May 9, 2017

2017 First Quarter Report

For the period ended March 31, 2017

HIGHLIGHTS

- Keyera delivered strong financial results in the first quarter of 2017 with net earnings of $96 million ($0.52 per share) compared to $70 million ($0.41 per share) reported in the first quarter of 2016.
- Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1] was $148 million, compared to the $145 million reported in the first quarter of the previous year.
- The Gathering and Processing segment recorded an operating margin of $66 million in the first quarter (Q1 2016 – $68 million). Although quarterly gross processing throughput volumes of 1,411 million cubic feet per day decreased compared to the same period last year, volumes increased over the fourth quarter of 2016.
- The Liquids Infrastructure segment reported a record operating margin of $65 million (Q1 2016 – $62 million) as recent investments are generating incremental margins and demand for condensate handling services continues to grow.
- The Marketing segment's operating margin was $68 million (Q1 2016 – $44 million), including unrealized gains of $35 million related to risk management contracts. Marketing's results were affected by lower iso-octane sales volumes due to an unplanned outage at Alberta EnviroFuels ("AEF") that started in mid-February. AEF is currently operating at its capacity.
- Distributable cash flow[1] was $121 million or $0.65 per share (Q1 2016 – $116 million or $0.68 per share), resulting in a payout ratio of 61%[1] for the first quarter of 2017.
- Keyera is increasing its monthly dividend approximately 6% from $0.1325 per share to $0.14 per share, or $1.68 per share annually. The dividend increase is effective with the May dividend payable on June 15, 2017.
- During the quarter, construction progressed on our major joint-venture projects: the Norlite diluent pipeline, the South Grand Rapids diluent pipeline and the Base Line Terminal crude oil storage facility. All three projects are expected to come in to service over the next 2 to 8 months.
- At the Keyera Simonette gas plant, work is underway to expand the liquids handling capacity. The $100 million project is targeted for completion in mid-2018, based on the current schedule[2].
- Keyera is also advancing work on its Keylink NGL pipeline system, which will connect eight of its gas plants providing a safe, reliable and cost effective transportation alternative. The $147 million project is targeted for completion in mid-2018, based on the current schedule[2].
- Work on the proposed Wapiti gas plant and gathering system continues with the support of the primary customer. Assuming sanctioning in the near term, the project is expected to be operational in mid-2019[2].
- In 2017, Keyera expects to invest growth capital of between $600 million and $700 million[2], including the acquisition cost of Keyera's 50% interest in the South Grand Rapids diluent pipeline. This growth capital range for 2017 does not include the proposed Wapiti project.

[1] Keyera uses certain "Non-GAAP Measures" such as Adjusted EBITDA, Distributable Cash Flow, Distributable Cash Flow per Share and Payout Ratio. See sections titled "Non-GAAP Financial Measures", "Dividends: Distributable Cash Flow" and "EBITDA" of the MD&A for further details.

[2] See section titled "Capital Expenditures and Acquisitions" 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,** **2017**	 2016
Net earnings	**96,342**	70,131
Per share ($/share) – basic	**0.52**	0.41
Cash flow from operating activities	**218,621**	177,691
Distributable cash flow[1]	**120,682**	116,449
Per share ($/share)[1]	**0.65**	0.68
Dividends declared	**74,125**	64,662
Per share ($/share)	**0.40**	0.38
Payout ratio %[1]	**61%**	56%
Adjusted EBITDA[2]	**148,220**	145,062
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,411**	1,558
Net processing throughput (MMcf/d)	**1,110**	1,193
Liquids Infrastructure[3]:		
Gross processing throughput (Mbbl/d)	**161**	145
Net processing throughput (Mbbl/d)	**55**	52
AEF iso-octane production volumes (Mbbl/d)	**8**	11
Marketing:		
Inventory value	**88,045**	54,340
Sales volumes (Bbl/d)	**140,600**	134,800
Acquisitions	**55,087**	32,160
Growth capital expenditures	**174,725**	110,846
Maintenance capital expenditures	**6,722**	6,147
Total capital expenditures	**236,534**	149,153

	As at March 31, **2017**	 2016
Long-term debt	**1,432,192**	1,118,646
Credit facilities	**180,000**	368,877
Working capital deficit[4]	**105,070**	117,593
Net debt	**1,717,262**	1,605,116
Common shares outstanding – end of period	**186,884**	172,794
Weighted average number of shares outstanding – basic	**186,286**	172,258
Weighted average number of shares outstanding – diluted	**186,286**	172,258

Notes:

1. Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow. Payout ratio and distributable cash flow are not standard measures under Generally Accepted Accounting Principles ("GAAP"). See the section titled, "Dividends: Distributable Cash Flow", for a reconciliation of distributable cash flow to its most closely related GAAP measure.
2. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, accretion, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and Adjusted EBITDA are not standard measures under GAAP. See section of the MD&A titled "EBITDA" for a reconciliation of Adjusted EBITDA to its most closely related GAAP measure.
3. Fractionation throughput in the Liquids Infrastructure segment is the aggregation of volumes processed through the fractionators and the de-ethanizers at the Keyera and Dow Fort Saskatchewan facilities.
4. Working capital is defined as current assets less current liabilities.

Message to Shareholders

Keyera recorded strong financial results in the first quarter of 2017, even with an unscheduled outage at AEF and a slow-moving industry recovery. All three of Keyera's business segments delivered solid financial results, generating Adjusted EBITDA of $148 million compared to $145 million reported in the first quarter of 2016. Net earnings were $96 million, $26 million higher than in the same period of 2016, and distributable cash flow was $121 million, slightly higher than the same period of 2016. Our strong quarterly operating results were driven by contributions from our growth projects, acquisitions completed over the past year and increasing demand for our oil sands services. We continue to position ourselves for future growth with a number of projects nearing completion, new initiatives underway and a strong balance sheet to pursue business development opportunities.

Gathering and Processing Business Unit

Operating margin for the first three months of 2017 was $66 million, or $2 million lower than the same period in 2016, even though net processing throughput volumes were 7% lower. With the modest recovery in commodity prices year over year, we are seeing increases in drilling activity in areas rich in natural gas liquids around our Simonette, West Pembina and Brazeau River gas plants. In the first quarter of the year, overall gross processing throughput volumes were 1,411 million cubic feet per day, 4% higher than the prior quarter.

To meet growing customer demand in the liquids-rich Montney development, we initiated a project during the quarter to expand the liquids handling capabilities at our Simonette gas plant. The project is intended to maximize producer netbacks by increasing liquids recoveries at the facility and provide long-term growth opportunities for Keyera in one of the most exciting developments in the Western Canada Sedimentary Basin. The project is estimated to cost approximately $100 million and is anticipated to be operational by mid-2018, assuming construction proceeds as planned. Upon completion of this project, the condensate handling capacity at the Simonette gas plant is expected to be approximately 27,000 barrels per day.

During the quarter, we continued to advance the first phase of the Wapiti gas gathering and processing project to maintain the schedule for an expected startup date in mid-2019. The site has been cleared, major equipment packages have been ordered and Keyera continues to negotiate with other Wapiti area Montney producers to commit additional volumes, all while working towards an official sanctioning decision with our primary customer.

Liquids Business Unit – Liquids Infrastructure Segment

The Liquids Infrastructure segment once again posted record quarterly financial results. Operating margin was $65 million in the first quarter, an increase of 5% over the same period in 2016. These results were largely due to higher demand associated with Keyera's condensate network, including transportation and storage revenue from long-term, fee-for-service arrangements with oil sands producers.

Demand for Keyera's diluent handling services has been strong and we continue to invest in our industry-leading network to accommodate contracted growth and provide oil sands customers with a comprehensive and reliable suite of services. I am pleased to report that our three major oil-related projects are nearing completion and costs are trending lower than originally budgeted. The Norlite diluent pipeline, a joint venture with Enbridge, is fully constructed and will begin line-fill activities this month. The South Grand Rapids diluent pipeline and associated pump station, a joint venture with TransCanada PipeLines and Brion Energy, is expected to be completed late in the year. And the first set of crude oil storage tanks at the Base Line Terminal, a joint venture with Kinder Morgan, are on schedule to be commissioned in early 2018.

To provide Keyera with further growth opportunities and enhance our integrated service offering, we began development of the Keylink NGL gathering pipeline system, which will connect eight Keyera gas plants and provide producers with a safe, reliable and economically improved alternative to transporting NGL mix volumes by truck. This system will comprise over 240 kilometres of newly constructed and existing pipelines and will transport NGL mix primarily to the Rimbey gas plant where we can provide onsite fractionation into specification products. Assuming progress continues on schedule, we expect to have the Keylink pipeline system operational in the second quarter of 2018 at an estimated cost of $147 million.

In the first quarter, we also acquired 1,290 acres of undeveloped land in the Industrial Heartland area near Fort Saskatchewan. Located adjacent to our Josephburg rail terminal, this large parcel of land is expected to provide Keyera with a wide range of future growth opportunities, including the possible development of underground storage caverns. We continue to expand our underground storage at Keyera Fort Saskatchewan and in April our 14th cavern became operational, increasing our gross storage capacity to approximately 13 million barrels.

Liquids Business Unit – Marketing

The Marketing segment recorded solid first quarter financial results with an operating margin of $68 million, an increase of $24 million from the first quarter of 2016 despite an unscheduled outage at AEF. Excluding the effect of unrealized gains from risk management contracts, Marketing's realized margin was $33 million or $4 million lower than the first quarter of 2016. The lower realized margin in 2017 was primarily due to lower iso-octane sales volumes as a result of the unscheduled outage at AEF. AEF returned to normal utilization rates in April.

Outlook

Looking ahead, I am confident in Keyera's business plan and growth prospects. Over the next eight months we expect to commission our three major joint venture projects, followed by the Simonette gas plant expansion and the Keylink NGL gathering pipeline system. Across Keyera, we are working with our customers to capitalize on long-term business development opportunities. As producer netbacks continue to strengthen, we expect to participate in the growing willingness of customers to invest in new resource development projects.

We remain focused on executing our successful business strategy and are committed to delivering long-term shareholder value growth. I am pleased to announce a dividend increase of approximately 6% to $0.14 per share per month, beginning with our dividend payable on June 15, 2017. This represents Keyera's sixteenth dividend increase since going public in 2003.

On behalf of Keyera's board of directors and management team, I would like to thank our employees, customers, shareholders and other stakeholders for their continued support.

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

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of May 9, 2017, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the three months ended March 31, 2017, and the notes thereto as well as the audited consolidated financial statements of Keyera Corp. for the year ended December 31, 2016, and the related MD&A. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

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

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

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

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

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

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,	
(Thousands of Canadian dollars, except per share data)	**2017**	2016
Net earnings	**96,342**	70,131
Net earnings per share (basic)	**0.52**	0.41
Operating margin	**204,422**	175,786
Realized margin[1]	**169,451**	169,064
Adjusted EBITDA[2]	**148,220**	145,062
Cash flow from operating activities	**218,621**	177,691
Distributable cash flow[3]	**120,682**	116,449
Distributable cash flow per share[3] (basic)	**0.65**	0.68
Dividends declared	**74,125**	64,662
Dividends declared per share	**0.40**	0.38
Payout ratio[4]	**61%**	56%

Notes:

1 Realized margin is defined as operating margin excluding unrealized gains and losses from risk management contracts from the Marketing segment. Realized margin is not a standard measure under GAAP. See the section titled, Results of Operations: Marketing, for a reconciliation of Operating Margin to Realized Margin as it relates to the Marketing segment only.

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

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

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

Keyera recorded strong financial results in the first quarter of 2017, despite a nine-week unscheduled outage at AEF that commenced in mid-February. As described in more detail throughout this MD&A, these results were achieved largely due to the strategic locations and capabilities of Keyera's infrastructure assets.

Net Earnings

For the quarter ended March 31, 2017, net earnings were $96 million, $26 million higher than the same period in 2016 primarily due to the inclusion of approximately $35 million in unrealized non-cash gains associated with risk management contracts in the Marketing segment. The effect of higher unrealized gains from these risk management contracts was partly offset by $13 million in higher deferred income tax expense in 2017. See the section of this MD&A titled, "Corporate and Other", for more information related to income tax expense.

