DELIVERING MIDSTREAM SOLUTIONS

February 26, 2020

2019 Year End Report

For the period ended December 31, 2019

HIGHLIGHTS

- Keyera achieved record results in 2019, delivering net earnings[1] of $444 million (2018 – $403 million) and adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[2] of $944 million (2018 – $807 million). Distributable cash flow[2] was $594 million or $2.77 per share (2018 – $638 million or $3.08 per share).
- In 2019, all three business segments achieved record results and finished the year strong. For the fourth quarter, the Gathering and Processing segment generated operating margin of $81 million, the Liquids Infrastructure segment earned $91 million and the Marketing segment reported $120 million in realized margin[3,4].
- For the full year, the Gathering and Processing segment recorded operating margin of $294 million (2018 – $272 million) as phase one of the Wapiti gas plant and the North Wapiti Pipeline System became operational.
- The Liquids Infrastructure segment reported record operating margin of $376 million (2018 – $324 million) reflecting a full year contribution from the Base Line Terminal and continued demand for Keyera's fractionation, storage and condensate handling system assets.
- The Marketing segment's operating margin was $325 million (2018 – $366 million). Realized margin[3,4] was $373 million (2018 – $296 million), exceeding Keyera's 2019 guidance of between $320 million and $350 million. These record results were largely due to higher contributions from iso-octane sales, liquids blending and an effective risk management strategy.
- In May, Keyera announced the KAPS liquids pipeline system, a project that will provide secure, long-term, take-or-pay revenues, strong project returns and a platform for significant future growth.
- Keyera has a significant capital program underway that remains on schedule and on budget. During the year, Keyera invested $986 million in growth capital and expects to invest between $700 million and $800 million in 2020, excluding acquisitions. The majority of the investment in 2020 relates to the Pipestone gas plant and the KAPS liquids pipeline system.
- With a strong balance sheet and payout ratio[2] of 67% for the year, Keyera expects to fund its current growth capital program without issuing common equity, aside from the existing DRIP program.

[1] Net earnings for the year ended December 31, 2018 have been restated. See the section of the MD&A titled "Voluntary Change in Accounting Policy".
[2] Keyera uses certain "Non-GAAP Measures" such as adjusted EBITDA, funds from operations, distributable cash flow, distributable cash flow per share and payout ratio. See section titled "Non-GAAP Financial Measures", "Dividends: Funds from Operations and Distributable Cash Flow" and "EBITDA" of the MD&A for further details.
[3] Realized margin is a "Non-GAAP Measure" and excludes the effect of non-cash gains and losses from commodity-related risk management contracts.
[4] With the adoption of IFRS 16, Leases on January 1, 2019, the Marketing segment financial results are not directly comparable between periods. Refer to the accompanying financial statements for further information on the adoption of *IFRS 16, Leases*.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2019	2018	**2019**	2018
Net earnings[1]	**29,718**	165,946	**443,609**	402,828
Per share[1] ($/share) – basic	**0.14**	0.79	**2.07**	1.94
Cash flow from operating activities	**213,676**	245,632	**887,935**	604,329
Funds from operations[2]	**200,871**	219,669	**754,254**	696,298
Distributable cash flow[2]	**158,261**	200,397	**593,584**	638,124
Per share ($/share)[2]	**0.73**	0.96	**2.77**	3.08
Dividends declared	**104,280**	94,437	**396,862**	359,269
Per share ($/share)	**0.48**	0.45	**1.85**	1.73
Payout ratio %[2]	**66%**	47%	**67%**	56%
Adjusted EBITDA[3]	**261,387**	248,278	**944,101**	807,363
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,483**	1,551	**1,496**	1,537
Net processing throughput (MMcf/d)	**1,186**	1,215	**1,191**	1,193
Liquids Infrastructure:				
Gross processing throughput[4] (Mbbl/d)	**157**	182	**170**	176
Net processing throughput[4] (Mbbl/d)	**70**	83	**79**	80
AEF iso-octane production volumes (Mbbl/d)	**9**	10	**12**	13
Marketing:				
Inventory value	**93,682**	235,556	**93,682**	235,556
Sales volumes (Bbl/d)	**177,300**	165,700	**150,100**	152,300
Acquisitions	**50**	5,609	**599**	333,204
Growth capital expenditures	**253,722**	228,545	**986,125**	935,435
Maintenance capital expenditures	**29,732**	14,419	**105,077**	51,882
Total capital expenditures	**283,504**	248,573	**1,091,801**	1,320,521
Weighted average number of shares outstanding – basic and diluted	**216,938**	209,585	**214,186**	207,397

	As at December 31,	
	2019	2018
Long-term debt	**2,548,468**	2,117,261
Credit facility	**90,000**	80,000
Working capital deficit (surplus)[5]	**160,684**	(1,247)
Net debt	**2,799,152**	2,196,014
Common shares outstanding – end of period	**217,916**	210,479

Notes:

1 Net earnings for the year ended December 31, 2018 have been restated. See the section of the MD&A titled “Voluntary Change in Accounting Policy”.

2 Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow. Payout ratio, funds from operations, and distributable cash flow are not standard measures under Generally Accepted Accounting Principles (“GAAP”). See the section titled, “Dividends: Funds from Operations and Distributable Cash Flow”, for a reconciliation of funds from operations and distributable cash flow to the most closely related GAAP measure.

3 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.

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

5 Working capital is defined as current assets less current liabilities.

Message to Shareholders

Keyera delivered record financial performance in 2019, with Adjusted EBITDA of $944 million and net earnings of $444 million, or $2.07 per share. Distributable cash flow was $594 million, generating $2.77 on a per share basis. Each of our three business segments achieved record financial results on a realized margin basis, highlighting the benefits of our integrated business. With this continued success, we maintained our dividend track record and increased our dividend by 7% in August. Since becoming a corporation in 2011, Keyera has delivered a compound annual growth rate of approximately 9% in distributable cash flow per share, while steadily growing the dividends we return to our shareholders.

Keyera's services remain in high demand and through the year we achieved a number of operational milestones. We handled record volumes through our industry leading Fort Saskatchewan condensate system, which plays an integral role in connecting Alberta condensate to oil sands producers for use as diluent. We also continued executing our current growth capital program, investing approximately $986 million in growth capital during the year.

We remain focused on disciplined capital allocation and will continue to build on our impressive track record of capital investment in infrastructure that aligns with our financial priorities. In 2019, we delivered an impressive return on total in-service capital of approximately 14%.

In 2020, we plan on investing between $700 million and $800 million to advance our capital program currently underway. We expect to complete the second phase of the Wapiti gas plant by mid-2020 and the Wildhorse Terminal in the second half of the year, while continuing to progress the KAPS NGL and condensate pipeline system and the Pipestone gas plant. These projects represent significant steps in further enhancing our integrated network of infrastructure solutions.

Keyera's strong balance sheet and cash flow provide the capacity and flexibility to fund these organic growth opportunities. We are well positioned to fund the remaining portion of our current growth capital program without issuing common equity, apart from the dividend reinvestment program.

At Keyera, we remain committed to achieving the highest standard of operational excellence throughout the organization. During 2019, we continued to reinforce this commitment and achieved important performance milestones in safety and reliability.

Gathering and Processing Operations

The Gathering and Processing segment generated record operating margin of $294 million in 2019, an 8% increase over the prior year. Our natural gas processing volumes remained stable while operating margin increased due to contributions from liquids processing at the Wapiti gas plant and Pipestone liquids hub.

In 2019, we completed the first phase of the Wapiti gas plant, including the North Wapiti Pipeline System, and the expansion of the Simonette gas plant. This doubled our gas processing capacity in the liquids-rich Montney and Duvernay areas of northwestern Alberta to 600 million cubic feet per day and increased our condensate handling capacity to 52,000 barrels per day. Our new infrastructure supports producer activity in the area.

In west central Alberta, where drilling activity has been reduced due to low natural gas prices, we are reviewing various alternatives to optimize Keyera's operations and increase our competitiveness. Our goal is to improve utilization, reduce costs and increase profitability, while also improving customer netbacks.

Liquids Infrastructure Operations

The Liquids Infrastructure segment generated a record operating margin of $376 million in 2019, which represents a 16% increase over the prior year. This was primarily due to a full year contribution from the Base Line Terminal and continued demand for Keyera's fractionation, storage and condensate handling system assets. This demand continued in January 2020 with record volumes moving through our condensate system.

During the year, we continued to expand our underground cavern storage capacity at our Fort Saskatchewan facility and are on track to place a new cavern into service in each of the next three years. We also continued to advance construction of the Wildhorse Terminal, a crude oil storage and blending terminal in Cushing, Oklahoma expected to be operational in the second half of 2020.

Marketing Business

The Marketing segment reported an operating margin of $325 million in 2019 compared to $366 million in the prior year. Excluding the effect of unrealized gains and losses from risk management contracts, we achieved a record realized margin of $373 million compared to $296 million in 2018, exceeding our 2019 guidance of between $320 million and $350 million. Our record financial results were due to strong contributions from our iso-octane business, as our AEF facility operated at 90% of capacity for the year. Our financial results also benefited from contributions from liquids blending, condensate marketing, and an effective risk management strategy.

Business Development

In May 2019, we announced KAPS, an NGL and condensate pipeline system, which will provide a competitive liquids transportation alternative connecting gathering & processing assets in northwestern Alberta to our liquids infrastructure assets in Fort Saskatchewan. With the addition of KAPS, we are enhancing our portfolio of infrastructure assets, further integrating our upstream and downstream operations, and establishing a platform for future growth. The project remains on schedule to begin operating in 2022.

We expect to complete the second phase of the Wapiti gas plant in mid-2020, followed by the Pipestone gas plant in early 2021. When these projects are completed, Keyera will have a strong gathering and processing franchise in northwestern Alberta. These projects are underpinned by long-term agreements with producers, with volume profiles that will ramp up over the next few years and add to our fee-for-service, take-or-pay cash flows.

Outlook

The end of 2019 not only marks another outstanding year for Keyera, but also the end of a memorable decade. Our industry has faced numerous challenges in the last five years but has grown stronger and is now even more financially, operationally and socially responsible. Keyera's foundation is strong and we are well positioned to capitalize on the long-term growth opportunities within the Western Canada Sedimentary Basin as the world transitions to a lower carbon economy. Canada is a leader in responsible energy development and our hydrocarbon fuels are essential to meet increasing global demand for energy while minimizing the impact on the environment. At Keyera, we understand energy as part of a broader social picture and are committed to doing our part to minimize carbon emissions and improve the quality of life for millions of people around the world.

Leadership development and succession planning have always been priorities for Keyera and we are very proud of the depth of our leadership team. We recently announced the promotion of Dean Setoguchi to President and Chief Commercial Officer. I am excited to work closely with Dean and our leadership team to continue delivering steady disciplined growth to create long-term value for shareholders.

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. Our team is committed to delivering another year of strong financial performance, operational excellence and project execution.

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 February 26, 2020, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying audited consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the years ended December 31, 2019 and 2018 and the notes thereto. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Effective December 31, 2019, Keyera voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Voluntary Change in Accounting Policy" section of this document for a description of the changes and the effect on Keyera's consolidated financial statements. Comparative amounts for periods prior to January 1, 2018 included in this MD&A have not been restated. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

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

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

2. Liquids Infrastructure – Keyera owns and operates a network of facilities for the gathering, processing, storage and transportation of the by-products of natural gas processing, including NGLs in mix form and specification NGLs such as ethane, propane, butane and condensate. In addition, this segment includes Keyera's iso-octane facilities at Alberta EnviroFuels ("AEF"), its liquids blending facilities and its 50% interest in the crude oil storage facility at the Base Line Terminal.

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

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

Overview

Keyera recorded outstanding financial results in 2019, as all operating segments set records on a realized margin basis. Net earnings and Adjusted EBITDA also set new records in 2019, while distributable cash flow was lower than the prior year due to higher maintenance capital and cash tax expenses. These results highlight the value of Keyera's integrated asset base.

In 2019, several projects were completed in the Gathering & Processing segment that expand Keyera's footprint in the prolific Montney and Duvernay geological zones, where producers are actively drilling for condensate-rich gas. In the Liquids Infrastructure segment, continued growth in demand for Keyera's condensate handling services contributed to the record results delivered in 2019. Realized margin from the Marketing segment was $373 million, exceeding Keyera's previous guidance of between $320 million and $350 million. These impressive financial results were delivered despite two outages at AEF in 2019, including a five-week planned preventative maintenance outage in the fourth quarter.

Looking ahead to the future, Keyera's strategic priorities include the following:

- continue to be a safe, reliable and environmentally conscious operator of its facilities;
- successfully execute the current organic growth capital program, including the KAPS pipeline system;
- maximize utilization across all of Keyera's facilities, and increase the competitiveness and profitability of the Gathering & Processing segment by optimizing its portfolio of assets. This optimization strategy may include divesting of certain non-core assets, or consolidating certain facilities, so that capacity is reduced and utilization is increased at Keyera's most efficient facilities. The objective of this strategy is to ultimately reduce per unit operating costs, providing producers with higher netbacks and improving Keyera's profitability;
- focus the next phase of Keyera's growth in the Liquids Infrastructure segment, where Keyera has significant competitive advantages, including a highly integrated condensate system in Fort Saskatchewan; and
- utilize Keyera's highly integrated network of assets, including fractionation, storage and logistics expertise, to access high value markets for all products in the Marketing segment, while maintaining a disciplined risk management strategy.

Since Keyera became a corporation on January 1, 2011, it has invested over $6 billion on primarily fee-for-service infrastructure and has provided a compound annual growth rate of approximately 9% in distributable cash flow per share. Keyera continues to take a disciplined approach to its capital allocation, and in 2019 delivered an impressive return on total in-service capital of approximately 14%. Keyera remains committed to enhancing the quality of its cash flows by continuing to grow the fee-for-service proportion of its business.

Keyera expects the following for 2020:

- a cash tax recovery of between $15 million to $25 million (2019 – $98 million cash tax expense);
- maintenance capital expenditures to range between $35 million and $45 million (2019 – $105 million); and
- growth capital expenditures to range between $700 million and $800 million (2019 – $986 million), excluding acquisitions.

Contribution from the Marketing segment in 2020 is expected to exceed the base guidance of $180 million to $220 million, but be lower than the 2019 realized margin of $373 million, largely due to higher market prices for butane compared to the 2019/2020 contract year. Keyera expects to provide 2020 financial guidance for its Marketing business in the first quarter 2020 MD&A.

Funding for Growth Capital

Keyera currently has a $2.9 billion growth capital program underway, including $650 million for Keyera's 50% share of KAPS. Of this capital, $1.7 billion has been invested since inception, as phase one of the Wapiti gas plant, the North Wapiti Pipeline System and the Simonette expansion were all completed in 2019. With Keyera's strong balance sheet, it is well positioned to fund the remaining $1.2 billion of this capital program without issuing common equity, apart from the DRIP program.

Keyera's financing decisions incorporate several factors, including the objective of minimizing dilution to its common shareholders while preserving financial flexibility through a strong balance sheet and investment grade credit ratings. As a long-term target, Keyera's objective is to maintain a Net Debt to EBITDA ratio of between 2.5X to 3.0X, including 50% of any subordinated hybrid notes or preferred shares as debt. This range results in a leverage profile that supports Keyera's investment grade credit ratings. Using this methodology, the Net Debt to EBITDA ratio at December 31, 2019 was 2.7X. Refer to the section of the MD&A titled, "Liquidity & Capital Resources: Long-term Debt" for more information related to Keyera's covenant calculations.

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.

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the years ended December 31, 2019 and 2018:

(Thousands of Canadian dollars, except per share data)	2019	2018
Net earnings[1]	**443,609**	402,828
Net earnings per share[1] (basic)	**2.07**	1.94
Operating margin	**1,004,133**	976,199
Realized margin[2]	**1,053,727**	907,299
Adjusted EBITDA[3]	**944,101**	807,363
Cash flow from operating activities	**887,935**	604,329
Funds from operations[4]	**754,254**	696,298
Distributable cash flow[4]	**593,584**	638,124
Distributable cash flow per share[4] (basic)	**2.77**	3.08
Dividends declared	**396,862**	359,269
Dividends declared per share	**1.85**	1.73
Payout ratio[5]	**67%**	56%

Notes:

1 Net earnings for the year ended December 31, 2018 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

2 Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, "Segmented Results of Operations: Marketing", for a reconciliation of operating margin to realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes $1,682 of unrealized losses from commodity-related risk management contracts (2018 – $1,310 unrealized losses).

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

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

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

With the adoption of *IFRS 16, Leases* that was effective January 1, 2019, the effects on Keyera's financial results for the year ended December 31, 2019 were as follows:

- decrease in operating expenses of $53 million;
- increase in finance costs of $10 million;
- increase in depreciation, depletion and amortization expenses of $56 million; and
- a foreign currency gain on U.S. debt and other of $10 million.

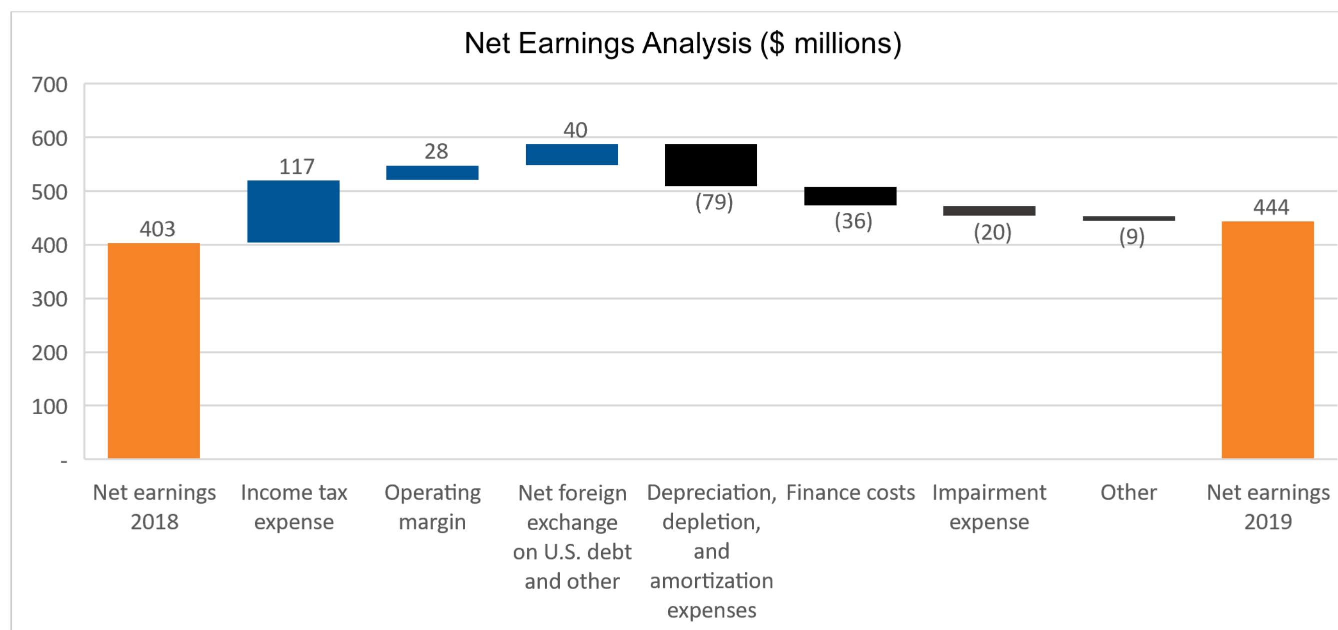
The adoption of *IFRS 16, Leases* also affected certain financial and non-GAAP measures for the year ended December 31, 2019 as follows:

- decrease in net income of $3 million;
- increase in operating margin, realized margin, and cash flow from operating activities of $53 million;
- decrease in cash flow from financing activities of $53 million; and
- an increase in funds from operations and adjusted EBITDA of $53 million.

Distributable cash flow was not affected by the adoption of *IFRS 16, Leases* as lease payments continue to be deducted from this non-GAAP measure. Refer to note 2, Basis of Preparation and note 17, Lease Liabilities, of the accompanying financial statements for further information on the adoption of *IFRS 16, Leases*.

