher in the first quarter of 2014 compared to the same period last year. Excluding the effect of unrealized gains/losses from risk management contracts in both periods, operating margin was $8.4 million lower in 2014. The lower realized operating margin in 2014 was largely due to the following factors:

- Condensate margins were solid in 2014 due to balanced demand and pricing. However, margins were higher in the first quarter of 2013 due to unusually strong demand and pricing during that period.

- Propane margins were lower in the first quarter of 2014 due to:

    - the inclusion of a $1.5 million inventory write-down;

    - lower sales volumes as term customers were permitted to accelerate their volume commitments into the fourth quarter of 2013 to meet the unusually strong demand during that period; and

    - contract modifications, which began on April 1, 2013, that changed the terms under which Keyera purchases most of its propane in order to mitigate the risks associated with marketing propane. As a result, propane margins generally now only benefit from an increase in sales volumes, rather than the upward movement in the price of the commodity.

Market Overview

Unusually cold winter temperatures in the first quarter of 2014 resulted in high demand for propane and led to a shortage of propane across North America. As a result of these shortages, purchasing product on the spot market was difficult and propane prices increased to unprecedented levels in January and February 2014. Despite unusually high prices, propane margins were lower in the first quarter of 2014 compared to the fourth quarter of 2013 due to lower sales volumes. Lower sales volumes resulted from several factors including: i) term customers were permitted to accelerate their volume commitments in the fourth quarter of 2013 to meet the unusually strong crop drying and winter heating demand during that period and ii) the inability to purchase product on the spot market due to shortages of propane in North America.

Beginning with the 2013/2014 (April 1 to March 31) contract year, Keyera modified the terms under which it purchases most of its propane supply in order to mitigate the risks associated with marketing propane. As a result, Keyera’s Marketing business generally benefits only from an increase in sales volumes caused by the higher demand, rather than the upward movement in the price of the commodity. A similar strategy is expected to be utilized for the upcoming (2014/2015) contract year. As a result of these changes, and the conservative hedging strategy for propane that Keyera has adopted since the beginning of 2012, propane margins are expected to be stable for the remainder of 2014.

With the reversal of the Cochin pipeline by Kinder Morgan in 2014, propane movements out of western Canada are expected to be challenging, as this pipeline is no longer a transportation option for propane. As a result, Keyera has committed to construct a rail terminal at Josephburg, located near Keyera’s Fort Saskatchewan fractionation and storage facility, to facilitate propane movements out of western Canada by rail. This terminal is expected to be operational in 2015. Keyera has also expanded its rail fleet and is working with its customers to manage potential logistics constraints in 2014.

Condensate demand was balanced in the first quarter of 2014, resulting in solid margins during this period. Although shippers began injecting linefill into the Cochin pipeline in April, demand for condensate is not expected to increase in the second quarter as much of the product was moved out of Keyera’s storage facility in Fort Saskatchewan. Diluent demand has been lower than initially expected in 2014, as several oil sands projects are operating at lower than expected production levels. As bitumen production begins to ramp up, demand for condensate for use as a diluent is expected to rise. Keyera has invested in the infrastructure necessary to transport and handle incremental condensate supply to meet this growing demand. Keyera imports condensate into Alberta when demand fundamentals exist to support positive operating margins. Keyera expects to continue its balanced sales strategy, aligning sales with supply arrangements, including future purchase commitments for condensate, thereby minimizing commodity price risk.

Margins from the sale of butane were solid in the first quarter of 2014 as demand and pricing typically increase in the winter, due to seasonal demand for cold weather gasoline blending. As prices typically soften after this demand period, Keyera intends to utilize its storage and transportation capabilities to import butane volumes in the spring and summer months in order to effectively manage supply requirements, including the feedstock necessary for the production of iso-octane at AEF. Current indications suggest that butane prices are expected to remain weak throughout 2014 due to a surplus of butane inventory in North America. As butane is the primary feedstock used in the production of iso-octane, lower butane prices benefit Keyera's iso-octane business at AEF.

Margins for iso-octane were strong in the first quarter of 2014 due to solid sales volumes and an effective risk management strategy. Demand for iso-octane typically increases in the second and third quarters as the driving season commences and the demand for gasoline increases.

Since the beginning of 2013, Keyera has been loading iso-octane onto rail cars from its rail rack at the Edmonton Terminal for shipment to customers in the Gulf Coast. Keyera continued to increase the number of rail cars delivering iso-octane to the Gulf Coast throughout 2013, which has contributed to the higher sales volumes and overall margins in 2014. In the second quarter, Keyera plans to finish modifying its rail spots at the Edmonton Terminal in order to increase its iso-octane rail loading capacity.

In January 2014, Keyera secured access to capacity at Kinder Morgan's Galena Park rail, storage and marine facility on the Gulf Coast in order to enhance its iso-octane distribution network in the United States. Under the terms of the agreement, Keyera has access to iso-octane storage and rail offload capacity. This agreement allows Keyera to optimize iso-octane production at AEF, provide added flexibility to manage inventory, and provide marine delivery options for customers unable to receive iso-octane by rail. Keyera continues to pursue new markets and evaluate its logistics options for increasing iso-octane sales and reducing its reliance on the Trans Mountain Pipeline.

Crude oil midstream activities continued to perform well in the first quarter of 2014, making solid contributions to operating margin.

Risk Management

When possible, Keyera uses hedging strategies to mitigate risk in its Marketing business. When it holds NGL inventory, Keyera typically uses physical and financial forward contracts to protect the inventory from fluctuations in commodity prices. For propane in particular, the contracts are generally put in place as inventory builds and 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 two years, Keyera has used propane physical and financial forward contracts to hedge its propane inventory. However, the ability to enter into propane contracts may not be as liquid as other contracts, such as crude oil, and the risk management contracts may have a geographical basis risk, depending on contract terms. As propane markets evolve, Keyera will continue to monitor and adjust its hedging strategy to protect the value of its inventory.

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

- 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 against WTI. When butane or condensate is physically purchased, the financial contract is settled and a realized gain or loss is recorded to the income statement.

- Once the product is in inventory, WTI financial forward contracts may be 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 sold from inventory. 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.

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 largely based upon the price of California gasoline or California Reformulated Blendstock for Oxygen Blending ("CARBOB") and 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 financial contracts to hedge a portion of its iso-octane sales. However, there is basis risk between the prices for RBOB and CARBOB that may result in volatility in sales prices. To a lesser extent, Keyera may also utilize CARBOB financial contracts.

For the quarter ended March 31, 2014, the total unrealized gain on risk management contracts was $1.9 million. The significant components that derive the total unrealized gain on risk management contracts are detailed in the "Composition of Marketing Revenue" table included above.

The fair value of outstanding financial contracts as at March 31, 2014, resulted in an unrealized (non-cash) loss of $3.7 million that includes the following significant items:

- a $2.7 million non-cash loss relating to butane and condensate supply and inventory risk management contracts;
- a $1.8 million non-cash loss relating to iso-octane risk management contracts; and
- a $0.8 million non-cash gain relating to foreign currency 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, 2014, resulted in an unrealized loss of $0.1 million.

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, 2014, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 11, Financial Instruments and Risk Management, of the accompanying financial statements.

NON-OPERATING EXPENSES AND OTHER INCOME

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	**Three months ended March 31,** **2014**	2013
Other income (operating margin)	**2,483**	1,193
General and administrative expenses (net of overhead recoveries on operated facilities)	**(10,021)**	(6,531)
Finance costs	**(14,384)**	(11,908)
Depreciation and amortization expense	**(27,271)**	(24,794)
Net foreign currency gain (loss) on U.S. debt	**13,212**	(7,675)
Long-term incentive plan expense	**(6,991)**	(8,262)
Impairment expense	**-**	(577)
Tax expense	**(26,047)**	(10,839)

Other Income

Beginning in 2010, Keyera acquired natural gas and NGL reserves as part of the acquisition of ownership interests in the Minnehik Buck Lake and West Pembina facilities. Keyera reports earnings from the production associated with these reserves as other income.