Operating Margin

For the quarter ended March 31, 2017, operating margin was $204 million, $29 million higher than the same period in 2016. Realized margin (excluding the effect of unrealized gains and losses from risk management contracts in the Marketing business) was $169 million in the first quarter of 2017, virtually unchanged from the same period in 2016. The strong operating results in the first quarter of 2017 primarily resulted from:

- incremental cash flow generated from the additional 35% ownership interest in the Alder Flats gas plant and gathering pipeline acquired in August 2016 and the fractionation expansion at Fort Saskatchewan that came on stream in May 2016;

- continued drilling activity around the Simonette, Brazeau River and West Pembina gas plants; and

- growth in Keyera's diluent handling services, including storage, transportation and terminalling services. The volume of condensate delivered from Keyera's condensate system to the oil sands grew by 26% in the first quarter of 2017 compared to the same period last year.

The strong first quarter 2017 financial results were achieved despite a nine-week unplanned outage at AEF that commenced in mid-February. As a result of the outage, operating margin from the Marketing segment was reduced in the first quarter of 2017 due to: i) lower iso-octane sales volumes as inventories were drawn down and not replaced; and ii) $7 million of operating costs charged to the Marketing segment for the repair work at AEF in the quarter.

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

Cash Flow Metrics

Cash flow from operating activities was $219 million for the three months ended March 31, 2017, $41 million higher than the same period last year primarily due to an increase in cash generated from changes in operating working capital. These changes in operating working capital are merely timing differences associated with the collection and settlement of accounts receivable and accounts payable balances since the end of 2016. Cash flow from operating activities was also higher due to an increase in cash collected from certain customers in advance of the sale of NGL product (i.e. deferred revenue) in order to satisfy Keyera's credit requirements. Details of changes in non-cash working capital from operating activities can be found in note 12, Supplemental Cash Flow Information, of the accompanying financial statements.

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

Distributable cash flow in the first quarter of 2017 was $121 million, $4 million higher than the same period of 2016 largely due to lower general and administrative expenses in 2017. Refer to the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the quarter ended March 31, 2017.

SEGMENTED RESULTS OF OPERATIONS

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

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. These segment measures of profitability for the three months ended March 31, 2017 and 2016 are reported in note 13, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 17 active gas plants in western Canada and is operator of 15 of these facilities, making it one of the largest natural 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,** 2017	2016[1]
Revenue including inter-segment transactions	**112,727**	113,723
Operating expenses	**(46,328)**	(45,485)
Unrealized loss on electricity financial contracts	**(62)**	(40)
Total operating expenses	**(46,390)**	(45,525)
Operating margin	**66,337**	68,198
Gross processing throughput – (MMcf/d)	**1,411**	1,558
Net processing throughput[2] – (MMcf/d)	**1,110**	1,193

Notes:

1 Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2017.

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

Operating Margin and Revenues

The Gathering and Processing segment recorded solid financial results in the first quarter of 2017 as the commodity price environment and the corresponding drilling activity in Alberta continued to make a modest recovery. Operating margin for the three months ended March 31, 2017 was $66 million, $2 million lower than the same period in 2016. The slightly lower operating margin in 2017 compared to the same period in 2016 was primarily the result of lower throughput volumes at the Strachan and Nevis gas plants due to production declines. The effect of lower throughput was offset by $4 million in incremental cash flow from the Alder Flats gas plant that was mainly attributable to the 35% incremental ownership interest acquired in the plant and gathering pipeline in August 2016.

Compared to the fourth quarter of 2016, operating margin decreased by $14 million in the first three months of 2017 largely due to: i) an approximately $9 million one-time upward adjustment recorded in the fourth quarter of 2016 related to the recovery of turnaround costs at the Strachan, Gilby and Nevis gas plants; and ii) approximately $2 million in lower operating margin at the Strachan gas plant due to lower volumes and lower maintenance capital recoveries in 2017. Although overall gross processing throughput improved by 4% in the first quarter compared to the prior quarter, much of this volume was under take-or-pay arrangements, so the increase in throughput did not translate into increased operating margin. These take-or-pay arrangements provide Keyera with some stability in cash flow despite variations in throughput.

Gathering and Processing revenue for the three months ended March 31, 2017 was $113 million, slightly lower than the same period in 2016. The variance in revenue was primarily due to the same factors that contributed to the difference in operating margin for the respective periods.

Gathering and Processing Activity

In the first quarter of 2017, overall gross processing throughput was 1,411 million cubic feet per day, 4% higher than the fourth quarter of 2016. With commodity prices showing modest recoveries, there are indications that drilling activity is increasing in certain areas, particularly those that are rich in natural gas liquids. As a result, the declines experienced at the Strachan and Nevis facilities were offset by throughput volume increases at other facilities, including the Simonette, West Pembina and Brazeau River gas plants, in the first quarter of 2017.

The Montney geological zone is rich in natural gas liquids and therefore continues to experience robust drilling activity which translated into increased throughput at the Simonette gas plant in the first quarter of 2017. Throughput at Simonette increased 5% over the prior quarter and these new volumes are utilizing the Wapiti gathering system and liquids handling infrastructure that was put into service in 2015.

To further support the growth in volumes, Keyera announced in February a project to expand its liquids handling capabilities at Simonette. Upon completion of this project, the condensate operational capacity at Simonette is expected to be approximately 27,000 barrels per day. The liquids handling expansion is anticipated to be complete by mid-2018, assuming timely receipt of regulatory approvals and construction proceeding as planned. This project is intended to maximize producers' netbacks by increasing liquids recoveries at the facility and in turn provide long-term growth opportunities for Keyera. Refer to the table below, "Capital Projects – Gathering and Processing" for more information related to this project.

Keyera has continued to advance the Wapiti gas plant project, a proposed natural gas gathering and processing complex to be constructed in the Wapiti area south of Grande Prairie, Alberta (the "Wapiti gas plant") with the potential to process up to 300 million cubic feet per day of sour gas and 25,000 barrels per day of field condensate. Although a formal sanctioning decision has not yet been made, Keyera is working closely with its primary customer, a Canadian subsidiary of a large creditworthy multi-national producer, to keep the project on track to meet a targeted start-up date of mid-2019. The project may be sanctioned by either Keyera or its primary customer at any time prior to the end of 2018.

Keyera is also engaged in negotiations with other producers in the area to commit additional volumes. The project is proposed to be built in two phases with phase one consisting of a 150 million cubic feet per day gas plant, associated gathering systems and an acid gas injection well at an estimated cost of $470 million. Phase two would add an incremental 150 million cubic feet per day of processing capacity and include an extension to the initial gathering system. The total estimated cost for both phases is approximately $625 million. Additional third parties may require incremental gathering systems to be built.

In 2017, maintenance turnarounds are scheduled to be completed at the Gilby and Simonette gas plants. The Gilby turnaround is currently under way and is expected to cost approximately $4 million. The Simonette turnaround is scheduled to occur in August to align with expected restrictions on the TransCanada sales gas pipeline system. The turnaround is expected to be three weeks in duration and is forecast to cost approximately $13 million. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangement at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

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

Capital Projects – Gathering and Processing		
Facility/Area	**Project Description**	**Project Status Update**
Simonette	***Simonette Liquids Handling Expansion Project:*** The project consists of construction of NGL mix and condensate above ground storage facilities, addition of a truck loading facility, redesign of the existing condensate stabilization facilities and the addition of new facilities to handle growing volumes of condensate and improve overall liquids recoveries. Upon completion of this project, the condensate operational capacity at Simonette is expected to be approximately 27,000 barrels per day. The project also includes a pipeline connection from Keyera's Simonette gas plant to the Peace pipeline system's custody transfer point. This connection will provide Keyera's customers with the flexibility to transport greater volumes of NGL mix and condensate by pipeline compared to the higher cost alternative of transportation by truck.	The expansion is expected to be complete by mid-2018. *Estimated total cost to complete:* • Cost to Keyera is approximately $100 million including associated processing equipment, pumps and pipeline connections. *Total net costs incurred by Keyera to March 31, 2017:* • $8 million in the first quarter of 2017 • $10 million since inception

Facility/Area	Project Description	Project Status Update
Alder Flats	***Alder Flats Phase Two Expansion Project:*** The expansion project will increase the licensed capacity of the facility by 120 million cubic feet per day. Bellatrix is an owner and the operator of the facility and they are responsible for the construction of the project.	Construction continues to progress with the ongoing fabrication of major equipment. The project is targeted to come on stream in the second quarter of 2018. With the acquisition of the additional 35% ownership interest in the Alder Flats gas plant last August, Keyera prepaid a portion of its share of future construction costs for phase two of the gas plant ($27 million). Keyera continues to pay construction costs associated with its original 35% ownership interest in the facility. Accordingly, a portion of these costs are moved from Other Assets to Property, Plant & Equipment ("PP&E") as construction is completed. *Estimated total cost to complete:* • Bellatrix estimates the gross cost to be $112 million. Keyera's net share is approximately $80 million *Total net costs incurred by Keyera to March 31, 2017:* • $3 million in the first quarter of 2017 • $58 million since inception (including the $27 million prepaid amount)

Estimated costs and completion times for the projects discussed above assume that construction proceeds as planned, that actual costs are in line with estimates and, where required, that regulatory approvals and any other third-party approvals or consents are received on a timely basis. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, "Forward-Looking Information", provides more information on factors that could affect the development of these projects.

Liquids Infrastructure

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

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

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**Three months ended March 31,** **2017**	 2016
Revenue including inter-segment transactions	**101,027**	94,101
Operating expenses	**(36,452)**	(32,000)
Unrealized loss on electricity financial contracts	**—**	(577)
Total operating expenses	**(36,452)**	(32,577)
Operating margin	**64,575**	61,524

Operating Margin and Revenues

For the quarter ended March 31, 2017, the Liquids Infrastructure segment posted record financial results once again. Operating margin was $65 million, an increase of $3 million or 5% over the same period in 2016. The higher financial results were largely due to approximately $7 million in higher operating margin associated with:

- Keyera's condensate network, including transportation and storage revenue from long-term, fee-for-service arrangements with oil sands producers; and
- incremental volumes associated with the fractionation expansion at Fort Saskatchewan that came on stream in May 2016. The financial impact of higher fractionation volumes was partly offset by lower average fractionation rates as of April 1st, 2016 due to competitive market dynamics and incremental industry fractionation capacity in Alberta.

These positive variances were partly offset by approximately $4 million in lower operating margin resulting from: i) lower processing fees charged to the Marketing segment for the production of iso-octane as the facility was off-line for unscheduled repair work beginning in mid-February and ii) a reduction in the fee charged to Irving Oil for crude oil loading services at the Alberta Crude Terminal (50/50 joint venture with Kinder Morgan) as per the original agreement. The fee reduction was effective November 2016.

Liquids Infrastructure revenues for the three months ended March 31, 2017, were $7 million higher than the same period in 2016 due to the same factors that contributed to higher operating margin, as well as higher flow-through operating revenue charged to the Marketing segment for the production of iso-octane. Flow-through operating revenue was higher in the first quarter of 2017 due to unscheduled repair work undertaken during the quarter. As these higher repair costs were recovered from the Marketing segment on a flow-through basis, there was minimal impact on operating margin for the Liquid's Infrastructure segment.

Liquids Infrastructure Activity

The demand for condensate, which is used as a diluent by bitumen producers, has continued to grow in Alberta as new oil sands projects and phased expansions of existing projects commence operation. The demand for condensate in Alberta exceeds the supply available locally, resulting in the requirement to import

condensate by pipeline or rail from the United States to meet this demand. Keyera currently owns the most connected condensate hub in Western Canada, with multiple receipt points including the Cochin pipeline and Enbridge's Southern Lights pipeline and CRW pool. Consequently, demand for Keyera's diluent handling services has been strong and continues to grow. Keyera has long-term, take-or-pay arrangements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and CNRL. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area.

With condensate demand forecast to grow in Alberta over the next few years, Keyera continues to invest in its diluent handling network to provide its oil sands customers with comprehensive and reliable service solutions. Some recent examples of investments that are nearing completion include the Norlite pipeline (Keyera has a 30% ownership interest) and the South Grand Rapids pipeline and associated pump station (50/50 joint venture), both of which will enhance Keyera's ability to deliver diluent to the oil sands. In addition, Keyera acquired the North Condensate Connector pipeline in 2016 which has been converted into condensate service in order to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement. Service on this pipeline will coincide with the startup of the refinery. Refer to the table below, "Capital Projects Status Update – Liquids Infrastructure", for more information related to these projects and other oil sands related projects.

Early in 2016, Keyera completed the fractionation expansion at its Fort Saskatchewan facility that provided 35,000 barrels per day of incremental fractionation capacity. A portion of this additional capacity is supported by long-term agreements. Keyera expects overall fractionation revenue to increase in 2017 relative to the prior year due to an increase in contracted volumes, assuming these volumes are delivered according to plan. However, fractionation rates, on average, will be lower compared to the past year due to incremental fractionation capacity available in Alberta.

