August 8, 2018

2018 Second Quarter Report

For the period ended June 30, 2018

HIGHLIGHTS

- Keyera delivered strong financial results in the second quarter of 2018 with adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1] of $210 million, compared to $133 million reported in the second quarter of the previous year.
- Net earnings for the period were $107 million ($0.52 per share) compared to $67 million ($0.36 per share) in the second quarter of 2017.
- The Gathering and Processing segment recorded operating margin of $64 million (Q2 2017 – $67 million) in the second quarter. Even though processing volumes increased over the same period last year, the three scheduled turnarounds and weak natural gas prices reduced operating margin in the quarter.
- The Liquids Infrastructure segment reported operating margin of $77 million (Q2 2017 – $67 million) for the quarter, as new assets such as the Norlite diluent pipeline and the Base Line Terminal generated incremental operating margin.
- The Marketing segment's operating margin was $74 million (Q2 2017 – $21 million), while realized margin[1,2] was $90 million (Q2 2017 – $23 million), largely due to a higher contribution from iso-octane sales.
- Distributable cash flow[1] was $156 million or $0.75 per share (Q2 2017 – $108 million or $0.57 per share), resulting in a payout ratio of 56%[1] for both the second quarter and year to date.
- Keyera is increasing its monthly dividend by 7% from $0.14 per share to $0.15, or $1.80 per share annually. The dividend is effective with the August dividend payable on September 17, 2018.
- Keyera continued to increase its presence in the liquids-rich Montney, announcing the Pipestone plant, the second phase of the Wapiti plant and an expansion at the Simonette plant. Once completed, these three gas plants will provide 950 million cubic feet of gross sour gas processing capacity and 90,000 barrels per day of condensate handling capacity.
- During the quarter, Keyera continued to execute on its strategy in the United States with two new assets. Keyera announced it is developing the Wildhorse Terminal, a crude oil storage and blending project at Cushing, Oklahoma, and acquired the Oklahoma Liquids Terminal, a nearby logistics and liquids blending facility. The Oklahoma Liquids Terminal is now generating incremental cash flow, while the Wildhorse Terminal is expected to be in service by mid-2020, based on the current schedule.
- Keyera expects to invest growth capital of between $1.0 billion and $1.1 billion in 2018, including the acquisition of Keyera's 50% interest in the South Grand Rapids diluent pipeline. In addition, Keyera has made acquisitions of $222 million in the first half of 2018. Keyera continues to maintain a strong balance sheet and is well positioned to fund its growth capital program.

1 Keyera uses certain "Non-GAAP Measures" such as Adjusted EBITDA, Distributable Cash Flow, Distributable Cash Flow per Share and Payout Ratio. See section titled "Non-GAAP Financial Measures", "Dividends: Distributable Cash Flow" and "EBITDA" of the MD&A for further details.
2 Realized margin is a "Non-GAAP Measure" and excludes the effect of non-cash gains and losses from risk management contracts.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended June 30,** **2018**	 2017	**Six months ended June 30,** **2018**	 2017
Net earnings	**106,773**	67,062	**194,488**	163,404
Per share ($/share) – basic	**0.52**	0.36	**0.94**	0.87
Cash flow from operating activities	**100,926**	1,769	**289,315**	220,390
Distributable cash flow[1]	**155,781**	107,569	**310,683**	228,251
Per share ($/share)[1]	**0.75**	0.57	**1.51**	1.22
Dividends declared	**86,882**	77,400	**173,187**	151,525
Per share ($/share)	**0.42**	0.41	**0.84**	0.81
Payout ratio %[1]	**56%**	72%	**56%**	66%
Adjusted EBITDA[2]	**209,906**	133,234	**399,269**	281,439
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,532**	1,441	**1,559**	1,426
Net processing throughput (MMcf/d)	**1,175**	1,130	**1,206**	1,119
Liquids Infrastructure:				
Gross processing throughput[3] (Mbbl/d)	**160**	175	**173**	168
Net processing throughput[3] (Mbbl/d)	**76**	62	**79**	59
AEF iso-octane production volumes (Mbbl/d)	**15**	11	**14**	10
Marketing:				
Inventory value	**238,132**	158,004	**238,132**	158,004
Sales volumes (Bbl/d)	**134,600**	127,900	**147,700**	134,200
Acquisitions	**212,355**	2,770	**222,355**	57,857
Growth capital expenditures	**254,300**	151,311	**493,093**	326,036
Maintenance capital expenditures	**23,077**	10,316	**29,089**	17,038
Total capital expenditures	**489,732**	164,397	**744,537**	400,931
Weighted average number of shares outstanding – basic and diluted	**206,646**	187,445	**205,960**	186,869

	As at June 30, **2018**	 2017
Long-term debt	**2,095,481**	1,417,537
Credit facility	**—**	375,000
Working capital surplus[4]	**(140,770)**	(19,907)
Net debt	**1,954,711**	1,772,630
Common shares outstanding – end of period	**207,347**	188,041

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's network of interconnected gas plants, pipelines and facilities, as well as our marketing services, continued to generate impressive results in the second quarter of 2018. Adjusted EBITDA was $210 million, representing an increase of 58% from the same quarter last year, while distributable cash flow was $156 million, or $0.75 per share, increasing 32% on a per share basis over the second quarter of 2017. Net earnings were $107 million compared to $67 million recorded in the same quarter last year.

Our results reflect the strength of our integrated business model and contributions from our growth capital program. During the quarter, we announced a number of capital investments to advance both our liquids-rich Montney strategy and our U.S. strategy focused on major liquids hubs. In 2018 we expect to invest between $1.0 billion and $1.1 billion in growth capital, including the acquisition of the South Grand Rapids diluent pipeline. With a disciplined strategy, strategically located assets and a strong balance sheet, Keyera is well positioned to continue to create shareholder value.

Gathering and Processing Business Unit

In the Gathering and Processing business unit, operating margin for the second quarter of 2018 was $64 million, slightly below the $67 million reported in the same period of 2017, as scheduled maintenance turnarounds and weak natural gas prices reduced throughput volumes at certain facilities.

Overall, our gross processing throughput volumes remain stable as producers remain active in areas rich in natural gas liquids. At our Simonette plant, in particular, we have set a new quarterly record for throughput volumes as producers continue to develop the liquids-rich Montney geological zone. To meet the growing needs of producers, we are expanding the processing capacity of our Simonette plant by 150 million cubic feet per day to 450 million cubic feet per day. The expansion is expected to be completed by the fourth quarter of 2019 for approximately $85 million, making Simonette Keyera's largest gas plant.

To build out our footprint in the liquids-rich Montney regions of northwestern Alberta, we continue to progress the development of our Wapiti plant and the North Wapiti Pipeline System. Construction is well underway on phase one of the plant that will deliver 150 million cubic feet per day of gas processing capacity. Both projects are expected to be completed in mid-2019. We are also pleased to have approved the second phase of the Wapiti plant, which will add another 150 million cubic feet per day of gas processing capacity. Phase two is being developed in connection with the development plans of our two major customers in the area and is expected to be completed in mid-2020. In total, the Wapiti plant will provide 300 million cubic feet per day of sour gas processing capacity and 25,000 barrels per day of condensate handling facilities for an estimated capital cost of $705 million. In addition, we have finalized the water disposal solution to provide a full suite of services for area producers.

To further advance our liquids-rich Montney strategy, in April we announced a significant infrastructure development with Encana to support its condensate focused Montney development in the Pipestone area. In a joint effort, Keyera and Encana will develop a liquids hub and a natural gas processing and liquids stabilization plant. Keyera will own the infrastructure and receive processing fees from Encana under a long-term fee-for-service arrangement. The 14,000 barrels per day liquids hub is expected to start up in the fourth quarter of 2018, while the Pipestone plant is scheduled for completion in 2021, assuming timely receipt of regulatory approvals. The plant will provide 200 million cubic feet per day of sour gas processing capacity and an additional 24,000 barrels per day of condensate handling facilities for an estimated capital cost of between $500 million and $600 million.

We are pleased to be proceeding with these plans at our Simonette, Wapiti and Pipestone plants. When completed, these three plants will provide 950 million cubic feet per day of sour gas processing capacity and 90,000 barrels per day of condensate handling facilities in one of the most attractive geological developments in the Western Canada Sedimentary Basin.

Liquids Business Unit – Liquids Infrastructure Segment

The Liquids Infrastructure segment generated operating margin of $77 million in the second quarter of 2018, which represents a 14% increase over the same period in the prior year. This was primarily due to incremental margin from the startup of the Norlite diluent pipeline in mid-2017 and the initial tanks of the Base Line Terminal earlier this year. Both projects are backed by long-term take-or-pay contracts, providing Keyera with stable fee-for-service cash flows.

During the quarter, we announced two new terminals to advance our investment strategy in the United States, where we are selectively extending our liquids infrastructure into major liquids hubs. At Cushing, Oklahoma Keyera is constructing the Wildhorse Terminal ("Wildhorse"), a crude oil storage and blending facility with 4.5 million barrels of working storage capacity once completed. The terminal will provide significant opportunities to capture marketing margins through the use of our blending, logistics and commercial expertise while being backed by fee-for-service storage contracts. An affiliate of Lama Energy Group is a 10% owner in the project and has the option to increase its ownership to up to 30% by the end of 2018. Keyera will operate Wildhorse once it is in service, which is expected by mid-2020.

In June, we acquired the Oklahoma Liquids Terminal, which receives, blends and delivers diluent by pipeline from the Mont Belvieu area to the Chicago area and ultimately into the Alberta market. This terminal also leverages our blending, logistics and commercial expertise to provide significant opportunities to capture marketing margins. The terminal is situated approximately 50 miles from our Wildhorse development, providing opportunities for operational and commercial synergies. These assets, along with our Hull Terminal, provide Keyera the foundation to execute a strategy in the U.S. that is consistent with our proven strategy in Canada.

Liquids Business Unit – Marketing Segment

The Marketing segment reported impressive quarterly results with an operating margin of $74 million compared to $21 million in the same quarter of 2017. Excluding the effect of unrealized gains and losses from risk management contracts, the realized margin was $90 million compared to $23 million in the second quarter of last year. During the quarter, our iso-octane business benefited from higher sales volumes with AEF operating above name plate capacity, compared to 82% in the same period last year due to an unplanned outage. We also generated strong premiums on iso-octane sales due to short-term demand. Our condensate and liquids blending businesses were strong contributors to the quarter as well.

Outlook

Keyera continues to serve our customers' needs while growing cash flows. Since the beginning of the year, we have completed a number of projects, including the first six tanks at the Base Line Terminal, the Keylink and Hull NGL pipeline systems, enhancements at our Simonette plant and the acquisition of the Oklahoma Liquids Terminal. Looking forward, we have a significant capital program underway that will continue to add new cash flows and is aligned with our strategy. Projects such as the Keylink NGL gathering system and the South Grand Rapids diluent pipeline continue to enhance the connectivity of our infrastructure. Our development plans at the Simonette, Wapiti and Pipestone plants are increasing our presence in the liquids-rich Montney and Duvernay, while our Hull, Wildhorse and Oklahoma Liquids terminals are providing the foundation to build a business in the U.S. focused on major liquids hubs. We believe investments in these three strategic areas will continue to grow our business and deliver long-term shareholder value.

Given the strength of the business, we are increasing our monthly dividend 7% to $0.15 per share, or $1.80 per share annually. This extends Keyera's track record of consistent dividend increases since going public in 2003 and shows our commitment to providing shareholders with stable long-term dividend growth

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 August 8, 2018, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera for the three and six months ended June 30, 2018, and the notes thereto as well as the audited consolidated financial statements of Keyera for the year ended December 31, 2017, 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 an integrated Canadian-based midstream business with extensive interconnected assets and depth of expertise in delivering midstream energy solutions. Midstream entities operate in the oil and gas industry between the upstream sector, which includes oil and gas exploration and production, and the downstream sector, which includes the refining and marketing of finished products. Keyera is organized into two integrated business units:

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

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 its 50% ownership interest in the Base Line Terminal, a crude oil storage facility.

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

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the three and six months ended June 30, 2018 and 2017:

(Thousands of Canadian dollars, except per share data)	**Three months ended June 30, 2018**	2017	**Six months ended June 30, 2018**	2017
Net earnings	**106,773**	67,062	**194,488**	163,404
Net earnings per share (basic)	**0.52**	0.36	**0.94**	0.87
Operating margin	**217,495**	159,796	**439,908**	364,218
Realized margin[1]	**233,767**	161,398	**447,637**	330,849
Adjusted EBITDA[2]	**209,906**	133,234	**399,269**	281,439
Cash flow from operating activities	**100,926**	1,769	**289,315**	220,390
Distributable cash flow[3]	**155,781**	107,569	**310,683**	228,251
Distributable cash flow per share[3] (basic)	**0.75**	0.57	**1.51**	1.22
Dividends declared	**86,882**	77,400	**173,187**	151,525
Dividends declared per share	**0.42**	0.41	**0.84**	0.81
Payout ratio[4]	**56%**	72%	**56%**	66%

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. Realized margin is the same as operating margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure).

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 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 overall financial results in the second quarter of 2018 as all operating segments performed well despite weak gas prices and the completion of three scheduled turnarounds in the Gathering and Processing segment.