Net Earnings

For the year ended December 31, 2019, net earnings were $444 million, $41 million higher than the prior year due to the following:



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

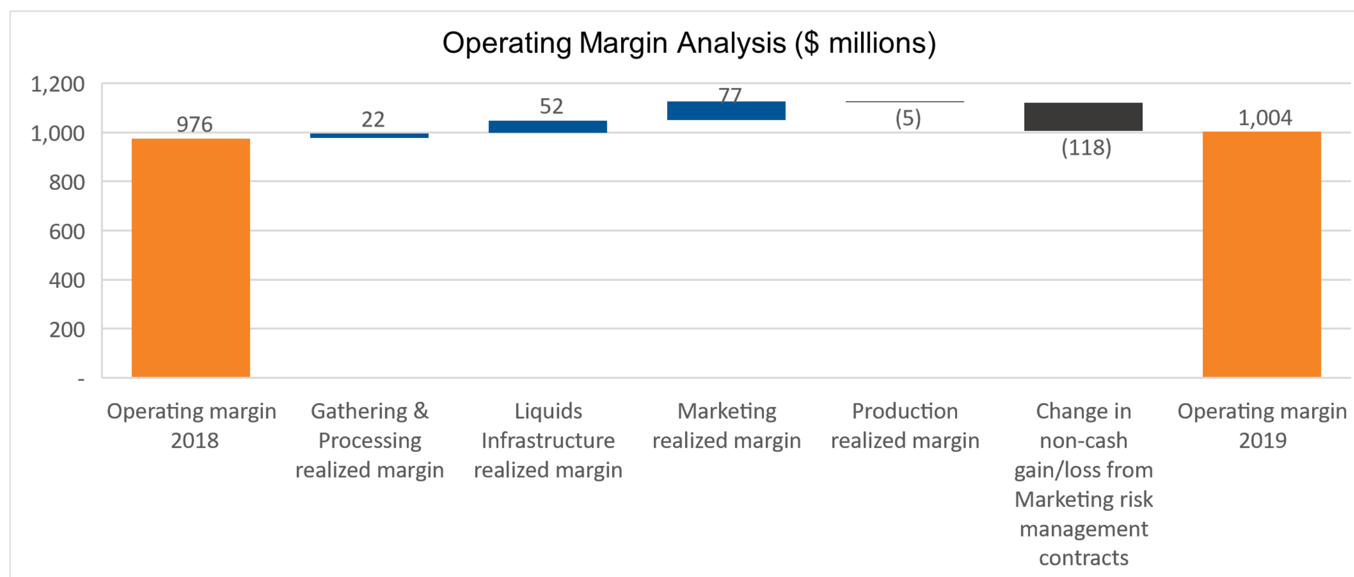
Operating Margin and Realized Margin

With the adoption of *IFRS 16, Leases*, rail car leases are no longer included in operating expenses of the Marketing segment but rather are capitalized for accounting purposes. The adoption of this standard did not result in the restatement of prior periods. Approximately $44 million of rail car lease costs were included in operating expenses of the Marketing segment for 2018.

For the year ended December 31, 2019, operating margin reached a record $1 billion, $28 million higher than 2018 due to the following:

- $146 million in higher realized margin from all operating segments as detailed below; partly offset by,

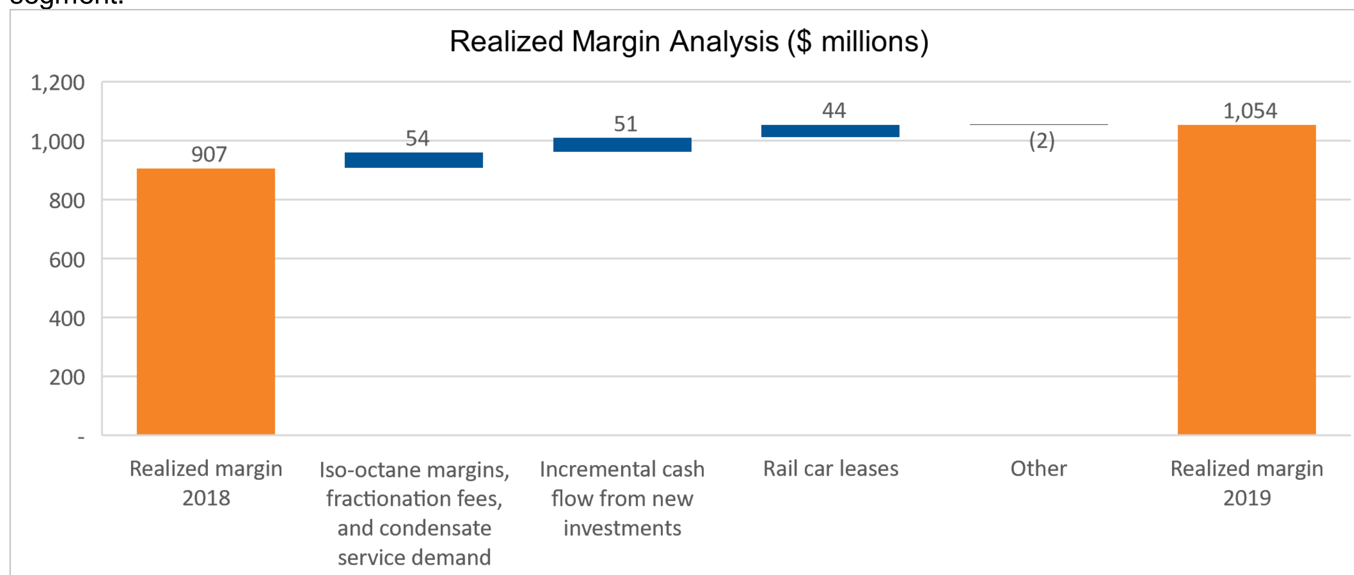
- the inclusion of an unrealized non-cash loss of $48 million associated with risk management contracts from the Marketing segment in 2019, compared to a non-cash gain of $70 million in 2018.



Realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) also reached a new record of $1.1 billion, $146 million or 16% higher than the prior year. The higher realized margin was largely due to the following factors:

- incremental cash flow from recent investments including: phase one of the Wapiti gas plant and associated infrastructure that came into service in 2019, the Pipestone Liquids Hub that began operations in September 2018, and a full year of contribution from the Base Line terminal;
- the overall growth in demand for Keyera's condensate network, including transportation and storage services, as well as incremental revenue and volumes from the Norlite pipeline;
- higher fractionation fees effective with the new contract year that began on April 1, 2019; and
- higher iso-octane margins resulting from: i) strong product premiums beginning in mid-April that continued for the remainder of the year; and ii) lower market costs for butane feedstock relative to the prior year.

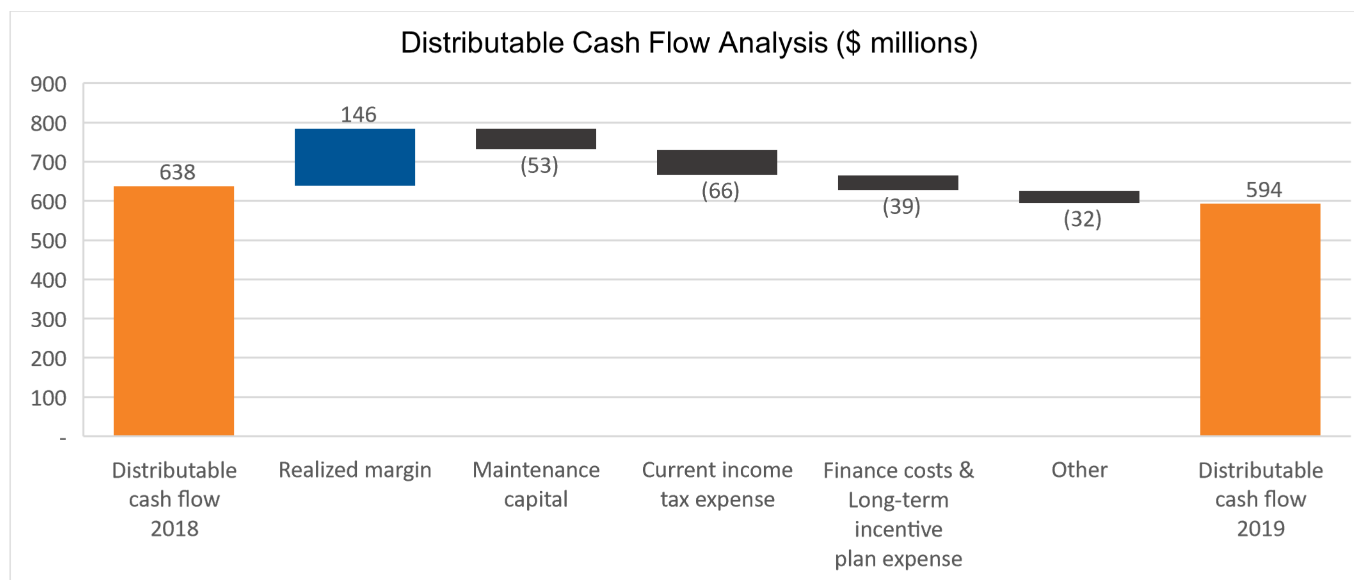
See the section titled "Segmented Results of Operations" for more information on operating results by segment.



Cash Flow Metrics

Cash flow metrics were also strong in 2019 as a direct result of the outstanding financial results recorded by all operating segments, as described above. Cash flow from operating activities for the year ended December 31, 2019 was $888 million, $284 million higher than 2018 because of: i) a reduced cash requirement to fund inventory due to lower average prices and lower volumes for butane and propane at the end of 2019 compared to the end of 2018; and ii) $146 million in higher realized margin from all operating segments.

Distributable cash flow in 2019 was $594 million, $45 million lower than the prior year because of higher current tax and maintenance capital expenses.



Refer to the sections of this MD&A titled, “Dividends: Funds from Operations and Distributable Cash Flow”, for a reconciliation of cash flow from operating activities to funds from operations and distributable cash flow and “Results of Operations: Marketing”, for a reconciliation of operating margin to realized margin related to the Marketing segment.

SEGMENTED RESULTS OF OPERATIONS

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. These segment measures of profitability for the years ended December 31, 2019 and 2018 are reported in note 32, Segment Information, of the accompanying financial statements. A complete description of Keyera's businesses by segment can be found in Keyera's Annual Information Form, which is available at www.sedar.com.

Gathering and Processing

Keyera currently has interests in 16 active gas plants[1] and one gas plant that is under construction, all of which are located in Alberta. Keyera operates 14 of the 16 active gas plants and has the option to become the operator of the gas plant currently under construction, five years after the commencement of its operations. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin ("WCSB"). Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Most of Keyera's facilities are also equipped with condensate handling capabilities. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

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

Operating Margin and Throughput Information (Thousands of Canadian dollars)	**2019**	2018
Revenue[2]	**513,452**	458,441
Operating expenses[2]	**(219,072)**	(185,927)
Unrealized loss on electricity and other financial contracts	**(664)**	(681)
Total operating expenses	**(219,736)**	(186,608)
Operating margin	**293,716**	271,833
Gross processing throughput – (MMcf/d)	**1,496**	1,537
Net processing throughput[3] – (MMcf/d)	**1,191**	1,193

Notes:
[2] Includes inter-segment transactions.
[3] Net processing throughput refers to Keyera's share of raw gas processed at its processing facilities.

Operating Margin and Revenues

Annual Results

The Gathering and Processing segment posted record financial results in 2019 with operating margin of $294 million, an increase of $22 million or 8% compared to 2018 primarily due to:

- $38 million in incremental operating margin from phase one of the Wapiti gas plant and North Wapiti pipeline system which came into service in May and September 2019, the Pipestone Liquids Hub that began operations in September 2018, and higher liquids volumes processed through the expanded liquids handling infrastructure at Simonette.

These factors were partly offset by:

- $12 million in lower operating margin due to a reduction in fees provided to two customers in exchange for longer-term commitments of volume, and the ability to process volumes at several Keyera facilities in the west central Alberta area. Agreements with these customers were finalized in the first quarter of 2019 and fourth quarter of 2018; and

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

- a one-time $6 million upward revenue adjustment in 2018 to reflect the value received from acquiring a 40% ownership interest in a raw gas gathering pipeline which spans across the Willesden Green and Ferrier areas.

Revenue

Gathering and Processing revenue for the year ended December 31, 2019 was $513 million, $55 million higher than the same period in 2018. The increased revenues were primarily attributable to the same factors that contributed to higher operating margin, as well as higher ethane sales revenue in 2019. Ethane sales are generally based on index pricing and can significantly influence revenues; however, the effect on operating margin is minimal as ethane purchases from producers are also based on index pricing and are included in operating expenses.

Gathering and Processing Activity

The year ended December 31, 2019 was a busy year for the Gathering & Processing segment as several major projects were completed. These projects primarily focused on expanding Keyera's footprint in the liquids-rich Montney and Duvernay geological zones where producer activity is strong due to condensate-rich gas. Refer to the tables below, "Gathering and Processing – Completed Projects and Capital Projects Status Update", for detailed information on the projects that were completed during the year.

Phase one of the Wapiti gas plant, which became operational in May 2019, continued to increase its gross processing throughput during the second half of 2019 as the North Wapiti Pipeline became operational in September. The new pipeline began delivering incremental volumes from Pipestone Energy Corp. ("PEC"), while volumes from Paramount Resources Ltd., the primary customer for phase one of the Wapiti gas plant, remained stable.

In early 2020, PEC exercised its option to secure an additional 30 million cubic feet per day of gathering, compression and processing capacity at the Wapiti gas plant beginning in the fourth quarter of 2020. With the exercise of this option, PEC's total throughput commitment increases to 90 million cubic feet per day, and the take-or-pay component increases to 80% of the committed volume beginning in April 2021. To accommodate the additional volumes at the Wapiti gas plant, Keyera will expand its existing compressor station for a capital cost of approximately $15 million.

In May 2019, Keyera secured an additional long-term volume commitment with a new customer that includes take-or-pay obligations at the Pipestone gas plant that is currently under construction. The new agreement will utilize all of the remaining capacity available in the first phase of that gas plant.

The investments in the newly completed infrastructure at the Wapiti and Simonette facilities will continue to contribute incremental cash flow in 2020, along with phase two of the Wapiti gas plant which is scheduled to be operational by mid-2020. Partly offsetting this incremental cash flow will be reduced volumes and revenue at Keyera's Brazeau River gas plant beginning in the spring of 2020, where a customer will be diverting volumes to their own facility for processing. As previously reported, the financial impact is expected to be a reduction in operating margin of approximately $10 million relative to 2019.

Gross processing throughput for the Gathering and Processing segment averaged 1,496 million cubic feet per day in 2019, 3% lower than 2018. The lower throughput in 2019 was primarily due to weak natural gas and NGL prices that contributed to lower producer activity levels and production declines across several facilities in west central Alberta, including the Rimbey and Nevis gas plants, and the third party operated Edson gas plant. As a result, Keyera suspended operations at its Nevis gas plant in September.

One of Keyera's strategic priorities for the Gathering and Processing segment is to increase its competitiveness and enhance customer netbacks by reducing operating costs on a per unit basis. To do this, Keyera is currently reviewing various optimization strategies that are intended to reduce redundant costs, attract volumes to its most efficient facilities, increase liquids recoveries and ultimately increase customer netbacks and profitability for Keyera. As an example, in the fourth quarter operations at the Gilby gas plant were suspended and substantially all the volume was successfully redirected to the Rimbey gas

plant for processing as these two facilities are inter-connected. Rimbey has liquids extraction capabilities, onsite fractionation and competitive market access for NGLs. The cost savings associated with the Gilby turndown will be realized over the next year.

Maintenance turnarounds at the Rimbey, Pembina North, Cynthia, and Ricinus gas plants were completed during the second and third quarters of 2019 at a total cost of approximately $44 million. For 2020, maintenance turnarounds are scheduled to occur at the West Pembina and Zeta Creek gas plants at a total estimated cost of $11 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. 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 following table provides more detail related to previously announced and recently completed major projects in the Gathering and Processing segment:

Gathering and Processing – COMPLETED PROJECTS		
Facility/Area	**Project Description**	**Cost Information**
Simonette	***Simonette Acid Gas Injection and Inlet Liquids Separation Facilities:*** The following major assets were 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.	The inlet liquids separation facilities and flare system were completed and commenced operations at the beginning of March 2019. The acid gas injection facilities became operational in July 2019. *Cost to complete:* • Completed at a cost of $80 million, $20 million lower than the original estimate *Total net costs to December 31, 2019:* • $41 million for the year ended December 31, 2019 • $80 million since inception
Simonette	***Simonette Expansion Project:*** The expansion project created 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.	The expansion project became operational at the beginning of September 2019. *Cost to complete:* • Completed at a total cost of $71 million, $14 million lower than the original estimate. *Total net costs to December 31, 2019:* • $46 million for the year ended December 31, 2019 • $71 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
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, field compressor stations, and condensate treating facilities.	***Wapiti Gas Plant (Phase One):*** Phase one of the Wapiti gas plant was completed and began operating in May 2019.
	Water Disposal System: This project includes the installation of high pressure injection pumps and pipeline connectivity for multiple disposal wells that are capable of disposing up to 30,000 barrels per day of produced water from the Wapiti gas plant.	***Water Disposal System:*** The water disposal system became operational with the start-up of phase one of the Wapiti gas plant in May 2019. The system is currently equipped with two disposal wells, with the second disposal well coming into service in August 2019.
	North Wapiti Pipeline System: The North Wapiti Pipeline System extends the capture area of Keyera's Wapiti gas plant and includes a 12-inch sour gas gathering pipeline, an 8-inch condensate and water pipeline, and a compressor station.	***North Wapiti Pipeline System:*** The pipeline system commenced operations in September 2019. An expansion to the compressor station is scheduled to be complete by the fourth quarter of 2020 as a result of PEC's additional volume commitment.
	Gold Creek Compressor and Gathering System Expansion: This project provides additional compression and includes an expansion of the Wapiti gathering system.	***Gold Creek Compressor and Gathering System Expansion:*** Construction activities on the compressor station continued to progress in the fourth quarter of 2019. The additional compression and expansion of the Wapiti gathering system is anticipated to be operational by mid-2020.
	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.	***Wapiti Gas Plant (Phase Two):*** Fabrication of major equipment and engineering work was substantially complete while construction activities continued in the fourth quarter of 2019. Phase two of the Wapiti gas plant is expected to be complete by mid-2020. *Estimated total cost to complete the Wapiti complex and related infrastructure:* • approximately $1 billion *Total net costs to December 31, 2019:* • $346 million for the year ended December 31, 2019 • $931 million since inception (including $19 million in 2016 to acquire the project and acid gas injection well and $10 million for the acquisition of land)

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Pipestone	***Pipestone Gas Plant:*** The Pipestone gas plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, 24,000 barrels per day of condensate processing capacity, and associated water disposal facilities.	Field construction, detailed engineering, and procurement activities continued in the fourth quarter of 2019. The Pipestone gas plant is expected to be operational in early 2021. *Estimated total cost to complete:* • approximately $600 million *Total net costs to December 31, 2019:* • $300 million for the year ended December 31, 2019 • $340 million since inception

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

Liquids Infrastructure

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

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

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**2019**	2018
Revenue[1]	**544,318**	478,037
Operating expenses[1]	**(167,062)**	(152,447)
Unrealized loss on electricity financial contracts	**(856)**	(1,134)
Total operating expenses	**(167,918)**	(153,581)
Operating margin	**376,400**	324,456

Note:
[1] Includes inter-segment transactions.

Operating Margin and Revenue

Annual Results

The Liquids Infrastructure segment posted another year of record financial results in 2019. For the year ended December 31, 2019, operating margin was $376 million, $52 million or 16% higher than 2018. The higher financial results were primarily due to the following:

- $17 million in incremental operating margin from the Base Line terminal that was brought into service in phases starting in January 2018, with all 12 tanks operational in October 2018;

- approximately $13 million in higher margin associated with the overall growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental volumes and revenue from the Norlite pipeline; and

- higher fractionation revenue resulting from an increase in fees effective with the new NGL contract year that began on April 1, 2019.

Revenue
Liquids Infrastructure revenues for the year ended December 31, 2019 were $544 million, $66 million higher than 2018 largely due to the same factors that contributed to higher operating margin, as well as the recovery of $11 million in repair costs associated with the planned maintenance outage at AEF in the fourth quarter of 2019. These costs were fully recovered from the Marketing segment and do not have an impact on operating margin for the Liquids Infrastructure segment.