The amounts presented are shown net of royalties and operating expenses. Other income generated in the first quarter of 2014 was $2.5 million, $1.3 million higher than the same period in 2013. Production for the three months ended March 31, 2014, averaged 1,133 barrels of oil equivalent per day compared to 1,041 barrels of oil equivalent per day of production in the first quarter of 2013.

On May 1, 2014, Keyera acquired reserves from the Nisku geological horizon as part of its recent West Pembina area acquisition. Certain of these reserves are subject to rights of first refusal and therefore remain in escrow. The transaction is subject to a dispute involving certain rights of first refusal and other conditions which may result in a change to the amount paid and the assets received. Production from these wells averaged approximately 8,700 barrels of oil equivalent per day in 2013. Keyera currently estimates the production decline rate to be between 25% and 30% annually and has no plans to drill additional wells. Earnings (net of royalties and operating expenses) from producing these reserves will continue to be reported as other income. Accordingly, other income is expected to increase for the remainder of 2014 but is expected to decline significantly over the next two to three years.

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 increased by $3.5 million in the first quarter of 2014 compared to the same period in 2013. The increase was largely due to higher staffing levels and related costs necessary to support the growth in Keyera's underlying business.

Finance Costs (including accretion)

Finance costs were $14.4 million for the three months ended March 31, 2014, $2.5 million higher than the same period in 2013. Interest charges were higher in the first quarter of 2014 due to the issuance of approximately $220 million and US$205 million of long-term notes that were issued in the second half of 2013. The effect of higher interest charges associated with outstanding long-term debt was partly offset by interest capitalized on certain capital projects. For more information related to the long-term debt financings that were completed in 2013, readers are referred to Keyera's 2013 annual MD&A available on SEDAR at www.sedar.com.

Depreciation and Amortization

Depreciation and amortization expenses were $27.3 million for the three months ended March 31, 2014, $2.5 million higher than the same period in 2013. The increase in depreciation expense was largely due to an increase in Keyera's asset base resulting from significant growth capital expenditures in 2013.

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

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

	Three months ended March 31,	
(Thousands of Canadian dollars)	**2014**	2013
Net foreign currency gain (loss) resulting from:		
Translation of US$504 million long-term debt (2013 – US$299 million)	**(21,017)**	(6,189)
Translation of accrued interest payable	**(77)**	(108)
Change in fair value of the cross currency swap – principal and interest portion	**34,652**	(857)
Loss on cross currency swap – interest portion[1]	**(346)**	(521)
Net foreign currency gain (loss) on U.S. debt	**13,212**	(7,675)

Note:
[1] A foreign currency loss resulted from the exchange of currencies relating to the interest payments made in March 2014 and 2013.

In order 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 proceeds 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. See note 11, Financial Instruments and Risk Management, to the accompanying financial statements for more information on the swap agreements.

A net foreign currency gain of $13.2 million was recorded for the three months ended March 31, 2014. The translation of U.S. dollar denominated debt into Canadian dollars resulted in a $21.0 million non-cash loss as the Canadian dollar weakened in relation to the U.S. dollar at the end of March 2014 relative to the end of 2013. This unrealized loss was more than offset by a $34.7 million non-cash gain resulting from the change in fair value of cross currency swap agreements as at March 31, 2014.

Long-Term Incentive Plan Expense

The Long-Term Incentive Plan ("LTIP") expense was $7.0 million for the three months ended March 31, 2014, $1.3 million lower than the same period in 2013. The lower expense in 2014 was primarily due to a lower percentage growth in share price compared to the first quarter of 2013. Keyera's share price increased by approximately 10% as at March 31, 2014 relative to the end of 2013. This is compared to an approximately 16% growth in Keyera's share price at the end of March 2013 relative to the end of 2012.

Impairment Expense

Keyera reviews its assets for impairment on a quarterly basis. The carrying value of a terminal located in the U.S. was written off in the first quarter of 2013, resulting in an impairment expense of $0.6 million in the first quarter of 2013.

Taxes

In general, as earnings before taxes increase, total tax expense (current and deferred taxes) will also increase. 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 three months ended March 31, 2014, a deferred income tax expense of $16.8 million was recorded compared to an expense of $10.2 million in the same period of 2013. The higher deferred income tax expense in the first quarter of 2014 was primarily due to higher earnings before taxes resulting from the strong performance by all business segments.

Current Income Taxes

Current income tax expense for the three months ended March 31, 2014 was $9.2 million, $8.6 million higher than the same period in 2013. For 2014, cash taxes are currently expected to range between $35 million and $40 million. This estimate is largely based on 2013 taxable income from the Partnership that is allocated to Keyera Corp. in 2014. This income deferral is available to Keyera as its structure includes a deferral partnership. In late 2011, the government passed legislation to limit the deferral opportunities for corporations with significant interests in partnerships that have a fiscal period different from the corporation's taxation year. However, in general, deferral partnership structures are still beneficial to corporations that experience growth in taxable income. Depending on when major capital expenditures are available for use for purposes of claiming capital cost allowance, taxable income can vary significantly from year to year.

Keyera estimates its tax pools at March 31, 2014 were approximately $900 million consisting primarily of class 41 undepreciated capital costs.

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, 2013. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2013 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 NGL Infrastructure:
At March 31, 2014, operating revenues and accounts receivable for the Gathering and Processing and NGL Infrastructure segments contained an estimate of $44.8 million primarily for March 2014 operations.

Marketing:
At March 31, 2014, the Marketing sales and accounts receivable contained an estimate for March 2014 revenues of $149.0 million.

Operating Expenses and Product Purchases

Gathering and Processing and NGL Infrastructure:
At March 31, 2014, operating expenses and accounts payable for the Gathering and Processing and NGL Infrastructure segments contained an estimate of $21.7 million primarily for March 2014 operations.

Marketing:
Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of $148.0 million at March 31, 2014.

Equalization Adjustments

For the Gathering and Processing segment, an equalization adjustment of $8.0 million was included in revenue and accounts receivable at March 31, 2014. Operating expenses and accounts payable contained an equalization adjustment of $27.0 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 $308.7 million at March 31, 2014 compared to $308.0 million at December 31, 2013. The provisions are estimated to be settled between 2014 and 2040.

For more information on the critical accounting estimates refer to note 3 in the accompanying 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. Refer to note 11, Financial Instruments and Risk Management, of the accompanying financial statements for a summary of the fair value of derivative financial instruments existing at March 31, 2014.

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 $3.4 million as at March 31, 2014.

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, 2014 and 2013:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended March 31, 2014	2013	**Increase (decrease)**	**Explanation**
Operating	**119,493**	136,688	(17,195)	Decrease in cash was primarily due to the higher cash requirement to fund higher volumes of iso-octane in inventory. With the recent access to storage capacity at Kinder Morgan's Galena Park facility on the Gulf Coast, Keyera is able to store iso-octane in order to meet demand in that region.
Investing	**(159,357)**	(54,659)	(104,698)	Capital spending in 2014 related to several internal growth projects including the Rimbey turbo expander project, the de-ethanizer project at Fort Saskatchewan and construction of the Wapiti pipeline system at Simonette. Capital spending in 2013 primarily related to the Rimbey turbo expander project, the de-ethanizer project at Fort Saskatchewan and the South Cheecham rail and truck terminal.
Financing	**(32,873)**	(84,440)	51,567	In 2014, cash generated from operating activities was used to pay dividends and fund a portion of capital expenditures. The remaining capital expenditures were funded from cash on hand resulting from the issuance of long-term debt in 2013. In 2013, cash generated from operating activities was used to reduce the balance of bank credit facilities by $55 million and fund capital expenditures in the quarter.