In the first quarter of 2017, Keyera initiated the development of the Keylink pipeline system. This new NGL pipeline system will consist of over 240 kilometres of newly constructed and repurposed existing pipelines that will transport NGL mix to the Rimbey gas plant for fractionation into specification products, with the option to transport NGL mix to Keyera's Fort Saskatchewan fractionation facility. Keylink will connect several Keyera gas plants, including Brazeau River, West Pembina, and Minnehik Buck Lake. This new pipeline system will provide producers with an alternative to transporting NGL volumes by truck. The Keylink pipeline system is expected to be operational in mid-2018 and is anticipated to cost approximately $147 million, assuming construction proceeds as planned and regulatory approvals are received on a timely basis. The current cost estimate includes the various tie-ins to gas plants, pumps and additional NGL storage at the Rimbey gas plant.

In early 2017, Keyera completed the acquisition of 1,290 acres of undeveloped land in the Industrial Heartland area near Fort Saskatchewan for approximately $55 million. Located adjacent to Keyera's Josephburg Terminal and close to its existing fractionation and storage facility in Fort Saskatchewan, this land is expected to provide Keyera with a variety of future growth opportunities.

The AEF facility is operated by the Liquids Infrastructure operating segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. AEF was off-line for approximately nine weeks beginning in mid-February to repair one of the process reactors. As a result of this outage, AEF operated on average at 57% of its capacity during the first quarter. The total cost of the repair work was approximately $8 million, of which $7 million was included in the first quarter financial results. These costs are flowed through to the Marketing segment in the period as operating expenses and therefore do not have a significant impact on the financial results of the Liquids Infrastructure segment. As of the date of this MD&A, AEF is operating at capacity.

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

Capital Projects Status Update – Liquids Infrastructure		
Facility/Area	**Project Description**	**Project Status Update**
Keyera Fort Saskatchewan	***Underground Storage Development:*** Development of four additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	***Completed Assets:*** The 14th cavern became operational in April 2017. The cavern was completed at a total gross cost of approximately $18 million (Keyera's net share is approximately $14 million). ***Construction-In-Progress Assets:*** Washing of the 15th cavern continued in the first quarter of 2017 and is expected to be in service in the first half of 2018. Washing of the 16th cavern commenced in the first quarter of 2017 and washing of the 17th cavern is expected to begin in the second quarter of 2017. *Estimated total cost to complete:* • Gross cost is approximately $115 million (Keyera's net share is approximately $88 million). *Total net costs incurred by Keyera to March 31, 2017:* • $2 million in the first quarter of 2017 • $40 million since inception
Edmonton	***Condensate Tanks:*** Construction of four condensate storage tanks, each with operating capacity of approximately 60,000 barrels.	Construction is progressing and the tanks are expected to be operational this summer. *Estimated total cost to complete:* • Cost to Keyera is approximately $50 million, approximately $40 million lower than originally forecasted. *Total net costs incurred by Keyera to March 31, 2017:* • $14 million in the first quarter of 2017 • $41 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton/Fort Saskatchewan	***North Condensate Connector:*** Repurposing of the northern segment of a 49-kilometre, 8-inch pipeline acquired in 2016 for approximately $18 million to be used to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement.	Construction of connections and completion of conversion work to put the pipeline into service continued in the first quarter. The in-service date of the North Condensate Connector will coincide with the startup of the North West Sturgeon Refinery. *Estimated total cost to complete:* • Approximately $20 million for connections and other conversion work required for the pipeline to be put in service *Total net costs incurred by Keyera to March 31, 2017 for connections and conversion work:* • $1 million in the first quarter of 2017 • $9 million since inception
Edmonton/Fort Saskatchewan	***South NGL Connector:*** The southern segment of a 49-kilometre, 8-inch pipeline between Edmonton and Fort Saskatchewan leased in December 2016 to provide Keyera with increased flexibility and capacity (up to 60,000 barrels per day) for NGL transportation services in the area.	This pipeline is expected to be operational in the second half of 2017, once all necessary steps have been taken to convert it to NGL service. *Estimated total cost to complete:* • Approximately $30 million *Total net costs incurred by Keyera to March 31, 2017 for connections and conversion work:* • $3 million in the first quarter of 2017 • $8 million since inception

Facility/Area	Project Description	Project Status Update
Norlite Pipeline (30/70 joint venture with Enbridge Pipelines (Athabasca) Inc. (“Enbridge”))	***Norlite Pipeline:*** Keyera has participated as a 30% non-operating owner in the Norlite Pipeline which will deliver diluent from the Fort Saskatchewan area to certain oil sands projects. Enbridge constructed the pipeline and will be the operator when it is in service. The scope includes a 24-inch pipeline, providing an initial capacity of approximately 224,000 barrels per day of diluent and the potential to be further expanded to 400,000 barrels per day with the addition of pump stations. Keyera’s diluent transportation system in the Fort Saskatchewan area will deliver product into the Norlite Pipeline, providing the Norlite shippers with access to multiple sources of diluent supply.	Construction of the pipeline was substantially complete in April and Enbridge expects to begin the necessary line-fill activities in mid-May, with the pipeline becoming operational shortly thereafter. Costs will continue to be incurred until late 2018 for environmental monitoring, cleanup and project close out activities. Keyera is waiting for confirmation from Enbridge on any changes to the final cost estimate. *Estimated total cost to complete:* • Gross cost as estimated by Enbridge is approximately $1.3 billion (Keyera’s net share is approximately $390 million). *Total net costs incurred by Keyera to March 31, 2017:* • $64 million in the first quarter of 2017 • $295 million since inception
Edmonton (50/50 joint venture with Kinder Morgan)	***Base Line Terminal:*** Construction of 12 above ground crude oil storage tanks with the ability to provide customers with 4.8 million barrels of storage capacity. Kinder Morgan is constructing the project and will be the operator once the terminal is in service.	Construction of the tanks and associated infrastructure continues to progress. The project is expected to be commissioned in phases, with the first tanks scheduled to be commissioned in early 2018, and the remaining tanks scheduled for commissioning throughout the remainder of 2018, based on the most recent construction schedule. *Estimated total cost to complete:* • Keyera’s net share of costs is approximately $330 million. *Total net costs incurred by Keyera to March 31, 2017:* • $32 million in the first quarter of 2017 • $122 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)	***South Grand Rapids Pipeline:*** Keyera has committed to acquire a 50% interest in the southern portion of the 20-inch, 45-kilometre diluent Grand Rapids Pipeline when it is completed. The pipeline is being constructed by Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and Brion Energy Corporation. The pipeline will extend from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal near Fort Saskatchewan. Keyera will be the operator of the pipeline. As part of this project, Keyera is constructing a pump station at its Edmonton Terminal where the pipeline will connect. Keyera will sell a 50% ownership interest in the pump station to GRPLP once the pipeline is complete.	Construction of the pump station continued in the first quarter of 2017. The pipeline and associated pump station is expected to be in service in late 2017. *Estimated total cost to complete:* • Keyera's 50% share is $120 million for acquisition of the pipeline and $25 million for construction of the pump station for a total combined cost of approximately $145 million. *Total net costs incurred by Keyera to March 31, 2017:* • $13 million in the first quarter of 2017 • $25 million since inception
Edmonton	***Fort Saskatchewan Condensate System Expansion:*** Construction of a 24-inch pipeline and manifold that will connect the Norlite Pipeline and the South Grand Rapids Pipeline to Keyera's existing condensate transportation infrastructure.	Construction of the 24-inch pipeline was completed in early 2016. Commencement of service on this line will coincide with the startup of the Norlite Pipeline. Construction of the manifold within the Heartland area was completed in the first quarter of 2017 and will be incorporated into Keyera's condensate system in the second quarter. *Estimated total cost to complete:* • Completed at a total cost of $28 million, approximately $17 million lower than the original estimate. *Total net costs incurred by Keyera to March 31, 2017:* • $2 million in the first quarter of 2017 • $28 million since inception

Facility/Area	Project Description	Project Status Update
West Central Alberta	***Keylink Pipeline:*** The project consists of over 240 kilometres of newly constructed and repurposed existing pipelines that will transport NGL mix to the Rimbey gas plant for fractionation into specification products. Keylink will connect several Keyera gas plants, including Brazeau River, West Pembina and Minnehik Buck Lake.	The Keylink pipeline system is expected to be operational in mid-2018. *Estimated total cost to complete:* • Cost is expected to be approximately $147 million *Total net costs incurred by Keyera to March 31, 2017:* • $2 million in the first quarter of 2017 • $7 million since inception
Hull Terminal	***Hull Terminal Pipeline System:*** In 2016 Keyera acquired the Hull Terminal Pipeline System and subsequently entered into an agreement with a major U.S. midstream energy company to construct pipeline connections to its infrastructure in Mont Belvieu, North America's largest NGL hub. This project consists of third party pipeline connections and work undertaken to prepare the Hull Terminal Pipeline System for operation (including the connection facilities at the Hull Terminal, installation of pumps and metering systems and completion of pipeline repairs and integrity work).	The Hull Terminal Pipeline System is anticipated to be in service in the first half of 2018. *Estimated total cost to complete:* • Cost is expected to range between US$20 and US$25 million *Total net costs incurred by Keyera to March 31, 2017:* • $2 million in the first quarter of 2017 • $6 million since inception

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

Marketing

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

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

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

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

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

Keyera also engages in crude oil midstream activities, where it operates facilities at various locations in Alberta that allow it to transport, process and blend crude oil. A portion of these activities are undertaken as joint ventures, where Keyera obtains access to various crude oil streams. Crude oil midstream margins are earned by blending products of lower value into higher value product streams. As a result, these transactions are exposed to volatility in price and quality differentials between various product streams. Keyera manages this risk by balancing its purchases and sales and locking in margins through its risk management strategies.

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

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

Operating and Realized Margin	**Three months ended March 31,**	
(Thousands of Canadian dollars, except for sales volume information)	**2017**	2016
Revenue	**699,043**	459,017
Operating expenses including inter-segment transactions	**(630,608)**	(414,896)
Operating margin	**68,435**	44,121
Unrealized (gain)/loss on risk management contracts	**(34,971)**	(6,722)
Realized margin	**33,464**	37,399
Sales volumes (Bbl/d)	**140,600**	134,800

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

Composition of Marketing Revenue (Thousands of Canadian dollars)	**Three months ended March 31, 2017**	2016
Physical sales	**673,200**	438,519
Realized cash (loss) gain on financial contracts[1]	**(9,128)**	13,776
Unrealized gain (loss) due to reversal of financial contracts existing at end of prior period	**27,902**	(6,178)
Unrealized gain due to fair value of financial contracts existing at end of current period	**7,030**	14,210
Unrealized gain (loss) from change in fair value of fixed price physical contract[2]	**39**	(1,310)
Total unrealized gain on risk management contracts	**34,971**	6,722
Total gain on risk management contracts	**25,843**	20,498
Total Marketing revenue	**699,043**	459,017

Notes:
1 Realized cash gains and losses represent actual cash settlements or receipts under the respective contracts.
2 Unrealized gains and losses represent the change in fair value of fixed price physical contracts that meet the GAAP definition of a derivative instrument.

Revenue and Operating Margin

The Marketing segment recorded solid first quarter 2017 financial results, despite an unplanned outage at AEF. Operating margin for the quarter ended March 31, 2017 was $68 million, $24 million higher than the same period in 2016. Realized margin (excluding the effect of non-cash gains and losses from risk management contracts) was $33 million, $4 million lower than the first quarter of 2016. The lower realized margin in 2017 was primarily due to the following factors:

- lower iso-octane margins resulting from: i) reduced sales volumes associated with the unscheduled outage at AEF that started in mid-February. The facility operated on average at 57% of capacity in the first quarter of 2017. This is compared to operating at 80% of capacity in the same period in 2016; ii) $7 million in higher operating expenses associated with the repair work at AEF which were flowed through from the Liquids Infrastructure segment to the Marketing segment in the period; and iii) lower hedged prices in the first quarter of 2017 compared to the same period in 2016; and

- a non-recurring charge of $3 million recorded in the first quarter of 2017 associated with the realignment of inventory positions to the cavern meters. It is typical for there to be volumetric gains and losses as NGLs are moved in and out of storage caverns.

Partly offsetting the financial effect of lower iso-octane margins and the inventory adjustment in 2017 was: i) approximately $6 million in higher crude oil midstream margins; and ii) approximately $7 million in lower rail car lease and storage costs incurred in the first quarter of 2017 compared to the same period in 2016.