Net Earnings

For the three and six months ended June 30, 2018, net earnings were $107 million and $194 million, $40 million and $31 million higher than the same periods in 2017 primarily due to significantly higher operating margin for the respective periods. The effect of higher operating margin recorded in 2018 was partly offset by the following non-cash charges:

- higher depreciation charges in 2018 due to the increase in Keyera's asset base, including the Norlite pipeline and Base Line Terminal; and

- for the three and six months ended June 30, 2018, a net foreign currency loss on U.S. debt of virtually nil and $8 million. This is compared to a net foreign currency gain of $9 million for the three and six months ended June 30, 2017.

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

Operating Margin and Realized Margin

For the three and six months ended June 30, 2018, operating margin was $217 million and $440 million, $58 million and $76 million higher than the same periods in 2017 due to the stronger financial results from the Marketing and Liquids Infrastructure segments. For the three and six months ended June 30, 2018, operating margin included unrealized non-cash losses of $16 million and $8 million associated with risk management contracts from the Marketing segment. This is compared to a non-cash loss of $2 million and a gain of $33 million recorded in the same periods of 2017.

Realized margin (excluding the effect of unrealized gains and losses from risk management contracts in the Marketing business) was $234 million for the three months ended June 30, 2018, $72 million higher than the same period in 2017 due to the following factors:

- $48 million in higher iso-octane margins as sales volumes were approximately 75% higher in the second quarter of 2018 compared to the same quarter in 2017. Sales volumes were unusually low in the second quarter of 2017 as a result of the nine-week outage at AEF that extended into the third week of April. In addition, a higher proportion of sales were made in 2018 that attracted significantly higher premiums for iso-octane to meet short-term demand;

- higher margins from the sale of condensate and from Keyera's liquids blending business; and

- approximately $12 million in higher margin associated with the overall growth in demand for Keyera's condensate network including incremental margin from the Norlite pipeline that commenced operation in mid-2017 and the Base Line Terminal that commenced partial operation in mid-January.

The strong second quarter 2018 financial results were achieved despite weak gas prices and the completion of three scheduled turnarounds in the quarter that contributed to lower throughput volumes at certain facilities in the Gathering and Processing segment.

Realized margin for the first six months of 2018 was $448 million, $117 million higher than the same period in 2017 due to the following:

- $92 million in higher realized margin from the Marketing segment that primarily resulted from the same factors that contributed to the higher second quarter results. In addition, iso-octane margins in the first quarter of 2018 included insurance proceeds of $5 million. The insurance proceeds were an initial payment related to the recovery of repair costs associated with the unplanned maintenance outage at AEF in the first half of 2017. By comparison, iso-octane margins in the first half of 2017 included an $8 million charge for this unplanned repair work.

- $28 million in higher realized margin from recent investments including the Norlite pipeline and the Base Line Terminal as well as from the overall growth in demand for Keyera's condensate network including transportation and storage services in the Edmonton/Fort Saskatchewan area.

The overall financial results from the Gathering and Processing segment were stable in 2018 compared to the prior year as the financial effect of achieving record processing throughput at the Simonette gas plant was substantially offset by lower throughput volumes and operating margin at certain other facilities, including the Rimbey, Minnehik Buck Lake and West Pembina gas plants.

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

Cash Flow Metrics

Cash flow metrics were also strong in the second quarter of 2018 as a direct result of the robust financial results in the quarter, particularly in the Marketing and Liquids Infrastructure operating segments as described above. Cash flow from operating activities for the three and six months ended June 30, 2018 was $101 million and $289 million, $99 million and $69 million higher than the same periods in 2017. Distributable cash flow for the three and six months ended June 30, 2018 was $156 million and $311 million, $48 million and $82 million higher compared to the same periods in 2017.

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.

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 and six months ended June 30, 2018 and 2017 are reported in note 16, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 18 active gas plants in western Canada and is operator of 16 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 June 30,** 2018	2017	**Six months ended June 30,** 2018	2017
Revenue[1]	**107,988**	116,689	**215,342**	229,416
Operating expenses[1]	**(43,991)**	(49,943)	**(80,532)**	(96,271)
Unrealized (loss) gain on electricity and other financial contracts	**(96)**	76	**(362)**	14
Total operating expenses	**(44,087)**	(49,867)	**(80,894)**	(96,257)
Operating margin	**63,901**	66,822	**134,448**	133,159
Gross processing throughput – (MMcf/d)	**1,532**	1,441	**1,559**	1,426
Net processing throughput[2] – (MMcf/d)	**1,175**	1,130	**1,206**	1,119

Notes:

1 Includes inter-segment transactions.

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 operating margin of $64 million in the second quarter of 2018, $3 million lower than the same period in 2017 due to the following:

- lower processing throughput at the Strachan and Nevis gas plants resulting from planned turnarounds that were completed over two and three week periods, respectively; and

- lower processing throughput at the Rimbey, Minnehik Buck Lake, and West Pembina gas plants due to natural production declines and weak natural gas prices that caused some producers to shut-in production during the quarter.

The above factors, on a combined basis, reduced operating margin by $7 million in the second quarter of 2018 compared to the same period in 2017.

These factors were partly offset by $5 million of incremental operating margin from the Simonette gas plant as new well tie-ins from the liquids rich Montney geological zone resulted in the facility setting a new record for average processing throughput in the quarter. Incremental revenues were also generated from the new liquids handling expansion at Simonette that became operational in early May.

Operating margin for the six months ended June 30, 2018 was $134 million, slightly higher than the same period in 2017. The higher operating margin was largely due to:

- record processing throughput and incremental liquids handling revenues at the Simonette gas plant as described above; and

- higher year-to-date processing volumes at the Strachan gas plant despite completing a turnaround at the facility in the second quarter of 2018.

These positive factors were partly offset by:

- lower processing volumes at certain facilities as described for the second quarter results; and

- reduced ethane sales volumes and associated fees at the Rimbey gas plant in the first quarter of 2018. The petrochemical company that purchases ethane under a long-term commercial arrangement continued to curtail the receipt of sales volumes throughout the first six months of 2018.

Gathering and Processing revenues for the three and six months ended June 30, 2018 were $108 million and $215 million, $9 million and $14 million lower than the same periods in 2017, respectively. The lower revenues were due to the same factors that affected operating margin but were further reduced by lower ethane prices at the Rimbey facility. Ethane sales are generally based on index pricing and can significantly influence revenues; however, the impact to operating margin is negligible as ethane purchases from producers are also based on index pricing.

Gathering and Processing Activity

Gross processing throughput for the Gathering and Processing segment averaged 1,532 million cubic feet per day in the second quarter of 2018, an increase of 6% compared to the same period in 2017. This increase was largely due to the volume growth at both the Simonette and Alder Flats gas plants that more than offset the impact of plant turnarounds and volume declines at some facilities in the second quarter of 2018. The volume growth at the Simonette gas plant, which set a new record for average processing throughput in the quarter, is directly related to the significant growth in producer activity in the liquids-rich Montney geological zone.

Although throughput at the Alder Flats gas plant increased as a result of completing the phase two expansion in early May, there was minimal incremental operating margin recorded in the quarter. This is because Keyera began recording take-or-pay revenue associated with this incremental capacity upon acquiring the additional 35% ownership interest in the gas plant in 2016.

As the Montney geological zone in northwestern Alberta continues to be a focus area for producers, Keyera announced its plans to proceed with the second phase of the Wapiti gas plant which will add 150 million cubic feet per day of sour gas processing capacity to the facility. Compared to the initial plan, Keyera is also expanding the Wapiti gathering system and the North Wapiti Pipeline System that will deliver volumes to the plant, as well as adding incremental compression to both pipeline systems. The increase in scope for the gathering systems was required to meet the volume commitments of the two primary customers utilizing these systems, Paramount Resources Ltd. ("Paramount") and Pipestone Oil Corp. ("POC").

To further support producers at the Wapiti gas plant, Keyera will also be proceeding with the development of a water disposal system that includes high pressure injection pumps and pipeline connectivity for up to three water disposal wells. This system will be capable of disposing up to 30,000 barrels per day of produced water from the Wapiti gas plant. The water disposal system is estimated to cost approximately $100 million and to be operational with the start-up of phase one of the Wapiti gas plant, assuming regulatory approvals are received and construction proceeds as planned.

The capital investments in the Wapiti gathering systems, additional compression and water disposal system will generate incremental revenue under the existing agreements with Paramount and POC, both of which include take-or-pay commitments. Refer to the table below, "Gathering and Processing – Capital Projects Status Update", for more information related to the cost estimates and timing for completion of these projects.

In addition to the second phase of the Wapiti gas plant, two other significant capital projects that will service producers in the Montney region were announced in the second quarter of 2018; i) development of the Pipestone plant and liquids hub; and ii) expansion of the Simonette gas plant.

The Pipestone plant and liquids hub project was acquired by Keyera with the signing of a 20-year infrastructure development and midstream service agreement with Encana in April. This project will support Encana's condensate focused Montney development in the Pipestone area near Grande Prairie, Alberta. In a joint effort, Keyera and Encana will develop a liquids hub and a natural gas processing and condensate stabilization plant. Under the terms of the agreement, Keyera will own the Pipestone project and receive processing fees from Encana under a long-term fee-for-service arrangement with a modest revenue guarantee. The agreement also includes an area dedication that allows Encana to use its existing processing facilities in the area up to a defined limit. While the liquids hub is under construction, the plant remains subject to regulatory approval.

The Pipestone plant will be designed to accommodate a future capacity expansion of up to an additional 200 million cubic feet per day of sour gas processing and associated condensate stabilization. This second phase would allow Keyera to process gas from other producers in the area and support future growth from Encana. Keyera has begun discussions with producers in the area for additional volume commitments that would fill third party capacity available in the first phase and support a future second phase. Refer to the table below, "Gathering and Processing – Capital Projects Status Update", for more information related to the estimated costs and timing for completion of these projects.

In May 2018, Keyera approved an expansion to the Simonette gas plant which is expected to create an additional 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day. By enhancing the facility's processing capabilities, Keyera will be able to accommodate volume commitment requests from existing producers which currently exceed the plant's capacity. Refer to the table below, "Gathering and Processing – Capital Projects Status Update", for more information related to the estimated costs and timing for completion of these projects.

In an effort to increase efficiencies and reduce costs at the Strachan gas plant, the facility's sour gas processing equipment was shut down during the second quarter, as the volume of sour gas throughput has significantly declined in recent years. These activities and additional plant modifications were substantially complete in the second quarter, at a cost of $2 million, in the lead up to the facility's maintenance turnaround. The maintenance turnaround of the Strachan gas plant was completed in June at a total cost of $8 million. The duration of the scheduled plant outage was 14 days as originally planned.

The impact of the Strachan plant outage on some producers was partly alleviated with the acquisition of a newly constructed 10-inch sweet gas gathering pipeline that connects Keyera's Strachan gas plant to its Ricinus gas plant. The addition of this pipeline connection provides area producers who are actively drilling in the liquids-rich Glauconite geological zone with added flexibility, efficiency and a low cost processing solution. This pipeline also brings the Ricinus gas plant into Keyera's network of interconnected gas plants in West Central Alberta. The pipeline was acquired for $11 million in the second quarter of 2018 and Keyera incurred an additional $2 million to construct the required facility tie-ins.

In addition to the Strachan gas plant, maintenance turnarounds were also completed at the Nevis and Brazeau North gas plants during the second quarter of 2018. The combined cost of all three maintenance turnarounds completed in the second quarter totaled $16 million. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangements at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

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

Gathering and Processing – Capital Projects Status Update		
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 new pipeline connection from Keyera's Simonette gas plant to the Peace pipeline system's custody transfer point. This connection provides Keyera's customers with the flexibility to transport greater volumes of NGL mix and condensate by pipeline.	The connection to the Peace pipeline system's custody transfer point was completed in the third quarter of 2017. The storage, truck loading and stabilization facilities were completed and commenced operations in early May. *Cost to complete:* • approximately $93 million, $7 million lower than the original estimate *Total net costs to June 30, 2018:* • $7 million and $28 million for the three and six months ended June 30, 2018 • $90 million since inception
Simonette	***Simonette Acid Gas Injection and Inlet Liquids Separation Facilities:*** The following major assets will be constructed with this project: i) Acid gas injection facilities including surface facilities at the plant and well site, and a pipeline connecting the facilities to a disposal well. ii) Inlet liquids separation facilities consisting of multiple pressure vessels to accommodate the high volumes of liquids rich gas coming into the Simonette gas plant. iii) Flare system to accommodate the various growth projects at the Simonette gas plant.	Detailed engineering work and procurement of long-lead equipment and materials continued throughout the second quarter on the acid gas injection and inlet liquids separation facilities. Engineering work on the flare system commenced in the second quarter of 2018. The project is expected to be operational in the third quarter of 2019. *Estimated total cost to complete:* • approximately $100 million *Total net costs to June 30, 2018:* • $3 million and $6 million for the three and six months ended June 30, 2018 • $9 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Simonette	***Simonette Expansion Project:*** The expansion project will create an additional 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day.	Detailed design and engineering work as well as procurement activities on long-lead equipment commenced in the second quarter. The project is expected to be complete by the fourth quarter of 2019. *Estimated total cost to complete:* • approximately $85 million *Total net costs to June 30, 2018:* • $2 million for the three and six months ended June 30, 2018 • $2 million since inception
Wapiti	***Wapiti Gas Plant (Phase One):*** Phase one includes the construction of a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system and field compressor stations.	Detailed engineering was substantially complete at the end of the second quarter of 2018. Major equipment is currently being placed at site with mechanical and electrical work commencing. Phase one is expected to be complete by mid-2019. *Estimated total cost to complete:* • approximately $470 million *Total net costs to June 30, 2018:* • $77 million and $175 million for the three and six months ended June 30, 2018 • $349 million since inception (including $19 million in 2016 to acquire the project and acid gas injection well)