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 by the third quarter in order 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, as demand is typically stronger in the second and third quarters resulting from higher gasoline demand.

A working capital surplus (current assets less current liabilities) of $158.8 million existed at March 31, 2014, compared to a surplus of $306.8 million at December 31, 2013.

Dividend Reinvestment Plan

Keyera's dividend reinvestment plan (the "Plan") consists of two components: a Premium Dividend™ ("Premium DRIP™") reinvestment component and a regular dividend reinvestment component ("DRIP"). The DRIP component allows eligible shareholders of Keyera to direct their cash dividends to be reinvested in additional common shares issued from treasury at a 3% discount to the Average Market Price (as defined in the Plan) on the applicable dividend payment date. The Premium DRIP™ component permitted eligible shareholders to elect to have these additional common shares delivered to the designated plan broker in exchange for a premium cash payment equal to 102% of the regular, declared cash dividend that was reinvested on their behalf under the Plan. The Premium DRIP™ component has been suspended since April 2010. The DRIP component remains in effect.

The Plan generated cash of $14.7 million for the quarter ended March 31, 2014 and $12.6 million for the same period in 2013.

Long-term Debt (including Credit Facilities)

Below is a summary of Keyera's long-term debt obligations:

(Thousands of Canadian dollars)

As at March 31, 2014 (Thousands of Canadian dollars)	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**After 2018**
Credit Facilities							
Bank credit facilities	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
Canadian dollar denominated debt							
4.66% due September 8, 2015	30,000	—	30,000	—	—	—	—
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
	546,000	—	30,000	35,000	60,000	—	421,000
US dollar denominated debt							
3.91% due September 8, 2015 (US$15,000)	16,580	—	16,580	—	—	—	—
8.40% due May 1, 2016 (US$50,000)	55,265	—	—	55,265	—	—	—
3.42% due June 19, 2019 (US$3,000)	3,316	—	—	—	—	—	3,316
5.14% due September 8, 2020 (US$103,000)	113,846	—	—	—	—	—	113,846
4.19% due June 19, 2024 (US$128,000)	141,478	—	—	—	—	—	141,478
4.75% due November 20, 2025 (US$140,000)	154,742	—	—	—	—	—	154,742
4.95% due November 20, 2028 (US$65,000)	71,845	—	—	—	—	—	71,845
	557,072	—	16,580	55,265	—	—	485,227
Less: Current portion of long-term debt	—	—					
Total long-term debt	**1,103,072**	—	**46,580**	**90,265**	**60,000**	—	**906,227**

As at March 31, 2014, Keyera had $546 million and US$504 million of senior unsecured notes including amounts drawn under the uncommitted shelf facility. In order to manage the foreign currency exposure on the U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap substantially all of the U.S. dollar proceeds 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. See the section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" for more information.

These senior note agreements contain a number of covenants, all of which were met as at March 31, 2014. These 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 revolving term credit facility, is the Debt to EBITDA ratio. In the calculation of debt, Keyera is required to deduct working capital surplus or add working capital shortfalls. As at March 31, 2014, Keyera's Debt to EBITDA ratio was 2.46 for covenant test purposes.

In the third quarter of 2013, Keyera entered into a private placement of 12-year and 15-year senior unsecured notes with a group of institutional investors in Canada and the U.S., in the principal amount of approximately $306 million. Approximately $231 million was placed on November 20, 2013. The remaining $75 million was placed on April 8, 2014 and bears interest at 5.34% with a maturity date of April 8, 2029. Refer to the December 31, 2013 year end MD&A for further details relating to long-term debt issued in 2013 as well as available capacity remaining under the Prudential private shelf agreement. There have been no other material changes since the end of 2013.

On December 6, 2013, Keyera amended its existing unsecured revolving term facility agreement (the "Credit Facility") among Keyera and a syndicate of Canadian chartered banks and one foreign bank (the "Lenders"), co-lead arranged by the Royal Bank of Canada and the National Bank of Canada. Pursuant to the amendment, the term of the Credit Facility was extended from December 13, 2016, to December 6, 2017, and the Debt to EBITDA financial covenant ratio, which includes a deduction for working capital surplus (or addition of working capital deficit) when calculating debt, increased from 3.5 times to 4 times. The size of the Credit Facility remains at $750 million, with the potential to increase to $1 billion, subject to certain conditions. 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. These facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. base rate loans, Libor loans or bankers' acceptances.

As at March 31, 2014 and December 31, 2013, no amounts were drawn under these facilities. The Credit Facility agreement contains a number of covenants, all of which were met as at March 31, 2014. This agreement is available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends. Management expects that upon maturity of the facilities, adequate replacement facilities will be established.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three months ended March 31, 2014 and 2013:

Capital Expenditures and Acquisitions	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2014**	2013
Acquisitions	**5,783**	3,907
Growth capital expenditures	**198,598**	53,116
Maintenance capital expenditures	**3,279**	2,007
Total capital expenditures	**207,660**	59,030

Growth capital expenditures for the three months ended March 31, 2014 amounted to $198.6 million that included the following significant items:

Facility/Area	Amount	Description of Expenditures
Rimbey	$56 million	Work done on the Rimbey turbo project including fabrication of major equipment; the Carlos pipeline offload project; and construction of the Wilson Creek pipeline.
Simonette	$71 million	Construction of the Wapiti pipeline and associated sour gas inlet facilities.
Fort Saskatchewan	$24 million	Work associated with the de-ethanizer project including fabrication and installation of major equipment; drilling of the fourteenth cavern; and work associated with the pipeline tie-in to the Cochin pipeline.
Hull	$12 million	Refurbishment of the rail and truck terminal in Hull, Texas.
Strachan	$11 million	Construction of the sulphur handling fertilizer facility.
ACT	$10 million	Work associated with the Alberta Crude Terminal project, including construction of the connector pipeline from ADT to Keyera's Fort Saskatchewan pipeline and connector pumps.

For the first quarter of 2014, acquisitions included the purchase of the final 1.82% ownership interest in the Strachan gas plant. Keyera also acquired 0.6% and 0.5% ownership interests in the Brazea River and Rimbey gas plants.

Keyera has committed to construct and operate the following major facility additions:

Project Name	Total Estimated Cost to Complete	Total Costs Incurred to March 31, 2014	Estimated Completion Timeframe
Wapiti Pipelines and Simonette Gas Plant Expansion	*Wapiti pipelines:* Total cost is approximately $180 million. *Plant expansion and condensate stabilization:* Total cost is approximately $90 million.	$116 million	*Pipelines:* Third quarter of 2014. *Plant expansion and condensate stabilization:* End of 2014.
Turbo Expander at the Rimbey Gas Plant	Gross cost is approximately $210 million.	$98 million	First half of 2015
Fractionation Expansion at Fort Saskatchewan	Keyera's share is approximately $170 million (gross cost of approximately $220 million).	$4 million	First quarter of 2016
De-ethanization at Fort Saskatchewan	Keyera's share is approximately $135 million (gross cost of approximately $175 million).	$61 million	Late 2014
Josephburg Rail Terminal	Total cost is approximately $95 million.	$4 million	First half of 2015
Strachan Sulphur Project (50/50 joint venture with Sulvaris Inc.)	*Sulphur handling fertilizer production facility:* Cost estimates are currently being re-evaluated and are expected to be greater than the original $25 million estimate.	$13 million	First half of 2015
Alberta Crude Terminal (50/50 joint venture with Kinder Morgan)	Keyera's share is approximately $65 million, including the land acquired in 2013.	$41 million, including the acquisition of land in 2013	Third quarter of 2014
Hull Terminal	Total cost is approximately $35 million, including the initial acquisition of the terminal in 2012.	$26 million, including the initial acquisition of the rail and truck terminal	Second quarter of 2014

The estimated costs for the projects described above are approximations only and the estimated times to complete these projects assume construction proceeds as planned and where applicable, that regulatory approval is obtained in a timely basis. For more information regarding these projects, refer to the section of this MD&A titled, "Segmented Results of Operations.