In general, gross revenue in the Marketing segment is influenced by sales volumes as well as commodity prices, in particular for NGLs and iso-octane. For the quarter ended March 31, 2017, revenue from physical sales was $235 million higher than the same period in 2016, due to the recovery in commodity prices since the first quarter of 2016 and higher sales volumes of propane and butane made in the U.S. through Keyera's Hull terminal.

Market Overview

During the first quarter of 2017, iso-octane sales volumes and operating margin were reduced due to unscheduled downtime at AEF that commenced in mid-February and extended for approximately nine-weeks. As of the date of this MD&A, AEF is operating at capacity. The financial effect of the outage in the

first quarter was partly mitigated by the availability of iso-octane inventory to meet some sales commitments in February and March. As it takes time to re-build inventory, and given that the outage extended to the third week in April, sales volumes in the second quarter may be reduced compared to historical levels. However, demand for iso-octane typically increases in the summer months as driving activity and gasoline demand increase, which generally translates into stronger pricing for gasoline and iso-octane. Refer to the section of this MD&A, "Segmented Results of Operations: Liquids Infrastructure", for more information relating to the unscheduled outage at AEF that commenced in mid-February.

Margins from the sale of butane have become a smaller portion of Keyera's overall Marketing strategy as most of the butane purchased is utilized for its internal requirements, including the feedstock necessary for the production of iso-octane. Butane costs directly affect iso-octane margins as it takes approximately 1.4 barrels of butane to yield a barrel of iso-octane when the facility is operating near full utilization. As butane prices seasonally decline in the spring and summer months, Keyera expects to utilize its storage capabilities to build inventory to supply the needs of AEF during the winter months when butane prices seasonally increase.

For the past two years, Keyera has purchased propane using a net-back pricing model. This pricing mechanism allowed Keyera to recover certain fixed costs such as storage costs and maintain positive operating margins throughout the year. Because of changing market dynamics, this pricing model is no longer widely utilized by Keyera, effective with the new contract year which began on April 1st, 2017. Instead, propane supply cost is now primarily tied to a Conway index price that may result in greater seasonality of propane margins in 2017. In particular, during the second and third quarters when demand for propane is seasonally low, sales prices (also generally tied to a Conway index price) may not be sufficient to fully cover the costs of storage and rail loading. Keyera intends to utilize its storage capabilities to build propane inventory in the spring and summer and significantly increase the volume sold in the winter months to capture seasonally higher pricing and margins. Keyera expects to utilize its Josephburg Rail Terminal to export propane by rail to meet demand in other markets.

Overall, propane margins are expected to be lower in 2017 compared to the prior year due to competitiveness of the market and the change in pricing of propane supply. However, Keyera believes that this strategy is appropriate to remain competitive and attract incremental volumes through its fee-for-service, fractionation and storage infrastructure. Refer to the section of this MD&A, "Results of Operations: Liquids Infrastructure", for more information related to fractionation volumes in 2017.

As oil sands projects have come on stream over the past two years, bitumen production has increased along with demand for condensate that is used as a diluent. As a result, condensate supply and demand fundamentals are expected to remain balanced for the near term. Keyera imports condensate into Alberta when demand fundamentals support positive operating margins. Contribution from the sale of condensate in the first quarter of 2017 was similar to that earned in the same period of 2016.

Risk Management

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

To protect the value of its NGL inventory from fluctuations in commodity prices, Keyera typically uses physical and financial forward contracts. For propane in particular, contracts are generally put in place as inventory builds for settlement 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. Keyera typically uses propane physical and financial forward contracts to hedge its propane inventory.

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

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

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

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

For the quarter ended March 31, 2017, the total unrealized gain on risk management contracts was $35 million. Further details are provided in the “Composition of Marketing Revenue” table above.

The fair value of outstanding financial contracts as at March 31, 2017 resulted in an unrealized (non-cash) gain of $7 million that includes the following significant items:

- a $5 million non-cash gain relating to butane and condensate supply and inventory risk management contracts;

- a $3 million non-cash gain relating to iso-octane risk management contracts; and

- a $1 million non-cash loss relating to foreign currency and other financial contracts.

Fixed price physical contracts are also marked-to-market at the end of each period. The fair value of outstanding fixed price physical contracts as at March 31, 2017 was virtually $nil.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at March 31, 2017, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 9, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2017**	2016
Other income (operating margin)	**5,075**	1,943
General and administrative (net of overhead recoveries on operated facilities)	**(17,320)**	(21,607)
Finance costs	**(17,740)**	(19,348)
Depreciation, depletion and amortization expenses	**(39,580)**	(44,724)
Net foreign currency gain on U.S. debt	**479**	5,508
Long-term incentive plan expense	**(2,747)**	(4,729)
Income tax expense	**(31,172)**	(20,755)

Other Income

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

Other income for the three months ended March 31, 2017 was $5 million, $3 million higher than the same period last year due to higher commodity prices in 2017. Production for the three months ended March 31, 2017 averaged 4,430 barrels of oil equivalent per day compared to 5,347 barrels of oil equivalent per day for the same period in 2016.

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

General and Administrative Expenses

General and administrative ("G&A") expenses for the three months ended March 31, 2017 were $17 million, $4 million lower than the prior year. The lower G&A expenses in 2017 compared to the prior year was primarily due to the inclusion of a $6 million charge recorded in the first quarter of 2016 to write-off previously capitalized front-end engineering costs for various small projects.

Finance Costs (including accretion)

Finance costs for the three months ended March 31, 2017 were $18 million, $2 million lower than the same period in 2016, largely due to higher interest capitalized on qualifying projects in 2017. Interest capitalized on qualifying projects was $6 million for the quarter ended March 31, 2017 compared to $3 million in the same period of 2016.

Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization ("DD&A") expenses were $40 million for the quarter ended March 31, 2017, $5 million lower than the same period in 2016 despite adding the fractionation expansion and other depreciable assets in 2016. In the fourth quarter of 2016, Keyera conducted a useful life review of its assets. Based on this review, the useful life of several facilities was extended, including the Simonette and Rimbey gas plants as well as assets within Keyera's Liquids Infrastructure segment. This change in estimate was effective October 1, 2016 and was accounted for on a prospective basis. Keyera estimates that the revision in useful life will reduce depreciation expense by approximately $39 million on an annual basis.

Net Foreign Currency Gain on U.S. Debt

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

Net Foreign Currency Gain on U.S. Debt (Thousands of Canadian dollars)	**Three months ended March 31,** 2017	2016
Translation of long-term debt and interest payable	**4,553**	43,108
Change in fair value of cross currency swaps – principal and interest portion	**(4,434)**	(37,918)
Gain on cross currency swaps – principal and interest portion[1]	**360**	318
Net foreign currency gain on U.S. debt	**479**	5,508

Note:
[1] Foreign currency gains (losses) resulted from the exchange of currencies related to the interest and principal payments on the long-term cross currency swaps.

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross currency agreements with a syndicate of Canadian banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Note 9, Financial Instruments and Risk Management, of the accompanying financial statements contains more information on the swap agreements.

A net foreign currency gain of virtually nil was recorded for the quarter ended March 31, 2017 as the translation of U.S. dollar denominated debt into Canadian dollars was substantially offset by the change in fair value of cross currency swap agreements since the end of 2016.

Long-Term Incentive Plan Expense

The Long-Term Incentive Plan (“LTIP”) expense was $3 million for the three months ended March 31, 2017, $2 million lower than the same period last year. The decrease was primarily due to a lower estimated payout multiplier associated with the 2015 and 2016 LTIP grants compared to the 2013 grant that was paid out to employees in the third quarter of 2016.

Net Impairment Expense

Keyera reviews its assets for indicators of impairment on a quarterly basis. As well, if an asset has been impaired and subsequently recovers in value, GAAP requires the asset to be written-up (i.e. reversal of previous impairments). In the first quarters of 2017 and 2016, no impairment charges were recorded.

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

Taxes

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

Current Income Taxes

Current income tax expense for the quarter ended March 31, 2017 was $1 million, compared to an expense of $4 million in the same period of 2016. For 2017, current income tax expense is expected to range between $5 million and $10 million which is largely based on 2016 taxable income from the Partnership that is allocated to Keyera Corp. in 2017. This income deferral is available to Keyera as its corporate structure includes a deferral partnership. The largest single undepreciated capital cost (“UCC”) balance relates to Class 41, which are generally depreciated at a rate of 25%. Keyera estimates its total tax pools at March 31, 2017 were approximately $2.1 billion.

Deferred Income Taxes
For the quarter ended March 31, 2017, deferred income tax expense was $30 million, $13 million higher than the same period of 2016 primarily due to an increase in earnings before income taxes in 2017.

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, 2016. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2016 year end MD&A available at www.sedar.com. The most significant estimates include the following:

Operating Revenues

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

At March 31, 2017, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately $60 million primarily for March 2017 operations.

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

At March 31, 2017, the Marketing sales and accounts receivable contained an estimate for March 2017 revenues of approximately $142 million.

Operating Expenses and Product Purchases

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

At March 31, 2017, operating expenses and accounts payable contained an estimate of approximately $20 million primarily for March 2017 operations.

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

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of approximately $130 million at March 31, 2017.

Equalization Adjustments

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

For the Gathering and Processing segment, an equalization adjustment of $5 million was included in revenue and accounts receivable at March 31, 2017. Operating expenses and accounts payable contained an equalization adjustment of $15 million.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter-party. The allowance for doubtful accounts was $4.0 million as at March 31, 2017 compared to $4.0 million at December 31, 2016.

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 9, 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, 2017.

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 decommissioning obligations are generally expected to be incurred over the next 25 to 45 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 these costs. No assets have been legally restricted for settlement of the liability.

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

Keyera has estimated the net present value of its total decommissioning liability to be approximately $474 million at March 31, 2017, compared to $476 million at December 31, 2016.

For an investor to compare Keyera's decommissioning liability with that of midstream peers who use a credit adjusted discount rate, the net present value of Keyera's decommissioning liability would have been $218 million as of March 31, 2017 (December 31, 2016 – $215 million), assuming an estimated credit adjusted interest rate of 5.65%.

For more information on the critical accounting estimates see note 4 of the December 31, 2016 annual audited financial statements.

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, 2017 and 2016:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended March 31, 2017	2016	Increase (decrease)	Explanation
Operating	**218,621**	177,691	40,930	Higher cash from operating activities in 2017 primarily related to: i) increase in cash collected as a prepayment for the sale of NGL product (i.e. deferred revenue) with certain customers to satisfy Keyera's credit requirements; and ii) cash generated from changes in operating working capital since year-end. These changes in operating working capital are merely timing differences associated with the collection and settlement of Keyera's accounts receivable and accounts payable balances since the end of 2016. Details of changes in non-cash working capital from operating activities can be found in note 12, Supplemental Cash Flow Information, of the accompanying financial statements.
Investing	**(133,264)**	(152,462)	19,198	Capital spending in 2017 and 2016 primarily related to growth capital projects in the Liquids Infrastructure segment, including the Norlite pipeline and Base Line Terminal. In early 2017, Keyera closed the acquisition of land in the Industrial Heartland for approximately $55 million. The cash outlay to fund the purchase of the land occurred in the fourth quarter of 2016. As a result, this acquisition did not have an effect on cash flow from investing activities in 2017.
Financing	**(84,622)**	(25,312)	(59,310)	In the first quarter of 2017, cash generated from operating activities as well as proceeds from the dividend reinvestment plan were used to finance capital expenditures, repay $55 million on Keyera's credit facilities and pay dividends to shareholders. In the first quarter of 2016, cash generated from operating activities was used to finance capital expenditures and pay dividends to shareholders.

Working capital requirements are strongly influenced by the amounts of inventory held in storage and their related commodity prices. Product inventories are required to meet seasonal demand patterns and will vary depending on the time of year. Typically, Keyera's inventory levels for propane are at their lowest after the winter season and reach their peak in the third quarter to meet the demand for propane in the winter season. Butane inventory is maintained for the production of iso-octane. When market conditions enable Keyera to source additional butane at favourable prices, butane may be held in storage for use in future periods. Inventory levels for iso-octane may fluctuate depending on market conditions. Demand for iso-octane is typically stronger in the second and third quarters, associated with the higher gasoline demand in the summer months.

A working capital deficit (current assets less current liabilities) of $105 million existed at March 31, 2017. This is compared to a surplus of $46 million at December 31, 2016. Keyera has access to a credit facility in the amount of $1.5 billion, of which $180 million was drawn as at March 31, 2017, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's Credit Facility.