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Wapiti	***Wapiti Gas Plant (Phase Two):*** Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant and includes an expansion of the Wapiti gathering system.	Engineering work commenced at the end of the second quarter of 2018. Phase two of the Wapiti gas plant is expected to be complete by mid-2020. *Estimated total cost to complete:* • approximately $235 million for phase two of the gas plant and expansion of the Wapiti gathering system *Total net costs to June 30, 2018:* • $nil for the three and six months ended June 30, 2018 • $nil since inception
Wapiti	***North Wapiti Pipeline System:*** The pipeline system extends the capture area of Keyera's Wapiti gas plant and includes a 12-inch sour gas gathering pipeline, an 8-inch condensate and water pipeline, and a compressor station. In connection with the announcement of the second phase of the Wapiti gas plant, additional compression will be added to the pipeline system increasing the total cost of the pipeline by $40 million to $160 million.	Engineering work for the compressor station and route selection work was completed in the second quarter of 2018. Procurement activities for long-lead equipment has commenced. The pipeline system is expected to be in service in the second half of 2019. *Estimated total cost to complete:* • approximately $160 million *Total net costs to June 30, 2018:* • $15 million and $16 million for the three and six months ended June 30, 2018 • $16 million since inception
Wapiti	***Water Disposal System:*** Includes installation of high pressure injection pumps and pipeline connectivity for up to three water disposal wells that are capable of disposing up to 30,000 barrels per day of water from the Wapiti gas plant.	The first disposal well has been drilled and successfully tested. The remaining wells are expected to be drilled in 2019 and 2020. *Estimated total cost to complete:* • approximately $100 million *Total net costs to June 30, 2018:* • $19 million and $27 million for the three and six months ended June 30, 2018 • $27 million since inception (includes $10 million for acquired land)

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Pipestone	***Pipestone Gas Plant:*** The Pipestone plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, 24,000 barrels per day of condensate processing capacity and associated water disposal facilities.	Engineering work commenced and regulatory submissions were made in the second quarter of 2018. The Pipestone plant is expected to be operational in 2021. *Estimated total cost to complete:* • preliminary estimates are between $500 million to $600 million *Total net costs to June 30, 2018:* • $8 million for the three and six months ended June 30, 2018 (including $5 million to acquire the project) • $8 million since inception
Pipestone	***Pipestone Liquids Hub:*** The Pipestone liquids hub will have condensate processing capacity of 14,000 barrels per day.	Construction of the Pipestone liquids hub was underway at the time of the project's acquisition. Tanks have been installed and tie-in of equipment continues to progress. The Pipestone liquids hub is expected to be operational in the fourth quarter of 2018. *Estimated total cost to complete:* • approximately $105 million *Total net costs to June 30, 2018:* • $66 million for the three and six months ended June 30, 2018 (including $34 million to acquire the project) • $66 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. Outstanding regulatory approvals for the projects discussed above include: the expansion, acid gas injection, and inlet separation facilities at the Simonette gas plant; the North Wapiti Pipeline System; the Wapiti gathering pipeline system; the Wapiti water disposal system; and the Pipestone gas plant. A delay in receipt of these approvals would cause a delay in on stream dates. The Simonette projects fall under Keyera's play-based regulatory approval framework and therefore no delays are anticipated with the approvals. The other projects will follow regular regulatory processes with the primary approvals to come through the AER. A portion of the costs incurred for completed and ongoing projects are based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, “Forward-Looking Statements”, provides more information on factors that could affect the development of these projects.

Liquids Infrastructure

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

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

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Revenue[1]	**115,880**	99,398	**225,356**	200,425
Operating expenses[1]	**(38,883)**	(33,381)	**(67,172)**	(69,833)
Unrealized (loss) gain on electricity financial contracts	**(426)**	1,056	**190**	1,056
Total operating expenses	**(39,309)**	(32,325)	**(66,982)**	(68,777)
Operating margin	**76,571**	67,073	**158,374**	131,648

Note:
[1] Includes inter-segment transactions.

Operating Margin and Revenues

For the second quarter of 2018, the Liquids Infrastructure segment posted strong financial results once again. For the three and six months ended June 30, 2018, operating margin was $77 million and $158 million, an increase of $10 million or 14% and $27 million or 20% compared to the same periods in 2017 which was due to the following:

- approximately $12 million and $28 million in higher operating margin for the respective periods associated with: i) the overall growth in demand for Keyera's condensate network including transportation and storage services as well as incremental revenue from the Norlite pipeline that commenced operation in mid-2017; and ii) incremental operating margin from the Base Line Terminal that commenced partial operation in mid-January 2018.

Operating margin in the second quarter of 2018 was approximately $5 million lower than the first quarter of 2018 largely because of lower fractionation margin that stemmed from: i) reduced fractionation volumes due to a routine maintenance outage in May at Keyera's Fort Saskatchewan facility; and ii) a reduction in average fractionation fees effective with the new contract year that began on April 1, 2018.

Liquids Infrastructure revenues for the three and six months ended June 30, 2018 were $16 million and $25 million higher than the same period in 2017 due to the same factors that contributed to higher operating margin as described above.

Liquids Infrastructure Activity

In May, Keyera announced two new investments in the United States, the Wildhorse Terminal and the Oklahoma Liquids Terminal, that expand Keyera's presence and midstream infrastructure into key U.S. liquids hubs. These strategic investments also provide significant commercial opportunities for Keyera's Marketing segment.

The Wildhorse Terminal ("Wildhorse") project includes the development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. The majority of the capacity is backed by fee-for-service, take-or-pay storage arrangements ranging from two to six years in length. Upon completion, Wildhorse will initially be pipeline connected to two other existing storage terminals in Cushing. With these connections in place, Wildhorse customers will have access to the majority of crude oil streams flowing in and out of Cushing on several major pipeline networks. An affiliate of Lama Energy Group ("LEG") will own 10% of the project with an option to increase its ownership to up to 30% by the end of 2018. See the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to this project.

In mid-June, Keyera acquired a logistics and liquids blending terminal, referred to as the Oklahoma Liquids Terminal, located near Tulsa, Oklahoma, for US$83 million (including inventory and purchase price adjustments) plus up to US$10 million in additional consideration over the next five years. The terminal receives, blends and delivers diluent, the majority of which is transported by pipeline from the Mont Belvieu area to the Chicago area and ultimately into the Alberta market. The Oklahoma Liquids Terminal is operated by the Liquids Infrastructure segment and provides the logistical and blending services to Keyera's Marketing segment for a fee. The majority of cash flows generated from this investment are recorded in the Marketing segment.

The demand for condensate, which is used as a diluent by bitumen producers, has continued to grow in Alberta. Accordingly, demand for Keyera's diluent handling services continues to grow and also provides for increased commercial opportunities within the Marketing segment. The volume of condensate delivered through Keyera's condensate system to the oil sands grew by 35% in the first half of 2018 compared to the same period last year.

Keyera operates an industry-leading condensate hub in Western Canada, with multiple receipt points including the Kinder Morgan Cochin pipeline and Enbridge's Southern Lights pipeline and CRW pool. In early 2018, Keyera completed construction of a pipeline connection to Pembina Pipeline's Canadian Diluent Hub which added another receipt point into Keyera's Fort Saskatchewan Condensate System. Keyera has long-term, take-or-pay arrangements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and Canadian Natural Resources Limited. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area.

Utilization of the two fractionation units at Keyera's Fort Saskatchewan facility averaged slightly above its nameplate capacity in the first and second quarters of 2018. This is compared to utilization of approximately 76% and 83% in the first and second quarters of 2017. Overall fractionation revenue in the second quarter of 2018 was modestly lower relative to the prior year due to lower average fractionation fees that more than offset the higher volumes. Keyera expects overall fractionation volumes for the 2018 contract year (April 1, 2018 to March 31, 2019) to be similar to the prior year, assuming customers deliver volumes in line with their forecasts. Fractionation fees, on average, continue to be under pressure for the remainder of 2018 due to the excess fractionation capacity currently existing in Alberta.

Early in the second quarter, two pipeline projects were completed: i) the Keylink pipeline; and ii) the Hull Terminal pipeline. The Keylink pipeline transports NGL mix from eight Keyera gas plants to the Rimbey gas plant for fractionation into specification products, with the option to transport NGL mix to Keyera's Fort Saskatchewan fractionation complex. This new pipeline system provides producers with an integrated service offering and an economically improved alternative to trucking NGL volumes. An additional pipeline segment that connects a producer-owned gas plant to Keylink was completed at the end of July.

The Hull Terminal pipeline system is a 6-inch pipeline that originates near ExxonMobil's petrochemical facility in Beaumont, extends through Keyera's Hull Terminal and ends at Mont Belvieu, Texas, North America's largest NGL hub. The pipeline allows Keyera to transport NGLs (NGL mix and specification products) in and out of the Mont Belvieu area, and provides commercial opportunities for Keyera's Marketing segment in the U.S. In the second quarter of 2018, Keyera commenced delivering Western Canadian propane to its Hull Terminal in order to access higher value markets in Mont Belvieu. Refer to the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to the Keylink pipeline and the Hull Terminal pipeline system.

The AEF facility is operated by the Liquids Infrastructure segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. Iso-octane production averaged approximately 97% of AEF's capacity in the first quarter of 2018 and averaged above its nameplate capacity in the second quarter of 2018. Comparatively, AEF operated at an average of 57% and 82% of its capacity during the first and second quarters of 2017 due to a nine-week unplanned outage that commenced in February.

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:

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
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 is the operator.	The first four storage tanks were put into service in mid-January, followed by the next two tanks in mid-March. Four of the remaining tanks are expected to be placed into service in the third quarter of 2018 with the final two tanks in service in the fourth quarter. *Estimated total cost to complete:* • gross cost is approximately $660 million • Keyera's net share of costs is approximately $330 million *Total net costs to June 30, 2018:* • $16 million and $41 million for the three and six months ended June 30, 2018 • $288 million since inception
Fort Saskatchewan	***Underground Storage Development:*** Development of three additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	The 15th cavern was put into service in early May 2018. Washing of the 16th and 17th caverns continued in the second quarter of 2018. The caverns are expected to be in service in the first half of 2020 and first half of 2021, respectively. *Estimated total cost to complete:* • gross cost is approximately $125 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment • Keyera's net share is approximately $95 million *Total net costs to June 30, 2018:* • $7 million and $15 million for the three and six months ended June 30, 2018 • $72 million since inception

<table>
<tr><th colspan="3">Liquids Infrastructure – Capital Projects Status Update</th></tr>
<tr><th>Facility/Area</th><th>Project Description</th><th>Project Status Update</th></tr>
<tr><td>Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)</td><td>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 PetroChina Canada. 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 constructed 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 they initiate diluent movements on the pipeline.</td><td>Construction of the pump station was completed in the third quarter of 2017.

The pipeline is expected to be in service in September 2018.

Estimated total cost to complete:
• gross cost is approximately $220 million for the pipeline, $20 million lower than originally forecast, and $40 million for construction of the pump station
• Keyera’s 50% share is $110 million for acquisition of the pipeline and $20 million for the pump station for a total combined net cost of approximately $130 million

The costs below represent 100% of the cost of construction incurred to date for the pumps.

Total net costs to June 30, 2018:
• $nil for the three and six months ended June 30, 2018
• $38 million since inception</td></tr>
<tr><td>Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)</td><td>Wildhorse Terminal (“Wildhorse”): Development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. Wildhorse will initially be pipeline connected to two existing storage terminals in Cushing.

An affiliate of Lama Energy Group will own 10% of the project with an option to increase its ownership to up to 30% by the end of 2018.</td><td>The terminal is expected to be operational by mid-2020.

Estimated total cost to complete:
• gross cost is approximately US$205 million
• Keyera’s net share of costs is approximately US$185 million

Total net costs to June 30, 2018:
• $43 million for the three and six months ended June 30, 2018
• $48 million since inception</td></tr>
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<table>
<tr><th colspan="3">Liquids Infrastructure – Capital Projects Status Update</th></tr>
<tr><th>Facility/Area</th><th>Project Description</th><th>Project Status Update</th></tr>
<tr><td>Hull Terminal</td><td>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 consisted 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).</td><td>The Hull Terminal Pipeline System was completed in April 2018.

Estimated total cost to complete:
• approximately $26 million

Total net costs to June 30, 2018:
• $3 million and $11 million for the three and six months ended June 30, 2018

• $23 million since inception</td></tr>
<tr><td>West Central Alberta</td><td>Keylink Pipeline: The project consisted of over 240 kilometres of newly constructed and repurposed existing pipelines that transport NGL mix from eight Keyera gas plants to the Rimbey gas plant for fractionation into specification products. The project also includes a pipeline connection to a third party gas plant.</td><td>The pipeline became operational in April 2018.

Estimated total cost to complete:
• approximately $130 million, $20 million lower than forecast

Total net costs to June 30, 2018:
• $8 million and $57 million for the three and six months ended June 30, 2018

• $111 million since inception</td></tr>
</table>

Estimated costs and completion times for the projects currently under development that are discussed above assume that construction proceeds as planned, that actual costs are in line with estimates and, where required, that regulatory approvals and any other third-party approvals or consents are received on a timely basis. With respect to regulatory approvals for underground storage caverns at KFS, the authorization to put the wells into service is applied for after the cavern has been washed. There are no material regulatory approvals outstanding on the other projects listed as most are complete or nearing completion. A portion of the costs incurred for completed and ongoing projects are based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, “Forward-Looking Statements”, provides more information on factors that could affect the development of these projects.