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 $7.0 million for the three months ended March 31, 2014, and $1.0 million in the same period of 2013. The majority of these expenditures 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 in order to maintain current levels of cash flow. However, to grow future cash flow, Keyera must invest growth capital in order to expand its current asset base and capture new opportunities. Keyera is pursuing a number of growth opportunities, as described above, and in 2014 now expects to invest between $600 and $700 million on growth initiatives, excluding acquisitions. This growth capital is expected to be funded by cash flow from operating activities, the 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)	**2014**	2013
Cash flow from operating activities	**119,493**	136,688
Add (deduct):		
Changes in non-cash working capital	**(29,470)**	(42,694)
Long-term incentive plan expense	**(6,991)**	(8,262)
Maintenance capital	**(3,279)**	(2,007)
Inventory write-down	**(1,533)**	(440)
Distributable cash flow	**78,220**	83,285
Dividends declared to shareholders	**47,605**	42,074

For the three months ended March 31, 2014, dividends declared were $47.6 million, or 61% of distributable cash flow, compared to dividends declared of $42.1 million, or 50% of distributable cash flow in the first quarter of 2013.

Keyera posted strong distributable cash flow in the first quarter of 2014 despite recording cash taxes of $9.2 million in the quarter. Distributable cash flow for the three months ended March 31, 2014 was $78.2 million, $5.1 million lower than the same period last year. The higher earnings recorded by Keyera's fee-for-service operating segments was more than offset by lower realized margin from the Marketing segment, and higher cash taxes and G&A expenses in the first quarter of 2014. Refer to the section of the MD&A titled, "Non-Operating Expenses and Other Income", for more information on the factors that resulted in higher cash taxes and G&A expenditures in 2014.

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 will be increasing its dividend by 7.5% from $0.20 per share per month to $0.215 per share per month, or $2.58 per share annually, beginning with its dividend payable on June 16, 2014. 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 is not a standard measure under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure used as an indication of earnings generated from operations after consideration of administrative and overhead costs. 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.

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

EBITDA	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2014**	2013
Net earnings	**55,233**	23,445
Add (deduct):		
Unrealized (gain) loss on commodity contracts	**(1,976)**	18,610
Finance costs	**14,384**	11,908
Net foreign currency (gain) loss on U.S. debt	**(13,212)**	7,675
Depreciation and amortization	**27,271**	24,794
Impairment expense	**-**	577
Tax expense	**26,047**	10,839
EBITDA	**107,747**	97,848

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. These obligations and commitments have been included in the 2013 annual MD&A. There have been no significant developments or changes since the end of 2013.

RELATED PARTY TRANSACTIONS

Keyera has provided compensation to key management personnel which is 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, 2013, 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, readers are referred to the December 31, 2013, MD&A and to 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. Third party audits or verifications of inventories are conducted for facilities that are required to meet regulatory targets.

Keyera closely monitors political and legislative developments as they relate to climate change as well as other environmental and regulatory matters. For a detailed discussion of environmental regulations that affect Keyera and the risks associated therewith, refer to 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, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012
Revenue before inter-segment eliminations [2]								
Gathering and Processing	**92,445**	87,186	87,678	90,727	78,048	83,646	77,964	79,284
NGL Infrastructure	**69,180**	62,088	57,195	54,398	49,820	51,474	48,608	45,736
Marketing	**841,305**	827,786	679,351	682,700	697,538	698,458	577,842	596,966
Other	**3,758**	2,810	2,951	3,460	2,554	3,167	1,994	2,522
Operating Margin								
Gathering and Processing	**48,254**	37,983	40,654	38,936	39,901	35,125	35,564	41,201
NGL Infrastructure	**39,050**	33,781	31,380	29,126	29,013	28,841	29,907	27,784
Marketing	**36,948**	29,044	33,160	46,817	23,924	50,794	16,665	11,832
Other	**2,483**	1,551	1,681	2,192	1,193	1,810	791	1,502
Net earnings [1]	**55,233**	34,396	40,822	48,173	23,445	56,651	14,238	25,842
Net earnings per share ($/share)								
Basic	**0.70**	0.44	0.52	0.62	0.30	0.73	0.18	0.34
Diluted	**0.70**	0.43	0.52	0.61	0.30	0.73	0.18	0.33
Weighted average common shares (basic)	**79,301**	78,779	78,450	78,162	77,862	77,495	77,153	76,796
Weighted average common shares (diluted)	**79,301**	79,073	78,835	78,612	78,381	78,102	77,814	77,530
Dividends declared to shareholders	**47,605**	47,297	45,529	42,232	42,074	41,104	39,379	39,191

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 incremental ownership interests in Keyera operated facilities and strong producer activity related to the development of liquids-rich natural gas in areas around several of Keyera's gas plants. Operating margin from the Gathering and Processing segment was unusually low in the third and fourth quarters of 2012 due to certain non-recurring charges, including expenses recorded at the Chinchaga gas plant for remediation work associated with a release from the Cranberry pipeline. In the NGL Infrastructure segment, continued demand for storage, fractionation and off-loading services, as well as the acquisition of AEF, have contributed to the growth in operating margin.

Operating margin from the Marketing segment can be affected by seasonal factors. Propane sales are typically lower in the second and third quarters due to warmer weather and higher during the first and fourth quarters when propane demand and margins are higher. By comparison, 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. Unrealized non-cash gains and losses resulting from the change in value of risk management contracts can also have a material effect on operating margin for this segment.

Compared to the 2013 year-end, results from Keyera's fee-for-service segments are continuing to perform well resulting from continued producer activity around several core gas plants, including the Rimbey, Strachan and Minnehik Buck Lake facilities. In addition, demand for storage, fractionation and transportation services is expected to remain strong in 2014. For the Marketing segment, Keyera expects to utilize a similar hedging strategy for the upcoming contract year for all products. Keyera anticipates utilizing its access to storage in the Gulf Coast and increasing shipments by rail in order to increase iso-octane sales volumes.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of March 31, 2014, 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, 2014 and ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

There were 230,590 common shares issued under the DRIP for consideration of $14.7 million, bringing the total common shares outstanding at March 31, 2014 to 79,417,229.

Subsequent to March 31, 2014, 60,373 common shares were issued to shareholders enrolled in the DRIP for consideration of $4.1 million, bringing the total common shares outstanding at May 6, 2014 to 79,477,602.

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) and EBITDA (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) 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 is a measure 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; 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 13, 2014, 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 approvals and expected in service dates; regulatory approvals; and macro socio-economic trends. Pipeline projects are also subject to Keyera's ability to secure the necessary rights of way. 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. The acquisition of the West Pembina assets, including the Cynthia gas plant, is subject to third party claims including the resolution of ROFR issues. Depending on the resolution of these issues, Keyera's ownership and ability to operate these assets may differ significantly. Alberta's move toward a single regulator has affected approval processing times for projects that are subject to regulatory approval and it is unclear whether this will continue. The new regulatory requirements implemented with the transition to the AER, and possibly future changes as integration of the regulatory bodies continues, create uncertainty for project timing, requirements and compliance. Regulatory applications are also subject to intervention by interested parties which could result in delays.