Equity Financing

In the second quarter of 2016, Keyera issued 8,250,000 common shares, as well as an additional 1,237,500 common shares pursuant to an over-allotment option exercised by underwriters in connection with the equity offering. The common shares were issued at a price of $36.35 per common share for gross total proceeds of approximately $345 million. Financing costs associated with the issuance of shares were approximately $14 million. Net proceeds from the equity financing were used to support Keyera's ongoing growth capital program, with the net proceeds initially being used to reduce short-term indebtedness under Keyera's credit facilities.

Dividend Reinvestment Plan

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

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

The DRIP and Premium DRIP™ generated cash of $46 million for the three months ended March 31, 2017. In the same period in 2016, the plan generated cash of $40 million.

Long-term Debt (including Credit Facilities)

Below is a summary of Keyera's long-term debt obligations as at March 31, 2017:

As at March 31, 2017 (Thousands of Canadian dollars)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
Credit Facilities							
Bank credit facilities	180,000	—	—	—	—	180,000	—
	180,000	—	—	—	—	180,000	—
Canadian dollar denominated debt							
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
3.50% due June 16, 2023	30,000	—	—	—	—	—	30,000
4.91% due June 19, 2024	17,000	—	—	—	—	—	17,000
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
4.15% due June 16, 2026	30,000	—	—	—	—	—	30,000
3.96% due October 13, 2026	200,000	—	—	—	—	—	200,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
4.11% due October 13, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	916,000	60,000	—	122,000	2,000	—	732,000
US dollar denominated debt							
3.42% due June 19, 2019 (US$3,000)	3,997	—	—	3,997	—	—	—
5.14% due September 8, 2020 (US$103,000)	137,217	—	—	—	137,217	—	—
4.19% due June 19, 2024 (US$128,000)	170,522	—	—	—	—	—	170,522
4.75% due November 20, 2025 (US$140,000)	186,508	—	—	—	—	—	186,508
4.95% due November 20, 2028 (US$65,000)	86,593	—	—	—	—	—	86,593
	584,837	—	—	3,997	137,217	—	443,623
Less: current portion of long-term debt	(60,000)	(60,000)	—	—	—	—	—
Total long-term debt	**1,440,837**	—	—	**125,997**	**139,217**	**—**	**1,175,623**

In the second quarter of 2016, Keyera issued $60 million of long-term notes pursuant to an uncommitted private shelf agreement with the Prudential Capital Group ("Prudential"). Proceeds from the notes were used to repay short-term indebtedness under Keyera's credit facilities and for general corporate purposes. These notes were issued as follows:

- $30 million at a coupon rate of 3.50%, maturing on June 16, 2023; and
- $30 million at a coupon rate of 4.15%, maturing on June 16, 2026.

Also in the fourth quarter of 2016, Keyera closed a private placement of 10-year and 12-year senior unsecured notes totaling approximately $300 million with a group of institutional investors in Canada and the United States. The senior notes were issued in two tranches with $200 million bearing interest at 3.96% and maturing on October 13, 2026 and $100 million bearing interest at 4.11% and maturing on October 13, 2028. The proceeds were used to repay short-term debt incurred to execute Keyera's capital program and for general corporate purposes.

As at March 31, 2017, Keyera had $916 million and US$439 million of unsecured senior notes including amounts drawn under the uncommitted notes facility. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at March 31, 2017, Keyera had entered into cross-currency agreements with a syndicate of Canadian banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" provides more information.

Keyera has an unsecured revolving credit facility (the "Credit Facility") with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at March 31, 2017, $180 million was drawn under this facility (December 31, 2016 – $235 million). The term of the Credit Facility is through to December 6, 2021. Management expects that upon maturity of the Credit Facility, an adequate replacement will be established.

The Credit Facility and senior note agreements contain a number of covenants, all of which were met as at March 31, 2017. The agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for all of Keyera's long-term debt, including its Credit Facility, is the Net Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to deduct working capital surpluses or add working capital deficits.

During the first quarter of 2017, Keyera amended its senior note agreements and the Credit Facility to provide more flexibility with respect to the funding of growth capital projects by introducing two changes in the covenant calculations. The first change will allow Keyera to increase its Net Debt to EBITDA ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters. The second change allows Keyera to utilize the cross currency swap rates in the calculation of debt rather than the more punitive spot rate as at each balance sheet date. As at March 31, 2017, Keyera's Net Debt to EBITDA ratio was 2.59 for covenant test purposes (March 31, 2016 – 2.43).

In addition, the Royal Bank of Canada has provided a $50 million unsecured revolving demand facility and the Toronto Dominion Bank has provided a further $25 million unsecured revolving demand facility. The revolving credit facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. base rate loans, LIBOR loans or bankers' acceptances.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three months ended March 31, 2017 and 2016:

Capital Expenditures and Acquisitions	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2017**	2016
Acquisitions	**55,087**	32,160
Growth capital expenditures	**174,725**	110,846
Maintenance capital expenditures	**6,722**	6,147
Total capital expenditures	**236,534**	149,153

Growth capital expenditures for the three months ended March 31, 2017 amounted to $175 million and primarily related to projects in the Liquids Infrastructure segment. Refer to the section of this MD&A, “Results of Operations”, for information related to the various growth capital projects, including estimated costs to complete, costs incurred in 2017 and since inception of the project, and estimated completion timeframes.

Acquisitions in the first quarter of 2017 related to the purchase of 1,290 acres of undeveloped land in the Industrial Heartland area near Fort Saskatchewan for approximately $55 million.

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 $9 million for the quarter ended March 31, 2017, compared to $4 million in the same period in 2016. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

Keyera’s ongoing operations are not heavily dependent on capital expenditures to maintain current levels of cash flow. However, to grow future cash flow, Keyera is investing growth capital to expand its current asset base and capture new opportunities. Based on current plans, Keyera anticipates that its growth capital investment in 2017, excluding the proposed Wapiti project will be between $600 million and $700 million. This growth capital spending range for 2017 includes the acquisition of the South Grand Rapids pipeline. Maintenance capital for 2017 is expected to be between $30 million and $35 million, including the scheduled turnarounds at Simonette and Gilby. The capital program is expected to be funded by cash flow from operating activities, the DRIP and Premium DRIP™ program and existing credit facilities, augmented if necessary by incremental debt and equity financing. Access to debt and equity financing is dependent on Keyera’s ongoing financial performance and general market conditions. Readers are referred to the section of the MD&A titled, “Forward-Looking Information” for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

Distributable Cash Flow

Distributable cash flow is not a standard measure under GAAP, and therefore may not be comparable to similar measures reported by other entities. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends.

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

Distributable Cash Flow	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2017**	2016
Cash flow from operating activities	**218,621**	177,691
Add (deduct):		
Changes in non-cash working capital	**(87,892)**	(50,366)
Long-term incentive plan expense	**(2,747)**	(4,729)
Maintenance capital	**(6,722)**	(6,147)
Other	**(578)**	—
Distributable cash flow	**120,682**	116,449
Dividends declared to shareholders	**74,125**	64,662

For the quarter ended March 31, 2017, dividends declared were $74 million, or 61% of distributable cash flow, compared to dividends declared of $65 million, or 56% of distributable cash flow in the same period of 2016.

Distributable cash flow in the first quarter of 2017 was $121 million, $4 million higher than the same period of 2016 largely due to lower G&A expenses in 2017. Despite the prolonged low commodity price environment and low producer activity in Alberta, distributable cash flow in the first quarter of 2017 was robust primarily due to continued demand for Keyera's diluent handling services including storage and transportation services. Refer to the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the quarter ended March 31, 2017.

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 approximately 6% from $0.1325 per share per month to $0.14 per share per month, or $1.68 per share annually, beginning with its dividend payable on June 15, 2017. In determining the level of cash dividends to shareholders, Keyera's board of directors considers current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

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

EBITDA

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

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

EBITDA	**Three months ended March 31,**	
(Thousands of Canadian dollars)	**2017**	2016
Net earnings	**96,342**	70,131
Add (deduct):		
Finance costs	**17,740**	19,348
Depreciation, depletion and amortization expenses	**39,580**	44,724
Income tax expense	**31,172**	20,755
EBITDA	**184,834**	154,958
Unrealized gain on commodity contracts	**(36,135)**	(4,388)
Net foreign currency gain on U.S. debt	**(479)**	(5,508)
Adjusted EBITDA	**148,220**	145,062

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2016, approximately $132 million of purchase obligations related to the South Grand Rapids Pipeline and the future construction costs associated with phase two of the Alder Flats gas plant were included in the Operating Leases commitment total of $515 million. These purchase commitments should have been classified in the Purchase Obligations total of $424 million.

In the first quarter of 2017, Keyera has committed to approximately $64 million in purchase obligations associated with orders on long-lead items related to the Wapiti gas plant project.

RELATED PARTY TRANSACTIONS

Keyera has provided compensation to key management personnel who are comprised of its directors and executive officers. There have been no other material related party transactions or significant changes to the annual compensation amounts disclosed in the December 31, 2016 annual audited financial statements.

RISK FACTORS

For a detailed discussion of the risks and trends that could affect the financial performance of Keyera and the steps that Keyera takes to mitigate these risks, see the December 31, 2016 MD&A and Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

Greenhouse gases, mainly carbon dioxide and methane, are components of the raw natural gas processed and handled at Keyera's facilities. Operations at Keyera's facilities, including the combustion of fossil fuels

in engines, turbines, heaters and boilers, release carbon dioxide, methane and other minor greenhouse gases. As such, Keyera is subject to various greenhouse gas reporting and reduction programs. Keyera uses engineering consulting firms and internal resources to compile inventories of greenhouse gas emissions and reports these inventories in accordance with federal and provincial programs. Third party audits or verifications of inventories are conducted for facilities that are required to meet regulatory targets.

Keyera is closely monitoring the ongoing development and implementation of the regulatory framework through which the federal and provincial governments are implementing their climate change and emissions reduction policies. In the near term, the majority of Keyera's facilities initially fall within the exemptions to the Alberta carbon levy that came into force in 2017. For example, there are exemptions for heating fuels on sites subject to the Specified Gas Emitters Regulations ("SGER") until the end of 2017 when a new Output Based Allocation ("OBA") framework is to be introduced for Large Final Emitters ("LFE"). There is also an exemption for natural gas produced and consumed on site for conventional oil and gas activities until 2023 as the regulators focus on methane reduction initiatives in these areas. Five of Keyera's facilities are LFEs and will continue to be subject to the performance targets under the SGER regime until the OBA replacement program is in place. Details of the replacement program are still being defined. Similarly, details with respect to the Alberta Government's methane reduction program for conventional oil and gas activities continue to evolve. Keyera is engaged in the ongoing consultation initiatives underway with the Government of Alberta with respect to the proposed changes to the SGER framework and is working through industry with respect to the Joint Initiative on Methane Reduction and Verification.

While Keyera anticipates that its compliance costs will increase as a result of the changing regulatory requirements with respect to emissions and climate change, at this time it is not expected that it will be affected in a manner materially different from its peers with similar operations. Based on currently available information, Keyera does not expect the incremental direct cost of compliance between now and 2023 to be material. There may be indirect costs or consequences with implications for Keyera. For example, to the extent that electricity costs increase as a result of these changes, the operating costs of some of Keyera's facilities may increase. To mitigate the impact of these regulatory changes, Keyera is evaluating new emission reduction opportunities at its facilities through its Emissions Reduction Task Force, and is also continuing to integrate emissions considerations into overall lifecycle planning for its facilities through its Climate Change and Emissions Strategy Committee.

For a detailed discussion of environmental regulations that affect Keyera, political and legislative developments as they relate to climate change and the risks associated therewith, see Keyera's Annual Information Form which is available at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Revenue before inter-segment eliminations [1]								
Gathering and Processing[2]	**112,727**	127,103	117,542	104,182	113,723	129,074	123,752	107,169
Liquids Infrastructure	**101,027**	94,712	90,178	90,402	94,101	90,958	87,310	85,095
Marketing	**699,043**	535,708	472,442	457,447	459,017	472,114	497,951	480,590
Other	**8,381**	7,512	5,643	3,044	6,426	9,141	10,600	10,723
Operating Margin								
Gathering and Processing	**66,337**	79,881	71,689	70,457	68,198	73,564	69,237	56,147
Liquids Infrastructure	**64,575**	62,782	62,781	59,018	61,524	55,886	55,531	54,869
Marketing	**68,435**	8,581	23,825	24,582	44,121	54,731	99,307	53,483
Other	**5,075**	4,196	2,663	(67)	1,943	4,441	4,400	6,691
Net earnings	**96,342**	34,621	52,420	59,679	70,131	20,215	109,538	15,587
Net earnings per share ($/share)								
Basic	**0.52**	0.19	0.28	0.34	0.41	0.12	0.64	0.09
Diluted	**0.52**	0.19	0.28	0.34	0.41	0.12	0.64	0.09
Weighted average common shares (basic)	**186,286**	185,116	183,962	177,309	172,258	171,199	170,191	169,411
Weighted average common shares (diluted)	**186,286**	185,116	183,962	177,309	172,258	171,199	170,191	169,411
Dividends declared to shareholders	**74,125**	73,657	71,819	67,440	64,662	64,259	62,178	58,479

Notes:

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

2 Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2017.