Liquids Infrastructure Activity
The year ended December 31, 2019, was also a busy year for the Liquids Infrastructure segment as Keyera announced that it is proceeding with the construction of an NGL and condensate gathering system, called "KAPS". This project strengthens Keyera's competitive position by providing an alternative transportation solution to deliver production from Alberta's liquids-rich developments to market. KAPS also provides Keyera with a platform for numerous future potential opportunities including additional condensate and ethane services, fractionation, storage, terminalling and marketing services. KAPS will be an open access system with initial connections into Keyera's fractionation assets and condensate system in Fort Saskatchewan.

KAPS is a 50/50 joint venture with SemCAMS Midstream ULS ("SemCAMS") and is anchored by multiple long-term agreements, averaging 14 years in length with 75% take-or-pay commitments, as well as specific facility and area dedications. The customer base for KAPS is broad and includes investment grade counterparties. Refer to the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to this project, including estimated cost to complete and expected completion time.

The demand for condensate, which is used as a diluent by oilsands producers, has continued to grow in Alberta. Keyera operates an industry-leading condensate hub in Western Canada that includes connections to: i) all major condensate receipt points, including Pembina's Cochin pipeline and Canadian Diluent Hub, Enbridge's Southern Lights pipeline and CRW pool, and the Fort Saskatchewan area fractionators; and ii) all major condensate delivery points, including Inter Pipeline's Polaris and Cold Lake pipelines, the Norlite pipeline and CRW pool, and Wolf's Access pipeline system.

Keyera estimates that it owns and operates 65% to 70% of total condensate storage in Alberta, and transports greater than 50% of the condensate required to meet oil sands demand. 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 complex averaged slightly above nameplate capacity in 2019, despite the first fractionation unit being taken offline for approximately six weeks beginning in October. During this unplanned outage, Keyera was able to access alternative fractionation capacity to fulfill its customers' needs.

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 90% of nameplate capacity in 2019. In February, AEF was taken offline for approximately 17 days to address an equipment failure.

In October, Keyera took the AEF facility offline to complete preventative maintenance work, as well as to complete some of the work that would have been undertaken during the scheduled turnaround in 2020. The maintenance outage was successful, and the facility was operational by mid-November. Because of the scope of the planned outage in 2019, the next turnaround at AEF is now scheduled to occur in the fall of 2021 instead

of 2020. The incremental costs in 2019 associated with this planned outage was $22 million. Of this total, approximately half was expensed in the fourth quarter as operating expense and was flowed through in full to the Marketing segment, with the remainder of the costs being treated as maintenance capital.

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

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Fort Saskatchewan	***Underground Storage Development:*** Development of five additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	***Construction-In-Progress Assets:*** Washing of the 16th cavern was completed in December 2019 while washing of the 17th cavern continued in the fourth quarter of 2019. These caverns are expected to be in service by mid-2020 and the first half of 2021, respectively. Drilling activities for the 18th cavern were completed in the second quarter of 2019. Construction of the cavern's related infrastructure continued in the fourth quarter of 2019. This cavern is anticipated to be operational in the second half of 2022. Engineering work related to the 19th cavern commenced in the fourth quarter of 2019. ***Completed Assets:*** The 15th cavern and its related infrastructure was put into service in early May 2018. *Estimated total cost to complete:* • Gross cost is approximately $160 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment • Keyera's net share is approximately $125 million *Total net costs to December, 2019:* • $12 million for the year ended December 31, 2019 • $93 million since inception (includes costs related to the 15th cavern that was completed in May 2018)

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
KAPS (50/50 joint venture with SemCAMS)	***KAPS NGL and Condensate Pipeline System:*** Development of a 12-inch and 16-inch NGL and condensate pipeline system that will transport Montney and Duvernay production in northwestern Alberta to Keyera's fractionation assets and condensate system in Fort Saskatchewan. Along its route, KAPS will be connected to Keyera's Pipestone, Wapiti, and Simonette gas plants and several third-party gas plants.	Engineering work on the main line and pump station commenced in the fourth quarter of 2019. KAPS is anticipated to be operational in the first half of 2022. *Estimated total cost to complete:* • preliminary gross cost estimate of $1.3 billion • Keyera's net share is approximately $650 million *Total net costs to December 31, 2019:* • $11 million for the year ended December 31, 2019 • $11 million since inception
South Cheecham (50/50 joint venture with Enbridge)	***Sulphur Facilities:*** Development of sulphur handling, forming, and storage facilities at the South Cheecham rail and truck terminal.	Detailed engineering activities continued through the fourth quarter of 2019. The sulphur facilities are anticipated to be operational in 2022. *Estimated total cost to complete:* • preliminary gross cost estimate of $115 million • Keyera's net share is approximately $58 million *Total net costs to December 31, 2019:* • $1 million for the year ended December 31, 2019 • $1 million since inception

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)	***Wildhorse Terminal ("Wildhorse"):*** Development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. Wildhorse will initially be pipeline connected to two existing storage terminals in Cushing.	During the fourth quarter of 2019 construction of the terminal continued to advance. The terminal is expected to be operational in the second half of 2020. *Estimated total cost to complete:* • gross cost is approximately US$219 million • Keyera's net share of costs is approximately US$197 million *Total net costs to December 31, 2019:* • $105 million (US$80 million) for the year ended December 31, 2019 • $181 million (US$140 million) since inception

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

Marketing

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

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

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

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

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

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

Keyera expects its Marketing business to contribute, on average, a "base realized margin" of between $180 million and $220 million annually. This base contribution assumes: i) AEF operates near capacity; ii) butane feedstock costs are comparable to the 2018 contract year; iii) crude oil prices range between US$55 per barrel and US$65 per barrel; iv) there are no significant logistics or transportation curtailments; and v) producers deliver their volumes according to plan. There are numerous variables that can affect the results from Keyera's Marketing segment. For a detailed discussion of risk factors that affect Keyera, see Keyera's Annual Information Form which is available at www.sedar.com.

For 2019, Keyera significantly outperformed this base range and generated realized margin of $373 million. This was primarily due to exceptional iso-octane margins as described in more detail below.

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

Operating and Realized Margin (Thousands of Canadian dollars, except for sales volume information)	2019	2018
Revenue[1]	**2,879,757**	3,811,915
Operating expenses[1]	**(2,554,769)**	(3,445,685)
Operating margin	**324,988**	366,230
Unrealized loss (gain) on risk management contracts	**47,912**	(70,210)
Realized margin	**372,900**	296,020
Sales volumes (Bbl/d)	**150,100**	152,300

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)	2019	2018
Physical sales	**2,918,108**	3,730,386
Realized cash gain on financial contracts[1]	**9,561**	11,319
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	**(41,516)**	27,599
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	**(5,371)**	41,516
Unrealized (loss) gain from change in fair value of fixed price physical contracts[2]	**(1,025)**	1,095
Total unrealized (loss) gain on risk management contracts	**(47,912)**	70,210
Total (loss) gain on risk management contracts	**(38,351)**	81,529
Total Marketing revenue	**2,879,757**	3,811,915

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

As described throughout this MD&A, with the adoption of *IFRS 16, Leases* on January 1, 2019, rail car leases are now capitalized for accounting purposes and are no longer included in operating expenses of the Marketing segment. The adoption of this standard did not require the restatement of prior periods. Accordingly, the financial results of the Marketing segment are not directly comparable between periods as $44 million of rail car lease costs were included in the financial results for year ended December 31, 2018. Refer to note 2, Basis of Preparation and note 17, Lease Liabilities, of the accompanying financial statements for further information on the adoption of *IFRS 16, Leases*.

Annual Results

For the year ended December 31, 2019, the Marketing segment posted outstanding financial results. Operating margin for 2019 was $325 million, $41 million lower than the prior year due to the inclusion of a $48 million non-cash unrealized loss from risk management contracts, compared to a non-cash gain of $70 million in 2018.

On a realized margin basis, the Marketing segment posted record results in 2019 despite two outages at AEF during the year. Realized margin was $373 million, $77 million higher than 2018 primarily due to the following:

- higher iso-octane margins that resulted from i) exceptionally strong product premiums in the second half of the year; and ii) lower average butane feedstock costs relative to the prior year; and
- $44 million of rail car lease expenses that were included in the 2018 financial results that are now capitalized for accounting purposes; and
- higher contribution from the liquids blending business in 2019, as the Oklahoma Liquids Terminal that was acquired in mid-2018 continues to perform well.

The Marketing segment delivered outstanding financial results despite two outages at AEF in 2019. AEF was taken offline for unscheduled repair work in February 2019 which resulted in lower iso-octane sales volumes during that period. Because of the outage, butane was also sold at low market prices in the first quarter to manage inventory levels.

During the fourth quarter of 2019, AEF was taken offline for approximately five weeks to complete preventative maintenance work, as well as to complete some of the work that would have been undertaken during the turnaround originally scheduled for 2020. Accordingly, the next turnaround has now been pushed out one year and is scheduled to occur in 2021.

Revenue

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the year ended December 31, 2019, revenue from physical sales was $812 million lower compared to the prior year due to lower average sales prices for substantially all products.

Market Overview

Contribution from the Marketing segment in 2019 was outstanding as Keyera was able to effectively utilize its infrastructure including storage, fractionation and transportation capabilities, as well as the AEF facility to generate record realized margin in the year. In 2019, Keyera significantly exceeded its base realized margin of between $180 million and $220 million, because of positive market conditions that contributed to record iso-octane margins during the year. These market factors included:

- strong product premiums that began in mid-April and continued into the fourth quarter due to a growing demand for high-octane blending components throughout the United States; and
- lower market costs for butane feedstock relative to 2018.

Market conditions for iso-octane have been positive and have remained robust into 2020 because of unusually high demand for high-octane blending components resulting from: i) the closing of the Philadelphia Energy Solutions ("PES") refinery in late June, which was one of the largest suppliers of gasoline on the U.S. east coast; ii) strong export demand for gasoline, in particular from Latin American countries; and iii) the introduction of regulations effective January 2020 that require the reduction of sulphur content in U.S. motor gasoline and in marine fuels ("IMO 2020"). One common solution to reduce sulphur content is for refiners to increase the temperature of their processing units, which results in lower octane gasoline blendstocks. These new regulations effectively reduce the octane produced by traditional refineries, which supports strong demand for iso-octane.

Because butane is the primary feedstock to produce iso-octane, butane costs directly affect iso-octane margins. The majority of Keyera's butane supply is purchased on a one-year term basis. For the contract year that began on April 1, 2019, the market price for butane was significantly lower than the prior contract year. In recent months, butane prices have strengthened, and feedstock costs are expected to be significantly higher for the contract year beginning April 1, 2020 compared to the 2019/2020 contract year.

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. Also, Keyera imports condensate into Alberta by rail when demand fundamentals support positive product margins. Contributions from the sale of condensate and Keyera's liquids blending business continued to be strong in 2019.

In 2019, Keyera entered into an agreement to provide butane to Kinder Morgan for liquids blending service at their Galena Park facility. The capital investment associated with this butane-on-demand blending system currently being constructed by Kinder Morgan is approximately US$50 million. This project includes butane storage and pipeline connections and is expected to be operational by the first quarter of 2021, at which time Keyera will reimburse Kinder Morgan for the cost of the project.

Propane prices and margins were strong in the fourth quarter of 2019 due to high demand from a combination of cold weather and crop drying in the U.S. Midwest. Keyera utilized its Josephburg Terminal to export propane by rail to meet this demand. Local demand for propane was also strong as inventory levels were significantly lower compared to a year ago as more volumes were exported to the west coast. In the second quarter of 2019, Keyera began supplying propane on a ratable basis to a west coast export terminal that has helped to reduce some of the seasonality in propane volumes and margins.

Risk Management

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

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

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

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

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

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

For the year ended December 31, 2019, the total unrealized loss on risk management contracts was $48 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding risk management contracts as at December 31, 2019 resulted in an unrealized (non-cash) loss of $5 million that primarily related to iso-octane risk management 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 December 31, 2019, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 24, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	**2019**	2018
Other income (operating margin)	**9,029**	13,680
General and administrative (net of overhead recoveries on operated facilities)	**(83,492)**	(85,674)
Finance costs[1]	**(113,066)**	(77,421)
Depreciation, depletion and amortization expenses[1]	**(278,292)**	(199,633)
Net foreign currency gain (loss) on U.S. debt and other	**34,352**	(5,317)
Long-term incentive plan expense	**(26,134)**	(14,262)
Impairment expense[1]	**(77,095)**	(56,911)
Income tax expense[1]	**(16,797)**	(133,867)

Notes:
[1] 2018 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

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

Other income for the year ended December 31, 2019 was $9 million, $5 million lower than the prior year. Production for the year ended December 31, 2019 averaged 3,129 barrels of oil equivalent per day compared to 3,670 barrels of oil equivalent per day in 2018.

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 2019 were $83 million, $2 million lower than the prior year. The higher costs in 2018 were primarily due to $6 million in interest charges and other costs related to the settlement of a construction dispute. In the fourth quarter of 2019, a one-time charge of $4 million was incurred to terminate an option agreement on land that was acquired in 2016 near Fort Saskatchewan.

Finance Costs (including accretion)
Finance costs for the year ended December 31, 2019 were $113 million, $36 million higher than the prior year primarily due to incremental interest expense related to:

- the $600 million subordinated hybrid note that was issued in June 2019; and
- lease liabilities recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to note 17, Lease Liabilities, of the accompanying financial statements for further information.

Depreciation, Depletion and Amortization Expenses
Depreciation, depletion and amortization ("DD&A") expenses were $278 million in 2019, $79 million higher than the prior year due to: i) an increase in Keyera's overall asset base including phase one of the Wapiti gas plant, the North Wapiti Pipeline System, South Grand Rapids Pipeline, Simonette Acid Gas Injection and Liquids Separation Facilities, Simonette Expansion, Pipestone Liquids Hub, and the Oklahoma Liquids Terminal; and ii) depreciation related to the right-of-use assets recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to note 12, Right-of-Use Assets, of the accompanying financial statements for further information.

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

Net Foreign Currency Gain (Loss) on U.S. Debt and Other (Thousands of Canadian dollars)	**2019**	2018
Translation of long-term debt and interest payable	**29,861**	(50,297)
Change in fair value of cross-currency swaps – principal and interest portion	**(8,800)**	42,265
Gain on cross-currency swaps – interest portion[1]	**3,116**	2,715
Foreign exchange re-measurement of lease liabilities and other	**10,175**	—
Net foreign currency gain (loss) on U.S. debt and other	**34,352**	(5,317)

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

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Additional information on the swap agreements can be found in note 24, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of $34 million was recorded for the year ended December 31, 2019. The gain was primarily comprised of: i) a $30 million non-cash gain from the translation of U.S. dollar denominated debt into Canadian dollars as the Canadian dollar strengthened relative to the U.S. dollar since the end of 2018; and ii) a $10 million non-cash gain from the re-measurement of U.S. dollar denominated lease liabilities and other. These factors were partly offset by a $9 million non-cash loss resulting from the change in fair value of cross currency swaps agreements since the end of 2018.

Lease liabilities were recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to note 17, Lease Liabilities, of the accompanying financial statements for further information.

Long-Term Incentive Plan Expense
The Long-Term Incentive Plan ("LTIP") expense was $26 million for the year ended December 31, 2019, $12 million higher than the prior year. The higher LTIP expense in 2019 was primarily attributable to the growth in share price at the end of 2019 relative to the end of 2018, compared to a decrease in share price during the prior year.

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 fourth quarter of 2019, an impairment charge of $77 million was recorded to reduce the carrying values of the Bigoray, Gilby, Willesden Green, and Minnehik Buck Lake gas plants, as well as the inactive West Pembina production wells, to their recoverable amounts. For the Bigoray gas plant, underutilization of the facility was the primary factor that resulted in a reduction in the carrying value of the asset. For the Gilby gas plant, the reduction was due to the suspension of operations at the facility, which also triggered a reduction in carrying value for the Willesden Green gas plant as this facility was repurposed. The reduction for the Minnehik Buck Lake gas plant was due to lower throughput in the capture area that surrounds this asset. The West Pembina wells are inactive and were written down to a nominal carrying value.

In 2018, an impairment charge of $57 million was recorded to reduce the carrying value of the Minnehik Buck Lake and Zeta Creek gas plants to their recoverable amounts as a result of reduced drilling activity and corresponding throughput at these facilities.

Impairment expenses are non-cash charges and do not affect operating margin, funds from operations, distributable cash flow, or adjusted EBITDA.

Taxes

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

Current Income Taxes

Current income tax expense for the year ended December 31, 2019 was $98 million, compared to an expense of $32 million in 2018. The increase in current tax expense was primarily due to taxable income exceeding the amount of available tax pool deductions.

For 2020 a current income tax recovery between $15 million to $25 million is expected as approximately $1 billion of announced capital projects, primarily from the Gathering and Processing segment, became available for use in 2019, allowing for a tax loss carryback and refund in 2020. The majority of the costs associated with these capital projects attract a 25% tax depreciation rate (Capital Cost allowance or “CCA”) with some costs being eligible for accelerated first-year CCA deductions. Accelerated first-year CCA deductions were announced as part of the Accelerated Investment Incentive by the Federal Minister of Finance in November 2018, and became substantively enacted in April 2019. This incentive will remain in effect until 2023, at which point it will be gradually phased out.

The current tax expense estimates for 2020 assumes Keyera’s business performs as planned and its capital projects are completed as expected. For 2020 and 2021, a further $800 million of announced capital projects in the Gathering and Processing segment are expected to be available for use. In addition, the cost of turnarounds are fully deductible in the year they are incurred for income tax purposes.

Deferred Income Taxes

A deferred income tax recovery of $81 million was recorded for the year ended December 31, 2019 compared to a deferred income tax expense of $102 million in 2018. The deferred income tax recovery in 2019 is primarily the result of a gradual decrease in the Alberta corporate income tax rate from 12% in the first half of 2019 to 8% in 2022. The new tax rates were enacted on June 28, 2019.

Keyera estimates its total tax pools at December 31, 2019 were approximately $3.7 billion.

SUMMARY FOURTH QUARTER RESULTS

Fourth Quarter Financial and Operational Highlights (Thousands of Canadian dollars, except per unit and volumetric information)	**Three Months Ended December 31, 2019**	2018
Operating Margin		
Gathering and Processing	**80,878**	73,530
Liquids Infrastructure	**91,305**	83,768
Marketing	**87,375**	156,623
Other	**2,883**	2,902
Operating margin	**262,441**	316,823
Realized margin[1]	**295,459**	265,577
Net earnings[2]	**29,718**	165,946
Earnings per share[2] (basic)	**0.14**	0.79
Adjusted EBITDA[3]	**261,387**	248,278
Cash flow from operating activities	**213,676**	245,632
Funds from operations[4]	**200,871**	219,669
Distributable cash flow[4]	**158,261**	200,397
Distributable cash flow per share (basic)[4]	**0.73**	0.96
Dividends declared	**104,280**	94,437
Dividends declared per share	**0.48**	0.45
Capital expenditures (including acquisitions)	**283,504**	248,573
Volumetric Information		
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,483**	1,551
Net processing throughput (MMcf/d)	**1,186**	1,215
Liquids Infrastructure[5]:		
Gross fractionation throughput (Mbbl/d)	**157**	182
Net fractionation throughput (Mbbl/d)	**70**	83
AEF iso-octane production volumes (Mbbl/d)	**9**	10
Marketing:		
Sales volumes (Bbl/d)	**177,300**	165,700

Notes:

1 Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the Composition of Marketing Revenue and Operating/Realized Margin table below for a reconciliation of Operating Margin to Realized Margin as it relates to the Marketing segment. Included in Operating margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment is $385 of unrealized losses from commodity-related risk management contracts (2018 – $221 unrealized gains).

2 Net earnings for the year ended December 31, 2018 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

3 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 Adjusted EBITDA table below for a reconciliation of Adjusted EBITDA to its most closely related GAAP measure.

4 Funds from operations and Distributable cash flow are not standard measures under GAAP. See the Funds from Operations and Distributable Cash Flow table below for a reconciliation of funds from operations and distributable cash flow to its most closely related GAAP measure.