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 MD&A 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

Dividends declared to shareholders were $0.60 per share in the first quarter of 2014. Effective with the May 2014 dividend, payable to shareholders on June 16, 2014, our dividend will increase by 7.5% to $0.215 per share per month, or $2.58 per share annually. 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 2014 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 2014 results at 8:00 am mountain time (10:00 am eastern) on May 7, 2014. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. A recording of the call will be available for replay until midnight, May 21, 2014, by dialing 1-855-859-2056 or 1-416-849-0833 and entering pass code 8219509.

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 on 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, 2014 $**	December 31, 2013 $
ASSETS			
Cash		**116,531**	186,651
Trade and other receivables		**391,709**	407,833
Derivative financial instruments	11	**8,965**	11,335
Inventory	5	**159,493**	175,658
Other assets		**15,317**	5,645
Total current assets		**692,015**	787,122
Derivative financial instruments	11	**52,133**	20,708
Property, plant and equipment		**2,368,357**	2,187,825
Intangible assets		**1,643**	1,786
Goodwill		**53,624**	53,624
Total assets		**3,167,772**	3,051,065
LIABILITIES AND EQUITY			
Trade and other payables		**508,240**	449,776
Derivative financial instruments	11	**9,060**	14,725
Dividends payable		**15,883**	15,804
Total current liabilities		**533,183**	480,305
Derivative financial instruments	11	**—**	1,908
Long-term debt		**1,098,347**	1,077,140
Long-term incentive plan	10	**17,980**	13,305
Decommissioning liability	6	**308,725**	307,968
Deferred tax liabilities		**263,535**	246,730
Total liabilities		**2,221,770**	2,127,356
Equity			
Share capital	8	**1,007,476**	992,811
Accumulated deficit		**(61,474)**	(69,102)
Total equity		**946,002**	923,709
Total liabilities and equity		**3,167,772**	3,051,065

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

These condensed interim unaudited consolidated financial statements were approved by the board of directors of Keyera Corp. on May 6, 2014.

(Signed) H. Neil Nichols
Director

(Signed) Jim V. Bertram
Director

Keyera Corp.

Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income

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

	Note	Three months ended March 31, 2014 $	2013 $
Operating revenues	15	**951,479**	784,469
Operating expenses	15	**(824,744)**	(690,438)
		126,735	94,031
General and administrative expenses		**(10,021)**	(6,531)
Finance costs	13	**(14,384)**	(11,908)
Depreciation and amortization expense		**(27,271)**	(24,794)
Net foreign currency gain (loss) on U.S. debt	12	**13,212**	(7,675)
Long-term incentive plan expense	10	**(6,991)**	(8,262)
Impairment expense		**—**	(577)
Earnings before income tax		**81,280**	34,284
Income tax expense	7	**(26,047)**	(10,839)
Net earnings		**55,233**	23,445
Other comprehensive income		**—**	—
Total comprehensive income		**55,233**	23,445
Earnings per share			
Basic earnings per share	9	**0.70**	0.30
Diluted earnings per share	9	**0.70**	0.30

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

Keyera Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Thousands of Canadian dollars)
(Unaudited)

		Three months ended March 31,	
		2014	2013
	Note	**$**	$
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings		**55,233**	23,445
Adjustments for items not affecting cash:			
Finance costs	13	**2,699**	1,579
Depreciation and amortization expense		**27,271**	24,794
Long-term incentive plan expense	10	**6,991**	8,262
Unrealized (gain) loss on derivative financial instruments	11	**(36,628)**	19,467
Unrealized loss on foreign exchange		**17,857**	5,989
Deferred income tax expense	7	**16,805**	10,205
Inventory write-down	5	**1,533**	440
Impairment expense		**—**	577
Decommissioning liability expenditures	6	**(1,738)**	(764)
Changes in non-cash working capital	14	**29,470**	42,694
Net cash provided by operating activities		**119,493**	136,688
INVESTING ACTIVITIES			
Acquisitions		**(5,783)**	(3,907)
Capital expenditures		**(201,877)**	(55,123)
Changes in non-cash working capital	14	**48,303**	4,371
Net cash used in investing activities		**(159,357)**	(54,659)
FINANCING ACTIVITIES			
Borrowings under credit facilities		**—**	310,000
Repayments under credit facilities		**—**	(365,000)
Issuance costs related to long-term debt		**(12)**	—
Proceeds from issuance of shares related to DRIP	8	**14,665**	12,571
Dividends paid to shareholders		**(47,526)**	(42,011)
Net cash used in financing activities		**(32,873)**	(84,440)
Effect of exchange rate fluctuations on foreign cash held		**2,617**	33
Net decrease in cash		**(70,120)**	(2,378)
Cash at the start of the period		**186,651**	518
Cash (bank indebtedness) at the end of the period		**116,531**	(1,860)

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

Income taxes paid in cash	**510**	42
Interest paid in cash	**3,064**	7,131

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

Keyera Corp.

Condensed Interim Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)
(Unaudited)

		Accumulated Deficit		
	Stated Share Capital	Retained Earnings (Deficit)	Contributed Surplus	**Total**
As at	**$**	**$**	**$**	**$**
Balance at December 31, 2012	**920,222**	**(38,806)**	**9,402**	**890,818**
Common shares issued on conversion of convertible debentures	3,503	—	(1,606)	1,897
Common shares issued pursuant to dividend reinvestment plans	12,571	—	—	12,571
Net earnings and total comprehensive income	—	23,445	—	23,445
Dividends declared to shareholders	—	(42,074)	—	(42,074)
Balance at March 31, 2013	**936,296**	**(57,435)**	**7,796**	**886,657**

		Accumulated Deficit		
	Stated Share Capital	Retained Earnings (Deficit)	Contributed Surplus	**Total**
As at	**$**	**$**	**$**	**$**
Balance at December 31, 2013	**992,811**	**(69,102)**	**—**	**923,709**
Common shares issued pursuant to dividend reinvestment plans	14,665	—	—	14,665
Net earnings and total comprehensive income	—	55,233	—	55,233
Dividends declared to shareholders	—	(47,605)	—	(47,605)
Balance at March 31, 2014	**1,007,476**	**(61,474)**	**—**	**946,002**

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

Keyera Corp.
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three months ended March 31, 2014 and 2013
(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"), ADT 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 natural gas liquids ("NGLs"), iso-octane and crude oil processing, transportation, storage and marketing in Canada and the U.S. Keyera Corp. and its subsidiaries are collectively referred to herein as "Keyera". The address of Keyera's registered office and principal place of business is Suite 600, Sun Life Plaza West Tower, 144 – 4th Avenue S.W., Calgary, AB, Canada.

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

On May 7, 2013, shareholders of Keyera approved a special resolution to amend the articles of Keyera (the "Articles of Amendment") to create two new 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

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements are in compliance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. The accounting policies applied are in compliance 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, 2013, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2014 as noted below.

These condensed interim consolidated financial statements as at and for the three months ended March 31, 2014 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, 2013.

The condensed interim consolidated financial statements were authorized for issuance on May 6, 2014 by the Board of Directors.

New and amended IFRS standards adopted by Keyera

Keyera has adopted and applied the following new IFRS interpretation in 2014:

IFRIC 21, Levies
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached.

Keyera's retrospective adoption of IFRIC 21 as at January 1, 2014 did not have an impact on Keyera's consolidated financial statements for the current and prior comparative periods. Keyera's current methodologies and policies adhere to the interpretation.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of Keyera's accounting policies, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from the estimates.

The most significant estimates and judgements contained in the consolidated financial statements are described below:

Allowance for doubtful accounts
Keyera provides services to a number of counterparties on credit terms. The allowance for credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter-party.

Impairment of property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units or CGUs).