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

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

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

Keyera also engages in liquids blending (previously referred to as crude oil midstream activities), where it operates facilities at various locations, including the newly acquired Oklahoma Liquids Terminal, allowing it to transport, process and blend various product streams. Margins are earned by blending products of lower value into higher value products. As a result, these transactions are exposed to variability in price and quality differentials between various product streams. Keyera manages this risk by balancing its purchases and sales and 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 (Thousands of Canadian dollars, except for sales volume information)	**Three months ended June 30,** **2018**	2017	**Six months ended June 30,** **2018**	2017
Revenue[1]	**927,554**	627,651	**1,858,648**	1,326,694
Operating expenses[1]	**(853,417)**	(606,618)	**(1,718,659)**	(1,237,226)
Operating margin	**74,137**	21,033	**139,989**	89,468
Unrealized loss (gain) on risk management contracts	**16,272**	1,602	**7,729**	(33,369)
Realized margin	**90,409**	22,635	**147,718**	56,099
Sales volumes (Bbl/d)	**134,600**	127,900	**147,700**	134,200

Note:
[1] Includes inter-segment transactions.

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

Composition of Marketing Revenue (Thousands of Canadian dollars)	**Three months ended June 30,** **2018**	2017	**Six months ended June 30,** **2018**	2017
Physical sales	**961,329**	617,722	**1,895,374**	1,290,922
Realized cash (loss) gain on financial contracts[1]	**(17,503)**	11,531	**(28,997)**	2,403
Unrealized gain (loss) due to reversal of financial contracts existing at end of prior period	**19,194**	(7,030)	**27,599**	27,902
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	**(35,786)**	5,453	**(35,786)**	5,453
Unrealized gain (loss) from fixed price physical contracts[2]	**320**	(25)	**458**	14
Total unrealized (loss) gain on risk management contracts	**(16,272)**	(1,602)	**(7,729)**	33,369
Total (loss) gain on risk management contracts	**(33,775)**	9,929	**(36,726)**	35,772
Total Marketing revenue	**927,554**	627,651	**1,858,648**	1,326,694

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

Revenue, Operating and Realized Margin

For the quarter ended June 30, 2018, the Marketing segment posted record financial results on a realized margin basis largely due to exceptional margins from the sale of iso-octane in the quarter. Operating margin was $74 million for the quarter or $53 million higher than the same period in 2017 due to higher realized margin as described below, partly offset by the inclusion of a $16 million non-cash unrealized loss related to risk management contracts.

Realized margin (excluding the effect of non-cash unrealized gains and losses from risk management contracts) was $90 million in the second quarter of 2018, $68 million higher than the same period in 2017 primarily due to:

- $48 million in higher iso-octane margins that resulted from:
  - i) approximately 75% in increased sales volumes as AEF operated on average above its nameplate capacity in the second quarter of 2018. This is compared to operating at 82% of capacity in the same period of 2017 due to an unscheduled outage at AEF that extended into the third week of April; and
  - ii) approximately 25% of total sales volumes in the second quarter of 2018 that attracted significantly higher premiums for iso-octane to meet short-term demand.
- higher condensate margins associated with increased volumes moving through Keyera's condensate system to meet the growing needs of oil sands producers; and
- higher margins from Keyera's liquids blending business because of higher volumes and prices for crude oil and condensate relative to other NGLs.

On a year-to-date basis, operating margin was $140 million in 2018, $51 million higher than the first six months of 2017 because of higher realized margin partly offset by the inclusion of a $33 million non-cash unrealized gain on risk management contracts in the 2017 results.

Realized margin was $148 million for the first six months of 2018, $92 million higher than the same period in 2017 due to the same factors that contributed to the higher second quarter results. In addition, iso-octane margins in the first quarter of 2018 included the receipt of initial insurance proceeds of $5 million related to the recovery of a portion of the repair costs at AEF in 2017. By comparison, the first half of 2017 financial results included an $8 million charge related to this unplanned repair work.

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the three and six months ended June 30, 2018, revenue from physical sales was $344 million and $604 million higher than the same periods in 2017 due to higher average sales prices and higher sales volumes for substantially all products.

Market Overview

Iso-octane margins for the second quarter of 2018 were strong as demand for iso-octane typically increases in the spring and summer months as driving activity and gasoline demand increase, which generally translates into premium pricing for gasoline and iso-octane. The second quarter of 2018 was a record quarter for iso-octane margins because of strong sales volumes, approximately 75% and 25% higher than the second quarters of 2017 and 2016 respectively. In addition, a higher proportion of sales were made to customers at strong premiums to meet short-term demand in the quarter. Iso-octane margins are expected to return to more typical levels in the third quarter of 2018.

Because butane is the primary feedstock for the production of iso-octane, butane costs directly affect iso-octane margins. For the contract year that began on April 1, 2018, the price for butane supply that is purchased on a term basis is comparable to the prior year. However, in recent months butane prices in Alberta have weakened significantly due to increased supply. During the second quarter, Keyera was able to utilize its logistics capabilities and NGL storage facilities in Fort Saskatchewan to purchase butane at attractive prices. This allows Keyera to effectively manage its feedstock costs into the winter months when butane prices typically strengthen.

As oil sands projects have come on stream over the past few years, bitumen production has increased along with demand for condensate that is used as a diluent. This demand for condensate is being met primarily by increased condensate production from the Western Canada Sedimentary Basin and pipeline deliveries from the United States. Contribution from the sale of condensate in the second quarter of 2018 were strong as higher volumes moved through Keyera's condensate system in the Edmonton/Fort Saskatchewan area, including volumes imported by rail, allowing for greater commercial opportunities for the Marketing segment. Keyera imports condensate into Alberta when demand fundamentals support positive operating margins.

Margins from Keyera's liquids blending business also contributed to the strong second quarter financial results largely due to higher volumes and prices for crude oil and condensate relative to other NGLs. With the acquisition of the Oklahoma Liquids Terminal, cash flows from the liquids blending business are expected to grow in the third quarter of 2018 due to an increase in volumes. Refer to the section of this MD&A, "Liquids Infrastructure: Liquids Infrastructure Activity", for more information related to the acquisition of this terminal in the U.S.

As expected, propane margins returned to seasonally lower margins in the second quarter of 2018 as contracted propane supply continues to be based on market index prices. A similar approach was used in the prior year in order to respond to more competitive market dynamics and attract volumes through Keyera's fractionation and storage facilities in the Liquids Infrastructure segment. This contracting strategy for propane results in lower margins during the spring and summer months when demand is seasonally low and costs such as storage and rail car lease charges continue to be expensed. On an annual basis, propane margins are expected to remain a relatively small contributor to Keyera's overall Marketing operating margin.

Risk Management

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

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

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 West Texas Intermediate ("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 June 30, 2018, the total unrealized loss on risk management contracts was $16 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding risk management contracts as at June 30, 2018 resulted in an unrealized (non-cash) loss of $36 million that includes the following significant items:

- a $18 million non-cash loss relating to iso-octane risk management contracts;
- a $13 million non-cash loss relating to propane, butane and condensate risk management contracts; and
- a $5 million non-cash loss relating to foreign currency and other financial contracts.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at June 30, 2018, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 12, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Other income (operating margin)	**2,886**	4,868	**7,097**	9,943
General and administrative (net of overhead recoveries on operated facilities)	**(18,289)**	(16,533)	**(37,162)**	(33,868)
Finance costs	**(18,309)**	(16,933)	**(36,371)**	(34,673)
Depreciation, depletion and amortization expenses	**(50,848)**	(39,986)	**(96,991)**	(79,566)
Net foreign currency (loss) gain on U.S. debt	**(272)**	8,549	**(8,139)**	9,028
Long-term incentive plan expense	**(6,668)**	(10,171)	**(11,904)**	(12,918)
Impairment expense	**—**	(17,890)	**—**	(17,890)
Gain on disposal of property, plant and equipment	**—**	22,151	**—**	22,166
Income tax expense	**(16,050)**	(21,921)	**(54,567)**	(53,093)

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 and six months ended June 30, 2018 was $3 million and $7 million, $2 million and $3 million lower than the same periods in 2017 primarily due to lower natural gas prices in the second quarter of 2018. Production for the three and six months ended June 30, 2018 averaged 3,724 and 3,865 barrels of oil equivalent per day compared to 4,394 and 4,412 barrels of oil equivalent per day for the same periods in 2017.

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

General and Administrative Expenses

General and administrative ("G&A") expenses for the three and six months ended June 30, 2018 were $18 million and $37 million, $2 million and $3 million higher than the same periods in 2017 primarily due to higher salary and employee related costs.

Finance Costs (including accretion)
Finance costs for the three and six months ended June 30, 2018 were $18 million and $36 million, $1 million and $2 million higher than the same periods in 2017 primarily due to the issuance of $400 million in unsecured notes in the third quarter of 2017. Interest capitalized on qualifying projects that is a reduction to finance costs were comparable between periods.

Depreciation, Depletion and Amortization Expenses
Depreciation, depletion and amortization ("DD&A") expenses for the three and six months ended June 30, 2018 were $51 million and $97 million, $11 million and $17 million higher than the same periods in 2017 due to an increase in Keyera's overall asset base, including the Norlite pipeline and the Base Line Terminal.

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

Net Foreign Currency (Loss) Gain on U.S. Debt	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Translation of long-term debt and interest payable	**(10,794)**	14,958	**(27,835)**	19,511
Change in fair value of cross-currency swaps – principal and interest portion	**9,483**	(7,728)	**18,441**	(12,162)
Gain on cross-currency swaps – interest portion[1]	**1,039**	1,319	**1,255**	1,679
Net foreign currency (loss) gain on U.S. debt	**(272)**	8,549	**(8,139)**	9,028

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

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross-currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross-currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Additional information on the swap agreements can be found in note 12, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency loss of virtually $nil and $8 million was recorded for the three and six months ended June 30, 2018. On a year-to-date basis, the non-cash loss of $8 million was largely related to the translation of U.S. dollar denominated debt into Canadian dollars as the Canadian dollar weakened relative to the U.S. dollar since the end of 2017.

Long-Term Incentive Plan Expense
The Long-Term Incentive Plan ("LTIP") expense was $7 million and $12 million for the three and six months ended June 30, 2018, $4 million and $1 million lower than the same periods in 2017 primarily due to a lower share price. Keyera's closing share price was $36.58 as at June 30, 2018 compared to a share price of $40.82 at June 30, 2017.

Net Impairment Expense
Keyera reviews its assets for indicators of impairment on a quarterly basis. As well, if an asset has been impaired and subsequently recovers in value, GAAP requires the asset to be written-up (i.e. reversal of previous impairments). In the first six months of 2018 no impairment charges were recorded. In the second quarter of 2017, an impairment expense of $18 million was recorded to reduce the carrying value of the Caribou gas plant that ceased operation effective December 2015.

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

Gain on Disposal of Property, Plant and Equipment

In the second quarter of 2017, Keyera sold the Paddle River gas plant and Judy Creek pipeline for proceeds of approximately $6 million. The sale of these non-core assets resulted in a gain of $22 million in the second quarter of 2017, primarily due to the removal of the associated decommissioning liabilities from Keyera's balance sheet.

Taxes

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

Current Income Taxes

Current income tax expense for the three and six months ended June 30, 2018 was $8 million and $16 million, compared to an expense of $3 million and $4 million in the same periods of 2017. For 2018, current income tax expense is expected to be approximately $35 million, which is primarily based on the 2017 taxable income from Keyera Partnership.

Deferred Income Taxes

For the three and six months ended June 30, 2018, deferred income tax expense was $8 million and $38 million, compared to an expense of $19 million and $49 million in the same periods in 2017. In the second quarter of 2018, Keyera recognized approximately US$49 million in net tax pools associated with its U.S. subsidiary as a result of acquiring the Oklahoma Liquids Terminal in June. This resulted in an approximately $15 million reduction to deferred taxes in the second quarter of 2018. The benefit of these tax pools were primarily related to tax losses that were previously not recognized for deferred income tax purposes.

Keyera estimates its total tax pools at June 30, 2018 were approximately $2.8 billion.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's accompanying financial statements in accordance with GAAP, management is required to make estimates and assumptions that are not readily apparent from other sources, and are subject to change based on revised circumstances and the availability of new information. Actual results may differ from the estimates, which could materially affect the company's consolidated financial statements. Management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The methodologies and assumptions used in developing these estimates have not significantly changed since December 31, 2017. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2017 annual MD&A and note 4 of the audited consolidated financial statements for the year ended December 31, 2017, which are available at www.sedar.com.

LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the three months ended June 30, 2018 and 2017:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended June 30, 2018	2017	Increase (decrease)	Explanation
Operating	**100,926**	1,769	99,157	Significantly higher cash generated from operating activities in the second quarter of 2018 was primarily due to $77 million in higher realized margin recorded by the Marketing and Liquids Infrastructure segments.
Investing	**(476,333)**	(145,555)	(330,778)	Higher capital spending in the second quarter of 2018 was primarily associated with construction activities related to the Wapiti gas plant and Wildhorse Terminal projects. Capital spending in the second quarter of 2018 also included $212 million in acquisitions associated with: the Oklahoma Liquids Terminal; the Keyera Butane System that was previously leased; and the Pipestone project purchased from Encana that was funded in the first quarter of 2018.
Financing	**356,272**	163,393	192,879	Increase in cash generated from financing activities in the second quarter of 2018 due to the issuance of $400 million of senior unsecured medium term notes in June. Comparatively, Keyera borrowed $195 million under its credit facility in the second quarter of 2017.