5 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.

Composition of Marketing Revenue and Operating/Realized Margin (Thousands of Canadian dollars)	**Three months ended December 31,** **2019**	2018
Physical sales	**812,721**	843,888
Realized cash gain on financial contracts[1]	**3,811**	66,577
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	**(26,843)**	9,007
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	**(5,371)**	41,516
Unrealized (loss) gain resulting from change in fair value of fixed price physical contracts[2]	**(419)**	502
Total unrealized (loss) gain on risk management contracts	**(32,633)**	51,025
Total (loss) gain on risk management contracts	**(28,822)**	117,602
Revenue[3]	**783,899**	961,490
Operating Expenses[3]	**(696,524)**	(804,867)
Marketing operating margin	**87,375**	156,623
Unrealized loss (gain) on risk management contracts	**32,633**	(51,025)
Marketing realized margin	**120,008**	105,598

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.
3 Includes inter-segment transactions.

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

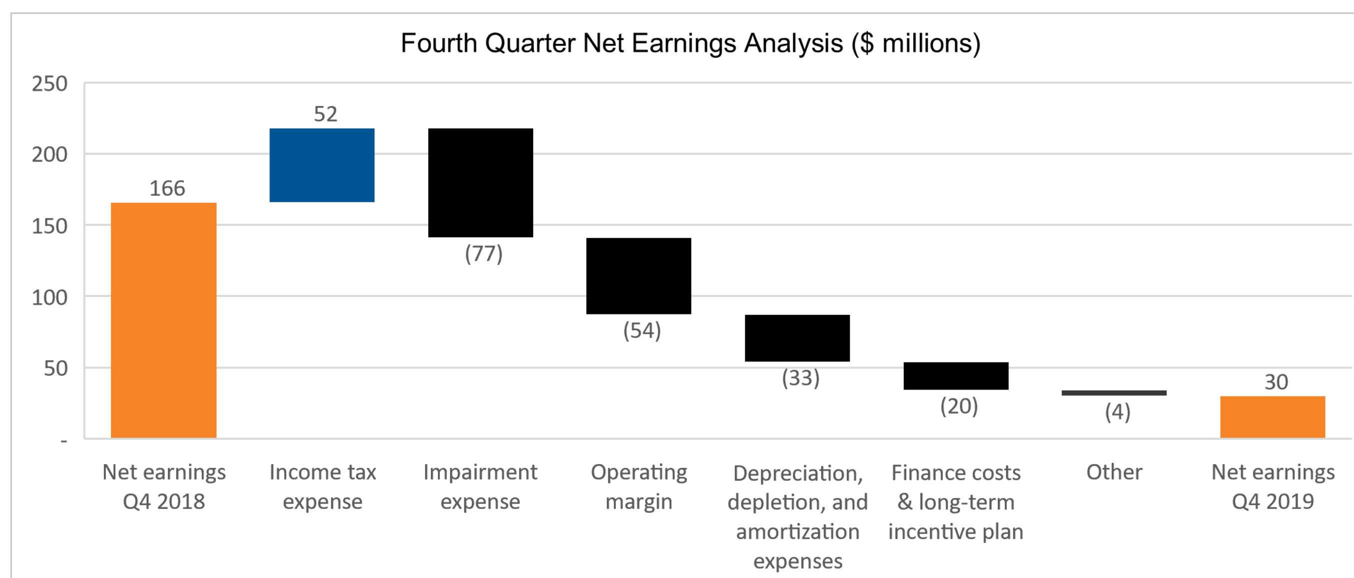
Funds from Operations and Distributable Cash Flow (Thousands of Canadian dollars)	**Three months ended December 31,** **2019**	2018
Cash flow from operating activities	**213,676**	245,632
Add (deduct):		
Changes in non-cash working capital	**(12,805)**	(25,963)
Funds from operations	**200,871**	219,669
Maintenance capital	**(29,732)**	(14,419)
Leases	**(12,878)**	—
Inventory write-down	**—**	(4,853)
Distributable cash flow	**158,261**	200,397
Dividends declared to shareholders	**104,280**	94,437

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

EBITDA (Thousands of Canadian dollars)	**Three months ended December 31,** **2019**	 2018
Net Earnings[1]	**29,718**	165,946
Add (deduct):		
Finance costs[1]	**30,729**	20,478
Depreciation, depletion and amortization expenses[1]	**85,542**	52,720
Income tax expense[1]	**10,617**	62,374
EBITDA	**156,606**	301,518
Unrealized loss (gain) on commodity-related contracts	**33,018**	(51,246)
Net foreign currency gain on U.S. debt and other	**(5,332)**	(1,994)
Impairment expense[1]	**77,095**	—
Adjusted EBITDA	**261,387**	248,278

Notes:
[1] 2018 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

Net Earnings
Net earnings in the fourth quarter of 2019 were $30 million, $136 million lower than the same period in 2018 due to the following:



Operating Margin and Realized Margin
Total operating margin for the fourth quarter of 2019 was $262 million, $54 million lower than the same period in 2018 largely due to a non-cash loss of $33 million from risk management contracts in 2019. This is compared to a non-cash gain of $51 million recorded in the fourth quarter of 2018.

Realized margin (excluding the non-cash gains and losses from commodity-related risk management contracts) was $295 million, $30 million higher than the prior year. The fourth quarter operating results are discussed in more detail below.

Gathering and Processing
Operating margin for the Gathering and Processing business segment was $81 million in the fourth quarter of 2019, $7 million higher than the same period in 2018. The higher operating margin was primarily due to incremental cash flow from phase one of the Wapiti gas plant which came into service in May 2019. This was

partly offset by a one-time $6 million upward revenue adjustment recorded in the fourth quarter of 2018, to reflect the value received from acquiring a 40% ownership interest in a raw gas gathering pipeline.

Gross processing throughput averaged 1,483 million cubic feet per day for the fourth quarter of 2019, 4% lower than the same period in 2018. The decrease in volumes was primarily due to lower producer activity levels and production declines across several facilities in west central Alberta. The volume declines across multiple facilities were partly offset by incremental gross processing throughput from phase one of the Wapiti gas plant.

Liquids Infrastructure
Operating margin from the Liquids Infrastructure segment was $91 million in the fourth quarter of 2019, $8 million higher than the same period in 2018. The higher financial results for the quarter were largely due to:

- incremental revenue from the growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental volumes from the Norlite pipeline; and

- higher fractionation revenue resulting from an increase in fees effective with the new NGL contract year that began on April 1, 2019.

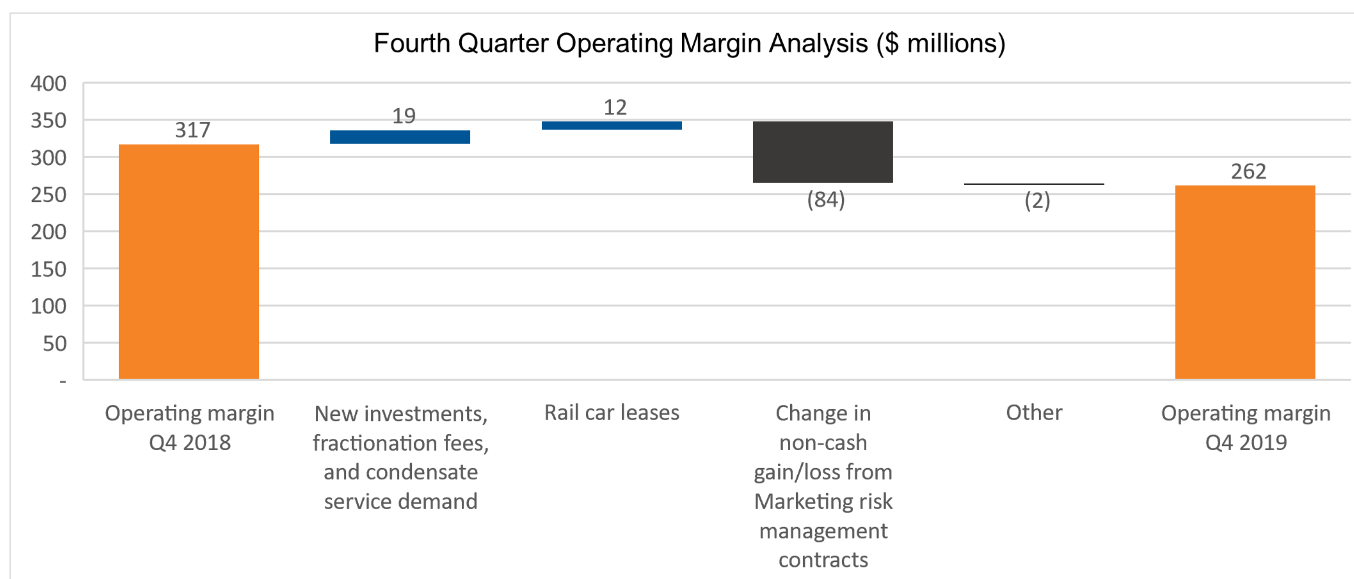
Contribution from the Liquids Infrastructure segment was strong in the fourth quarter of 2019 despite the first fractionation unit at Keyera's Fort Saskatchewan complex being taken offline for approximately six weeks to complete repair work.

Marketing
Operating margin from the Marketing segment was $87 million in the fourth quarter of 2019, $69 million lower than the same period in 2018 due to the inclusion of a $33 million non-cash unrealized loss from risk management contracts in 2019. This is compared to a non-cash gain of $51 million in the fourth quarter of 2018.

Realized margin (excluding the effect of non-cash gains and losses from commodity-related risk management contracts) was $120 million in the fourth quarter of 2019, or $14 million higher than the same period in the prior year. The higher financial results in 2019 primarily resulted from the inclusion of $12 million of rail car lease expenses in the 2018 fourth quarter results.

Contribution from the Marketing segment was strong in the fourth quarter despite lower iso-octane production and sales volumes stemming from the preventative maintenance outage at AEF, whereby the facility was taken offline for approximately five weeks. Iso-octane margins remained robust in the fourth quarter because of unusually high premiums and lower butane feedstock costs relative to the prior year. Iso-octane premiums remained strong during the winter season due to a continued shortage of high octane blending components throughout the United States.

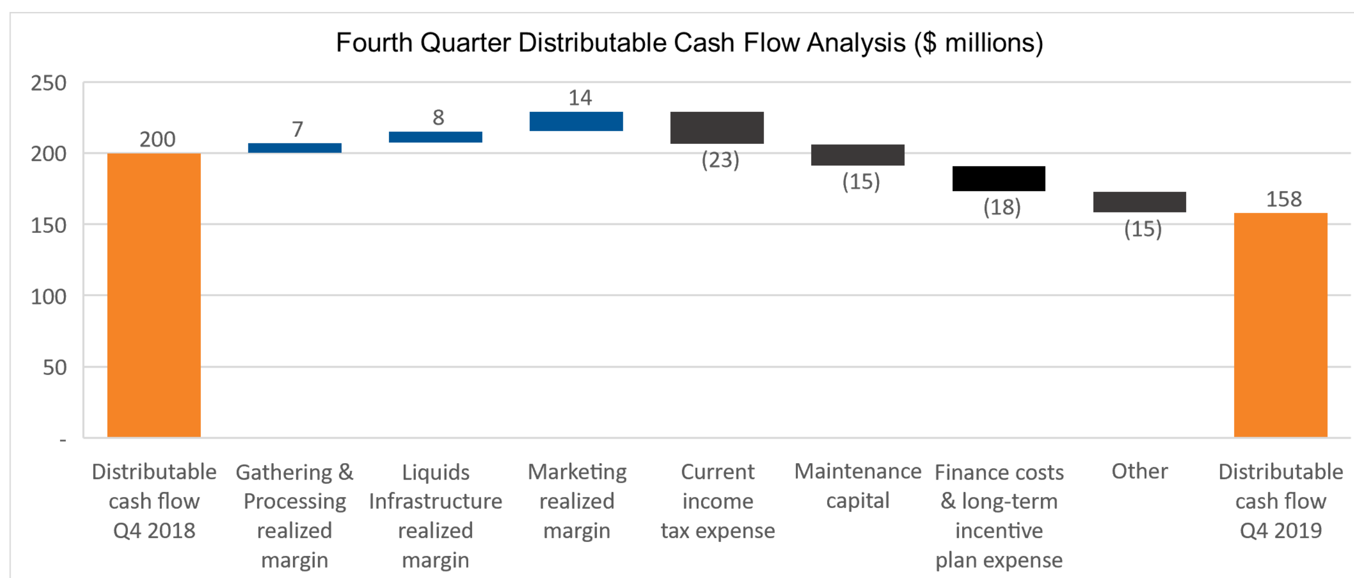
The section of this MD&A titled, "Segmented Results of Operations", provides more information related to the performance of each of the operating segments.



Cash Flow Metrics

For the three months ended December 31, 2019, cash flow from operating activities was $214 million, $32 million lower than the same period in 2018. Funds from operations was $201 million for the fourth quarter of 2019, $19 million lower than the same period in the prior year. Distributable cash flow was $158 million for the fourth quarter of 2019, $42 million lower than the same period in the prior year.

For the three months ended December 31, 2019, dividends declared were $104 million, or 66% of distributable cash flow, compared to dividends declared of $94 million, or 47% of distributable cash flow for the same period in 2018.



CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's consolidated financial statements in accordance with GAAP, management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The most significant estimates are those indicated below:

Operating Revenues

Gathering and Processing and Liquids Infrastructure:

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

At December 31, 2019, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately $81 million primarily for December 2019 operations.

Marketing:

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

At December 31, 2019, the Marketing sales and accounts receivable contained an estimate for December 2019 revenues of approximately $183 million.

Operating Expenses and Product Purchases

Gathering and Processing and Liquids Infrastructure:

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

At December 31, 2019, operating expenses and accounts payable contained an estimate of approximately $24 million primarily for December 2019 operations.

Marketing:

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

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of approximately $141 million at December 31, 2019.

Equalization Adjustments

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

For the Gathering and Processing segment, an equalization adjustment of $4 million was included in revenue and accounts receivable at December 31, 2019. Operating expenses and accounts payable contained an equalization adjustment of $10 million.

Depreciation of property, plant and equipment
For purposes of determining depreciation, depletion and amortization expense, estimates and judgments are required to establish depreciation methods, useful lives, and residual values for Keyera's assets. Determining depreciation methods requires management to make judgments that most appropriately reflect the pattern of an asset's future economic benefit expected to be consumed by Keyera. For assets other than production assets, useful life estimates include management's assumptions regarding the period over which the asset is expected to be available for use by the company. This includes assessing the assets' physical and economic lives and, if applicable, may include an estimation of the associated reserve lives and production activity related to the assets' respective capture areas.

Production assets are depleted using the unit-of-production method based on estimated proved reserves, which are determined by Keyera's independent qualified reserves evaluator. The estimation of reserves involves the exercise of professional judgment and is inherently subject to uncertainty. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves.

Allowance for Expected Credit Losses
The allowance for expected credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counterparty. The allowance for expected credit losses was $2 million as at December 31, 2019, virtually unchanged from the prior year end.

Derivative Financial Instruments
Keyera utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices or foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spreads. Refer to note 24, Financial Instruments and Risk Management, of the accompanying financial statements for a summary of the fair value of derivative financial instruments existing at December 31, 2019.

Fair value estimates of property, plant and equipment
Determination of the fair value of identifiable assets acquired in a business combination requires Keyera's management to make assumptions and estimates about future events. The fair value of identifiable assets such as gathering and processing, storage and fractionation facilities, pipelines, terminals and other equipment is estimated with reference to the expected discounted future cash flows expected to be derived from the acquired assets. These assumptions and estimates generally require judgment and include estimates of future revenues, costs and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired in a business combination.

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

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

Refer to note 11, Property, Plant and Equipment and note 13, Goodwill, of the accompanying financial statements for further details of the impairment expense recorded for the year ended December 31, 2019.

Long-term incentive plan liability

The LTIP is accounted for using the liability method and is measured at fair value. Determining the fair value requires management to estimate Keyera's financial performance over a three-year period to determine the appropriate payout multiplier associated with the Performance Awards. The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the three-year period and 30% on the relative total shareholder return over the same period. The payout multiplier determines the number of shares expected to be settled following the third anniversary of the grant date of the Performance Awards. Refer to note 23, Share-based Compensation and Pension Plans, of the accompanying financial statements for further details.

Decommissioning liability

Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its gathering and processing, fractionation, iso-octane and storage facilities, pipelines and terminals at the end of their economic life. The majority of decommissioning obligations are generally expected to be incurred over the next 25 to 55 years. While the provision is based on the best estimate of future costs and the economic lives of these assets, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

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

Effective December 31, 2019, Keyera voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Voluntary Change in Accounting Policy" section of this document for a description of the changes and the effect on Keyera's consolidated financial statements.

Keyera has estimated the net present value of its total decommissioning liability to be approximately $250 million at December 31, 2019, compared to $262 million at December 31, 2018. The fair value of the decommissioning liability is calculated by using a credit-adjusted risk-free discount rate of 4.3% (December 31, 2018 – 5.1%).

Refer to note 16, Decommissioning Liability, of the accompanying financial statements for a reconciliation of the beginning and ending carrying amount of the decommissioning liability. Additional information related to decommissioning, abandonment and reclamation is also provided in Keyera's Annual Information Form, which is available on SEDAR at www.sedar.com.

Deferred tax assets and liabilities

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. Refer to note 19, Income Taxes, of the accompanying financial statements for a reconciliation of income taxes to the income tax provision recognized for the year ended December 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the years ended December 31, 2019 and 2018:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	2019	2018	**Increase (decrease)**	**Explanation**
Operating	**887,935**	604,329	283,606	Cash generated from operating activities was higher in 2019 because of: i) a reduced cash requirement to fund inventory due to lower average prices and lower volumes of butane and propane at the end of 2019 compared to the end of 2018; and ii) $146 million in higher realized margin from all operating segments.
Investing	**(1,125,327)**	(1,258,968)	133,641	Capital investment in 2019 primarily related to construction activities associated with the Wapiti and Pipestone gas plants and Wildhorse terminal projects as described in the "Segmented Results of Operations" section of this MD&A. Capital spending in 2018 included $309 million in acquisitions (net of disposals) associated with: the South Grand Rapids Pipeline, Oklahoma Liquids Terminal; the Keyera Butane System that was previously leased; and the Pipestone project purchased from Encana.
Financing	**259,009**	314,912	(55,903)	Cash flow from financing activities in 2019 was lower due to higher cash generated from operations to fund Keyera's capital program. In 2019, Keyera issued $600 million of subordinated hybrid notes to fund its capital program.

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

Working capital requirements are strongly influenced by the amounts of inventory held in storage and their related commodity prices. Product inventories are required to meet seasonal demand patterns and will vary depending on the time of year. Typically, Keyera's inventory levels for propane are at their lowest after the winter season and reach their peak in the third quarter to meet the demand for propane in the winter season.

Butane inventory is maintained for the production of iso-octane. When market conditions enable Keyera to source additional butane at favourable prices, butane may be held in storage for use in future periods. Inventory levels for iso-octane may fluctuate depending on market conditions. Demand for iso-octane is typically stronger in the second and third quarters, associated with the higher gasoline demand in the summer months.

A working capital deficit (current assets less current liabilities) of $161 million existed at December 31, 2019. This is compared to a surplus of $1 million at December 31, 2018. Keyera has access to a credit facility in

the amount of $1.5 billion of which $90 million was drawn as at December 31, 2019 (December 31, 2018 – $80 million). Refer to the section below of this MD&A titled, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility.

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, with no incremental finance costs.

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 $227 million for the year ended December 31, 2019. In 2018, the plan generated cash of $196 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" by S&P. The subordinated hybrid notes issued in June 2019 have been assigned credit ratings of "BB+" by S&P and "BB (high)" by DBRS and are currently treated as 50% equity by these two credit rating agencies.