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

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

Decommissioning liabilities
Keyera estimates future site restoration costs for its gathering and processing facilities, pipelines and storage facilities. The ultimate costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other processing sites.

Deferred tax assets and liabilities
Deferred tax assets and liabilities require management's judgement in determining the amounts to be recognized. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Operating revenues and operating expenses

a) Gathering and Processing and NGL Infrastructure:

Each month, actual volumes processed and fees earned from the Gathering and Processing and NGL Infrastructure assets are not known until the following month. In addition, the period in which invoices are rendered for the supply of goods and services necessary for the operation of the Gathering and Processing and NGL Infrastructure assets is generally later than the period in which the goods or services were provided. Estimates of one month's revenue and one month's operating costs are recorded in the financial statements based upon a review of historical trends that is adjusted for events that are known to have a significant effect on the month's operations.

b) Marketing:

Marketing sales revenue is recorded based on actual volumes and prices. However, in many cases actual volumes have not yet been confirmed and sales prices that are dependent on other variables are not yet known. In addition, the majority of NGL supply purchases are estimated each month as actual volume information is not available until the following month. At the end of the period, estimates for sales and purchases are recorded in the financial statements. Estimates are prepared based on contracted volumes and known events.

Equalization Adjustments

Much of the revenue from the Gathering and Processing segment includes a recovery of operating costs. 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. On a quarterly basis, throughput volumes and operating costs are reviewed and adjustments are made to revenue and operating expenses based on actual operating costs incurred to date.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

There have been no significant amendments or introduction of new standards issued by the International Accounting Standards Board ("IASB") for the three months ended March 31, 2014. Refer to Keyera Corp.'s consolidated financial statements as at, and for the year ended December 31, 2013 for details of IFRS standards that are in the process of being finalized by the IASB.

5. INVENTORY

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

As at	**March 31, 2014 $**	December 31, 2013 $
NGLs and iso-octane	**155,403**	171,686
Other	**4,090**	3,972
Total inventory	**159,493**	175,658

For the period ended March 31, 2014, $94,341 of inventory was carried at cost (December 31, 2013 – $175,658) and $65,152 (December 31, 2013 – $nil) was carried at net realizable value which included a $1,533 charge to operating expenses to write down the cost of NGL inventory to net realizable value (December 31, 2013 – $2,058 charge to NGL and iso-octane inventory).

6. DECOMMISSIONING LIABILITY

Keyera makes full provision for the future cost of decommissioning its gathering and processing facilities, pipelines and storage facilities on a discounted basis upon acquisition or installation of these facilities. These costs are generally expected to be incurred over the next 30 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding the amount and timing of incurring these costs. No assets have been legally restricted for settlement of the liability.

The following is a reconciliation of the beginning and ending carrying amount of the obligation associated with the decommissioning of Keyera's assets.

As at	**March 31, 2014 $**	December 31, 2013 $
Decommissioning liability, beginning of the period	**307,968**	365,448
Liabilities acquired	**—**	1,299
Liabilities disposed	**—**	(1,350)
Liabilities settled	**(1,738)**	(3,467)
Revision in estimated cash flows	**—**	4,325
Revision due to change in discount rate	**—**	(67,952)
Unwinding of discount included in finance costs	**2,495**	9,665
Decommissioning liability, end of the period	**308,725**	307,968

7. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended March 31,	
	2014	2013
	$	$
Current income tax expense	**9,242**	634
Deferred income tax expense	**16,805**	10,205
Total income tax expense	**26,047**	10,839

8. CAPITAL

	Share Capital	
	Number of Common Shares	Share Capital $
Balance at December 31, 2012	**77,662,547**	**920,222**
Adjustment to share capital due to settlement of convertible debenture derivative liability	—	9,402
Common shares issued on conversion of convertible debentures	583,655	11,123
Common shares issued pursuant to dividend reinvestment plans	940,437	52,064
Balance at December 31, 2013	**79,186,639**	**992,811**
Common shares issued pursuant to dividend reinvestment plans	230,590	14,665
Balance at March 31, 2014	**79,417,229**	**1,007,476**

9. 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. The effect of convertible debentures was included in the calculation of diluted earnings per share for the comparative three month period ended March 31, 2013.

	Three months ended March 31,	
	2014	2013
	$	$
Basic earnings per share	**0.70**	0.30
Diluted earnings per share	**0.70**	0.30

	Three months ended March 31,	
	2014	2013
	$	$
Net earnings – basic	**55,233**	23,445
Effect of convertible debentures (net of tax)	**—**	170
Net earnings – diluted	**55,233**	23,615

	Three months ended March 31,	
(in thousands)	**2014**	2013
Weighted average number of shares – basic	**79,301**	77,862
Shares deemed to be issued on conversion of convertible debentures	**—**	519
Weighted average number of shares – diluted	**79,301**	78,381

10. 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, 2014 the fair value of shares granted was $70.09 per share (December 31, 2013 – $63.93 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended March 31,	
	2014	2013
	$	$
Performance Awards	**6,068**	7,500
Restricted Awards	**923**	762
Total long-term incentive plan expense	**6,991**	8,262

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**March 31, 2014**	December 31, 2013
Issued July 1, 2011 – Performance Awards	**155,095**	155,095
Issued July 1, 2012 – Performance Awards	**162,752**	162,932
Issued July 1, 2013 – Performance Awards	**149,895**	147,045
Issued July 1, 2011 – Restricted Awards	**9,632**	9,632
Issued July 1, 2012 – Restricted Awards	**23,463**	23,523
Issued July 1, 2013 – Restricted Awards	**29,250**	28,400

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments include cash, bank indebtedness, trade and other receivables, derivative financial instruments (including puttable instruments), trade and other payables, dividends payable, credit facilities, current and long-term debt and convertible debentures. 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, bank indebtedness, 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, 2014 was $1,164,830 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, 2014	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 swaps (maturing by March 1, 2015)	1,718,594 Bbls	108.23/Bbl	Level 2	(4,095)	440	(4,535)
Buyer of fixed price swaps (maturing by March 1, 2015)	1,089,298 Bbls	67.66/Bbl	Level 2	331	987	(656)
Seller of fixed price crack spread (maturing by December 1, 2014)	2,094,000 Bbls	22.32/Bbl	Level 2	721	2,212	(1,491)
Buyer of fixed price crack spread (maturing by March 1, 2015)	1,097,352 Bbls	13.84/Bbl	Level 2	(1,517)	561	(2,078)
Physical contracts:						
Seller of fixed price forward contracts (maturing by April 30, 2014)	132,000 Bbls	48.02/Bbl	Level 2	(64)	1	(65)
Currency:						
Seller of forward contracts (maturing by June 1, 2014)	US$109,500,000	1.11/USD	Level 2	820	848	(28)
NGL Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 1, 2014)	62,700 MWhs	54.66/MWh	Level 2	26	233	(207)
Long-term Debt						
Buyer of cross-currency swaps (maturing September 8, 2015)	US$15,000,000	1.04/USD	Level 2	1,386	1,386	—
Buyer of cross-currency swaps (maturing September 8, 2015)	US$879,750	1.28/USD	Level 2	75	75	—
Buyer of cross-currency swap (maturing by May 1, 2016)	US$50,000,000	1.24/USD	Level 2	8,457	8,457	—
Buyer of cross-currency swaps (maturing by May 1, 2016)	US$10,500,000	1.21/USD	Level 2	1,472	1,472	—
Buyer of cross-currency swaps (maturing September 8, 2020)	US$103,000,000	1.04/USD	Level 2	7,034	7,034	—
Buyer of cross-currency swaps (maturing September 8, 2020)	US$34,412,300	1.22/USD	Level 2	3,003	3,003	—
Buyer of cross-currency swaps (maturing June 19, 2024)	US$128,000,000	0.98/USD	Level 2	7,132	7,132	—
Buyer of cross-currency swaps (maturing June 19, 2024)	US$56,313,600	1.22/USD	Level 2	4,674	4,674	—
Buyer of cross-currency swaps (maturing November 20, 2028)	US$65,000,000	1.03/USD	Level 2	294	294	—
Buyer of cross-currency swaps (maturing November 20, 2028)	US$48,262,500	1.14/USD	Level 2	4,522	4,522	—
Buyer of cross-currency swaps (maturing November 20, 2025)	US$140,000,000	1.03/USD	Level 2	8,718	8,718	—
Buyer of cross-currency swaps (maturing November 20, 2025)	US$79,800,000	1.14/USD	Level 2	9,049	9,049	—
				52,038	**61,098**	**(9,060)**