Refer to the consolidated statements of cash flows of the accompanying financial statements for more detailed information.

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the six months ended June 30, 2018 and 2017:

Cash inflows (outflows) (Thousands of Canadian dollars)				
	Six months ended June 30, **2018**	2017	**Increase (decrease)**	**Explanation**
Operating	**289,315**	220,390	68,925	Higher cash generated from operating activities in 2018 was largely because of higher realized margin recorded by the Marketing and Liquids Infrastructure segments compared to the first half of 2017.
Investing	**(665,342)**	(278,819)	(386,523)	Higher capital spending in the first half of 2018 was primarily associated with the Keylink pipeline system, Simonette liquids handling expansion, Wapiti gas plant and Wildhorse Terminal projects and included $222 million in acquisitions as described for the second quarter of 2018.
Financing	**316,929**	78,771	238,158	Increase in cash generated from financing activities in the first half of 2018 due to the issuance of $400 million of senior unsecured medium term notes in June. Comparatively, Keyera borrowed $140 million under its credit facility in 2017. Keyera did not have any outstanding borrowings under its credit facility at June 30, 2018 due to sufficient cash available from the debt issuance.
Refer to the consolidated statements of cash flows of the accompanying financial statements for more detailed information.				

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

A working capital surplus (current assets less current liabilities) of $141 million existed at June 30, 2018. This is compared to a surplus of $337 million at December 31, 2017. Keyera has access to a credit facility in the amount of $1.5 billion, of which no amounts were drawn as at June 30, 2018, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility ("Credit Facility").

Equity Financing

In the fourth quarter of 2017, Keyera issued 12,200,000 common shares, as well as an additional 1,830,000 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 $35.20 per common share for gross total proceeds of approximately $494 million. Financing costs associated with the issuance of shares were approximately $20 million. A portion of the net proceeds from the equity financing were used to repay short term debt, with the balance being used to support Keyera's ongoing growth capital program and for general corporate purposes.

Dividend Reinvestment Plan

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

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

The DRIP and Premium DRIP generated cash of $46 million and $94 million for the three and six months ended June 30, 2018. In the same periods in 2017, the plan generated cash of $45 million and $91 million.

Corporate Credit Ratings

Keyera has been assigned an issuer rating of "BBB" with a "stable" trend by DBRS Limited ("DBRS") and a long-term corporate credit rating of "BBB/Stable" by S&P Global ("S&P"). The medium-term notes issued by Keyera in June 2018 have been assigned a rating of "BBB" with a "stable" trend by DBRS and "BBB" with a "stable" outlook by S&P.

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

Rating agencies will regularly evaluate Keyera, including its financial strength. In addition, factors not entirely within Keyera's control may also be considered, including conditions affecting the industry in which it operates. A credit rating downgrade could impair Keyera's ability to enter into arrangements with suppliers or counterparties and could limit its access to private and public credit markets in the future and increase the costs of borrowing.

Long-term Debt (including Credit Facilities)

Below is a summary of Keyera's long-term debt obligations as at June 30, 2018:

As at June 30, 2018 (Thousands of Canadian dollars)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**After 2022**
Credit facilities	—	—	—	—	—	—	—
Canadian dollar denominated debt	1,656,000	—	122,000	2,000	—	60,000	1,472,000
U.S. dollar denominated debt	576,935	—	3,943	135,363	—	—	437,629
Total debt	**2,232,935**	**—**	**125,943**	**137,363**	**—**	**60,000**	**1,909,629**
Less: current portion of long-term debt	(125,943)	—	(125,943)	—	—	—	—
Total long-term debt	**2,106,992**	**—**	**—**	**137,363**	**—**	**60,000**	**1,909,629**

Credit Facilities

Keyera's Credit Facility is with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at June 30, 2018, no amounts were drawn under this facility (December 31, 2017 – nil).

In 2017, Keyera amended its senior note agreements (discussed below) 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 allows 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 spot rate as at each balance sheet date.

In December 2017, the Credit Facility was further amended to extend the term from December 6, 2021 to December 6, 2022. The amendments also incorporated certain changes to the basis of Keyera's commitment fee rates which are now based on its public issuer rating by DBRS and S&P. Management expects that upon maturity of the Credit Facility, an adequate replacement will be established.

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

Long-term Debt

Keyera's long-term debt structure consists of a number of senior unsecured notes and medium term notes. In June 2018, Keyera issued $400 million of medium term notes in the Canadian public debt market at an interest rate of 3.934% and maturing on June 21, 2028. The net proceeds were used to repay Keyera's credit facility and the remaining cash will be used for general corporate purposes including the funding of capital and operating expenditures as well as acquisitions and future growth opportunities. As at June 30, 2018, Keyera had $1,656 million and US$439 million of senior unsecured notes and medium term notes. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at June 30, 2018, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency (Loss) Gain on U.S. Debt" provides more information.

The Credit Facility, senior note agreements, and note indenture for the medium term notes contain a number of covenants, all of which were met as at June 30, 2018. The agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for Keyera's senior unsecured notes and its Credit Facility, is the Net Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to deduct working capital surpluses or add working capital deficits. As at June 30, 2018, Keyera's Net Debt to EBITDA ratio was 2.5 for covenant test purposes (December 31, 2017 – 2.3 based on the amended covenant calculation).

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three and six months ended June 30, 2018 and 2017:

Capital Expenditures and Acquisitions	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Acquisitions	**212,355**	2,770	**222,355**	57,857
Growth capital expenditures	**254,300**	151,311	**493,093**	326,036
Maintenance capital expenditures	**23,077**	10,316	**29,089**	17,038
Total capital expenditures	**489,732**	164,397	**744,537**	400,931

Growth capital expenditures for the three and six months ended June 30, 2018 amounted to $254 million and $493 million. Refer to the section of this MD&A, "Segmented Results of Operations", for information related to the various growth capital projects in the Gathering and Processing and Liquids Infrastructure segments, including estimated costs to complete, costs incurred in 2018 and since inception of the project, and estimated completion timeframes.

Acquisitions in the first half of 2018 were $222 million and related to the following significant items:

- $39 million for the Pipestone project purchased from Encana that closed in April;
- $110 million (US$83 million including inventory and purchase price adjustments) for the Oklahoma Liquids Terminal that closed in mid-June;
- $41 million for the purchase of the Keyera Butane System that had previously been leased since December 2016;
- $11 million for a newly constructed 10-inch gathering pipeline that connects Keyera's Strachan and Ricinus gas plants; and
- $10 million for the purchase of the Willesden Green gas plant.

Acquisitions in the first half 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 $10 million and $19 million for the three and six months ended June 30, 2018, compared to $12 million and $26 million in the same periods in 2017. 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 2018 will be between $1 billion and $1.1 billion, including the acquisition of a 50% interest in the South Grand Rapids diluent pipeline. In addition, Keyera has made acquisitions of $222 million in the first half of 2018. Maintenance capital for 2018 is expected to be between $40 million and $50 million, including the scheduled turnarounds at the Strachan, Nevis and Brazeau North gas plants. The capital program is expected to be funded by cash flow from operating activities, the DRIP and Premium DRIP program, cash, and the existing Credit Facility, 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 Statements" 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 June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Cash flow from operating activities	**100,926**	1,769	**289,315**	220,390
Add (deduct):				
Changes in non-cash working capital	**85,476**	126,848	**63,800**	38,941
Long-term incentive plan expense	**(6,668)**	(10,171)	**(11,904)**	(12,918)
Maintenance capital	**(23,077)**	(10,316)	**(29,089)**	(17,038)
Other	**(876)**	(561)	**(1,439)**	(1,124)
Distributable cash flow	**155,781**	107,569	**310,683**	228,251
Dividends declared to shareholders	**86,882**	77,400	**173,187**	151,525

For the three and six months ended June 30, 2018, dividends declared were $87 million and $173 million, or 56% of distributable cash flow in both periods, compared to dividends declared of $77 million and $152 million, or 72% and 66% of distributable cash flow in the same periods of 2017.

Distributable cash flow for the three and six months ended June 30, 2018 was $156 million and $311 million, $48 million and $82 million higher than the same periods in 2017 primarily due to: i) incremental revenue from recent investments including the Norlite pipeline and the Base Line Terminal as well as continued demand for Keyera's diluent handling services in the Liquids Infrastructure segment; and ii) strong realized margin from the sale of iso-octane, condensate and liquids blending activities in the Marketing segment. Distributable cash flow in the first half of 2017 was negatively affected by lower iso-octane margins in the Marketing segment stemming from a nine-week outage at AEF that commenced in February.

Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of seasonal fluctuations in product inventories or other temporary changes and are generally funded with short-term debt. Also deducted from distributable cash flow are maintenance capital expenditures and the long-term incentive plan expense, which are funded from current operating cash flow.

Dividend Policy

Keyera increased its dividend by 7% from $0.14 per share per month to $0.15 per share per month, or $1.80 per share annually, beginning with its dividend payable on September 17, 2018. In determining the level of cash dividends to shareholders, Keyera's board of directors considers current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

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

EBITDA

EBITDA and Adjusted EBITDA are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure showing earnings before finance costs, taxes, depreciation, and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity contracts, impairment expenses and any other 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 June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Net earnings	**106,773**	67,062	**194,488**	163,404
Add (deduct):				
Finance costs	**18,309**	16,933	**36,371**	34,673
Depreciation, depletion and amortization expenses	**50,848**	39,986	**96,991**	79,566
Income tax expense	**16,050**	21,921	**54,567**	53,093
EBITDA	**191,980**	145,902	**382,417**	330,736
Unrealized loss (gain) on commodity contracts	**17,368**	142	**8,427**	(35,993)
Net foreign currency loss (gain) on U.S. debt	**272**	(8,549)	**8,139**	(9,028)
Impairment expense	**—**	17,890	**—**	17,890
Gain on disposal of property, plant and equipment	**—**	(22,151)	**—**	(22,166)
Loss on settlement of finance lease	**286**	—	**286**	—
Adjusted EBITDA	**209,906**	133,234	**399,269**	281,439

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. Since December 31, 2017, Keyera has committed to approximately $306 million in purchase obligations associated with orders on long-lead items related to the construction of the Wildhorse Terminal and Wapiti gas plant as well as expansion of the Simonette gas plant. In addition, Keyera has committed between $500 and $600 million in purchase obligations related to the Pipestone plant and liquids hub which is being constructed by Encana. These expenditures are expected to occur between 2018 and 2021. This commitment is based on the capital estimates provided by Encana and may vary as construction proceeds.

At December 31, 2017, Keyera had a finance lease liability included in its contractual obligations. The finance lease liability related to Keyera's use of a pipeline for its sole benefit. During the first quarter of 2018, the finance lease liability was revalued and reclassified to current liabilities as the lessor exercised its put option under the lease arrangement, requiring Keyera to purchase the pipeline for $41 million. In May 2018, Keyera settled the finance lease liability by purchasing the pipeline.

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, 2017 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, 2017 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 matters, Keyera does not believe that they impact its operations in a manner materially different from other comparable businesses operating in the same jurisdictions.

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

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

Keyera is closely monitoring the ongoing development and implementation of the regulatory framework through which the federal and provincial governments are implementing their climate change and emissions reduction policies. Recently the Alberta Energy Regulator ("AER") released draft methane regulations, and Environment and Climate Change Canada released final regulations. Keyera's year over year compliance costs are increasing as a result of the changes in greenhouse gas emissions regulation and are expected to continue to increase. Overall, the increased costs are not expected to be material to Keyera, however Keyera is looking at opportunities to reduce its compliance costs and enhance the management of its emissions profile. For a detailed discussion of environmental regulations that affect Keyera, political and legislative developments as they relate to climate change and the risks associated therewith, see Keyera's 2017 year-end MD&A and Annual Information Form which is available at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016
Revenue[1]								
Gathering and Processing[2]	**107,998**	107,354	120,422	116,635	116,689	112,727	127,103	117,542
Liquids Infrastructure	**115,880**	109,476	114,525	103,872	99,398	101,027	94,712	90,178
Marketing	**927,554**	931,094	864,730	612,526	627,651	699,043	535,708	472,442
Other	**5,921**	7,241	5,303	5,065	7,918	8,381	7,512	5,643
Operating margin (loss)								
Gathering and Processing	**63,901**	70,547	72,744	69,381	66,822	66,337	79,881	71,689
Liquids Infrastructure	**76,571**	81,803	81,905	71,718	67,073	64,575	62,781	62,781
Marketing	**74,137**	65,852	54,032	(15,130)	21,033	68,435	8,581	23,825
Other	**2,886**	4,211	2,408	2,265	4,868	5,075	4,196	2,663
Net earnings	**106,773**	87,715	88,052	38,464	67,062	96,342	34,621	52,420
Net earnings per share ($/share)								
Basic	**0.52**	0.43	0.45	0.20	0.36	0.52	0.19	0.28
Diluted	**0.52**	0.43	0.45	0.20	0.36	0.52	0.19	0.28
Weighted average common shares (basic)	**206,646**	205,267	193,552	188,650	187,445	186,286	185,116	183,962
Weighted average common shares (diluted)	**206,646**	205,267	193,552	188,650	187,445	186,286	185,116	183,962
Dividends declared to shareholders	**86,882**	86,305	81,801	79,317	77,400	74,125	73,657	71,819

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.