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 December 31, 2019:

As at December 31, 2019 (Thousands of Canadian dollars)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**After 2024**
Credit facilities							
Bank credit facility	90,000	—	—	—	—	90,000	—
Total credit facilities	**90,000**	**—**	**—**	**—**	**—**	**90,000**	**—**
Canadian dollar denominated debt							
Senior unsecured notes:							
5.68% due September 8, 2020	2,000	2,000	—	—	—	—	—
6.14% due December 3, 2022	60,000	—	—	60,000	—	—	—
3.50% due June 16, 2023	30,000	—	—	—	30,000	—	—
4.91% due June 19, 2024	17,000	—	—	—	—	17,000	—
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
4.15% due June 16, 2026	30,000	—	—	—	—	—	30,000
3.96% due October 13, 2026	200,000	—	—	—	—	—	200,000
3.68% due September 20, 2027	400,000	—	—	—	—	—	400,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
4.11% due October 13, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	1,134,000	2,000	—	60,000	30,000	17,000	1,025,000
Senior unsecured medium-term notes:							
3.93% due June 21, 2028	400,000	—	—	—	—	—	400,000
Subordinated hybrid notes							
6.88% due June 13, 2079	600,000	—	—	—	—	—	600,000
	2,134,000	2,000	—	60,000	30,000	17,000	2,025,000
U.S. dollar denominated debt							
Senior unsecured notes:							
5.14% due September 8, 2020 (US$103,000)	133,540	133,540	—	—	—	—	—
4.19% due June 19, 2024 (US$128,000)	165,952	—	—	—	—	165,952	—
4.75% due November 20, 2025 (US$140,000)	181,510	—	—	—	—	—	181,510
4.95% due November 20, 2028 (US$65,000)	84,273	—	—	—	—	—	84,273
	565,275	133,540	—	—	—	165,952	265,783
Less: current portion of long-term debt	(135,540)	(135,540)	—	—	—	—	—
Total long-term debt	**2,563,735**	**—**	**—**	**60,000**	**30,000**	**182,952**	**2,290,783**

Credit Facilities

Keyera's Credit Facility is with a syndicate of eight lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at December 31, 2019, $90 million was drawn under this facility (December 31, 2018 – $80 million).

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

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

Long-term Debt

Keyera's long term debt structure consists of a number of senior unsecured notes, medium-term notes and subordinated hybrid notes. In June 2019, Keyera issued $600 million of fixed-to-floating rate subordinated hybrid notes due June 13, 2079 in the Canadian public debt market which receive 50% equity treatment by Keyera's rating agencies. The subordinated notes were issued under Keyera's short form base shelf prospectus and a prospectus supplement dated June 11, 2019. The interest rate of 6.875% is payable in equal semi-annual payments for the period December 13, 2019 to June 13, 2029. A portion of the proceeds from the note offering were used to repay indebtedness under Keyera's credit facility and $56 million of long-term senior unsecured notes. The remaining proceeds were used to fund Keyera's ongoing capital program and for general corporate purposes.

As at December 31, 2019, Keyera had $2,134 million and US$436 million of long-term debt. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at December 31, 2019, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" 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 December 31, 2019. 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 December 31, 2019, Keyera's Net Debt to EBITDA ratio was 2.20X for covenant test purposes (December 31, 2018 – 2.60X). The covenant test used for debt purposes excludes 100% of the $600 million subordinated hybrid note in the calculation. As a long-term target, Keyera's objective is to maintain a Net Debt to EBITDA ratio of between 2.5X to 3.0X, including 50% of any subordinated hybrid notes and preferred shares as debt. This range results in a leverage profile that supports Keyera's investment grade credit ratings. Using this approach, the Net Debt to EBITDA ratio at December 31, 2019 was 2.7X.

Capital Expenditures and Acquisitions
The following table is a breakdown of capital expenditures and acquisitions for the years ended December 31, 2019 and 2018:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	2019	2018
Acquisitions	**599**	333,204
Growth capital expenditures	**986,125**	935,435
Maintenance capital expenditures	**105,077**	51,882
Total capital expenditures	**1,091,801**	1,320,521

Growth capital expenditures for the year ended December 31, 2019 totaled $986 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 2019 and since inception of the project, and estimated completion timeframes.

There were no significant acquisitions in 2019. Acquisitions in 2018 totaled $333 million and included the following significant items:

- $105 million for a 50% ownership interest in the South Grand Rapids pipeline;
- $110 million (US$83 million including inventory and purchase price adjustments) for the Oklahoma Liquids Terminal;
- $41 million for the purchase of the Keyera Butane System that had previously been leased since December 2016; and
- $39 million for the Pipestone project purchased from Encana.

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 $60 million for the year ended December 31, 2019, compared to $52 million in 2018.

At December 31, 2018, Keyera had a $2.1 billion capital program underway, mainly focused on establishing a strong position in the condensate-rich Montney and Duvernay development areas. The addition of the sulphur handling project at the South Cheecham rail and truck terminal in the second quarter of 2019, also expected to be operational in 2022, increased the cost of the capital program to $2.2 billion. This portion of the growth capital program is expected to earn an annual return on capital of 10% to 15% in 2022, once all projects achieve their annual run rate. The return on capital estimate is unchanged from the December 31, 2018 year-end MD&A and is based on Keyera's current cash flow projections, and assumes capital projects are completed on a timely basis. Approximately $1.7 billion has been expended on this program since inception.

With the announcement of KAPS, Keyera's capital program increases to approximately $2.9 billion. KAPS is anticipated to commence operations in 2022 and earn an annual return on capital of 10% to 15% starting in 2024. This is based on Keyera's current cash flow projections, and assumes the KAPS project is completed on a timely basis.

Keyera's remaining $1.2 billion capital program is expected to be funded without the issuance of common equity, apart from the DRIP and Premium DRIP program. Readers are referred to the section of the MD&A titled, "Forward-Looking Statements" for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

Funds from Operations and Distributable Cash Flow

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

Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. Deducted from the determination of distributable cash flow are maintenance capital expenditures and lease expenditures that are now capitalized with the adoption of *IFRS 16, Leases* effective January 1, 2019.

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

Funds from Operations and Distributable Cash Flow (Thousands of Canadian dollars)	**2019**	2018
Cash flow from operating activities	**887,935**	604,329
Add (deduct):		
Changes in non-cash working capital	**(133,681)**	91,969
Funds from operations	**754,254**	696,298
Maintenance capital	**(105,077)**	(51,882)
Leases	**(52,647)**	(1,439)
Inventory write down	**(2,946)**	(4,853)
Distributable cash flow	**593,584**	638,124
Dividends declared to shareholders	**396,862**	359,269
Payout ratio	**67%**	56%

Distributable cash flow for the year ended December 31, 2019 was $594 million, $45 million lower than 2018 because of $53 million in higher maintenance capital largely associated with the turnaround at the Rimbey gas plant and maintenance work at AEF, and $66 million in higher cash taxes. The effect of higher maintenance capital and cash tax expenditures in 2019, more than offset the stronger financial results generated by all operating segments in 2019. The strong financial results in 2019 largely stemmed from: i) incremental revenue from recent investments including the Wapiti gas plant and associated projects, and a full year of revenue from the Base Line Terminal; ii) continued growth in demand for Keyera's condensate services and higher fractionation fees; and iii) strong realized margin from the sale of iso-octane in the Marketing segment.

Dividend Policy

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

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

EBITDA

EBITDA and Adjusted EBITDA are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure showing earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity-related 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 (Thousands of Canadian dollars)	2019	2018
Net earnings[1]	**443,609**	402,828
Add (deduct):		
Finance costs[1]	**113,066**	77,421
Depreciation, depletion and amortization expenses[1]	**278,292**	199,633
Income tax expense[1]	**16,797**	133,867
EBITDA	**851,764**	813,749
Unrealized loss (gain) on commodity-related contracts	**49,594**	(68,900)
Net foreign currency (gain) loss on U.S. debt and other	**(34,352)**	5,317
Impairment expense[1]	**77,095**	56,911
Loss on settlement of finance lease	**—**	286
Adjusted EBITDA	**944,101**	807,363

Notes:
[1] 2018 amounts have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A.

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2019, the obligations that represent known future cash payments that are required under existing contractual arrangements were as follows:

Payments Due by Period

Contractual obligations (Thousands of Canadian dollars)	Total	2020	2021	2022	2023	2024	After 2024
Derivative financial instruments	31,213	31,213	—	—	—	—	—
Dividends payable	34,867	34,867	—	—	—	—	—
Credit facility	90,000	—	—	—	—	90,000	—
Long-term debt[1]	2,699,275	135,540	—	60,000	30,000	182,952	2,290,783
Lease liabilities[2]	307,726	47,801	42,989	34,529	24,727	22,352	135,328
Other liabilities[3]	34,557	17,645	9,997	5,083	1,832	—	—
Decommissioning liabilities[4]	249,753	16,533	—	—	—	—	233,220
Service obligations[5]	48,592	14,467	12,167	10,594	4,452	3,078	3,834
Purchase obligations[6,7]	425,878	425,878	—	—	—	—	—
Total contractual obligations	**3,921,861**	**723,944**	**65,153**	**110,206**	**61,011**	**298,382**	**2,663,165**

Notes:
[1] Long-term debt obligations are principal only and exclude interest payments. For the U.S. denominated senior unsecured notes, the principal obligations are converted at the December 31, 2019 spot foreign exchange rate of 1.2965.
[2] Lease liabilities include the expected undiscounted cash payments related to leases.
[3] Other liabilities include the current portion of the LTIP and certain trade and other payable balances.
[4] The majority of these obligations are expected to be settled between 2020 and 2073. No assets have been legally restricted for settlement of the liability.
[5] Keyera has service obligations related to terminal storage and natural gas transportation.
[6] Purchase obligations include third party contractual commitments related to assets under construction.
[7] Keyera through its operating entities has assumed commitments in various contractual purchase agreements in the normal course of its operations. The agreements involve the purchase of NGL production from producers in the areas specified in the agreements. The purchase prices are based on current market prices. The future volumes and prices for these contracts cannot be reasonably determined and therefore no amount has been included in purchase obligations to reflect these contractual agreements.

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 note 30, Related Party Transactions, of the accompanying December 31, 2019 financial statements.

RISK FACTORS

The majority of Keyera's cash flow is derived from the Gathering and Processing and Liquids Infrastructure fee-for-service business segments. The contribution generated from Gathering and Processing facilities can be exposed to changes in operating costs, depending on the fee structures of the facilities which may or may not provide a mechanism for the recovery of operating costs.

The most significant exposure faced by the Gathering and Processing and Liquids Infrastructure segments over the long term is related to declines in throughput volumes. Without reserve additions, third party production will decline over time, as reserves are depleted. Declining production volumes may translate into lower throughput and revenues at Keyera's plants and facilities; however, the effect of any reduction in throughput would likely be gradual. Many of Keyera's facilities are located in significant liquids-rich natural gas supply areas of the Western Canada Sedimentary Basin or major liquids hubs, and capital costs present barriers to entry for new competitors.

The most significant exposure faced by the Marketing business is the fluctuation in the prices of the commodities that Keyera buys and sells. Refer to the section below titled, "Marketing Risk", for more information related to these risks.

For a further discussion of the risks identified in this MD&A, other risks and trends that could affect Keyera's performance and the steps that Keyera takes to mitigate these risks, readers are referred to the descriptions in this MD&A and Keyera's Annual Information Form, which is available on SEDAR at www.sedar.com.

Regulatory Risk

Keyera is subject to a range of laws and regulations imposed by various levels of government and regulatory bodies in the jurisdictions in which it operates. In particular, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on Keyera's business.

While these laws and regulations affect all dimensions of Keyera's activities, Keyera does not believe that they affect its operations in a manner materially different from other comparable businesses operating in the same jurisdictions. A more complete discussion of regulatory risks can be found in the Annual Information Form available on SEDAR at www.sedar.com and in the section of this MD&A titled, "Environmental Regulation and Climate Change".

Credit Risk

Keyera assumes credit risk with respect to its fee-for-service business, the purchase and sale of commodities in its Marketing business, the hedging of commodity prices and the other financial contracts into which it enters. In particular, Keyera is exposed to credit-related losses in the event that counterparties to contracts become insolvent or otherwise fail to fulfill their present or future financial obligations to Keyera. The majority of Keyera's accounts receivable are due from entities in the oil and gas business and are subject to normal industry credit risks. Concentration of credit risk is mitigated to some degree by having a broad based domestic and international customer base. With respect to counterparties for financial instruments used for economic hedging purposes, Keyera limits its credit risk by dealing with recognized futures exchanges, or investment grade financial institutions, or by adherence to credit policies that significantly reduce overall counterparty credit risk.

Keyera regularly monitors accounts receivable for collection purposes and reviews exposure to customers and counterparties. It has also implemented other credit risk management strategies including but not limited to the following: i) obtaining netting agreements in order to reduce the net exposure to a particular customer or producer; ii) obtaining letters of credit that may be used as collateral; or iii) requiring pre-payment prior to the sale of product or rendering of services where deemed appropriate. Management believes these

measures reduce Keyera's overall credit risk; however, there can be no assurance that these processes will protect against all losses from non-performance.

As at December 31, 2019, the allowance for expected credit losses was $2 million (December 31, 2018 – $2 million) to provide for specific accounts receivable amounts that may be uncollectible. Despite Keyera's efforts in the monitoring and collection of accounts receivable, actual losses from defaults may be greater than that provided for.

For a discussion of the risks that could affect Keyera's liquidity and working capital and the steps Keyera takes to mitigate these risks, readers are referred to note 24, Financial Instruments and Risk Management, of the accompanying financial statements and to Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

Credit Ratings
With the assignment of two long-term corporate credit ratings, 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. There can be no assurance that one or more of Keyera's credit ratings will not be downgraded. 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 and increase the costs of borrowing.

Marketing Risk
Keyera enters into contracts to purchase and sell natural gas, NGLs, iso-octane and crude oil. Most of these contracts are priced at floating market prices. These activities expose Keyera to market risks resulting from movements in commodity prices between the time volumes are purchased and the time they are sold, from fluctuations in the margins between purchase prices and sales prices and, in some cases, may also expose Keyera to foreign currency risk.

The prices of the products that are marketed by Keyera are subject to fluctuations as a result of such factors as seasonal demand changes, changes in crude oil, gasoline and natural gas markets and other factors. In many circumstances, particularly in NGL marketing, purchase and sale contracts are not perfectly matched as they are entered into at different times, locations and values. Further, Keyera normally has a long position in propane that it markets and in butane that it uses as a feedstock for the production of iso-octane, and it may store these products in order to meet seasonal demand and take advantage of seasonal pricing differentials, resulting in inventory price risk. In Keyera's NGL, iso-octane and liquids blending marketing businesses, margins can vary significantly from period to period and volatility in the markets for these products may cause distortions in financial results from period to period that are not replicable.

To some extent, Keyera can lessen certain elements of risk exposure through the integration of its marketing business with its facilities businesses. In spite of this integration, Keyera remains exposed to market and commodity price risk. Keyera manages this commodity risk in a number of ways, including the use of financial and physical hedging contracts and by offsetting some physical and financial contracts in terms of volumes, timing of performance and delivery obligations. There is no guarantee that hedging and other efforts to manage the marketing and inventory risks will generate profits or mitigate all the market and inventory risk associated with these activities. If Keyera hedges its commodity price exposure, it may forego the benefits that may otherwise be experienced if commodity prices were to change and it is subject to credit risks associated with the counterparties with whom it contracts. Refer to the section of this MD&A titled, "Marketing: Risk Management", for more information of Keyera's risk management strategies.

Operational Risk
Keyera's cash flows may be adversely affected by the occurrence of common hazards and environmental risks related to the natural gas gathering, processing and pipeline transportation business, such as the failure of equipment, systems or processes, operator error, labour disputes, disputes with owners of interconnected facilities, catastrophic events or acts of terrorism. To mitigate these operational and environmental risks, Keyera provides training to its employees, maintains written standard operating practices, formally assesses and documents employee competency, and maintains formal inspection,

maintenance, safety and environmental programs. In addition, Keyera carries property, casualty and business interruption insurance, although there can be no assurance that the proceeds of such insurance will compensate Keyera fully for any losses, nor can it be assured that such insurance will be available in the future. For a further discussion of operational risks and the steps that Keyera takes to mitigate these risks, readers are referred to Keyera's Annual Information Form which is available on SEDAR at www.sedar.com.

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. The Marketing segment has foreign currency risk associated with its sales and purchases denominated in U.S. dollars; however, the Gathering and Processing and Liquids Infrastructure segments have very little foreign currency risk as sales and purchases are primarily denominated in Canadian 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 risk management strategies and all outstanding positions.

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt. To manage this currency exposure, Keyera has entered into cross currency swap contracts related to the principal portion and future interest payments for substantially all of the U.S. dollar denominated debt. These cross currency swap contracts are discussed further in the "Liquidity and Capital Resources" section of this MD&A.

Cyber Security
There is a risk that failure of one or more technology systems could lead to failure of other systems. In addition, the risk of cyber-attacks in general are increasing. A breach in Keyera's security or information technology could result in operational outages, financial loss, loss of material data, reputational harm and other adverse outcomes. These risks are somewhat mitigated through Keyera's technology strategy that focuses on employing a multilayer security framework and incident management system to protect and detect issues within its information technology infrastructure.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

The following table presents selected annual financial information for Keyera:

(Thousands of Canadian dollars, except per share information)	**2019**	2018	2017
Revenue before intersegment eliminations[1]			
- Gathering and Processing	**513,452**	458,441	466,473
- Liquids Infrastructure	**544,318**	478,037	418,822
- Marketing	**2,879,757**	3,811,915	2,803,950
- Other	**21,167**	25,436	26,667
Operating margin			
- Gathering and Processing	**293,716**	271,833	275,284
- Liquids Infrastructure	**376,400**	324,456	285,271
- Marketing	**324,988**	366,230	128,370
- Other	**9,029**	13,680	14,616
Realized margin			
- Gathering and Processing	**294,380**	272,514	273,913
- Liquids Infrastructure	**377,256**	325,590	282,506
- Marketing	**372,900**	296,020	128,192
- Other	**9,191**	13,175	13,604
Net earnings[2]	**443,609**	402,828	289,920
Earnings per share[2] **($/share):**			
- Basic	**2.07**	1.94	1.53
- Diluted	**2.07**	1.94	1.53
Dividends to shareholders	**396,862**	359,269	312,643
Dividends per share (basic)	**1.85**	1.73	1.65
Shares outstanding (thousands)			
- Weighted average (basic)	**214,186**	207,397	189,002
- Weighted average (diluted)	**214,186**	207,397	189,002
Total assets[2]	**7,514,188**	6,627,812	5,874,128
Total long-term liabilities[2]	**3,643,376**	3,089,147	2,793,360

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 includes these transactions. Inter-segment transactions are eliminated on consolidation in order to arrive at Operating Revenues in accordance with GAAP.

2 Net earnings for the year ended December 31, 2018 and total assets and total liabilities as at December 31, 2018 have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this MD&A. Comparative amounts for 2017 have been prepared in accordance with Keyera's previous accounting policies.

With the recent completion of several capital projects in the Gathering and Processing segment, operating margin for the segment set a new record in 2019. These results were primarily attributable to incremental cash flow from new infrastructure including phase one of the Wapiti gas plant, North Wapiti pipeline system, Pipestone Liquids Hub, and liquids handling infrastructure at the Simonette facility, that was built to service the needs of customers active in the liquids-rich Montney and Duvernay geological zones. Keyera continues to focus on completing it's remaining growth capital projects that are currently underway which will expand Keyera's infrastructure footprint in this prolific area. See the section of this MD&A, "Segmented Results of Operations: Gathering and Processing", for more information related to these capital projects.

The Liquids Infrastructure operating segment also set a new record for financial results in 2019 that largely stemmed from: i) a full year of revenue associated with the Base Line Terminal; ii) continued demand for Keyera's diluent handling services; and iii) higher fractionation fees effective April 1, 2019.