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, 2013	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 swaps (maturing by May 1, 2014)	2,363,503 Bbls	97.11/Bbl	Level 2	(2,519)	3,024	(5,543)
Buyer of fixed price swaps (maturing by August 1, 2014)	1,005,223 Bbls	83.59/Bbl	Level 2	1,234	3,902	(2,668)
Seller of fixed price crack spread (maturing by June 1, 2014)	1,829,500 Bbls	21.66/Bbl	Level 2	(3,741)	954	(4,695)
Buyer of fixed price crack spread (maturing by August 1, 2014)	180,030 Bbls	40.39/Bbls	Level 2	438	530	(92)
Physical contracts:						
Seller of fixed price forward contracts (maturing by March 31, 2014)	345,000 Bbls	59.42/Bbl	Level 2	(1,581)	17	(1,598)
Buyer of fixed price forward contracts (maturing by January 1, 2014)	10,000 Bbls	64.10/Bbl	Level 2	4	4	—
Currency:						
Seller of forward contracts (maturing by March 1, 2014)	US$109,000,000	1.07/USD	Level 2	427	473	(46)
NGL Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 1, 2014)	30,660 MWhs	56.07/MWh	Level 2	(16)	67	(83)
Long-term Debt						
Buyer of cross-currency swaps (maturing September 8, 2015)	US$15,000,000	1.04/USD	Level 2	683	683	—
Buyer of cross-currency swaps (maturing September 8, 2015)	US$1,173,000	1.28/USD	Level 2	65	65	—
Buyer of cross-currency swap (maturing by May 1, 2016)	US$50,000,000	1.24/USD	Level 2	5,390	5,390	—
Buyer of cross-currency swaps (maturing by May 1, 2016)	US$10,500,000	1.21/USD	Level 2	1,000	1,000	—
Buyer of cross-currency swaps (maturing September 8, 2020)	US$103,000,000	1.04/USD	Level 2	1,763	1,763	—
Buyer of cross-currency swaps (maturing September 8, 2020)	US$31,765,200	1.22/USD	Level 2	1,376	1,376	—
Buyer of cross-currency swaps (maturing June 19, 2024)	US$128,000,000	0.98/USD	Level 2	1,725	1,725	—
Buyer of cross-currency swaps (maturing June 19, 2024)	US$56,313,600	1.22/USD	Level 2	1,696	1,696	—
Buyer of cross-currency swaps (maturing November 20, 2028)	US$65,000,000	1.03/USD	Level 2	(1,908)	—	(1,908)
Buyer of cross-currency swaps (maturing November 20, 2028)	US$48,262,500	1.14/USD	Level 2	2,101	2,101	—
Buyer of cross-currency swaps (maturing November 20, 2025)	US$140,000,000	1.03/USD	Level 2	2,361	2,361	—
Buyer of cross-currency swaps (maturing November 20, 2025)	US$79,800,000	1.14/USD	Level 2	4,912	4,912	—
				15,410	**32,043**	**(16,633)**

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 and NGL Infrastructure segments, unrealized gains (losses), representing the change in fair value of derivative contracts, are recorded in Marketing operating revenue and NGL Infrastructure operating expense, respectively. Unrealized gains (losses) relating to the cross-currency swaps are recorded in 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,	
	2014	2013
Unrealized gain (loss)	**$**	$
Marketing revenue	**1,934**	(19,456)
NGL Infrastructure operating expense	**42**	846
Other:		
Foreign currency gain (loss) on U.S. debt	**34,652**	(857)
Total unrealized gain (loss)	**36,628**	(19,467)

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 balancing physical and financial contracts which include energy 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 NGL Infrastructure segments are not subject to 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,	
	2014	2013
U.S. dollar sales and purchases	**$**	$
Sales priced in U.S. dollars	**346,581**	263,858
Purchases priced in U.S. dollars	**(205,711)**	(201,087)

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. To manage this currency exposure, Keyera has entered into cross-currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt. These cross-currency contracts are accounted for as derivative instruments. Refer to the *Fair value* section of this note 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, 2014, fixed rate borrowings comprised 100% of total debt outstanding (December 31, 2013 – 100%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

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

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is $391,709 at March 31, 2014 (December 31, 2013 – $407,833). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at March 31, 2014. 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 counter party 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) impacting income before tax as follows:

	Impact on income before tax March 31, 2014		Impact on income before tax March 31, 2013	
Risk sensitivities	**Increase**	**Decrease**	Increase	Decrease
Commodity price changes				
+ 10% in natural gas price	—	—	385	—
- 10% in natural gas price	—	—	—	(385)
+ 10% in electricity price	**345**	—	228	—
- 10% in electricity price	—	**(345)**	—	(228)
+ 10% in NGL and iso-octane prices	—	**(15,179)**	—	(22,043)
- 10% in NGL and iso-octane prices	**15,179**	—	22,043	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**199**	—	—	(234)
- $0.01 in U.S./Canadian dollar exchange rate	—	**(199)**	234	—
Interest rate changes				
+ 1% in interest rate	—	**(1)**	—	(314)
- 1% in interest rate	**1**	—	314	—

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

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

	Three months ended March 31, 2014 $	2013 $
Net foreign currency gain (loss) resulting from:		
Translation of US$504,000 long-term debt (2013 – US$299,000)	**(21,017)**	(6,189)
Translation of accrued interest payable	**(77)**	(108)
Change in fair value of the cross currency swap – principal and interest portion	**34,652**	(857)
Loss on cross currency swap – interest portion[1]	**(346)**	(521)
Total foreign currency gain (loss) on U.S. debt	**13,212**	(7,675)

Note:
[1] A foreign currency loss resulted from the exchange of currencies relating to interest payments.

13. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended March 31, 2014 $	2013 $
Interest on bank overdrafts and credit facilities	**646**	1,572
Interest on long-term debt	**14,355**	9,271
Interest on convertible debentures	**—**	208
Interest capitalized	**(2,988)**	(756)
Other interest (income) expense	**(328)**	34
Total interest expense on current and long-term debt	**11,685**	10,329
Unwinding of discount on decommissioning liability	**2,495**	1,442
Unwinding of discount on long-term debt	**204**	111
Unwinding of discount on convertible debentures	**—**	26
Non-cash expenses in finance costs	**2,699**	1,579
Total finance costs	**14,384**	11,908

For the three months ended March 31, 2014, $2,988 of borrowing (interest) costs were capitalized (three months ended March 31, 2013 – $756) at a weighted average capitalization rate of 5.08% on funds borrowed (three months ended March 31, 2013 – 5.16%).

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31, 2014 $	2013 $
Inventory	**14,632**	38,462
Trade and other receivables	**16,124**	(14,797)
Other assets	**(12,290)**	774
Trade and other payables	**11,004**	18,255
Changes in non-cash working capital from operating activities	**29,470**	42,694

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

	Three months ended March 31, 2014 $	2013 $
Trade and other payables	**48,303**	4,371
Changes in non-cash working capital from investing activities	**48,303**	4,371

15. 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, and 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 services to customers.