The Gathering and Processing segment has continued to grow as a result of acquiring ownership interests in new or existing facilities as well as its investment in gathering systems and plant expansions that are now generating incremental cash flow. Operating margin in the fourth quarter of 2016 was unusually high due to the inclusion of a non-recurring adjustment of approximately $9 million related to the recovery of turnaround costs at the Strachan, Gilby and Nevis gas plants that are scheduled to occur in 2017 and 2018.

In the Liquids Infrastructure segment, incremental cash flow from recent investments, including addition of the de-ethanizer and the fractionation expansion at Fort Saskatchewan, have contributed to the growth in operating margin. In addition, Keyera has long-term agreements in place to provide diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area for several oil sands producers and the demand for these services steadily increased throughout 2016 and 2017.

Operating margin from the Marketing segment can be affected by seasonal factors. The demand for iso-octane is typically highest in the second and third quarters as the demand for gasoline tends to be higher in the summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. Changes in foreign currency exchange rates can have an effect on NGL and iso-octane margins. Keyera manages its exposure to foreign currency exchange rate fluctuations through its hedging strategy. Unrealized non-cash gains and losses resulting from the change in value of risk management contracts can also have a material effect on quarterly operating margin for this segment. Keyera continues to maintain its disciplined approach to risk management for its NGL and iso-octane products. Marketing results were lower in 2016 due to a lower contribution from the sale of iso-octane, partly due to the scheduled maintenance turnaround at AEF in the second half of the year.

Compared to the 2016 year-end results, the facilities segments (Gathering and Processing and Liquids Infrastructure) are performing well. In the Gathering and Processing segment, the modest recovery in commodity prices has resulted in an increase in drilling activity in Alberta. In particular, producers continue to drill in areas that are rich in liquids rich gas, including areas close to the Simonette, Brazeau River, West Pembina, and Alder Flats gas plants. In the Liquids Infrastructure segment, demand for Keyera's diluent handling services continues to be strong and several new assets are expected to be in service later this year, including the Norlite pipeline that is expected to generate incremental cash flow beginning in the second quarter. Overall fractionation revenue is expected to be higher in 2017 due to higher contracted volumes, the effect of which will be partly offset by lower average fractionation rates effective April 1, 2017. The increase in overall fractionation revenue assumes volumes are delivered in accordance with producer forecasts.

In the Marketing segment, operating margin in 2017 may be lower compared to the prior year due to the shift from netback pricing to Conway index pricing for propane supply effective April 1st, 2017 as well as the nine-week unscheduled outage at AEF that commenced in mid-February. Comparatively, the AEF facility was down for its scheduled turnaround in the second half of 2016 for approximately two months, which reduced iso-octane margins during that period.

See the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the three months ended March 31, 2017.

ADOPTION OF NEW AND AMENDED IFRS STANDARDS

Keyera has applied the following new IFRS amendment in 2017:

Disclosure Initiative – Amendments to IAS 7, Statement of Cash Flows

Effective January 1, 2017, Keyera adopted the disclosure requirements in IAS 7 related to changes in liabilities arising from financing activities. See note 12, Supplemental Cash Flow Information, for a reconciliation that provides additional disclosures on the cash and non-cash changes in liabilities arising from financing activities. As allowed by IAS 7, comparative information has not been presented.

FUTURE ACCOUNTING PRONOUNCEMENTS UPDATE

Keyera is progressing its assessment of the following significant new accounting standards that have been issued, but are not yet effective.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, the new standard which sets out the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes:

a) IAS 11 Construction Contracts;
b) IAS 18 Revenue;
c) IFRIC 13 Customer Loyalty Programmes;
d) IFRIC 15 Agreements for the Construction of Real Estate;
e) IFRIC 18 Transfers of Assets from Customers; and
f) SIC-31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 also provides guidance for the recognition and measurement of gains and losses on the sale of certain non-financial assets, such as property, plant and equipment. The standard is required to be adopted either retrospectively or using a modified retrospective transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted.

Expected Impact

Keyera has developed an implementation plan, identifying the contracts and arrangements which will fall within the scope of IFRS 15. Major contract types and revenue streams have been determined, and Keyera is currently evaluating the impact that the new standard will have on its contracts. These include, but are not limited to (i) recognition and measurement of revenue on Keyera's consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required. In addition, once all applicable contracts and arrangements have been assessed, Keyera will make a decision regarding its adoption approach for IFRS 15. Keyera currently anticipates that the adoption of this new accounting standard will mostly affect its Liquids Infrastructure reportable segment; however, Keyera is still completing detailed assessments of this standard. Keyera's management believes that it has sufficient resources allocated to the project to ensure timely implementation. IFRS 15 will be adopted by Keyera on January 1, 2018.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which provides a single lease accounting model for lessees, which requires the recognition of most leases as finance leases on the statement of financial position.

This will result in the recognition of a lease liability and a corresponding recognition of a leased asset called right-of-use asset. On the consolidated statement of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items.

For lessors, the accounting treatment remains the same which provides a lessor the choice of classifying a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019.

Expected impact

Keyera is currently reviewing this new standard in detail and will determine the effect on its consolidated financial statements.

Keyera Corp.'s consolidated financial statements and the related MD&A as at and for the year ended December 31, 2016 contains additional disclosure on other new or amended accounting standards that have been issued, but are not yet effective.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of March 31, 2017, 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, 2017 and ending March 31, 2017 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

During the first quarter, there were 1,200,633 common shares issued under the DRIP and the Premium DRIP™ for consideration of $46 million, bringing the total common shares outstanding at March 31, 2017 to 186,884,060.

Subsequent to March 31, 2017, 339,192 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP™ for consideration of $13 million, bringing the total common shares outstanding at May 9, 2017 to 187,223,252.

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, maintenance capital expenditures and finance lease liabilities); distributable cash flow per share (distributable cash flow divided by weighted average number of shares – basic); EBITDA (earnings before finance costs, taxes, depreciation, and amortization); and Adjusted EBITDA (calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity contracts, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment) are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. Management believes that these supplemental measures facilitate the understanding of Keyera's results of operations, leverage, liquidity and financial position. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. EBITDA and Adjusted EBITDA are measures used as an indication of earnings generated from operations after consideration of administrative and overhead costs. Realized margin reflects the exclusion of unrealized gains and losses from risk management contracts in the Marketing segment. This measure is used to assess the financial performance of the Marketing segment in the period. Investors are cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP as an indication of Keyera's performance.

FORWARD-LOOKING STATEMENTS

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

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

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward-looking statements. Such factors include but are not limited to: general economic, market and business conditions; access to capital and debt markets; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; access to third party facilities, competitive action by other companies; activities of producers and other customers and overall industry activity levels; changes in gas composition; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; availability of construction crews and materials; fluctuations in interest rates and foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental

authorities; compliance with regulatory requirements; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on shareholders, and in particular any differential effects relating to shareholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 14, 2017, filed on SEDAR at www.sedar.com and available on the Keyera website at www.keyera.com.

Proposed construction and completion schedules and budgets for capital projects are subject to many variables, including weather; availability and prices of materials; labour; customer project schedules and expected in service dates; contractor productivity; contractor disputes; quality of cost estimating; decision processes and approvals by joint venture partners; changes in project scope at the time of project sanctioning; regulatory approvals, conditions or delays (including possible intervention by third parties); and macro socio-economic trends. Pipeline projects are also subject to Keyera's ability to secure the necessary rights of way; and underground cavern development is dependent on sufficient water supply. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions in this MD&A. Further, some of the projects discussed in this MD&A are subject to securing sufficient producer/customer interest and may not proceed if sufficient commitments are not obtained. Typically, the earlier in the engineering process that projects are sanctioned, the greater the likelihood that the schedule and budget may change. Expected closing of acquisitions and financings are subject to satisfaction of closing conditions which may vary depending on the nature of the transactions. Acquisitions may be subject to rights of first refusal and other third party consents.

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

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

All forward-looking statements contained in this MD&A and accompanying documents are expressly qualified by this cautionary statement. Such statements speak only as of the date hereof. 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 of Keyera were $0.3975 per share in the first quarter of 2017. Effective with the May 2017 dividend and payable to shareholders on June 15, 2017, Keyera's dividend will increase by approximately 6% to $0.14 per share per month, or $1.68 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 2017 RESULTS CONFERENCE CALL AND WEBCAST
Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the financial results for the first quarter of 2017 at 8:00 am Mountain Time (10:00 am Eastern Time) on May 10, 2017. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 11:59 pm Mountain Time on May 24, 2017 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 94455717.

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

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

Keyera Corp.

Condensed Interim Consolidated Statements of Financial Position

(Thousands of Canadian dollars)
(Unaudited)

As at	Note	**March 31, 2017 $**	December 31, 2016 $
ASSETS			
Cash		**16,963**	16,477
Trade and other receivables		**312,294**	364,081
Derivative financial instruments	9	**21,385**	9,021
Inventory	3	**88,045**	107,876
Other assets	14	**37,856**	81,592
Total current assets		**476,543**	579,047
Long-term portion of other assets		**—**	4,200
Derivative financial instruments	9	**115,625**	119,606
Property, plant and equipment		**4,400,450**	4,200,484
Goodwill		**53,624**	53,624
Total assets		**5,046,242**	4,956,961
LIABILITIES AND EQUITY			
Trade and other payables		**476,315**	400,076
Derivative financial instruments	9	**12,817**	36,086
Dividends payable		**24,762**	24,603
Current portion of long-term debt		**60,000**	60,000
Current portion of decommissioning liability		**7,719**	11,960
Total current liabilities		**581,613**	532,725
Derivative financial instruments	9	**450**	500
Credit facilities	4	**180,000**	235,000
Long-term debt	4	**1,432,192**	1,437,413
Decommissioning liability		**465,786**	464,239
Other long-term liabilities		**58,458**	57,463
Deferred tax liabilities		**418,150**	388,113
Total liabilities		**3,136,649**	3,115,453
Equity			
Share capital	5	**2,033,209**	1,987,341
Accumulated deficit		**(123,616)**	(145,833)
Total equity		**1,909,593**	1,841,508
Total liabilities and equity		**5,046,242**	4,956,961

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

These unaudited condensed interim consolidated financial statements were approved by the board of directors of Keyera Corp. on May 9, 2017.

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

Keyera Corp.

Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income

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

		Three months ended March 31,	
		2017	2016
	Note	**$**	$
Revenues	13	**843,620**	600,608
Expenses	13	**(639,198)**	(424,822)
Operating margin		**204,422**	175,786
General and administrative expenses		**(17,320)**	(21,607)
Finance costs	11	**(17,740)**	(19,348)
Depreciation, depletion and amortization expenses		**(39,580)**	(44,724)
Net foreign currency gain on U.S. debt	10	**479**	5,508
Long-term incentive plan expense	7	**(2,747)**	(4,729)
Earnings before income tax		**127,514**	90,886
Income tax expense	8	**(31,172)**	(20,755)
Net earnings		**96,342**	70,131
Other comprehensive income		**—**	—
Net earnings and comprehensive income		**96,342**	70,131
Earnings per share			
Basic earnings per share	6	**0.52**	0.41
Diluted earnings per share	6	**0.52**	0.41

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

Keyera Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended March 31, 2017 $	2016 $
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings:		**96,342**	70,131
Adjustments for items not affecting cash:			
Finance costs	11	**3,614**	2,935
Depreciation, depletion and amortization expenses		**39,580**	44,724
Long-term incentive plan expense	7	**2,747**	4,729
Unrealized (gain) loss on derivative financial instruments	9	**(31,701)**	42,753
Unrealized gain on foreign exchange		**(4,447)**	(54,052)
Deferred income tax expense	8	**30,037**	17,088
Decommissioning liability expenditures		**(5,443)**	(983)
Changes in non-cash working capital	12	**87,892**	50,366
Net cash provided by operating activities		**218,621**	177,691
INVESTING ACTIVITIES			
Acquisitions		**(55,087)**	(32,160)
Capital expenditures		**(181,447)**	(116,993)
Changes in non-cash working capital	12	**103,270**	(3,309)
Net cash used in investing activities		**(133,264)**	(152,462)
FINANCING ACTIVITIES			
Borrowings under credit facilities	12	**265,000**	378,877
Repayments under credit facilities	12	**(320,000)**	(380,000)
Financing costs related to credit facilities/long-term debt	12	**(711)**	(19)
Proceeds from issuance of shares related to DRIP		**45,618**	40,356
Repayment of finance lease liabilities	12	**(563)**	—
Dividends paid to shareholders		**(73,966)**	(64,526)
Net cash used in financing activities		**(84,622)**	(25,312)
Effect of exchange rate fluctuations on foreign cash held		**(249)**	(159)
Net increase (decrease) in cash		**486**	(242)
Cash at the start of the period		**16,477**	13,447
Cash at the end of the period		**16,963**	13,205
Income taxes paid in cash		**638**	54,303
Interest paid in cash		**8,580**	8,473

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

Keyera Corp.