In the Gathering and Processing segment, Keyera has continued to focus on delivering cost-effective and value-added services intended to enhance its customers' economics, while at the same time maximizing throughput and efficiencies at its facilities. Average throughput has continued to steadily increase over the past five quarters with a particular increase in drilling activity in the Montney and Duvernay geological zones. This has resulted in throughput and operating margin growth at Keyera's Simonette gas plant over the past year. Operating margin in the fourth quarter of 2016 was unusually high due to the inclusion of a non-recurring upward adjustment to revenue of approximately $9 million, $6 million of which was associated with prior quarters in 2016. Refer to the 2016 year-end MD&A for more information related to this adjustment.

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

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

Compared to the 2017 year-end results, operating margin from the Liquids Infrastructure segment is expected to grow in 2018 due to: i) a full year of take-or-pay fees associated with the Norlite pipeline being in effect; ii) continued demand for Keyera's diluent handling services; and iii) incremental cash flow associated with the Base Line Terminal as all crude oil tanks are expected to be operational throughout 2018. In the Gathering and Processing segment, producers continue to drill in liquids rich areas, including areas close to the Simonette and Strachan gas plants that have helped to offset some of the volume declines at other facilities including the Rimbey gas plant.

In the Marketing segment, the seasonality associated with the sale of iso-octane and propane are expected to continue in 2018. On an annual basis, propane margins are estimated to remain a small part of Keyera's overall Marketing margin. Iso-octane sales volumes and margins are anticipated to be higher in 2018 compared to the prior year as AEF was off-line for nine weeks in 2017 due to an unscheduled outage. The expectation of higher iso-octane margins in 2018 compared to the prior year assumes butane supply costs remain comparable to the 2017 contract year, AEF continues to operate well, and there are no material rail service curtailments that would require production to be reduced.

See the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the three and six months ended June 30, 2018.

ADOPTION OF NEW STANDARDS

Refer to the first quarter 2018 report for details of new IFRS standards adopted by Keyera.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 16, Leases

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, Leases, which provides a single lease accounting model for lessees, requiring the recognition of most leases as finance leases on the consolidated statement of financial position.

This will result in the recognition of a lease liability and the corresponding recognition of a leased asset called a 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 whereby a lessor continues to classify a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") on or before the initial application of IFRS 16.

Expected impact

Keyera has developed a detailed implementation plan and has commenced its assessment of existing contracts to identify arrangements that would qualify as a lease under the new standard. For contracts that have been identified as being within the scope of the new standard, Keyera is continuing its detailed assessments of such contracts to determine the potential effects on Keyera's consolidated financial statements upon adoption. Furthermore, Keyera is currently evaluating information technology system and process changes that may be necessary to meet the requirements of the new guidance. Once all contracts within the scope of IFRS 16 have been identified and analyzed, Keyera will address any necessary changes to its policies, processes, internal controls, information technology systems, key operating metrics, financial covenants, and significant judgments and estimations required. IFRS 16 will be adopted by Keyera on

January 1, 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard will be recognized at the date of initial application, including the election of allowable practical expedients. Keyera is on target with its implementation plan for IFRS 16 as Keyera's management believes that it has sufficient resources allocated to the project to ensure timely completion.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of June 30, 2018, Keyera's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to Keyera and its consolidated subsidiaries has been brought to their attention and that information required to be disclosed pursuant to applicable securities legislation has been recorded, processed, summarized and reported in an appropriate and timely manner.

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer are satisfied that Keyera's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made for the period beginning January 1, 2018 and ending June 30, 2018 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

During the three and six months ended June 30, 2018, there were 1,365,088 and 2,799,592 common shares issued under the DRIP and the Premium DRIP for consideration of $46 million and $94 million, bringing the total common shares outstanding at June 30, 2018 to 207,346,734.

Subsequent to June 30, 2018, 462,478 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of $16 million, bringing the total common shares outstanding at August 8, 2018 to 207,809,212.

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-downs, 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); and realized margin (used in the Marketing segment) 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; pipeline product specification changes; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; availability of construction crews and materials; fluctuations in interest rates; ability to maintain current credit ratings; foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; compliance with regulatory requirements; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on shareholders, and in particular any differential effects relating to shareholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 15, 2018, 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 $0.42 per share in the second quarter of 2018. Effective with the August 2018 dividend and payable on September 17, 2018, Keyera's dividend will increase by 7% to $0.15 per share per month, or $1.80 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.

SECOND QUARTER 2018 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 second quarter of 2018 at 8:00 am Mountain Time (10:00 am Eastern Time) on August 9, 2018. 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 August 23, 2018 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 7179067.

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	June 30, 2018 $	December 31, 2017 $
ASSETS			
Cash		**269,923**	326,381
Trade and other receivables		**488,779**	435,620
Derivative financial instruments	12	**21,493**	11,561
Inventory	4	**238,132**	147,831
Other assets		**22,807**	16,604
Total current assets		**1,041,134**	937,997
Derivative financial instruments	12	**108,075**	90,109
Property, plant and equipment		**5,300,116**	4,792,398
Intangible assets	3	**94,200**	—
Goodwill		**53,624**	53,624
Deferred tax assets	11	**15,358**	—
Total assets		**6,612,507**	5,874,128
LIABILITIES AND EQUITY			
Trade and other payables, and provisions		**686,055**	526,395
Derivative financial instruments	12	**52,129**	35,398
Dividends payable		**29,029**	28,637
Current portion of finance lease liability	6	**—**	1,474
Current portion of long-term debt		**125,943**	—
Current portion of decommissioning liability		**7,208**	9,584
Total current liabilities		**900,364**	601,488
Derivative financial instruments	12	**1,374**	220
Long-term debt	7	**2,095,481**	1,795,530
Decommissioning liability		**462,731**	456,455
Other long-term liabilities	6	**22,448**	58,922
Deferred tax liabilities		**536,027**	482,233
Total liabilities		**4,018,425**	3,394,848
Equity			
Share capital	8	**2,743,994**	2,647,836
Accumulated deficit		**(149,912)**	(168,556)
Total equity		**2,594,082**	2,479,280
Total liabilities and equity		**6,612,507**	5,874,128

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 August 8, 2018.

(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)
(Unaudited)

		Three months ended June 30,		Six months ended June 30,	
		2018	2017	**2018**	2017
	Note	**$**	$	**$**	$
Revenues	16	**1,077,787**	777,923	**2,161,798**	1,621,543
Expenses	16	**(860,292)**	(618,127)	**(1,721,890)**	(1,257,325)
Operating margin		**217,495**	159,796	**439,908**	364,218
General and administrative expenses		**(18,289)**	(16,533)	**(37,162)**	(33,868)
Finance costs	14	**(18,309)**	(16,933)	**(36,371)**	(34,673)
Depreciation, depletion and amortization expenses		**(50,848)**	(39,986)	**(96,991)**	(79,566)
Net foreign currency (loss) gain on U.S. debt	13	**(272)**	8,549	**(8,139)**	9,028
Long-term incentive plan expense	10	**(6,668)**	(10,171)	**(11,904)**	(12,918)
Impairment expense	5	**—**	(17,890)	**—**	(17,890)
Gain on disposal of property, plant and equipment	5	**—**	22,151	**—**	22,166
Loss on settlement of finance lease	6	**(286)**	—	**(286)**	—
Earnings before income tax		**122,823**	88,983	**249,055**	216,497
Income tax expense	11	**(16,050)**	(21,921)	**(54,567)**	(53,093)
Net earnings		**106,773**	67,062	**194,488**	163,404
Other comprehensive income		**—**	—	**—**	—
Net earnings and comprehensive income		**106,773**	67,062	**194,488**	163,404
Earnings per share					
Basic earnings per share	9	**0.52**	0.36	**0.94**	0.87
Diluted earnings per share	9	**0.52**	0.36	**0.94**	0.87

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 June 30, 2018 $	Three months ended June 30, 2017 $	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Cash provided by (used in):					
OPERATING ACTIVITIES					
Net earnings:		**106,773**	67,062	**194,488**	163,404
Adjustments for items not affecting cash:					
Finance costs	14	**3,631**	3,583	**7,194**	7,197
Depreciation, depletion and amortization expenses		**50,848**	39,986	**96,991**	79,566
Long-term incentive plan expense	10	**6,668**	10,171	**11,904**	12,918
Unrealized loss (gain) on derivative financial instruments	12	**7,885**	7,870	**(10,014)**	(23,831)
Unrealized loss (gain) on foreign exchange		**3,737**	(14,508)	**16,706**	(18,955)
Deferred income tax expense	11	**7,631**	19,235	**38,436**	49,272
Impairment expense	5	**—**	17,890	**—**	17,890
Gain on disposal of property, plant and equipment	5	**—**	(22,151)	**—**	(22,166)
Loss on settlement of finance lease	6	**286**	—	**286**	—
Decommissioning liability expenditures		**(1,057)**	(521)	**(2,876)**	(5,964)
Changes in non-cash working capital	15	**(85,476)**	(126,848)	**(63,800)**	(38,941)
Net cash provided by operating activities		**100,926**	1,769	**289,315**	220,390
INVESTING ACTIVITIES					
Acquisitions		**(212,355)**	(2,770)	**(222,355)**	(57,857)
Capital expenditures		**(277,377)**	(161,627)	**(522,182)**	(343,074)
Proceeds on disposal of property, plant and equipment	5	**—**	6,015	**4,444**	6,015
Changes in non-cash working capital	15	**13,399**	12,827	**74,751**	116,097
Net cash used in investing activities		**(476,333)**	(145,555)	**(665,342)**	(278,819)
FINANCING ACTIVITIES					
Borrowings under credit facility		**—**	1,609,000	**—**	1,874,000
Repayments under credit facility		**—**	(1,414,000)	**—**	(1,734,000)
Proceeds from issuance of long-term debt	7	**400,000**	—	**400,000**	—
Financing costs related to credit facility/long-term debt		**(2,339)**	(138)	**(2,339)**	(1,099)
Issuance costs related to equity offering		**(91)**	—	**(166)**	250
Proceeds from issuance of shares related to DRIP	8	**46,267**	44,929	**93,667**	90,547
Repayment of finance lease liabilities		**(876)**	(561)	**(1,439)**	(1,124)
Dividends paid to shareholders		**(86,689)**	(75,837)	**(172,794)**	(149,803)
Net cash provided by financing activities		**356,272**	163,393	**316,929**	78,771
Effect of exchange rate fluctuations on foreign cash held		**851**	(704)	**2,640**	(953)
Net (decrease) increase in cash		**(18,284)**	18,903	**(56,458)**	19,389
Cash at the start of the period		**288,207**	16,963	**326,381**	16,477
Cash at the end of the period		**269,923**	35,866	**269,923**	35,866
Income taxes paid in cash		**—**	1,516	**346**	2,154
Interest paid in cash		**29,387**	34,019	**42,466**	42,599

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 $
Balance at December 31, 2016	**1,987,341**	**(145,833)**	**1,841,508**
Common shares issued pursuant to dividend reinvestment plans	90,547	—	90,547
Issuance costs adjustment related to 2016 equity offering	250	—	250
Net earnings and total comprehensive income	—	163,404	163,404
Dividends declared to shareholders	—	(151,525)	(151,525)
Balance at June 30, 2017	**2,078,138**	**(133,954)**	**1,944,184**

	Share Capital $	Accumulated Deficit $	Total $
Balance at December 31, 2017	**2,647,836**	**(168,556)**	**2,479,280**
Common shares issued pursuant to dividend reinvestment plans	93,667	—	93,667
Issuance costs related to 2017 equity offering	(166)	—	(166)
Net earnings and total comprehensive income	—	194,488	194,488
Dividends declared to shareholders	—	(173,187)	(173,187)
Other adjustments	2,657	(2,657)	—
Balance at June 30, 2018	**2,743,994**	**(149,912)**	**2,594,082**

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

Keyera Corp.

Notes to the Condensed Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2018 and 2017
(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; the production of iso-octane; and liquids blending in Canada and the United States ("U.S.").

Keyera Corp. and its subsidiaries are collectively referred to herein as "Keyera". The address of Keyera's registered office and principal place of business is Suite 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 June 30, 2018.

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, 2017, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2018.

These condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2018 and 2017 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, 2017.

The condensed interim consolidated financial statements were authorized for issuance on August 8, 2018 by the board of directors.

Adoption of new standards

Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2018 for details of new IFRS standards adopted by Keyera.

Future accounting pronouncements update

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

IFRS 16, Leases
In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, Leases, which provides a single lease accounting model for lessees, requiring the recognition of most leases as finance leases on the consolidated statement of financial position.

This will result in the recognition of a lease liability and the corresponding recognition of a leased asset called a 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 whereby a lessor continues to classify a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") on or before the initial application of IFRS 16.

Expected impact
Keyera has developed a detailed implementation plan and has commenced its assessment of existing contracts to identify arrangements that would qualify as a lease under the new standard. For contracts that have been identified as being within the scope of the new standard, Keyera is continuing its detailed assessments of such contracts to determine the potential effects on Keyera's consolidated financial statements upon adoption. Furthermore, Keyera is currently evaluating information technology system and process changes that may be necessary to meet the requirements of the new guidance. Once all contracts within the scope of IFRS 16 have been identified and analyzed, Keyera will address any necessary changes to its policies, processes, internal controls, information technology systems, key operating metrics, financial covenants, and significant judgments and estimations required. IFRS 16 will be adopted by Keyera on January 1, 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard will be recognized at the date of initial application, including the election of allowable practical expedients. Keyera is on target with its implementation plan for IFRS 16 as Keyera's management believes that it has sufficient resources allocated to the project to ensure timely completion.