NGL Infrastructure
The NGL Infrastructure segment provides gathering, fractionation, storage, transportation and terminalling services for NGLs and crude oil. As well, it provides manufacturing services of iso-octane to Keyera's Marketing business. 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 and natural gas liquids.

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, 2014	**Marketing $**	**Gathering & Processing $**	**NGL Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	841,305	92,445	69,180	3,758	1,006,688
Operating expenses before inter-segment eliminations	(804,357)	(44,191)	(30,130)	(1,275)	(879,953)
Operating margin	36,948	48,254	39,050	2,483	126,735
Inter-segment revenue eliminations	—	(5,058)	(45,089)	(5,062)	(55,209)
Inter-segment expenses eliminations	54,397	—	—	812	55,209
	91,345	43,196	(6,039)	(1,767)	126,735
General and administrative expenses	—	—	—	(10,021)	(10,021)
Finance costs	—	—	—	(14,384)	(14,384)
Depreciation and amortization expense	—	—	—	(27,271)	(27,271)
Net foreign currency gain on U.S. debt	—	—	—	13,212	13,212
Long-term incentive plan expense	—	—	—	(6,991)	(6,991)
Impairment expense	—	—	—	—	—
Earnings (loss) before income tax	91,345	43,196	(6,039)	(47,222)	81,280
Income tax expense	—	—	—	(26,047)	(26,047)
Net earnings (loss)	**91,345**	**43,196**	**(6,039)**	**(73,269)**	**55,233**
Revenue from external customers	841,305	87,387	24,091	(1,304)	951,479

Three months ended March 31, 2013	Marketing $	Gathering & Processing $	NGL Infrastructure $	Corporate and Other $	Total $
Revenue before inter-segment eliminations	697,538	78,048	49,820	2,554	827,960
Operating expenses before inter-segment eliminations	(673,614)	(38,147)	(20,807)	(1,361)	(733,929)
Operating margin	23,924	39,901	29,013	1,193	94,031
Inter-segment revenue eliminations	—	(3,912)	(35,883)	(3,696)	(43,491)
Inter-segment expenses eliminations	42,647	—	—	844	43,491
	66,571	35,989	(6,870)	(1,659)	94,031
General and administrative expenses	—	—	—	(6,531)	(6,531)
Finance costs	—	—	—	(11,908)	(11,908)
Depreciation and amortization expense	—	—	—	(24,794)	(24,794)
Net foreign currency loss on U.S. debt	—	—	—	(7,675)	(7,675)
Long-term incentive plan expense	—	—	—	(8,262)	(8,262)
Impairment expense	(577)	—	—	—	(577)
Earnings (loss) before income tax	65,994	35,989	(6,870)	(60,829)	34,284
Income tax expense	—	—	—	(10,839)	(10,839)
Net earnings (loss)	**65,994**	**35,989**	**(6,870)**	**(71,668)**	**23,445**
Revenue from external customers	697,538	74,136	13,937	(1,142)	784,469

Geographical information

Keyera operates in two geographical areas, Canada and the United States (US). Keyera's revenue from external customers and information about its property, plant and equipment by geographical location are detailed below based on the country of origin.

Revenue from external customers located in	Canada $	US $
Three months ended March 31, 2014	**757,730**	**193,749**
Three months ended March 31, 2013	631,176	153,293

	Canada $	US $
Non-current assets[1] at March 31, 2014	**2,395,813**	**27,811**
Non-current assets[1] at December 31, 2013	2,248,476	15,467

Notes:

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

Information about major customers
Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue for the three months ended March 31, 2014 and 2013.

16. SUBSEQUENT EVENTS

Dividends Declared
In April 2014, Keyera declared a dividend of $0.20 per share, payable on May 15, 2014 to shareholders of record as of April 23, 2014.

On May 6, 2014, Keyera's Board of Directors approved a dividend increase of $0.015 per share starting with the May dividend, whereby shareholders of record as of May 23, 2014 are eligible for a dividend of $0.215 per share, payable on June 16, 2014.

Debt Offering
On November 20, 2013, Keyera entered into a private placement of 12-year and 15-year senior unsecured notes with a group of institutional investors for approximately $231 million. Keyera issued the final note in the amount of $75 million on April 8, 2014. This note bears interest at 5.34% and matures on April 8, 2029.

Acquisition of Ownership Interests in Gas Processing Assets and Associated Reserves

On May 1, 2014, Keyera acquired the following assets:
- an 85% ownership interest in the West Pembina 6-28 gas plant, along with the corresponding working interest in lands from which gas is produced into the plant;
- an additional 4.6% ownership interest in the Bigoray gas plant (bringing its ownership in that plant to 100%), along with certain associated reserves which produce into the plant; and
- varying ownership interests in certain associated oil batteries, compressors and gathering pipelines.

The acquired reserves are all from the Nisku formation.

All of these assets are located in Alberta and the total consideration was approximately $113 million. Some of the assets are subject to third party claims, including certain reserves which are subject to rights of first refusal (ROFRs). The reserves to which ROFRs apply, together with the corresponding purchase price, are being held in escrow pending the expiry or exercise of the ROFRs. The acquisition was funded using Keyera's existing cash balances and cash flow.

Corporate Information

Board of Directors

Jim V. Bertram
Chief Executive Officer
Keyera Corp.
Calgary, Alberta

Robert B. Catell (1)
Chairman of the Advanced Energy Research and Technology Center of Stoneybrook University
New York, New York

Michael B.C. Davies (2)(5)
Principal
Davies & Co.
Banff, Alberta

Douglas Haughey (3)
Corporate Director
Calgary, Alberta

Nancy M. Laird (3)(4)
Corporate Director
Calgary, Alberta

Donald J. Nelson (2)(4)
President
Fairway Resources Inc.
Calgary, Alberta

H. Neil Nichols (2)(3)
Corporate Director
Smiths Cove, Nova Scotia

Michael Norris (2)
Corporate Director
Calgary, Alberta

Thomas C. O'Connor
Corporate Director
Evergreen, Colorado

William R. Stedman (3)(4)
Chairman and CEO
ENTx Capital Corporation
Calgary, Alberta

(1) Chairman of the Board
(2) Member of the Audit Committee
(3) Member of the Compensation and Governance Committee
(4) Member of the Health, Safety and Environment Committee
(5) Michael Davies retired effective May 6, 2014

Head Office

Keyera Corp.
Suite 600, Sun Life Plaza West Tower
144 – 4th Avenue S.W.
Calgary, Alberta T2P 3N4
Main phone: 403-205-8300
Website: www.keyera.com

Officers

Jim V. Bertram
Chief Executive Officer

David G. Smith
President and Chief Operating Officer

Graham Balzun
Vice President, Engineering and Corporate Responsibility

W. John Cobb
Vice President, Investor Relations & Information Technology

Michael Freeman
Vice President, Commercial

Suzanne Hathaway
Vice President, General Counsel and Corporate Secretary

Jim Hunter
Vice President, NGL Facilities

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

Steven B. Kroeker
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

Dean Setoguchi
Senior Vice President, Liquids Business Unit

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbols KEY

Trading Summary Q1 2014

TSX:KEY – Cdn $	
High	$70.09
Low	$63.91
Close March 31, 2014	$70.09
Volume	9,752,495
Average Daily Volume	157,298

Auditors

Deloitte LLP
Chartered Accountants
Calgary, Canada

Investor Relations

Contact:
John Cobb or Julie Puddell
Toll Free: 1-888-699-4853
Direct: 403-205-7670
Email: ir@keyera.com