Condensed Interim Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)
(Unaudited)

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

	Share Capital $	Accumulated Deficit $	Total $
As at December 31, 2016	**1,987,341**	**(145,833)**	**1,841,508**
Common shares issued pursuant to dividend reinvestment plans	45,618	—	45,618
Issuance costs related to 2016 equity offering	250	—	250
Net earnings and comprehensive income	—	96,342	96,342
Dividends declared to shareholders	—	(74,125)	(74,125)
As at March 31, 2017	**2,033,209**	**(123,616)**	**1,909,593**

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

Keyera Corp.
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three months ended March 31, 2017 and 2016
(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 Energy Ltd. (“KEL”), Keyera Energy Inc. (“KEI”), Keyera Rimbey Ltd. (“KRL”), Keyera RP Ltd. (“KRPL”), Rimbey Pipeline Limited Partnership (“RPLP”), Alberta Diluent Terminal Ltd. (“ADT”) and Alberta EnviroFuels Inc. (“AEF”). Keyera Corp. and its subsidiaries are involved in the business of natural gas gathering and processing; transportation, storage and marketing of natural gas liquids (“NGLs”) and iso-octane in Canada and the United States (“U.S.”); the production of iso-octane; and crude oil midstream activities in Canada.

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 200, 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”.

Keyera is approved to issue two classes of preferred shares (one class referred to as the “First Preferred Shares”, a second class referred to as the “Second Preferred Shares”), and collectively both classes being referred to as the “Preferred Shares”. Each are issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the board of directors may at any time and from time to time determine, subject to an aggregate maximum number of authorized Preferred Shares. No preferred shares had been issued as at March 31, 2017.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements are in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. The accounting policies applied are in accordance with International Financial Reporting Standards (“IFRS”) and are consistent with Keyera Corp.’s consolidated financial statements as at and for the year ended December 31, 2016, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2017 as noted below.

These condensed interim consolidated financial statements as at and for the three months ended March 31, 2017 and 2016 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, 2016.

The condensed interim consolidated financial statements were authorized for issuance on May 9, 2017 by the board of directors.

New and amended IFRS standards adopted by Keyera

Keyera has applied the following new IFRS amendment in 2017:

Disclosure Initiative – Amendments to IAS 7, Statement of Cash Flows

Effective January 1, 2017, Keyera adopted the disclosure requirements in IAS 7 related to changes in liabilities arising from financing activities. See note 12, Supplemental Cash Flow Information, for a reconciliation that provides additional disclosures on the cash and non-cash changes in liabilities arising from financing activities. As allowed by IAS 7, comparative information has not been presented.

Future accounting pronouncements update

Keyera is progressing its assessment of the following significant new accounting standards that have been issued, but are not yet effective.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, the new standard which sets out the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes:

a) IAS 11 Construction Contracts;
b) IAS 18 Revenue;
c) IFRIC 13 Customer Loyalty Programmes;
d) IFRIC 15 Agreements for the Construction of Real Estate;
e) IFRIC 18 Transfers of Assets from Customers; and
f) SIC-31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 also provides guidance for the recognition and measurement of gains and losses on the sale of certain non-financial assets, such as property, plant and equipment. The standard is required to be adopted either retrospectively or using a modified retrospective transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted.

Expected Impact

Keyera has developed an implementation plan, identifying the contracts and arrangements which will fall within the scope of IFRS 15. Major contract types and revenue streams have been determined, and Keyera is currently evaluating the impact that the new standard will have on its contracts. These include, but are not limited to (i) recognition and measurement of revenue on Keyera's consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required. In addition, once all applicable contracts and arrangements have been assessed, Keyera will make a decision regarding its adoption approach for IFRS 15. Keyera currently anticipates that the adoption of this new accounting standard will mostly affect its Liquids Infrastructure reportable segment; however, Keyera is still completing detailed assessments of this standard. Keyera's management believes that it has sufficient resources allocated to the project to ensure timely implementation. IFRS 15 will be adopted by Keyera on January 1, 2018.

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In January 2016, the IASB issued IFRS 16, Leases, which provides a single lease accounting model for lessees, which requires the recognition of most leases as finance leases on the statement of financial position.

This will result in the recognition of a lease liability and a corresponding recognition of a leased asset called right-of-use asset. On the consolidated statement of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items.
For lessors, the accounting treatment remains the same which provides a lessor the choice of classifying a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019.

Expected impact
Keyera is currently reviewing this new standard in detail and will determine the effect on its consolidated financial statements.

Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2016 contains additional disclosure on other new or amended accounting standards that have been issued, but are not yet effective.

3. INVENTORY

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

As at	**March 31, 2017 $**	December 31, 2016 $
NGLs and iso-octane	**82,647**	103,233
Other	**5,398**	4,643
Total inventory	**88,045**	107,876

For the period ended March 31, 2017, $88,045 of inventory was carried at cost (December 31, 2016 – $107,876) and $nil was carried at net realizable value (December 31, 2016 – $nil).

For the three months ended March 31, 2017, there were no charges to operating expenses to write down the cost of NGL inventory and iso-octane to net realizable value (three months ended March 31, 2016 – $nil).

4. CREDIT FACILITIES AND LONG-TERM DEBT

Keyera's long-term debt structure consists of a number of long-term senior unsecured notes (the "Note Agreements"). Keyera also has an uncommitted private shelf arrangement with Prudential Capital Group (the "Prushelf") under which it may issue notes up to US$375,000, subject to certain conditions.

Keyera has a $1,500,000 (with the potential to increase to $1,850,000 subject to certain conditions) unsecured revolving credit facility with a syndicate of Canadian financial institutions and foreign banks, led by the Royal Bank of Canada as the administrative agent (the "Credit Facility").

During the first quarter of 2017, Keyera amended the agreements related to the Credit Facility, the Prudential Capital Group and all the Note Agreements to provide for more flexibility on the Net Debt to EBITDA financial covenant. Keyera's Net Debt To EBITDA ratio will remain at a maximum of 4.0, however, this ratio can increase to 4.5 for periods of up to four consecutive fiscal quarters. In addition, Keyera can utilize the cross-currency swap rates related to its U.S. senior notes in the calculation of debt rather than the spot rate at each financial position reporting date. As at March 31, 2017, Keyera's Net Debt to EBITDA ratio was 2.59 for financial covenant test purposes (March 31, 2016 – 2.43).

5. CAPITAL

Keyera Corp. Share Capital	Number of Common Shares	Share Capital $
Balance at December 31, 2016	**185,683,427**	**1,987,341**
Common shares issued pursuant to dividend reinvestment plans	1,200,633	45,618
Issuance costs related to 2016 equity offering	—	250
Balance at March 31, 2017	**186,884,060**	**2,033,209**

6. EARNINGS PER SHARE

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

	Three months ended March 31, 2017 $	2016 $
Basic & diluted earnings per share	**0.52**	0.41
Net earnings – basic & diluted	**96,342**	70,131

(in thousands)	Three months ended March 31, 2017	2016
Weighted average number of shares – basic & diluted	**186,286**	172,258

7. SHARE-BASED COMPENSATION AND PENSION PLANS

Long-Term Incentive Plan

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

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

The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The fair value of the liability is measured by applying a fair value pricing model. At March 31, 2017 the fair value of shares granted was $39.01 per share (December 31, 2016 – $40.46 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended March 31,	
	2017	2016
	$	$
Performance awards	**2,261**	4,122
Restricted awards	**486**	607
Total long-term incentive plan expense	**2,747**	4,729

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**March 31, 2017**	December 31, 2016
Issued July 1, 2014 – Performance Awards	**332,496**	335,398
Issued July 1, 2015 – Performance Awards	**330,651**	333,392
Issued July 1, 2016 – Performance Awards	**344,614**	345,081
Issued July 1, 2014 – Restricted Awards	**19,132**	19,634
Issued July 1, 2015 – Restricted Awards	**39,945**	40,859
Issued July 1, 2016 – Restricted Awards	**69,852**	69,645

Employee Stock Purchase Plan

Keyera maintains an employee stock purchase plan (“ESPP”) whereby eligible employees can purchase common shares of Keyera. Keyera will contribute an amount equal to 5% of the employee’s contribution. To participate in the ESPP, eligible employees select an amount to be deducted from their semi-monthly remuneration. Employees may elect to withhold up to 25% of their base compensation for the stock purchases. The shares of Keyera are acquired on the Toronto Stock Exchange on a semi-monthly basis consistent with the timing of the semi-monthly remuneration. The cost of the shares purchased to match the employee’s contribution is expensed as incurred and recorded in general and administrative expenses.

Defined Contribution Pension Plan

For the three months ended March 31, 2017, Keyera made pension contributions of $2,247 (three months ended March 31, 2016 - $2,217) on behalf of its employees. The contributions were recorded in general and administrative expenses.

Deferred Share Unit Plan

Effective January 1, 2016, Keyera implemented a deferred share unit (“DSU”) plan, for non-employee directors. Each DSU vests on the date the grant is awarded but cannot be redeemed until a director ceases to be a member of the board of directors. The grant value is determined based on a 20 day weighted average trading share price. DSUs are settled in cash (on an after-tax basis) based on the 20 day weighted average Keyera share price up to the date of settlement. For the three months ended March 31, 2017, Keyera recorded $177 (three months ended March 31, 2016 – $213) in general and administrative expenses related to the DSU plan.

The table below shows the number of DSUs granted:

Deferred Share Units	Deferred Shared Units granted as at March 31, 2017	December 31, 2016
Balance at beginning of period	**19,827**	—
Granted	**5,054**	20,353
Redeemed	**—**	(526)
Forfeited	**—**	—
Balance at end of period	**24,881**	19,827

8. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended March 31, 2017 $	2016 $
Current	**1,135**	3,667
Deferred	**30,037**	17,088
Total income tax expense	**31,172**	20,755

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial Instruments

(a) Fair value

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

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

The fair value hierarchy has the following levels:

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

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

Financial instruments with fair value equal to carrying value
The carrying values of cash, trade and other receivables, trade and other payables and dividends payable approximate their fair values because the instruments are either near maturity, have 5 to 30 days payment terms 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 total fair value of Keyera's unsecured senior notes at March 31, 2017 was $1,572,152 (December 31, 2016 — $1,580,394) 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, 2017	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing: NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by June 30, 2018)	1,732,800 Bbls	69.81/Bbl	Level 2	2,855	4,167	(1,312)
Buyer of fixed price WTI swaps (maturing by March 31, 2018)	785,128 Bbls	74.02/Bbl	Level 2	(4,004)	13	(4,017)
Seller of fixed price NGL swaps (maturing by March 31, 2018)	1,728,000 Bbls	43.27/Bbl	Level 2	9,265	9,932	(667)
Buyer of fixed price NGL swaps (maturing by March 31, 2018)	500,000 Bbls	39.26/Bbl	Level 2	365	676	(311)
Buyer of fixed price NGL Basis Spreads (maturing by April 30, 2017)	32,500 Bbls	5.99/Bbl	Level 2	120	120	—
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by September 30, 2018)	2,940,000 Bbls	20.35/Bbl	Level 2	(2,449)	2,330	(4,779)
Buyer of fixed price RBOB basis spreads (iso-octane) (maturing by May 31, 2017)	420,000Bbls	24.00/Bbl	Level 2	1,552	1,552	—
Currency:						
Seller of forward contracts (maturing by August 1, 2017)	US$52,500,000	1.32/USD	Level 2	(649)	54	(703)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	208,440 MWhs	38.60/MWh	Level 2	(1,097)	377	(1,474)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2017)	84,000 Bbls	62.30/Bbls	Level 2	357	361	(4)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 - November 20, 2028)	US$593,213,700	0.98/USD - 1.22/USD	Level 2	117,428	117,428	—
				123,743	**137,010**	**(13,267)**

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, 2016	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing: NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by March 31, 2018)	1,650,066 Bbls	69.76/Bbl	Level 2	(6,292)	146	(6,438)
Seller of fixed price NGL swaps (maturing by March 31,2017)	958,000 Bbls	29.41/Bbl	Level 2	(10,718)	—	(10,718)
Buyer of fixed price NGL swaps (maturing by March 31,2018)	600,000 Bbls	39.09/Bbl	Level 2	4,723	4,723	—
Buyer of fixed price NGL basis spreads (maturing by March 31, 2017)	407,250 Bbls	9.38/Bbl	Level 2	1,197	1,197	—
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by September 30, 2018)	2,990,000 Bbls	19.83/Bbl	Level 2	(15,530)	558	(16,088)
Currency:						
Seller of forward contracts (maturing by June 1, 2017)	US$87,500,000	1.33/USD	Level 2	(1,296)	90	(1,386)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2017)	114,000 MWhs	38.77/MWh	Level 2	(973)	53	(1,026)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing December 31, 2017)	129,000 Bbls	60.45/Bbl	Level 2	(930)	—	(930)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$557,289,410	0.98/USD - 1.22/USD	Level 2	121,860	121,860	—
				92,041	**128,627**	**(36,586)**

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 consolidated statement of net earnings and comprehensive income in the period in which they arise.