Contribution from the Marketing segment was strong in 2019 as it was able to effectively utilize Keyera's infrastructure assets including storage, rail and pipeline transportation capabilities to generate record realized margins. Overall, iso-octane margins set a record in 2019 combined with strong liquids blending margins as described throughout this MD&A.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018
Revenue[1]								
Gathering and Processing	**143,736**	133,057	120,012	116,647	125,511	117,588	107,998	107,354
Liquids Infrastructure	**142,885**	137,657	130,955	132,821	128,980	123,701	115,880	109,476
Marketing	**783,899**	644,141	785,736	665,981	961,490	991,777	927,554	931,094
Other	**5,772**	3,338	5,570	6,487	5,696	6,578	5,921	7,241
Operating margin (loss)								
Gathering and Processing	**80,878**	74,803	69,713	68,322	73,530	63,855	63,901	70,547
Liquids Infrastructure	**91,305**	98,085	92,560	94,450	83,768	82,314	76,571	81,803
Marketing	**87,375**	138,262	117,479	(18,128)	156,623	69,618	74,137	65,852
Other	**2,883**	252	2,513	3,381	2,902	3,681	2,886	4,211
Operating margin	**262,441**	311,402	282,265	148,025	316,823	219,468	217,495	222,413
Realized margin[2]								
Gathering and Processing	**80,910**	74,851	69,707	68,912	73,599	64,105	63,997	70,813
Liquids Infrastructure	**91,628**	98,535	92,655	94,438	83,999	83,407	76,997	81,187
Marketing	**120,008**	115,734	114,687	22,471	105,598	42,704	90,409	57,309
Other	**2,913**	388	2,531	3,359	2,381	3,171	3,460	4,163
Realized margin[2]	**295,459**	289,508	279,580	189,180	265,577	193,387	234,863	213,472
Net earnings[3]	**29,718**	154,428	224,511	34,952	165,946	40,389	107,774	88,719
Net earnings per share[3] ($/share)								
Basic	**0.14**	0.72	1.05	0.17	0.79	0.19	0.52	0.43
Diluted	**0.14**	0.72	1.05	0.17	0.79	0.19	0.52	0.43
Weighted average common shares (basic)	**216,938**	215,016	213,239	211,480	209,585	208,037	206,646	205,267
Weighted average common shares (diluted)	**216,938**	215,016	213,239	211,480	209,585	208,037	206,646	205,267
Dividends declared to shareholders	**104,280**	101,198	96,085	95,299	94,437	91,645	86,882	86,305

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. Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, "Segmented Results of Operations: Marketing", for a reconciliation of operating margin to realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes $385 of unrealized losses from commodity-related risk management contracts for the three months ended December 31, 2019 (three months ended December 31, 2018 – $221 unrealized gains).
3. Comparative 2019 and 2018 periods have been restated. Refer to the "Voluntary Change in Accounting Policy" section of this document.

In the Gathering and Processing segment, incremental cash flow from several recently completed capital projects including phase one of the Wapiti gas plant, North Wapiti pipeline system, Pipestone Liquids Hub, and liquids handling infrastructure at the Simonette facility, has contributed to a growth in operating margin for the

segment. Fourth quarter 2018 financial results included a one-time $6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a gathering pipeline, in exchange for a reduction in take-or-pay fees effective July 1, 2018.

In the Liquids Infrastructure segment, incremental cash flow from recent investments, including the 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 spring and summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. 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.

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 year ended December 31, 2019.

VOLUNTARY CHANGE IN ACCOUNTING POLICY

Under Keyera's previous accounting policy for decommissioning liabilities, the present value of the liability was calculated at each statement of financial position date using a risk-free interest rate based on the Government of Canada's benchmark long-term bond yield. Effective December 31, 2019, Keyera voluntarily changed this accounting policy to utilize a credit-adjusted risk-free interest rate instead. Keyera believes that using a credit-adjusted risk-free rate results in reliable and more relevant information for the readers of the company's consolidated financial statements as this methodology is a more accurate representation of the value at which such liabilities could be transferred to a third party, is a better indicator of the risk associated with such liabilities, and increases the comparability of Keyera's financial statements to peer entities.

This change in accounting policy was applied retrospectively and the effect of this change is described below. In addition, comparative amounts in this MD&A and the accompanying consolidated financial statements have been restated.

Reconciliation of the Consolidated Statements of Financial Position

As at *(Thousands of Canadian dollars)*	**December 31, 2019**	**December 31, 2018**			**January 1, 2018**		
	Adjustments	Previous accounting policy	Adjustments	Restated	Previous accounting policy	Adjustments	Restated
ASSETS							
Property, plant, and equipment	(199,673)	5,749,350	(157,023)	5,592,327	4,792,398	(113,259)	4,679,139
Goodwill	2,137	53,624	2,137	55,761	53,624	2,137	55,761
LIABILITIES AND EQUITY							
Decommissioning liability	(289,050)	502,535	(252,026)	250,509	456,455	(196,469)	259,986
Deferred tax liabilities	24,357	598,486	25,651	624,137	482,233	22,462	504,695
Accumulated deficit	67,157	(136,258)	71,489	(64,769)	(168,556)	62,885	(105,671)

Reconciliation of the Consolidated Statements of Net Earnings and Comprehensive Income

For the periods ended *(Thousands of Canadian dollars)*	**December 31, 2019**	**December 31, 2018**		
	Adjustments	Previous accounting policy	Adjustments	Restated
Finance costs	979	75,689	1,732	77,421
Depreciation, depletion, and amortization expenses	3,907	206,719	(7,086)	199,633
Impairment expense	740	63,350	(6,439)	56,911
Income tax expense	(1,294)	130,678	3,189	133,867
Net earnings	(4,332)	394,224	8,604	402,828
Earnings per share				
Basic earnings per share	(0.02)	1.90	0.04	1.94
Diluted earnings per share	(0.02)	1.90	0.04	1.94

Reconciliation of the Consolidated Statements of Cash Flow

For the periods ended *(Thousands of Canadian dollars)*	**December 31, 2019**	**December 31, 2018**		
	Adjustments	Previous accounting policy	Adjustments	Restated
Net earnings	(4,332)	394,224	8,604	402,828
Items not affecting cash	4,332	311,827	(8,604)	303,223

ADOPTION OF NEW AND AMENDED STANDARDS

Keyera has applied the following new IFRS standard and IFRS Interpretations Committee ("IFRIC") interpretation in 2019:

IFRS 16, Leases

IFRS 16, Leases ("*IFRS 16*"), is the new accounting standard for lease recognition, measurement and disclosure, and supersedes:

- *IAS 17, Leases;*
- *IFRIC 4, Determining Whether an Arrangement Contains a Lease; and*
- *SIC 15, Operating Leases – Incentives.*

IFRS 16 provides a single lease accounting model for lessees, requiring the recognition of most lease obligations on the consolidated statements of financial position. This results in the recognition of a lease liability and the corresponding recognition of a leased asset, called a right-of-use asset. On the consolidated statements of net earnings and comprehensive income, lease expense is recognized and consists of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. For lessors, the accounting treatment remained relatively unchanged whereby lessors continue to classify a lease as either a finance or operating lease. Keyera adopted *IFRS 16* on January 1, 2019 using a modified retrospective approach whereby the cumulative effect of adopting the standard was recognized in the opening consolidated statement of financial position as at January 1, 2019. Accordingly, comparative information for Keyera's consolidated financial statements has not been restated.

Upon the initial adoption of *IFRS 16*, Keyera elected to measure its right-of-use assets at the value of the lease liabilities, adjusted for any prepaid or accrued lease payments, and lease incentives received; with no adjustment to opening retained earnings required. Keyera adopted *IFRS 16* using certain exemptions and practical expedients permitted under the standard, which are discussed in greater detail in the notes to the accompanying financial statements. On adoption of *IFRS 16* at January 1, 2019, Keyera recognized $203 million in lease liabilities and $199 million in right-of-use assets.

Keyera's most material lessee lease contracts are related to rail car arrangements; however, Keyera has also identified significant lease contracts for pipeline transportation and real estate arrangements. Keyera does not have any material lessor lease arrangements.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued *IFRIC 23, Uncertainty over Income Tax Treatments* ("*IFRIC 23*"), clarifying the recognition and measurement requirements in *IAS 12, Income Taxes* when there is uncertainty over income tax treatments. Under *IFRIC 23*, entities consider uncertain tax treatments independently or together depending on which method better predicts the resolution of the uncertainty. Entities are required to assume that a taxation authority with the right to examine any amounts reported to it will do so and will have full knowledge of all relevant information when examining such amounts. In addition, entities must consider the probability that the relevant taxation authority will accept the tax treatments used in income tax filings. If it is not probable that the uncertain tax position will be accepted, the tax position must reflect that uncertainty. If facts and circumstances change from the original assessment, judgments and estimates used to determine tax treatments must be reassessed. *IFRIC 23* is applicable for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Upon Keyera's adoption of *IFRIC 23* on January 1, 2019, the application of this interpretation did not have an effect on Keyera's consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

There were no significant new accounting standards or interpretations issued during the year ended December 31, 2019.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of December 31, 2019, 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, 2019 and ending December 31, 2019 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

There were 7,437,050 common shares issued under the DRIP and the Premium DRIP for consideration of $227 million, bringing the total common shares outstanding at December 31, 2019 to 217,915,793.

Subsequent to December 31, 2019, 1,217,482 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of $41 million, bringing the total common shares outstanding at February 26, 2020 to 219,133,275.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with GAAP. Measures such as funds from operations (defined as cash flow from operating activities adjusted for changes in non-cash working capital); distributable cash flow (defined as cash flow from operating activities adjusted for changes in non-cash working capital, inventory write-downs, maintenance capital expenditures and lease payments); distributable cash flow per share (defined as distributable cash flow divided by weighted average number of shares – basic); EBITDA (defined as earnings before finance costs, taxes, depreciation, and amortization); adjusted EBITDA (defined as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity-related contracts, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment); realized margin (defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts); return on in-service capital (defined as realized margin divided by weighted average growth capital including maintenance capital and excluding decommissioning assets, depreciation, impairment, and work-in-progress capital); return on capital (defined as expected operating margin divided by the estimated capital cost for the Simonette projects, the Wapiti and Pipestone gas plants and associated gathering infrastructure, the Wildhorse Terminal, the South Cheecham sulphur handling project, and storage cavern capital projects that are currently under development); return on capital for the KAPS project (defined as expected operating margin divided by the estimated capital cost for the development of the KAPS project); and compound annual growth rate for distributable cash flow per share, calculated as:

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

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

FORWARD-LOOKING STATEMENTS

In order to provide readers with information regarding Keyera, including its assessment of future plans, and operations, certain statements contained herein (and in the documents incorporated by reference) contain forward-looking statements under applicable securities laws. These statements relate to future events or Keyera's future performance. Such statements are predictions only and actual events or results may differ materially. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "plan", "intend", "believe", and similar words or expressions, including the negatives or variations thereof. All statements other than statements of historical fact contained in this document are forward-looking statements, including, without limitation, statements regarding:

- industry, market and economic conditions and any anticipated effects on Keyera;
- Keyera's future financial position and operational performance and future financial contributions and margins from its business segments;
- future dividends and taxes;
- business strategy, anticipated growth and plans of management;
- budgets, including future capital, operating or other expenditures and projected costs;
- expected costs, in-service dates and schedules for capital projects (including projects under construction/development) and sources of funding for such projects;
- anticipated timing for future revenue streams;
- the operation and effectiveness of risk management programs; and
- expectations regarding Keyera's ability to maintain its competitive position, raise capital and add to its assets through acquisitions or internal growth opportunities.

The forward-looking statements reflect Keyera's beliefs and assumptions with respect to such things as the outlook for general economic trends, industry trends, commodity prices, capital markets, the integrity and reliability of Keyera's assets, and the governmental, regulatory and legal environment. Management believes that its assumptions and analysis in this 2019 Management's Discussion and Analysis are reasonable and that the expectations reflected in the forward-looking statements contained herein are also reasonable based on the information available on the date such statements are made and the process used to prepare the information. However, it cannot assure readers that these expectations will prove to be correct.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward-looking statements. Such factors include but are not limited to:

- Keyera's ability to implement its strategic priorities and business plan and achieve the expected benefits;
- general industry, market and economic conditions;
- activities of customers, producers and other facility owners;
- operational hazards and performance;
- the effectiveness of Keyera's risk management programs;
- competition;
- changes in commodity composition and prices, inventory levels, supply/demand trends and other market conditions and factors;
- processing and marketing margins;
- climate change risks, including the effects of unusual weather and natural catastrophes;
- climate change effects and regulatory and market compliance and other costs associated with climate change;
- variables associated with capital projects, including costs and timing;
- fluctuations in interest, tax and foreign currency exchange rates;
- counterparty performance and credit risk;
- changes in operating and capital costs;
- cost and availability of financing;
- ability to expand, update and adapt infrastructure on a timely and effective basis;

- decommissioning, abandonment and reclamation costs;
- reliance on key personnel and third parties;
- relationships with external stakeholders, including Indigenous stakeholders;
- technology, security and cybersecurity risks;
- potential litigation and disputes;
- uninsured and underinsured losses;
- ability to service debt and pay dividends;
- changes in credit ratings;
- reputational risks;
- changes in environmental and other laws and regulations;
- actions by governmental authorities;

and other factors, many of which are beyond the control of Keyera, some of which are discussed under "Risk Factors" herein and in Keyera's Annual Information Form. Further, because there is interconnectivity between many of the risks Keyera faces, it is possible that different constellations of risk could materialize which could result in unanticipated outcomes or consequences.

Proposed construction and completion schedules and budgets for capital projects described herein 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; Keyera's ability to secure adequate land rights and water supply; and macro socio-economic trends. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions contained herein. Further, some of the projects described are subject to securing sufficient producer/customer interest and may not proceed if sufficient commitments are not obtained. In addition to the factors referenced above, Keyera's expectations with respect to future returns associated with: (i) the growth capital projects that have been sanctioned and are in development as of the date hereof, and (ii) the KAPS project, are based on a number of assumptions, estimates and projections that have been developed based on past experience and anticipated trends, including but not limited to: capital cost estimates assuming no material unforeseen costs; timing for completion of growth capital projects; customer performance of contractual obligations; reliability of production profiles; commodity prices, margins and volumes; tax and interest rates; availability of capital at attractive prices; and no changes in regulatory or approval requirements, including no delay in securing any outstanding regulatory approvals.

Readers are cautioned that the foregoing list of important factors is not exhaustive and they should not unduly rely on the forward-looking statements included in this 2019 Management's Discussion and Analysis. Further, readers are cautioned that the forward-looking statements contained herein are made as of the date of this document. Unless required by law, Keyera does not intend and does not assume any obligation to update its forward-looking statements. All forward-looking statements contained in this document are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements and management's assumptions and analysis thereof, is available in filings made by Keyera with Canadian provincial securities commissions available on SEDAR at www.sedar.com.

Investor Information

DIVIDENDS TO SHAREHOLDERS

Dividends declared to shareholders of Keyera were $0.48 per share in the fourth quarter and a total of $1.85 per share in 2019. Effective with the August 2019 dividend and payable to shareholders on September 16, 2019, Keyera increased its dividend by 7% from $0.15 per share to $0.16 per share per month, or $1.92 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 business segment, is available on our website at www.keyera.com/ir/reports.

YEAR END 2019 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the 2019 financial results at 8:00 a.m. Mountain Standard Time (10:00 a.m. Eastern Standard Time) on Thursday, February 27, 2020. Callers may participate by dialing either 888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until end of day on March 13, 2020 by dialing 855-859-2056 or 416-849-0833 and entering pass code 2089181.

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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Keyera Corp. (the "Company") is responsible for the preparation of the financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Management has developed and maintains an extensive system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results, and that the Company's assets are safeguarded. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2019. The Company has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the requirements of Canadian securities legislation.

Deloitte LLP, an independent firm of chartered professional accountants, was appointed by a resolution of the Board of Directors to audit the financial statements of the Company and to provide an independent professional opinion. Deloitte LLP was appointed to hold such office until the next such annual meeting of the shareholders of the Company.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and Deloitte LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Company. The Board of Directors has approved the information contained in the financial statements based on the recommendation of the Audit Committee.

/s/ *David G. Smith*

David G. Smith
Chief Executive Officer
Keyera Corp.

/s/ *Steven B. Kroeker*

Steven B. Kroeker
Chief Financial Officer
Keyera Corp.

February 26, 2020
Calgary, Alberta

Deloitte.

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Keyera Corp.:

Opinion

We have audited the consolidated financial statements of Keyera Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of net earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- 2019 Year End Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the 2019 Year End Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 26, 2020

Keyera Corp.
Consolidated Statements of Financial Position
(Thousands of Canadian dollars)

As at	Note	**December 31, 2019**	December 31, 2018 (Restated – Note 2)	January 1, 2018 (Restated – Note 2)
ASSETS				
Cash		**9,314**	—	326,381
Trade and other receivables	8	**488,587**	422,747	435,620
Derivative financial instruments	24	**54,144**	71,415	11,561
Inventory	9	**93,682**	235,556	147,831
Other assets	10	**10,550**	8,982	16,604
Total current assets		**656,277**	738,700	937,997
Derivative financial instruments	24	**95,891**	130,815	90,109
Property, plant and equipment	11	**6,365,832**	5,592,327	4,679,139
Right-of-use assets	12	**241,452**	—	—
Intangible assets	7	**80,149**	92,413	—
Goodwill	13	**55,761**	55,761	55,761
Deferred tax assets	19	**18,826**	17,796	—
Total assets		**7,514,188**	6,627,812	5,763,006
LIABILITIES AND EQUITY				
Bank indebtedness		**—**	10,860	—
Trade and other payables, and provisions	14	**560,338**	532,935	526,395
Derivative financial instruments	24	**31,213**	24,188	35,398
Dividends payable	22	**34,867**	31,572	28,637
Current portion of long-term debt	15	**135,540**	126,094	—
Current portion of decommissioning liability	16	**16,533**	11,804	9,584
Current portion of lease liabilities	17	**38,470**	—	1,474
Total current liabilities		**816,961**	737,453	601,488
Derivative financial instruments	24	**—**	826	220
Credit facilities	15	**90,000**	80,000	—
Long-term debt	15	**2,548,468**	2,117,261	1,795,530
Decommissioning liability	16	**233,220**	250,509	259,986
Long-term lease liabilities	17	**209,987**	—	52,555
Other long-term liabilities	18	**16,912**	16,414	6,367
Deferred tax liabilities	19	**544,789**	624,137	504,695
Total liabilities		**4,460,337**	3,826,600	3,220,841
Equity				
Share capital	20	**3,073,200**	2,846,496	2,647,836
Accumulated deficit		**(18,022)**	(64,769)	(105,671)
Accumulated other comprehensive (loss) income		**(1,327)**	19,485	—
Total equity		**3,053,851**	2,801,212	2,542,165
Total liabilities and equity		**7,514,188**	6,627,812	5,763,006

See accompanying notes to the consolidated financial statements.
Commitments and contingencies (note 33)
These consolidated financial statements were approved by the board of directors of Keyera Corp. on February 26, 2020.

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

Keyera Corp.
Consolidated Statements of Net Earnings and Comprehensive Income
For the Years Ended December 31,
(Thousands of Canadian dollars, except share information)

	Note	**2019**	2018 (Restated – Note 2)
Revenues	32	**3,616,922**	4,465,211
Expenses	32	**(2,612,789)**	(3,489,012)
Operating margin		**1,004,133**	976,199
General and administrative expenses	27	**(83,492)**	(85,674)
Finance costs	28	**(113,066)**	(77,421)
Depreciation, depletion and amortization expenses	29	**(278,292)**	(199,633)
Net foreign currency gain (loss) on U.S. debt and other	25	**34,352**	(5,317)
Long-term incentive plan expense	23	**(26,134)**	(14,262)
Impairment expense	11	**(77,095)**	(56,911)
Loss on settlement of finance lease		**—**	(286)
Earnings before income tax		**460,406**	536,695
Income tax expense	19	**(16,797)**	(133,867)
Net earnings		**443,609**	402,828
Other comprehensive (loss) income			
Foreign currency translation adjustment		**(20,812)**	12,775
Comprehensive income		**422,797**	415,603
Earnings per share			
Basic earnings per share	21	**2.07**	1.94
Diluted earnings per share	21	**2.07**	1.94

See accompanying notes to the consolidated financial statements.