3. BUSINESS COMBINATION

On June 19, 2018, Keyera completed the acquisition of the Oklahoma Liquids Terminal, a logistics and liquids blending terminal for cash consideration of $109,934 (US$82,688), subject to final adjustments, plus up to US$10,000 in additional consideration over the next five years. The terminal receives, blends and delivers diluent, the majority of which is transported by pipeline from the Mont Belvieu area to the Chicago area and ultimately into the Alberta market. The terminal is operated by the Liquids Infrastructure segment and provides the logistical and blending services to Keyera's Marketing segment for a fee. The majority of the cash flow generated from the terminal will be recorded in the Marketing segment. The terminal also has exclusive access to a nearby rail-to-truck transloading facility.

The transaction was accounted for as a business combination using the acquisition method of accounting. The purchase price allocation was based on management's best estimates of the fair values of identifiable assets acquired and liabilities assumed as of the acquisition date. The associated decommissioning liability assumed was negligible. The purchase price allocation is subject to finalization.

Purchase Price Allocation	**As at June 19, 2018**	
(Thousands of dollars)	**Canadian $**	**US $**
Inventory	8,451	6,357
Property, plant and equipment	18,126	13,633
Intangible assets	94,200	70,855
Total assets acquired	**120,777**	**90,845**
Cash consideration	109,934	82,688
Estimated additional consideration	10,843	8,157
Total consideration	**120,777**	**90,845**

Intangible Assets

The intangible assets acquired relate to identifiable contracts. These assets will be amortized on a straight-line basis over their expected useful lives, which is expected to be 12 years. Amortization is recorded in depreciation, depletion and amortization expenses.

4. INVENTORY

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

As at	**June 30, 2018 $**	December 31, 2017 $
NGLs and iso-octane	**232,608**	142,356
Other	**5,524**	5,475
Total inventory	**238,132**	147,831

For the period ended June 30, 2018, $238,132 of inventory was carried at cost (December 31, 2017 – $147,831) and $nil was carried at net realizable value (December 31, 2017 – $nil). The cost of inventory expensed for the three months and six months ended June 30, 2018 was $743,497 and $1,508,070 (three and six months ended June 30, 2017 – $501,104 and $1,026,261).

5. PROPERTY, PLANT AND EQUIPMENT

Impairment

No impairment expenses were recorded for the three and six months ended June 30, 2018.

In the second quarter of 2017, Keyera identified through its impairment review that the Caribou facility, a cash generating unit ("CGU") within the Gathering and Processing segment, was impaired as the carrying value of the facility was greater than its recoverable amount. The recoverable amount for the CGU was determined based on its fair value less costs of disposal. Keyera impaired the CGU to the estimated fair value of the facility. The impairment loss recognized in this segment was $17,890 for the three and six months ended June 30, 2017.

Disposal of property, plant and equipment

In May 2017, Keyera disposed of the Paddle River facility and the Judy Creek pipeline for total proceeds of $6,000, which resulted in a gain of $22,166 for the three and six months ended June 30, 2017. The Paddle River facility had been shut down since February 2015 along with the Judy Creek pipeline, which was non-operational and was considered a non-core asset within Keyera's Gathering and Processing segment.

6. OTHER LIABILITIES

As at	June 30, 2018 $	December 31, 2017 $
Finance lease liabilities	—	54,029
Less: current portion of finance lease liabilities	—	(1,474)
Long-term portion of finance lease liabilities	—	52,555
Long-term incentive plan liability	**14,084**	6,367
Other	**8,364**	—
Total other liabilities	**22,448**	58,922

In 2015, Keyera entered into an arrangement for the use of a pipeline for transportation services in the Edmonton/Fort Saskatchewan area. Effective December 1, 2016, the arrangement was classified as a finance lease as this was the date Keyera was entitled to exercise its right to use the pipeline for its sole benefit, and the risks and rewards incidental to ownership were transferred to Keyera.

The arrangement included a put option which provided the lessor with the right to require Keyera to purchase the pipeline within six months of the pipeline's in-service date for the approximate amount of $41,250. The pipeline became operational in January 2018 and in March Keyera received notice that the lessor was exercising the put option. Keyera purchased the pipeline in its current condition in May 2018.

7. LONG-TERM DEBT

On June 21, 2018, Keyera closed a public note offering of 10-year senior unsecured medium term notes to investors in Canada. The $400,000 senior unsecured notes bear interest at 3.934% and mature on June 21, 2028. Interest is paid semi-annually.

The associated financing costs of approximately $2,302 have been deferred and are amortized using the effective interest method over the remaining term of the debt.

8. CAPITAL

	Number of Common Shares	Share Capital $
Balance at December 31, 2017	**204,547,142**	**2,647,836**
Common shares issued pursuant to dividend reinvestment plans	**2,799,592**	**93,667**
Issuance costs related to 2017 equity offering	—	**(166)**
Other adjustments	—	**2,657**
Balance at June 30, 2018	**207,346,734**	**2,743,994**

9. EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Basic and diluted earnings per share	**0.52**	0.36	**0.94**	0.87
Net earnings – basic and diluted	**106,773**	67,062	**194,488**	163,404

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2018**	2017	**2018**	2017
Weighted average number of shares – basic and diluted	**206,646**	187,445	**205,960**	186,869

10. SHARE-BASED COMPENSATION AND PENSION PLANS

Long-Term Incentive Plan

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

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

The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The fair value of the liability is measured by applying a fair value pricing model whereby one of the valuation inputs was the June 30, 2018 share price of Keyera, which was $36.58 per share (December 31, 2017 – $35.42 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Performance Awards	**5,742**	9,232	**10,157**	11,493
Restricted Awards	**926**	939	**1,747**	1,425
Total long-term incentive plan expense	**6,668**	10,171	**11,904**	12,918

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 and six months ended June 30, 2018, Keyera made pension contributions of $2,404 and $4,790 (three and six months ended June 30, 2017 – $2,258 and $4,505) 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 and six months ended June 30, 2018, Keyera recorded $496 and $692 (three and six months ended June 30, 2017 – $302 and $479) in general and administrative expenses related to the DSU plan.

The following table shows the number of DSUs granted:

As at	**June 30, 2018**	December 31, 2017
Balance at beginning of period	**46,171**	19,827
Granted	**17,745**	26,344
Balance at end of period	**63,916**	46,171

11. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Current	**8,419**	2,686	**16,131**	3,821
Deferred	**7,631**	19,235	**38,436**	49,272
Total income tax expense	**16,050**	21,921	**54,567**	53,093

With the acquisition of the Oklahoma Liquids Terminal in June, Keyera considers it probable that there will be sufficient future taxable profits in its U.S. subsidiary to utilize tax losses that had not been previously recognized for deferred income tax purposes. As a result, Keyera recorded a deferred income tax asset of $15,358 in the second quarter of 2018. The corresponding deferred tax recovery of $15,358 has been included in deferred income tax expenses for the three and six months ended June 30, 2018.

12. 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, current and long-term debt, and certain other long-term liabilities. Derivative financial instruments include foreign exchange contracts, cross-currency swaps, NGLs, crude oil, motor gasoline and natural gas price contracts, electricity price contracts and physical fixed price commodity contracts. Derivative instruments are classified as fair value through profit or loss in 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 facility 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 and medium term notes at June 30, 2018 was $2,272,360 (December 31, 2017 – $1,831,467) 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 June 30, 2018	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by December 31, 2019)	3,239,400 Bbls	84.36/Bbl	Level 2	(32,303)	24	(32,327)
Buyer of fixed price WTI swaps (maturing by March 31, 2019)	18,000 Bbls	77.58/Bbl	Level 2	256	256	—
Seller of fixed price NGL swaps (maturing by December 31, 2018)	2,090,000 Bbls	42.22/Bbl	Level 2	(8,632)	159	(8,791)
Buyer of fixed price NGL swaps (maturing by December 31, 2019)	2,011,000 Bbls	50.76/Bbl	Level 2	10,390	10,654	(264)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	3,405,000 Bbls	21.74/Bbl	Level 2	(1,757)	4,010	(5,767)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by July 31, 2018)	25,000 Bbls	36.15/Bbl	Level 2	(148)	—	(148)
Buyer of fixed price NGL forward contracts (maturing by July 31, 2018)	40,000 Bbls	69.44/Bbl	Level 2	468	468	—
Currency:						
Seller of forward contracts (maturing by June 30, 2019)	US$217,000,000	1.29/USD	Level 2	(4,296)	678	(4,974)
Buyer of forward contracts (maturing by July 31, 2018)	US$10,000,000	1.26/USD	Level 2	556	556	—
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	112,872 MWhs	41.37/MWh	Level 2	2,324	2,324	—
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2018)	17,664 MWhs	44.65/MWh	Level 2	389	389	—
Emission Performance Credits:						
Seller of emission performance credits	282,597 credits	23.54/credit	Level 2	592	592	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	22,008 MWhs	41.47/MWh	Level 2	472	472	—
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2018)	75,000 Bbls	66.77/Bbls	Level 2	(1,232)	—	(1,232)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$565,073,450	0.98/USD - 1.22/USD	Level 2	108,986	108,986	—
				76,065	**129,568**	**(53,503)**

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, 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 March 31, 2019)	2,095,175 Bbls	69.81/Bbl	Level 2	(11,138)	—	(11,138)
Buyer of fixed price WTI swaps (maturing by March 31, 2018)	73,500 Bbls	71.63/Bbl	Level 2	293	293	—
Seller of fixed price NGL swaps (maturing by March 31, 2018)	1,337,154 Bbls	45.35/Bbl	Level 2	(7,719)	64	(7,783)
Buyer of fixed price NGL swaps (maturing by March 31, 2018)	404,000 Bbls	48.77/Bbl	Level 2	3,913	3,978	(65)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	3,380,000 Bbls	19.69/Bbl	Level 2	(15,163)	479	(15,642)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by March 31, 2018)	26,188 Bbls	43.94/Bbl	Level 2	(138)	—	(138)
Currency:						
Seller of forward contracts (maturing by June 30, 2018)	US$103,500,000	1.27/USD	Level 2	2,214	2,287	(73)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	157,680 MWhs	40.41/MWh	Level 2	2,134	2,194	(60)
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2018)	35,040 MWhs	44.65/MWh	Level 2	335	377	(42)
Emission Performance Credits:						
Seller of emission performance credits	340,520 credits	22.53/credit	Level 2	1,010	1,010	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	35,040 MWhs	41.95/MWh	Level 2	422	443	(21)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2018)	135,000 Bbls	66.55/Bbl	Level 2	(656)	—	(656)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$575,335,900	0.98/USD - 1.22/USD	Level 2	90,545	90,545	—
				66,052	**101,670**	**(35,618)**

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 through profit or loss 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, and iso-octane	Marketing; Corporate and Other	Marketing revenue; Corporate and Other revenue
Electricity	Liquids Infrastructure; Gathering and Processing; Corporate and Other	Liquids Infrastructure expenses; Gathering and Processing expenses; Corporate and Other revenues and expenses
Cross-currency swaps	Corporate and Other	Net foreign currency gain/(loss) on U.S. debt
Emission performance credits	Gathering and Processing	Gathering and Processing expenses

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Unrealized gain (loss)	**$**	$	**$**	$
Marketing revenue	**(16,272)**	(1,602)	**(7,729)**	33,369
Liquids Infrastructure expenses	**(426)**	1,056	**190**	1,056
Gathering and Processing expenses	**(96)**	76	**(362)**	14
Corporate and Other:				
Corporate and Other revenues and expenses	**(574)**	328	**(526)**	1,554
Net foreign currency gain/(loss) on U.S. debt	**9,483**	(7,728)	**18,441**	(12,162)
Total unrealized (loss) gain	**(7,885)**	(7,870)	**10,014**	23,831

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 time when 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 sales and purchases are primarily denominated in Canadian dollars.

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

	Three months ended June 30,		**Six months ended June 30,**	
	2018	2017	**2018**	2017
U.S. dollar sales and purchases	**$**	$	**$**	$
Sales priced in U.S. dollars	**425,117**	174,648	**812,507**	399,520
Purchases priced in U.S. dollars	**(190,903)**	(121,781)	**(298,723)**	(211,553)

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 when drawn under Keyera's bank credit facility. 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 facility. These cross-currency contracts are accounted for as derivative instruments. Refer to note 13 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. As at June 30, 2018, fixed rate borrowings comprised 100% of total debt outstanding (December 31, 2017 – 100%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

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

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is $488,779 at June 30, 2018 (December 31, 2017 – $435,620). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at June 30, 2018. 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 expected credit losses, which includes 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 June 30, 2018		Impact on income before tax June 30, 2017	
Risk sensitivities	**Increase $**	**Decrease $**	Increase $	Decrease $
Commodity price changes				
+ 10% in electricity price	**956**	**—**	731	—
- 10% in electricity price	**—**	**(956)**	—	(731)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(36,814)**	—	(23,195)
- 10% in NGL, crude oil and iso-octane prices	**36,814**	**—**	23,195	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(1,187)**	—	(38)
- $0.01 in U.S./Canadian dollar exchange rate	**1,187**	**—**	38	—
Interest rate changes				
+ 1% in interest rate	**—**	**—**	—	(1,319)
- 1% in interest rate	**—**	**—**	1,319	—

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Foreign currency (loss) gain resulting from:				
Translation of long-term debt and interest payable	**(10,794)**	14,958	**(27,835)**	19,511
Change in fair value of the cross-currency swaps – principal and interest portion	**9,483**	(7,728)	**18,441**	(12,162)
Gain from cross-currency swaps – interest portion[1]	**1,039**	1,319	**1,255**	1,679
Total foreign currency (loss) gain on U.S. debt	**(272)**	8,549	**(8,139)**	9,028

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

14. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Interest on bank overdrafts and credit facilities	**1,318**	2,784	**2,485**	5,347
Interest on long-term debt	**20,706**	17,743	**40,885**	35,369
Interest capitalized	**(6,750)**	(7,199)	**(12,389)**	(13,272)
Other interest (income) expense	**(30)**	536	**(725)**	1,061
Total interest expense on current and long-term debt	**15,244**	13,864	**30,256**	28,505
Unwinding of discount on decommissioning liability	**2,646**	2,682	**5,277**	5,431
Unwinding of discount on long-term debt	**419**	387	**838**	737
Non-cash expenses in finance costs	**3,065**	3,069	**6,115**	6,168
Total finance costs	**18,309**	16,933	**36,371**	34,673

For the three and six months ended June 30, 2018, $6,750 and $12,389 of borrowing (interest) costs were capitalized (three and six months ended June 30, 2017 – $7,199 and $13,272) at a weighted average capitalization rate of 4.87% on funds borrowed (three and six months ended June 30, 2017 – 4.34%).