Unrealized gains (losses), representing the change in fair value of derivative contracts, are recorded in the following consolidated statement of net earnings and comprehensive income line items and the related reportable operating segments:

Derivative Contracts Related To	Reportable Operating Segments	Consolidated Net Earnings and Comprehensive Income Line Item
Natural gas, crude oil and NGLs, including iso-octane	Marketing; Corporate and Other	Marketing revenue; Gathering and processing expenses; Corporate and other revenue
Electricity	Liquids Infrastructure; Corporate and Other	Liquids infrastructure expenses; Corporate and other expenses
Cross-currency swaps	Corporate and Other	Net foreign currency gain/(loss) on U.S. debt

Unrealized gain (loss)	Three months ended March 31, 2017 $	2016 $
Marketing revenue	**34,971**	6,722
Liquids infrastructure operating expense	**—**	(577)
Gathering and processing expense	**(62)**	(40)
Corporate and other:		
Production revenue/(expense)	**1,226**	(1,717)
Net foreign currency loss on U.S. debt	**(4,434)**	(47,141)
Total unrealized gain (loss)	**31,701**	(42,753)

Risk Management

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

(b) Commodity price risk

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

Significant amounts of electricity and natural gas are consumed by certain facilities. In order to mitigate the exposure to fluctuations in the prices of electricity and natural gas, price swap agreements may be used. These agreements are accounted for as derivative instruments.

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

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

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

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

	Three months ended March 31,	
	2017	2016
U.S. dollar sales and purchases	**$**	$
Sales priced in U.S. dollars	**224,873**	123,520
Purchases priced in U.S. dollars	**(89,772)**	(68,070)

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

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt and U.S. dollar denominated LIBOR loans drawn under Keyera's bank credit facilities. To manage this currency exposure, Keyera has entered into long-term cross-currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt as well as short-term cross-currency swaps relating to the LIBOR loans drawn under the credit facilities. These cross-currency contracts are accounted for as derivative instruments. Refer to note 10 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, 2017, fixed rate borrowings comprised 89% of total debt outstanding (December 31, 2016 – 86%). 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 $312,294 at March 31, 2017 (December 31, 2016 – $364,081). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at March 31, 2017. With respect to counterparties for derivative financial instruments, the

credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which significantly reduce overall counterparty credit risk. In addition, Keyera incorporates the credit risk associated with counterparty default, as well as Keyera's own credit risk, into the estimates of fair value.

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

(f) Liquidity risk

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

Risk Management Sensitivities

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

	Impact on income before tax March 31, 2017		Impact on income before tax March 31, 2016	
Risk sensitivities	**Increase $**	**Decrease $**	Increase $	Decrease $
Commodity price changes				
+ 10% in natural gas price	**—**	**—**	—	(87)
- 10% in natural gas price	**—**	**—**	87	—
+ 10% in electricity price	**695**	**—**	694	—
- 10% in electricity price	**—**	**(695)**	—	(694)
+ 10% in NGL and iso-octane prices	**—**	**(16,496)**	—	(13,389)
- 10% in NGL and iso-octane prices	**16,496**	**—**	13,389	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**296**	**—**	—	(949)
- $0.01 in U.S./Canadian dollar exchange rate	**—**	**(296)**	949	—
Interest rate changes				
+ 1% in interest rate	**—**	**(582)**	—	(945)
- 1% in interest rate	**582**	**—**	945	—

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

The components of foreign currency gain were as follows:

	Three months ended March 31,	
	2017	2016
	$	$
Foreign currency gain resulting from:		
Translation of long-term debt and interest payable	**4,553**	43,108
Change in fair value of the cross currency swaps – principal and interest portion	**(4,434)**	(37,918)
Gain from cross currency swaps – principal and interest portion[1]	**360**	318
Total foreign currency gain on U.S. debt	**479**	5,508

Note:
[1] Foreign currency gains (losses) resulted from the exchange of currencies related to the interest and principal payments on the long-term cross currency swaps.

11. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended March 31,	
	2017	2016
	$	$
Interest on bank overdrafts and credit facilities	**2,563**	3,121
Interest on long-term debt	**17,626**	16,363
Interest capitalized	**(6,073)**	(3,093)
Other interest expense	**525**	22
Total interest expense on current and long-term debt	**14,641**	16,413
Unwinding of discount on decommissioning liability	**2,749**	2,607
Unwinding of discount on long-term debt	**350**	328
Non-cash expenses in finance costs	**3,099**	2,935
Total finance costs	**17,740**	19,348

For the three months ended March 31, 2017, $6,073 of borrowing (interest) costs were capitalized (three months ended March 31, 2016 – $3,093) at a weighted average capitalization rate of 4.34% on funds borrowed (three months ended March 31, 2016 – 4.86%).

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31, 2017	2016
	$	$
Inventories	**19,830**	22,649
Trade and other receivables	**51,785**	31,436
Other assets	**(9,877)**	1,528
Trade and other payables	**26,154**	(5,247)
Changes in non-cash working capital from operating activities	**87,892**	50,366

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

	Three months ended March 31, 2017	2016
	$	$
Trade and other payables	**48,216**	(3,309)
Other assets	**55,054**	—
Changes in non-cash working capital from investing activities	**103,270**	(3,309)

Reconciliation of Liabilities Arising from Financing Activities:

	Credit Facilities	**Current and Long-term Debt**	**Financial Assets Related To U.S. Long-term Borrowings**	**Finance Lease Liabilities**
	$	**$**	**$**	**$**
As at December 31, 2016	**235,000**	**1,497,413**	**121,860**	**54,029**
Cash changes:				
Inflows from borrowings	265,000	—	—	—
Outflows related to repayments	(320,000)	—	—	(563)
Outflows related to financing costs	—	(961)	—	—
Outflows related to interest expense[1]	—	—	—	510
Non-cash changes:				
Fair value changes	—	—	(4,432)	—
Unrealized foreign exchange	—	(4,610)	—	—
Unwinding of discount on long-term debt	—	350	—	—
As at March 31, 2017	**180,000**	**1,492,192**	**117,428**	**53,976**

Note:
[1] The interest portion related to the finance lease liability payments are recorded as cash outflows within operating activities of the condensed interim consolidated statements of cash flow.

13. SEGMENT INFORMATION

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

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

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

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

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

Inter-segment and intra-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 IFRS.

Reclassification
Certain information provided for prior years has been reclassified to conform to a change in presentation adopted in 2017.

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, 2017	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	699,043	112,727	101,027	8,381	921,178
Operating expenses before inter-segment eliminations	(630,608)	(46,390)	(36,452)	(3,306)	(716,756)
Operating margin	68,435	66,337	64,575	5,075	204,422
Inter-segment revenue eliminations	—	(6,664)	(61,934)	(8,960)	(77,558)
Inter-segment expense eliminations	71,271	1,100	2,820	2,367	77,558
	139,706	60,773	5,461	(1,518)	204,422
General and administrative expenses	—	—	—	(17,320)	(17,320)
Finance costs	—	—	—	(17,740)	(17,740)
Depreciation, depletion and amortization expenses	—	—	—	(39,580)	(39,580)
Net foreign currency gain on U.S. debt	—	—	—	479	479
Long-term incentive plan expense	—	—	—	(2,747)	(2,747)
Earnings (loss) before income tax	139,706	60,773	5,461	(78,426)	127,514
Income tax expense	—	—	—	(31,172)	(31,172)
Net earnings (loss)	**139,706**	**60,773**	**5,461**	**(109,598)**	**96,342**
Revenue from external customers	699,043	106,063	39,093	(579)	843,620

Three months ended March 31, 2016	Marketing $	Gathering & Processing $	Liquids Infrastructure $	Corporate and Other $	Total $
Revenue before inter-segment eliminations	459,017	113,723	94,101	6,426	673,267
Operating expenses before inter-segment eliminations	(414,896)	(45,525)	(32,577)	(4,483)	(497,481)
Operating margin	44,121	68,198	61,524	1,943	175,786
Inter-segment revenue eliminations	—	(6,706)	(60,507)	(5,446)	(72,659)
Inter-segment expense eliminations	66,721	1,146	2,131	2,661	72,659
	110,842	62,638	3,148	(842)	175,786
General and administrative expenses	—	—	—	(21,607)	(21,607)
Finance costs	—	—	—	(19,348)	(19,348)
Depreciation, depletion and amortization expenses	—	—	—	(44,724)	(44,724)
Net foreign currency gain on U.S. debt	—	—	—	5,508	5,508
Long-term incentive plan expense	—	—	—	(4,729)	(4,729)
Earnings (loss) before income tax	110,842	62,638	3,148	(85,742)	90,886
Income tax expense	—	—	—	(20,755)	(20,755)
Net earnings (loss)	**110,842**	**62,638**	**3,148**	**(106,497)**	**70,131**
Revenue from external customers	459,017	107,017	33,594	980	600,608

Geographical information

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

	Three months ended March 31,	
	2017	2016
Revenue from external customers located in	**$**	$
Canada	**699,766**	489,389
U.S.	**143,854**	111,219
Total revenue	**843,620**	600,608

	March 31, 2017	December 31, 2016
Non-current assets[1] as at	**$**	$
Canada	**4,370,216**	4,172,058
U.S.	**83,858**	82,050
Total non-current assets	**4,454,074**	4,254,108

Note:

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

Information about major customers

For the three months ended March 31, 2017, 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, 2016, Keyera earned $71,161 of revenues from one external customer that accounted for more than 10% of its total revenue.

14. OTHER ASSETS

Other assets primarily consists of funds advanced to a joint venture partner for the future construction of the expansion phase on an existing gas plant jointly owned by Keyera and the joint venture partner. As at March 31, 2017, the prepaid balance was $19,845. At December 31, 2016, $55,054 of the other assets balance related to a prepayment made by Keyera for the acquisition of 1,290 acres of undeveloped land in the Fort Saskatchewan area. On January 19, 2017, Keyera met all the closing conditions related to the acquisition and as such, $55,054 was reclassified from other assets to land.

15. SUBSEQUENT EVENTS

On April 12, 2017, Keyera declared a dividend of $0.1325 per share, payable on May 15, 2017, to shareholders of record as of April 24, 2017.

On May 9, 2017, Keyera declared a dividend of $0.14 per share, payable on June 15, 2017, to shareholders of record as of May 23, 2017.

Corporate Information

Board of Directors

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

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

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

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

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

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

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

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

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

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

Officers

David G. Smith
President and Chief Executive Officer

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President Operations, Liquids Business Unit

Michael Freeman
Vice President, Commercial

Suzanne Hathaway
Vice President, General Counsel and Corporate Secretary

Rick Koshman
Vice President, Engineering

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

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

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

Eileen Marikar
Vice President, Controller

Brian Martin
Vice President, Business Development, NGL Facilities

C. Dean Setoguchi
Senior Vice President, Liquids Business Unit

Jamie Urquhart
Vice President Operations, Gathering and Processing Business Unit

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q1 2017

TSX:KEY – Cdn $	
High	$41.32
Low	$37.74
Close March 31, 2017	$39.01
Volume	40,804,948
Average Daily Volume	647,698

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Auditors

Deloitte LLP
Chartered Professional Accountants
Calgary, Canada

Investor Relations

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