Keyera Corp.
Consolidated Statements of Cash Flows
For the Years Ended December 31,
(Thousands of Canadian dollars)

	Note	**2019**	2018 (Restated – Note 2)
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings		**443,609**	402,828
Adjustments for items not affecting cash:			
Finance costs	28	**23,607**	15,427
Depreciation, depletion and amortization expenses	29	**278,292**	199,633
Unrealized loss (gain) on derivative financial instruments	24	**58,394**	(111,165)
Unrealized (gain) loss on foreign exchange		**(38,805)**	34,977
Inventory write-down	9	**2,946**	4,853
Deferred income tax (recovery) expense	19	**(81,256)**	102,301
Impairment expense	11	**77,095**	56,911
Loss on settlement of finance lease		**—**	286
Decommissioning liability expenditures	16	**(9,628)**	(9,753)
Changes in non-cash working capital	31	**133,681**	(91,969)
Net cash provided by operating activities		**887,935**	604,329
INVESTING ACTIVITIES			
Acquisitions	11	**(599)**	(333,204)
Capital expenditures	11	**(1,091,202)**	(987,317)
Proceeds on disposal of property, plant, and equipment	11	**499**	23,946
Changes in non-cash working capital	31	**(34,025)**	37,607
Net cash used in investing activities		**(1,125,327)**	(1,258,968)
FINANCING ACTIVITIES			
Borrowings under credit facility	15, 31	**810,000**	720,000
Repayments under credit facility	15, 31	**(800,000)**	(640,000)
Proceeds from issuance of long-term debt	15, 31	**600,000**	400,000
Repayment of long-term debt	15, 31	**(126,019)**	—
Financing costs related to credit facility/long-term debt	15, 31	**(5,462)**	(3,318)
Issuance costs related to equity offering and other	20	**—**	(416)
Proceeds from issuance of shares related to DRIP	20	**226,704**	196,419
Lease payments	17, 31	**(52,647)**	(1,439)
Dividends paid to shareholders	22	**(393,567)**	(356,334)
Net cash provided by financing activities		**259,009**	314,912
Effect of exchange rate fluctuations on foreign cash held		**(1,443)**	2,486
Net increase (decrease) in cash		**20,174**	(337,241)
(Bank indebtedness) cash at the beginning of the year		**(10,860)**	326,381
Cash (bank indebtedness) at the end of the year		**9,314**	(10,860)
Income taxes paid in cash		**64,044**	353
Interest paid in cash		**135,868**	94,026

See accompanying notes to the consolidated financial statements.

Keyera Corp.

Consolidated Statements of Changes in Equity

(Thousands of Canadian dollars)

	Share Capital	Accumulated Deficit (Restated – Note 2)	Accumulated Other Comprehensive Income	Total (Restated – Note 2)
Balance at January 1, 2018	**2,647,836**	**(105,671)**	**—**	**2,542,165**
Common shares issued pursuant to dividend reinvestment plans	196,419	—	—	196,419
Issuance costs related to 2017 equity offering and other	(416)	—	—	(416)
Net earnings	—	402,828	—	402,828
Dividends declared to shareholders	—	(359,269)	—	(359,269)
Cumulative opening translation adjustment	—	—	6,710	6,710
Other comprehensive income	—	—	12,775	12,775
Other adjustments	2,657	(2,657)	—	—
Balance at December 31, 2018	**2,846,496**	**(64,769)**	**19,485**	**2,801,212**
Common shares issued pursuant to dividend reinvestment plans	226,704	—	—	226,704
Net earnings	—	443,609	—	443,609
Dividends declared to shareholders	—	(396,862)	—	(396,862)
Other comprehensive loss	—	—	(20,812)	(20,812)
Balance at December 31, 2019	**3,073,200**	**(18,022)**	**(1,327)**	**3,053,851**

See accompanying notes to the consolidated financial statements.

Keyera Corp.
Notes to Consolidated Financial Statements
As at and for the years ended December 31, 2019 and 2018
(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)

1. GENERAL BUSINESS DESCRIPTION

The operating subsidiaries of Keyera Corp. include Keyera Partnership (the "Partnership"), Keyera Energy Ltd. ("KEL"), Keyera Energy Inc. ("KEI"), Keyera Rimbey Ltd. ("KRL"), Keyera RP Ltd. ("KRPL"), Rimbey Pipeline Limited Partnership ("RPLP"), Alberta Diluent Terminal Ltd. ("ADT") and Alberta EnviroFuels Inc. ("AEF"). Keyera Corp. and its subsidiaries are involved in the business of natural gas gathering and processing; transportation, storage, and marketing of natural gas liquids ("NGLs") and iso-octane in Canada and the United States ("U.S."); the production of iso-octane; oil storage; and liquids blending in Canada and the U.S.

Keyera Corp. and its subsidiaries are collectively referred to herein as "Keyera". The address of Keyera's registered office and principal place of business is Suite 200, Sun Life Plaza West Tower, 144 – 4th Avenue S.W., Calgary, AB, Canada.

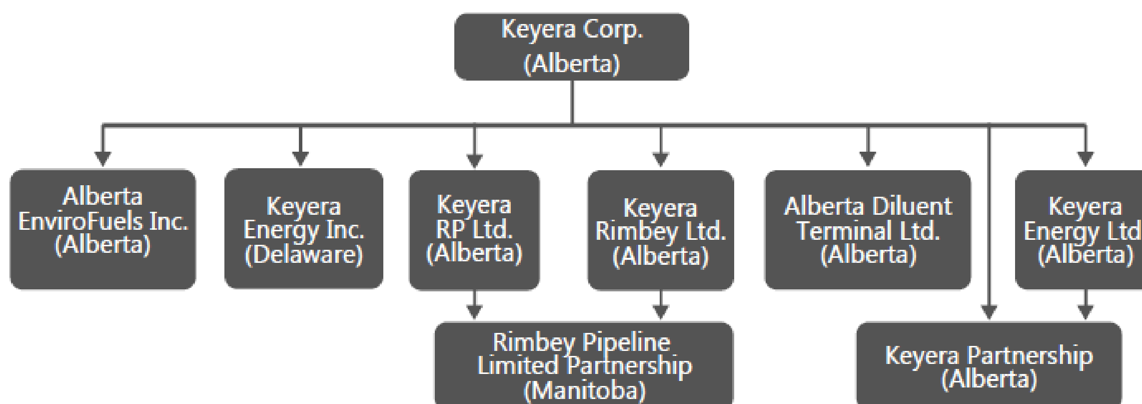
Pursuant to its Articles of Amalgamation, Keyera Corp. is authorized to issue an unlimited number of common shares (the "Shares"). The Shares trade on the Toronto Stock Exchange under the symbol "KEY".

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 December 31, 2019.

Interests in Subsidiaries

Keyera Corp. directly or indirectly owns 100% of the voting interests in all of its operating subsidiaries and is the managing partner of the Partnership, Keyera's primary Canadian operating subsidiary.

The following diagram sets out the name and jurisdiction of formation of the operating subsidiaries of Keyera Corp. as of December 31, 2019.



The Partnership owns and operates the majority of Keyera's Canadian assets and businesses. In accordance with the Partnership Agreement, the Partnership is authorized to carry on a number of business activities including: (i) directly or indirectly, alone or in conjunction with other persons, gathering, processing, transporting, delivering, fractionating, extracting, storing, blending, buying, selling, marketing, investing in, developing, producing, and disposing of natural gas, NGLs, iso-octane, crude oil, bitumen and other petroleum products (including any by-products associated with the foregoing), petroleum based solvents, and electricity; (ii) constructing, owning, operating, managing, acquiring and investing in facilities and infrastructure related to the foregoing; (iii) other business activities as the board of directors may determine; and (iv) all activities ancillary or incidental to any of the foregoing.

Keyera's only Canadian assets that are not owned and operated by the Partnership are the Rimbey Pipeline, which is owned and operated by RPLP, and the Alberta Diluent Terminal, which is owned and operated by ADT.

Keyera Energy Inc. is Keyera's U.S. operating subsidiary. It carries out Keyera's NGL, iso-octane, liquids blending, and marketing activities in the United States.

Interests in Material Jointly Controlled Operations

For all of the material jointly controlled operations below, Keyera recognizes its proportionate share of revenues, expenses, and property, plant and equipment.

Name of Joint Arrangement	***Place of Business***	***% Ownership***	***Nature of Relationship***
Alberta Crude Terminal	*Alberta*	*50%*	*Rail Loading, Offloading and Storage*
Alder Flats Gas Plant	*Alberta*	*70%*	*Gathering and Processing Facilities*
Base Line Terminal	*Alberta*	*50%*	*Crude Oil Storage*
Brazeau River Gas Plant	*Alberta*	*94%*	*Gathering and Processing Facilities*
Cynthia Gas Plant	*Alberta*	*94%*	*Gathering and Processing Facilities*
Keyera Fort Saskatchewan Facilities	*Alberta*	*77%*	*NGL Processing, Storage and Pipelines*
Minnehik Buck Lake Gas Plant	*Alberta*	*80%*	*Gathering and Processing Facilities*
Norlite Pipeline	*Alberta*	*30%*	*NGL Pipelines*
Ricinus Gas Plant	*Alberta*	*71%*	*Gathering and Processing Facilities*
Rimbey Gas Plant	*Alberta*	*99%*	*Gathering and Processing Facilities, NGL Processing, and Rail Loading*
South Cheecham Rail and Truck Terminal	*Alberta*	*50%*	*Rail Loading, Offloading and Storage*
South Grand Rapids Pipeline	*Alberta*	*50%*	*NGL Pipelines*
West Pembina Gas Plant	*Alberta*	*83%*	*Gathering and Processing Facilities*
Zeta Creek Gas Plant	*Alberta*	*60%*	*Gathering and Processing Facilities*

2. BASIS OF PREPARATION

International Financial Reporting Standards ("IFRS") are the generally accepted accounting principles in Canada ("GAAP"). As such, the accompanying consolidated financial statements were prepared in accordance with the respective IFRS.

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value; and
- liabilities for Keyera's long-term incentive plan are measured at fair value.

The consolidated financial statements were authorized for issuance on February 26, 2020 by the board of directors.

Voluntary change in accounting policy

Under Keyera's previous accounting policy for decommissioning liabilities, the present value of the liability was calculated at each statement of financial position date using a risk-free interest rate based on the Government of Canada's benchmark long-term bond yield. Effective December 31, 2019, Keyera voluntarily changed this accounting policy to utilize a credit-adjusted risk-free interest rate instead. Keyera believes that using a credit-adjusted risk-free rate results in reliable and more relevant information for the readers of the company's consolidated financial statements as this methodology is a more accurate representation of the value at which such liabilities could be transferred to a third party, is a better indicator of the risk associated with such liabilities, and increases the comparability of Keyera's financial statements to peer entities.

This change in accounting policy was applied retrospectively and the effect of this change is described below. In addition, comparative amounts in these consolidated financial statements have been restated.

Reconciliation of the Consolidated Statements of Financial Position

As at *(Thousands of Canadian dollars)*	**December 31, 2019**	**December 31, 2018**			**January 1, 2018**		
	Adjustments	Previous accounting policy	Adjustments	Restated	Previous accounting policy	Adjustments	Restated
ASSETS							
Property, plant, and equipment	(199,673)	5,749,350	(157,023)	5,592,327	4,792,398	(113,259)	4,679,139
Goodwill	2,137	53,624	2,137	55,761	53,624	2,137	55,761
LIABILITIES AND EQUITY							
Decommissioning liability	(289,050)	502,535	(252,026)	250,509	456,455	(196,469)	259,986
Deferred tax liabilities	24,357	598,486	25,651	624,137	482,233	22,462	504,695
Accumulated deficit	67,157	(136,258)	71,489	(64,769)	(168,556)	62,885	(105,671)

Reconciliation of the Consolidated Statements of Net Earnings and Comprehensive Income

For the periods ended *(Thousands of Canadian dollars)*	**December 31, 2019**	**December 31, 2018**		
	Adjustments	Previous accounting policy	Adjustments	Restated
Finance costs	979	75,689	1,732	77,421
Depreciation, depletion, and amortization expenses	3,907	206,719	(7,086)	199,633
Impairment expense	740	63,350	(6,439)	56,911
Income tax expense	(1,294)	130,678	3,189	133,867
Net earnings	(4,332)	394,224	8,604	402,828
Earnings per share				
Basic earnings per share	(0.02)	1.90	0.04	1.94
Diluted earnings per share	(0.02)	1.90	0.04	1.94

Reconciliation of the Consolidated Statements of Cash Flow

For the periods ended *(Thousands of Canadian dollars)*	**December 31, 2019**	**December 31, 2018**		
	Adjustments	Previous accounting policy	Adjustments	Restated
Net earnings	(4,332)	394,224	8,604	402,828
Items not affecting cash	4,332	311,827	(8,604)	303,223

Change in Functional Currency of Foreign Subsidiary

Each entity within Keyera determines its own functional currency based on the primary economic environment in which the entity operates. This assessment involves certain judgments and reflects the underlying transactions, events and conditions that are relevant to that entity. Once an entity's functional currency is determined, it is not changed unless there is a change to those underlying transactions, events and conditions which determine the entity's primary economic environment.

Up until June 30, 2018, the functional currency of the company's only foreign subsidiary, KEI, was Canadian dollars because it was determined that since its inception, KEI's operations were carried out as an extension of the Canadian business and was therefore integrated with the Canadian reporting entity.

During the third quarter of 2018, the company reassessed the functional currency of KEI due to changes that occurred with the acquisition of the Oklahoma Liquids Terminal. This acquisition, combined with Keyera's Wildhorse Terminal project, will generate profits and cash flows for KEI that are denominated in U.S. dollars. As a result, KEI is no longer an integral foreign operation that carries on business as an extension of its Canadian parent company's operations, thereby indicating that the primary economic environment in which it operates is the U.S.

Keyera determined that these changes in circumstances resulted in a change in the functional currency of KEI from Canadian dollars to U.S. dollars, effective July 1, 2018, and has made this change in functional currency on a prospective basis. Keyera Corp.'s functional and presentation currency has not changed and remains Canadian dollars.

Adoption of new standards

Keyera has applied the following new IFRS standard and IFRS Interpretations Committee ("IFRIC") interpretation in 2019:

IFRS 16, Leases

IFRS 16, Leases ("*IFRS 16*"), is the new accounting standard for lease recognition, measurement and disclosure, and supersedes:

- *IAS 17, Leases*;
- *IFRIC 4, Determining Whether an Arrangement Contains a Lease*; and
- *SIC 15, Operating Leases – Incentives*.

IFRS 16 provides a single lease accounting model for lessees, requiring the recognition of most lease obligations on the consolidated statements of financial position. This results in the recognition of a lease liability and the corresponding recognition of a leased asset, called a right-of-use asset. On the consolidated statements of net earnings and comprehensive income, lease expense is recognized and consists of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. For lessors, the accounting treatment remained relatively unchanged whereby lessors continue to classify a lease as either a finance or operating lease. Keyera adopted *IFRS 16* on January 1, 2019 in accordance with the transitional provisions of the standard. *IFRS 16* was applied using a modified retrospective approach whereby the cumulative effect of adopting the standard was recognized in the opening consolidated statement of financial position as at January 1, 2019. Accordingly, comparative information for Keyera's consolidated financial statements has not been restated.

(Thousands of Canadian dollars)	**Reported as at December 31, 2018**	**Adjustments**	**Adjusted as at January 1, 2019**
ASSETS			
Right-of-use assets	—	198,519	198,519
	—	**198,519**	**198,519**
LIABILITIES AND EQUITY			
Current portion of lease liabilities	—	41,296	41,296
Long-term lease liabilities	—	161,402	161,402
Trade and other payables, and provisions	532,935	(4,179)	528,756
	532,935	**198,519**	**731,454**

Upon the initial adoption of *IFRS 16*, Keyera elected to measure its right-of-use assets at the value of the lease liabilities, adjusted for any prepaid or accrued lease payments, and lease incentives received; with no adjustment to opening retained earnings required. Keyera adopted *IFRS 16* using the following exemptions and practical expedients permitted under the standard:

- Utilization of hindsight in determining the lease term for contracts that contain extension or termination options;
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- For certain leases with a remaining term of less than 12 months at January 1, 2019, such leases have been accounted for as short-term leases whereby lease payments will be expensed directly to the consolidated statements of net earnings and comprehensive income on a straight-line basis (exemption has been applied on a lease-by-lease basis);
- For certain leases whereby the underlying asset is of low value, lease payments will be expensed directly to the consolidated statements of net earnings and comprehensive income on a straight-line basis (exemption has been applied on a lease-by-lease basis);
- For certain lease arrangements that include non-lease components, such components have not been separated and instead will be accounted for as a single component, together with the lease components of the arrangement (expedient has been applied by class of underlying asset);
- Exclusion of initial direct costs from the measurement of the right-of-use assets at the date of initial application of *IFRS 16*; and
- Instead of assessing the right-of-use assets for impairment on January 1, 2019, utilization of the onerous contract assessment under *IAS 37, Provisions, Contingent Liabilities and Contingent Assets*, immediately prior to the initial application of *IFRS 16*.

Keyera's most material lessee lease contracts are related to rail car arrangements; however, Keyera has also identified significant lease contracts for pipeline transportation and real estate arrangements. Keyera does not have any material lessor lease arrangements.

Prior to the adoption of *IFRS 16*, future operating lease obligations were disclosed in the Commitments and Contingencies note. The following is a reconciliation of the operating lease obligations included at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019:

(Thousands of Canadian dollars)	**As at January 1, 2019**[1]
Operating lease obligations at December 31, 2018	**354,284**
Obligations that were re-assessed as not including a lease	**(78,687)**
Variable lease payments not included in the measurement of lease liabilities	**(24,761)**
Recognition exemption for short-term and low-value leases	**(4,082)**
Additional lease liabilities recognized upon the adoption of *IFRS 16*	**2,804**
Other	**(1,543)**
Undiscounted minimum lease payments at January 1, 2019	**248,015**
Effect of discounting[2]	**(45,317)**
Lease liabilities at January 1, 2019	**202,698**

Notes:

1 Immediately prior to the adoption of *IFRS 16* on January 1, 2019, Keyera did not have any finance lease obligations recognized on its consolidated statement of financial position.

2 Keyera's weighted average incremental borrowing rates at January 1, 2019 were 3.9% and 4.2%, which have been applied to Canadian dollar and U.S. dollar denominated leases, respectively.

Accounting Policies

Keyera's lease accounting policies have been updated as a result of adopting *IFRS 16*. These revised policies are disclosed in note 3.

Use of Critical Accounting Estimates and Judgments in Lease Measurement

In applying the requirements of *IFRS 16*, management must utilize significant judgments and estimates, which affect the valuation of lease liabilities and right-of-use assets, and are disclosed in note 4.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued *IFRIC 23, Uncertainty over Income Tax Treatments* ("*IFRIC 23*"), clarifying the recognition and measurement requirements in *IAS 12, Income Taxes* when there is uncertainty over income tax treatments. Under *IFRIC 23*, entities consider uncertain tax treatments independently or together depending on which method better predicts the resolution of the uncertainty. Entities are required to assume that a taxation authority with the right to examine any amounts reported to it will do so and will have full knowledge of all relevant information when examining such amounts. In addition, entities must consider the probability that the relevant taxation authority will accept the tax treatments used in income tax filings. If it is not probable that the uncertain tax position will be accepted, the tax position must reflect that uncertainty. If facts and circumstances change from the original assessment, judgments and estimates used to determine tax treatments must be reassessed. *IFRIC 23* is applicable for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Upon Keyera's adoption of *IFRIC 23* on January 1, 2019, the application of this interpretation did not have an effect on Keyera's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation
The consolidated financial statements include the accounts of Keyera and all of its subsidiaries. Subsidiaries are entities over which Keyera has control. Generally, control is achieved where Keyera has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as Keyera, using consistent accounting policies. All intercompany accounts and transactions have been eliminated upon consolidation.

Jointly controlled operations
Jointly controlled operations are assets over which Keyera has joint ownership with one or more unaffiliated entities. Keyera undertakes a number of Gathering and Processing and Liquids Infrastructure activities through jointly controlled operations.

Jointly controlled operations are accounted for using the proportionate consolidation method as follows:

- the consolidated statements of financial position includes Keyera's share of the assets that it controls jointly and the liabilities for which it is jointly responsible; and
- the consolidated statements of net earnings and comprehensive income includes Keyera's share of the income and expenses generated by the jointly controlled operation.