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30,		**Six months ended June 30,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Inventory	**(109,470)**	(69,958)	**(81,850)**	(50,128)
Trade and other receivables	**(28,990)**	(7,354)	**(53,159)**	44,446
Other assets	**20,418**	(11,191)	**(17,723)**	(21,068)
Trade and other payables, and provisions	**32,566**	(38,345)	**88,932**	(12,191)
Changes in non-cash working capital from operating activities	**(85,476)**	(126,848)	**(63,800)**	(38,941)

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

	Three months ended June 30,		**Six months ended June 30,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Trade and other payables, and provisions	**13,399**	12,827	**74,751**	61,043
Other assets	**—**	—	**—**	55,054
Changes in non-cash working capital from investing activities	**13,399**	12,827	**74,751**	116,097

16. SEGMENT INFORMATION

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

Marketing
The Marketing segment is primarily involved in the marketing of NGLs, such as propane, butane, and condensate, and iso-octane to customers in Canada and the United States, as well as liquids blending.

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 and condensate stabilization services to customers. This segment also includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer under a long-term commercial arrangement.

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 NGLs, iso-octane and liquids blending. 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, the AEF facility, a 50% interest in the Base Line Terminal, and the Oklahoma Liquids Terminal.

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 as a result of the transition to IFRS 15.

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 June 30, 2018	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	927,554	107,988	115,880	5,921	(79,556)	1,077,787
Segmented expenses	(853,417)	(44,087)	(39,309)	(3,035)	79,556	(860,292)
Operating margin	74,137	63,901	76,571	2,886	—	217,495
General and administrative expenses	—	—	—	(18,289)	—	(18,289)
Finance costs	—	—	—	(18,309)	—	(18,309)
Depreciation, depletion and amortization expenses	—	—	—	(50,848)	—	(50,848)
Net foreign currency loss on U.S. debt	—	—	—	(272)	—	(272)
Long-term incentive plan expense	—	—	—	(6,668)	—	(6,668)
Loss on settlement of finance lease	—	—	(286)	—	—	(286)
Earnings (loss) before income tax	74,137	63,901	76,285	(91,500)	—	122,823
Income tax expense	—	—	—	(16,050)	—	(16,050)
Net earnings (loss)	**74,137**	**63,901**	**76,285**	**(107,550)**	**—**	**106,773**

Three months ended June 30, 2017	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	627,651	116,689	99,398	7,918	(73,733)	777,923
Segmented expenses	(606,618)	(49,867)	(32,325)	(3,050)	73,733	(618,127)
Operating margin	21,033	66,822	67,073	4,868	—	159,796
General and administrative expenses	—	—	—	(16,533)	—	(16,533)
Finance costs	—	—	—	(16,933)	—	(16,933)
Depreciation, depletion and amortization expenses	—	—	—	(39,986)	—	(39,986)
Net foreign currency gain on U.S. debt	—	—	—	8,549	—	8,549
Long-term incentive plan expense	—	—	—	(10,171)	—	(10,171)
Impairment expense	—	(17,890)	—	—	—	(17,890)
Gain on disposal of property, plant and equipment	—	22,151	—	—	—	22,151
Earnings (loss) before income tax	21,033	71,083	67,073	(70,206)	—	88,983
Income tax expense	—	—	—	(21,921)	—	(21,921)
Net earnings (loss)	**21,033**	**71,083**	**67,073**	**(92,127)**	**—**	**67,062**

Six months ended June 30, 2018	**Marketing** $	**Gathering & Processing** $	**Liquids Infrastructure** $	**Corporate and Other** $	**Inter-segment Eliminations** $	**Total** $
Segmented revenue	1,858,648	215,342	225,356	13,162	(150,710)	2,161,798
Segmented expenses	(1,718,659)	(80,894)	(66,982)	(6,065)	150,710	(1,721,890)
Operating margin	139,989	134,448	158,374	7,097	—	439,908
General and administrative expenses	—	—	—	(37,162)	—	(37,162)
Finance costs	—	—	—	(36,371)	—	(36,371)
Depreciation, depletion and amortization expenses	—	—	—	(96,991)	—	(96,991)
Net foreign currency loss on U.S. debt	—	—	—	(8,139)	—	(8,139)
Long-term incentive plan expense	—	—	—	(11,904)	—	(11,904)
Loss on settlement of finance lease	—	—	(286)	—	—	(286)
Earnings (loss) before income tax	139,989	134,448	158,088	(183,470)	—	249,055
Income tax expense	—	—	—	(54,567)	—	(54,567)
Net earnings (loss)	**139,989**	**134,448**	**158,088**	**(238,037)**	**—**	**194,488**

Six months ended June 30, 2017	**Marketing** $	**Gathering & Processing** $	**Liquids Infrastructure** $	**Corporate and Other** $	**Inter-segment Eliminations** $	**Total** $
Segmented revenue	1,326,694	229,416	200,425	16,299	(151,291)	1,621,543
Segmented expenses	(1,237,226)	(96,257)	(68,777)	(6,356)	151,291	(1,257,325)
Operating margin	89,468	133,159	131,648	9,943	—	364,218
General and administrative expenses	—	—	—	(33,868)	—	(33,868)
Finance costs	—	—	—	(34,673)	—	(34,673)
Depreciation, depletion and amortization expenses	—	—	—	(79,566)	—	(79,566)
Net foreign currency gain on U.S. debt	—	—	—	9,028	—	9,028
Long-term incentive plan expense	—	—	—	(12,918)	—	(12,918)
Impairment expense	—	(17,890)	—	—	—	(17,890)
Gain on disposal of property, plant and equipment	—	22,166	—	—	—	22,166
Earnings (loss) before income tax	89,468	137,435	131,648	(142,054)	—	216,497
Income tax expense	—	—	—	(53,093)	—	(53,093)
Net earnings (loss)	**89,468**	**137,435**	**131,648**	**(195,147)**	**—**	**163,404**

DISAGGREGATION OF REVENUE

The following table shows revenue disaggregated by the major service lines offered by Keyera in its four reportable operating segments:

Three months ended June 30, 2018	**Marketing** **$**	**Gathering & Processing** **$**	**Liquids Infrastructure** **$**	**Corporate and Other** **$**	**Total** **$**
Marketing of NGLs and iso-octane	927,554	—	—	—	927,554
Gas handling and processing services[1]	—	96,060	22,866	—	118,926
Fractionation and storage services	—	1,874	42,612	—	44,486
Transportation and terminalling services	—	—	50,079	—	50,079
Other[2]	—	10,054	323	5,921	16,298
Revenue before inter-segment eliminations	**927,554**	**107,988**	**115,880**	**5,921**	**1,157,343**
Inter-segment revenue eliminations	(6,051)	(4,625)	(61,609)	(7,271)	(79,556)
Revenue from external customers	**921,503**	**103,363**	**54,271**	**(1,350)**	**1,077,787**

Three months ended June 30, 2017	**Marketing** **$**	**Gathering & Processing** **$**	**Liquids Infrastructure** **$**	**Corporate and Other** **$**	**Total** **$**
Marketing of NGLs and iso-octane	627,651	—	—	—	627,651
Gas handling and processing services[1]	—	96,617	24,017	—	120,634
Fractionation and storage services	—	1,994	38,219	—	40,213
Transportation and terminalling services	—	—	36,873	—	36,873
Other[2]	—	18,078	289	7,918	26,285
Revenue before inter-segment eliminations	**627,651**	**116,689**	**99,398**	**7,918**	**851,656**
Inter-segment revenue eliminations	(1,953)	(5,693)	(57,751)	(8,336)	(73,733)
Revenue from external customers	**625,698**	**110,996**	**41,647**	**(418)**	**777,923**

Notes:

[1] Processing services revenue recognized in Keyera's Liquids Infrastructure segment represents the processing fees charged to Keyera's Marketing segment for the production of iso-octane at the Keyera AEF facility.

[2] Other revenue in Keyera's Gathering and Processing segment includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer, and other miscellaneous revenue. Other revenue recognized in Keyera's Corporate and Other segment relates to the production of oil and gas reserves.

Six months ended June 30, 2018	Marketing $	Gathering & Processing $	Liquids Infrastructure $	Corporate and Other $	Total $
Marketing of NGLs and iso-octane	1,858,648	—	—	—	1,858,648
Gas handling and processing services[1]	—	187,266	39,187	—	226,453
Fractionation and storage services	—	3,749	87,595	—	91,344
Transportation and terminalling services	—	—	97,910	—	97,910
Other[2]	—	24,327	664	13,162	38,153
Revenue before inter-segment eliminations	**1,858,648**	**215,342**	**225,356**	**13,162**	**2,312,508**
Inter-segment revenue eliminations	(7,066)	(10,156)	(118,261)	(15,227)	(150,710)
Revenue from external customers	**1,851,582**	**205,186**	**107,095**	**(2,065)**	**2,161,798**

Six months ended June 30, 2017	Marketing $	Gathering & Processing $	Liquids Infrastructure $	Corporate and Other $	Total $
Marketing of NGLs and iso-octane	1,326,694	—	—	—	1,326,694
Gas handling and processing services[1]	—	185,654	49,936	—	235,590
Fractionation and storage services	—	4,775	78,649	—	83,424
Transportation and terminalling services	—	—	71,262	—	71,262
Other[2]	—	38,987	578	16,299	55,864
Revenue before inter-segment eliminations	**1,326,694**	**229,416**	**200,425**	**16,299**	**1,772,834**
Inter-segment revenue eliminations	(1,953)	(12,357)	(119,685)	(17,296)	(151,291)
Revenue from external customers	**1,324,741**	**217,059**	**80,740**	**(997)**	**1,621,543**

Notes:

[1] Processing services revenue recognized in Keyera's Liquids Infrastructure segment represents the processing fees charged to Keyera's Marketing segment for the production of iso-octane at the Keyera AEF facility.

[2] Other revenue in Keyera's Gathering and Processing segment includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer, and other miscellaneous revenue. Other revenue recognized in Keyera's Corporate and Other segment relates to the production of oil and gas reserves.

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 June 30,		Six months ended June 30,	
Revenue from external customers located in	**2018** **$**	2017 $	**2018** **$**	2017 $
Canada	**935,741**	690,507	**1,839,194**	1,386,642
U.S.	**142,046**	87,416	**322,604**	234,901
Total revenue	**1,077,787**	777,923	**2,161,798**	1,621,543

Non-current assets[1] as at	**June 30, 2018** **$**	December 31, 2017 $
Canada	**5,188,450**	4,752,164
U.S.	**259,490**	93,858
Total non-current assets	**5,447,940**	4,846,022

Note:

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

Information about major customers

For the three and six months ended June 30, 2018 and 2017, Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue.

17. COMMITMENTS AND CONTINGENCIES

Keyera has assumed various contractual obligations in the normal course of its operations. Since December 31, 2017, Keyera has committed to approximately $306 million in purchase obligations associated with orders on long-lead items related to the construction of the Wildhorse Terminal and Wapiti gas plant as well as expansion of the Simonette gas plant. In addition, Keyera has committed between $500 and $600 million in purchase obligations related to the Pipestone plant and liquids hub which is being constructed by Encana. These expenditures are expected to occur between 2018 and 2021.

At December 31, 2017, Keyera had a finance lease liability included in its contractual obligations. The finance lease liability related to Keyera's use of a pipeline for its sole benefit. During the first quarter of 2018, the finance lease liability was revalued and reclassified to current liabilities as the lessor exercised its put option under the lease arrangement, requiring Keyera to purchase the pipeline for $41 million. In May 2018, Keyera settled the finance lease liability by purchasing the pipeline.

18. SUBSEQUENT EVENTS

On July 11, 2018, Keyera declared a dividend of $0.14 per share, payable on August 15, 2018, to shareholders of record as of July 23, 2018.

On August 8, 2018, Keyera declared a dividend of $0.15 per share, payable on September 17, 2018, to shareholders of record as of August 22, 2018.

Corporate Information

Board of Directors

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

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

Gianna Manes(5)
President and CEO
Enmax Corporation
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

Charlene Ripley(5)
EVP & General Counsel
Goldcorp Inc.
Vancouver, British Columbia

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 (3)
Corporate Director
West 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

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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 Strategy, Liquids Business Unit

Suzanne Hathaway
Senior 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 Q2 2018

TSX:KEY – Cdn $	
High	$36.98
Low	$33.68
Close June 30, 2018	$36.58
Volume	63,641,405
Average Daily Volume	994,397

Auditors

Deloitte LLP
Chartered Professional Accountants
Calgary, Canada

Investor Relations

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