Business combinations
Business combinations are accounted for using the acquisition method. Assets and liabilities acquired in a business combination and any contingent consideration are measured at their fair values as of the date of acquisition and subsequently remeasured at fair value with changes recorded through the consolidated statements of net earnings and comprehensive income each period until settled. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are

expensed to the consolidated statements of net earnings and comprehensive income. Business combinations also applies to the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

Currency
The functional currency and presentation currency of Keyera and the majority of its subsidiaries is Canadian dollars. Keyera's only foreign subsidiary, KEI, has a functional currency of U.S. dollars as the primary economic environment in which it operates is in the U.S.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange on the statement of financial position date. Any resulting exchange differences are included in the consolidated statements of net earnings and comprehensive income. Non-monetary assets and liabilities denominated in a foreign currency are measured at historical cost and are translated into the functional currency using the rates of exchange as at the dates of the initial transactions.

Foreign Subsidiary Translation
The accounts of KEI are translated into Keyera Corp.'s presentation currency at period-end exchange rates for assets and liabilities, and using the rates in effect at the date of the transaction for revenues and expenses. The resulting translation gains and losses related to the foreign operations of KEI are recognized as foreign currency translation adjustments in other comprehensive income ("OCI") in the consolidated statements of net earnings and comprehensive income.

The foreign currency translation adjustments accumulate in accumulated other comprehensive income ("AOCI"), which is a separate component of equity in the consolidated statements of financial position. These adjustments remain in equity until there is a disposal of the foreign operation. When the gain or loss on disposal is recognized, the cumulative amount of exchange differences relating to the foreign operation are reclassified from equity to net earnings.

If there is a disposal of a partial interest in a foreign operation that continues to be a subsidiary, a proportionate amount of the accumulated foreign currency translation adjustments will be allocated between controlling and non-controlling interests.

Revenue recognition
Keyera's performance obligations include the products or services that are promised to a customer. Revenues are recognized when Keyera satisfies its performance obligations by transferring control of the promised products or services to its customers, in an amount that reflects the consideration Keyera expects to be entitled to in exchange for those products or services. Customer credit worthiness is assessed prior to the signing of any contract, as well as throughout the contract duration. Revenues are generally invoiced and received on a monthly basis. Inter-segment and intra-segment revenues are recorded at current market prices and are eliminated upon consolidation to arrive at net earnings in accordance with IFRS.

Keyera derives its revenue from its four operating segments:

1. Gathering and Processing ("G&P");
2. Liquids Infrastructure;
3. Marketing;
4. Corporate and Other.

<u>Gathering and Processing segment</u>
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, before the sales gas is injected into pipeline systems for transportation to end-use markets. The services performed in the G&P operating segment largely consist of gas handling services and other ancillary services such as NGL extraction, NGL handling and loading services, and condensate stabilization.

Revenue is recognized for each unit of raw gas volumes handled and processed by Keyera on a fee-for-service basis. The fee structure is stipulated in the contract and is based on either a fixed fee structure or a flow-through operating cost structure.

- **Fixed fee arrangements***:* The fee is a fixed charge per unit transported or processed.

- **Flow-through operating cost arrangements***:* The fees are generally comprised of a capital component and a flow-through operating component. The capital component is usually a function of the replacement cost of capital invested in the facility with a rate of return, in light of market conditions. The operating component is based on the customer's pro rata share of the operating costs for the facility calculated based on total throughput. Customers of each facility are charged a fee per unit based upon estimated operating costs and throughput, with an adjustment to actual costs and throughput completed after the end of the year.

Each quarter, throughput volumes and operating costs are reviewed to determine whether the estimated unit fee charged during the quarter properly reflects the actual volumes and costs, and the allocation of revenues and operating costs to other facility owners is also reviewed. Amounts collected in excess of the recoverable amounts under flow-through arrangements are recorded as a current liability. Recoverable amounts in excess of the amounts collected under flow-through arrangements are recorded as a current receivable.

Given that there are physical capacity limits at Keyera's gathering and processing facilities, customers may enter into one of two service categories, or a combination of both, to determine how the raw gas is handled and processed:

(a) Firm service contracts: Firm service contracts generally have the highest priority of service in the event of apportionment. Keyera's obligation is to process and handle volumes nominated under firm service contracts above other service contracts. These contracts frequently contain a take-or-pay provision and/or dedication of reserves whereby a producer agrees to deliver all gas produced from specified reserves to a facility.

(b) Interruptible-service contracts: Under interruptible-service contracts, services are provided to the customer only if the facility has capacity after all firm-service contracts, or other contracts with higher priority, have been satisfied. Enforceable rights and obligations are present when Keyera has capacity to process these lower priority volumes. Revenue from interruptible-service contracts is recognized when services are performed.

Keyera's gas handling agreements are generally either evergreen or long term in nature. Evergreen contracts continue in force until terminated by either party by providing notice to the other party.

In addition to providing services to third party customers at Keyera's gathering and processing facilities, the G&P segment charges fees, at market rates, to Keyera's Corporate and Other segment to process Keyera's proprietary production and to Keyera's Marketing segment for the use of the gathering and processing facilities.

Liquids Infrastructure segment

Keyera owns and operates a network of facilities including underground NGL storage caverns, above ground storage tanks, NGL fractionation facilities, NGL pipelines as well as rail and truck terminals for the processing, fractionation, storage and transportation of the by-products of natural gas processing, including NGLs such as ethane, propane, butane and condensate.

Most of Keyera's Liquids Infrastructure assets are located in, or connected to, the Edmonton/Fort Saskatchewan area in Alberta, one of four key energy hubs in North America. This area also serves as a condensate hub which supports the operations of customers in the oil sands sector. Condensate is used as a diluent to facilitate movement of bitumen by pipeline.

Diluent handling services provided to oil sands customers involves providing capacity for diluent transportation services, including the provision of operational storage on a temporary basis as well as rail and truck terminalling services.

In addition, the Liquids Infrastructure segment produces iso-octane at the Alberta EnviroFuels facility ("AEF"). Iso-octane is a low vapour pressure, high-octane content component used in the blending of gasoline. The AEF facility is entirely reserved for the proprietary use of Keyera's Marketing segment which sells this product to customers operating in the gasoline blending market.

Keyera also engages in liquids blending, where it operates facilities at various locations, including the Oklahoma Liquids Terminal, allowing it to transport, process and blend various product streams. Margins are earned by blending products of lower value into products of higher value. As a result, these products are exposed to variability in price and quality differential between various product streams.

Customers who utilize the Liquids Infrastructure services enter into contracts with Keyera on a fee-for-service basis. Revenue is recognized for each unit of volume fractionated, processed, stored, transported and handled by Keyera based on the fee structure stipulated in the service contract with its customers. These contracts provide Keyera with an enforceable right to payment for services completed to date. The fees charged for services performed in the Liquids Infrastructure segment are negotiated on a customer-by-customer basis depending on the various assets required to fulfill the services stipulated in the contracts.

Given that there are physical capacity limits to the Liquids Infrastructure assets, customers may enter into one of two service categories, or a combination of both, to determine how services are to be prioritized and handled:

(a) *Firm capacity reservation contracts:* Firm capacity reservation contracts generally have the highest priority of service in the event of capacity constraints. Keyera's obligation is to process and handle volumes nominated under firm capacity reservation contracts above other service contracts.

(b) *Interruptible-service contracts*: Under interruptible-service contracts, services are provided to the customer only if the facility has capacity after all firm-service contracts, or other contracts with higher priority, have been satisfied. Under interruptible-service arrangements, enforceable rights and obligations are present once the customer nominates the volumes to be processed and Keyera has the capacity to process the nominated volumes. Revenue from interruptible-service contracts is recognized when services are performed.

In addition to including firm capacity and/or interruptible service terms, the Liquids Infrastructure contracts may also include volumetric tariffs, rate of return components, take-or-pay components and/or the flow through of certain costs.

Keyera's Liquids Infrastructure segment provides a significant amount of processing, fractionation, storage, blending and/or de-ethanization services to Keyera's Marketing segment, which pays market prices for the services it utilizes.

Take-or-pay arrangements
In both the Liquids Infrastructure and G&P segments, certain contracts are entered into under take-or-pay arrangements whereby the customer has committed to minimum volume deliveries, regardless of whether the committed volumes are utilized. In these instances, Keyera recognizes revenue either rateably over the term of the fixed fee arrangement, or as volumes are handled and processed.

Take-or-pay arrangements may contain make-up rights, which are rights earned by the customer when the minimum volume commitments are not utilized during the period, but under certain circumstances can be used to offset excess volumes in future periods, subject to expiry. Consideration associated with take-or-pay contracts which have make-up rights are deferred and revenue is recognized at the earlier of (i) when the make-up volume is processed; (ii) the make-up right expires; or (iii) when it is determined the likelihood that the customer will exercise its make-up right is remote.

Non-cash consideration
For any revenue contracts whereby a customer provides consideration in a form other than cash, such consideration is measured at fair value. If an estimate of fair value is not reasonably estimable, the consideration is measured by reference to the stand-alone selling price of the products or services promised to the customer in exchange for the consideration. When non-cash consideration is received in exchange for future services that have yet to be performed, revenue is deferred as a contract liability and recognized over the period that the performance obligation is expected to be satisfied.

Marketing segment
Keyera markets a range of products associated with its two infrastructure business lines, and revenue generated from this operating segment consists of primarily selling NGLs (ethane, propane, butane, condensate), iso-octane, as well as natural gas and crude oil. In addition, Keyera's Marketing segment will enter into product purchase and processing contracts whereby NGL products are purchased from the customer at the delivery point to one or more of Keyera's facilities.

Revenue contracts within the Marketing segment are typically short term in nature (one year or less). Revenue from selling NGLs, iso-octane, natural gas and crude oil is recognized based on volumes delivered to customers at specified delivery points and at contracted prices, depending on the hydrocarbon product being sold. The contracted sales price is generally based on a market index price or is transacted at a fixed price. Keyera also enters into financial instruments and physical hedging contracts as risk mitigating measures to either protect the value of its NGL inventory, protect the sales price for iso-octane, or to hedge the foreign currency exposure on sales prices based in U.S. dollars.

The unrealized gains/losses representing the change in fair value of financial instruments contracts are recorded in Marketing revenue along with the realized gains/losses resulting from the settlement of the financial instruments.

Corporate and Other
Keyera also engages in the production of oil and gas reserves which were acquired from its ownership interests in certain gathering and processing facilities. This activity represents an insignificant part of Keyera's business and there are no plans to further develop the reserves. Production revenue, net of royalties is recorded in the Corporate and Other operating segment along with other corporate activities.

Share-based compensation
Keyera has a Long-Term Incentive Plan ("LTIP"), which is described in note 23. 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 liability is measured by using a fair value pricing model. The compensation expense is recognized over the vesting period, with a corresponding liability recognized in the consolidated statements of financial position.

Cash

Cash is comprised of cash on hand at year end.

Trade and other receivables

Trade receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less allowance for expected credit losses.

Keyera maintains an allowance for expected credit losses to provide for impairment of trade receivables. The expense or recovery relating to doubtful accounts is included within general and administrative expenses in the consolidated statements of net earnings and comprehensive income.

Inventory

Inventory is comprised primarily of NGL and iso-octane products for sale through the Marketing operations. Inventory is measured at the lower of weighted average cost and net realizable value. Net realizable value represents the estimated selling price for inventories less selling expenses at the statement of financial position date. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventories.

Property, plant and equipment

Items of property, plant and equipment, which include plant and processing equipment and production assets, are measured at cost less accumulated depreciation, depletion and accumulated impairment losses net of recoveries. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liability, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Major maintenance programs (turnaround costs) are capitalized and amortized over the period to the next scheduled maintenance. The costs of day-to-day servicing of property, plant and equipment are recognized in the consolidated statements of net earnings and comprehensive income as incurred.

The cost of replacing part of an item of property, plant and equipment is capitalized if it is probable that future economic benefits will flow to Keyera and its cost can be measured reliably.

An item of property, plant and equipment is derecognized upon disposal, replacement or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized in the consolidated statements of net earnings and comprehensive income.

Depreciation is recognized so as to expense the cost of significant components of assets less their residual values over their useful lives, using the straight-line method. Production assets are depleted using the unit-of-production method based on estimated proved reserves. Land and linefill are not depreciated. Depreciation methods, useful lives and residual values are reviewed on an annual basis and, if necessary, any changes would be accounted for prospectively.

The estimated useful lives of Keyera's property, plant and equipment are as follows:

General plant and processing equipment	4 - 45 years
Other properties and equipment	5 - 10 years
Turnarounds	4 - 10 years

Borrowing costs

Borrowing costs that Keyera incurs in connection with the borrowing of funds that are attributable to the acquisition, construction or production of a qualifying asset are capitalized when the assets take a significant period of time to get ready for use or sale. Other borrowing costs are expensed as incurred.

Impairment of property, plant and equipment

Keyera assesses assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units or CGUs). Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of net earnings and comprehensive income.

The recoverable amount is the greater of:

i) an asset's fair value less costs of disposal; and
ii) its value in use.

Fair value is the price that would be expected to be received in a sale transaction less costs of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Keyera evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration. Reversals of impairment losses are evaluated and if deemed necessary are recognized immediately in the consolidated statements of net earnings and comprehensive income.

Goodwill

Goodwill arising in a business combination is recognized as an asset and initially measured at cost, being the excess of the consideration transferred in the business combination over Keyera's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If Keyera's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the consolidated statements of net earnings and comprehensive income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but is reviewed for impairment at least annually.

Impairment of goodwill

Impairment is assessed at least annually and is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount, an impairment loss is recognized in the consolidated statements of net earnings and comprehensive income. The impairment loss is allocated first to reduce

the carrying amount of any goodwill and then on a pro-rata basis to the other assets within the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Financial assets and financial liabilities
Financial assets and financial liabilities are initially recognized at fair value, and for financial assets and liabilities not measured at fair value through profit or loss, net of transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The subsequent measurement of financial assets and financial liabilities depends on their classification as follows:

Financial assets
Financial assets include cash, trade and other receivables and derivative financial instruments. Keyera determines the classification of its financial assets at initial recognition.

a) Financial assets measured at amortized cost
These are non-derivative financial assets composed of contractual cash flows that are held to collect and are solely payments of principal and interest on the principal amount outstanding with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of net earnings and comprehensive income when the financial assets are derecognized or impaired. Assets in this category include cash, and trade and other receivables that are classified as current assets in the consolidated statements of financial position.

b) Financial assets measured at fair value
Financial assets not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss in the consolidated statements of net earnings and comprehensive income. Derivatives, other than those designated as effective hedging instruments, are included in this category. Keyera has not designated any derivative instruments as hedges.

These assets are carried on the consolidated statements of financial position at fair value with gains or losses recognized in the consolidated statements of net earnings and comprehensive income in the period in which they arise. The estimated fair value of assets and liabilities classified as fair value through profit or loss in the consolidated statements of net earnings and comprehensive income is determined by reference to observable market data, including commodity price curves, foreign currency curves and credit spreads. Transaction costs are charged to the consolidated statements of net earnings and comprehensive income as incurred.

Impairment of financial assets
Keyera assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired based on expected credit loss information. Impairments arising from expected credit losses are recognized in the consolidated statements of net earnings and comprehensive income.

Financial liabilities
Financial liabilities consist of derivative financial instruments, bank indebtedness, trade and other payables, dividends payable, current and long-term lease liabilities, credit facilities, current and long-term debt, and certain other long-term liabilities.

a) Financial liabilities measured at fair value through profit or loss
Derivatives are included in this category. These liabilities are carried on the consolidated statements of financial position at fair value with gains or losses recognized in the consolidated statements of net earnings and comprehensive income in the period in which they arise. Keyera has not designated any derivative instruments as hedges. Transaction costs are charged to the consolidated statements of net earnings and comprehensive income as incurred.

b) Financial liabilities measured at amortized cost
If a financial liability is not measured at fair value through profit or loss, it is measured at amortized cost. For interest bearing debt, this is the fair value of the proceeds received net of transaction costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Keyera has classified bank indebtedness, current and long-term debt, credit facilities, trade and other payables, dividends payable and finance lease liabilities in this category.

Derivatives and embedded derivatives
Derivative instruments include financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. Keyera uses derivative instruments such as commodity price swaps (NGLs, crude oil, natural gas, motor gasoline), electricity price swaps, foreign exchange forward contracts, and cross-currency swaps to manage its risks.

Natural gas, NGL and crude oil contracts that require physical delivery at fixed prices and do not meet Keyera's expected purchase, sale or usage requirements are accounted for as derivative instruments.

Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. For embedded derivatives within a financial asset host contract, the embedded derivative is not separated from the host contract and instead, the whole contract is accounted for as a single instrument. For embedded derivatives within a financial liability host contract, the embedded derivative is separated from the host contract and accounted for as a derivative instrument.

Changes in the fair value of derivatives are recognized in the consolidated statements of net earnings and comprehensive income and are included in Marketing revenue, Liquids Infrastructure operating expenses, Gathering and Processing operating expenses, Corporate and Other revenue and expenses and net foreign currency gain (loss) on U.S. debt and other. The grouping of these gains and losses in the consolidated statements of net earnings and comprehensive income is consistent with the underlying nature and purpose of the derivative instruments (see note 24).

Provisions
Provisions are recognized when Keyera has a present obligation (legal or constructive) as a result of a past event, it is probable that Keyera will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and

uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Decommissioning Liability
Liabilities for decommissioning costs are recognized for the reclamation of Keyera's facilities at the end of their economic life. Any change in the present value, as a result of a change in discount rate or expected future costs, of the estimated obligation is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment. Keyera's discount rate is a credit-adjusted risk-free rate based on the Government of Canada's benchmark long-term bond yield. The liability for decommissioning costs is increased each period through the unwinding of the discount, which is included in finance costs in the consolidated statements of net earnings and comprehensive income. Actual expenditures incurred are charged against the decommissioning liability.

Taxation
Income tax expense represents the sum of current and deferred tax. Tax is recognized in the consolidated statements of net earnings and comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

a) Current tax
The tax currently payable is based on taxable profit for the year. Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

b) Deferred tax
Deferred tax is recognized using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts on the consolidated statements of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are not recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable income will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Keyera intends to settle its current tax assets and liabilities on a net basis.

Leases

Lease identification and initial measurement

Lessee lease arrangements are identified whenever the contract terms provide Keyera with the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognized at the commencement of the lease, which is the date that the underlying asset is made available for use, by recording a lease liability and a corresponding right-of-use asset. The lease liability is initially recognized at the present value of the minimum lease payments that have not been paid at that date. Minimum lease payments include: (i) fixed payments (including in-substance fixed payments), (ii) variable lease payments that depend on an index or a rate, (iii) amounts expected to be payable under residual value guarantees, (iv) if the contract includes a purchase option, the exercise price of the purchase price if Keyera is reasonably certain to exercise the option; and (v) if the contract includes a termination option, payments of penalties for terminating the lease if the lease term reflects Keyera's exercise of the termination option. Variable lease payments that are dependent on future performance or use of the underlying asset are excluded from the measurement of the lease liability, and instead are recognized in the consolidated statements of net earnings and comprehensive income in the period that such payments are incurred.

Minimum lease payments are discounted using Keyera's weighted average incremental borrowing rate when the rate implicit in the lease is not readily determinable. Individual weighted average incremental borrowing rates are calculated for lease payments denominated in Canadian dollars and U.S. dollars.

The right-of-use asset is initially measured at cost, which includes: (i) the amount of the initial measurement of the lease liability, (ii) any lease payments made at or before the lease commencement date, less any lease incentives received, (iii) any initial direct costs incurred, and (iv) an estimate of restoration costs.

Subsequent measurement – lease liabilities

Subsequent to initial measurement, lease payments are allocated to: (i) interest expense on the lease liability, and (ii) repayment of the carrying value of the lease liability. The interest expense in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability and is included in finance costs in the consolidated statements of net earnings and comprehensive income. If there is a change in future lease payments resulting from a change in an index or rate used to determine the payments, the lease liability is remeasured to reflect such changes. For lease payments denominated in U.S. dollars, the lease liability is remeasured to reflect the applicable foreign exchange rate at each reporting period, with the offset recognized in the consolidated statements of net earnings and comprehensive income.

Subsequent measurement – right-of-use assets
If the lease term reflects that Keyera will exercise a purchase option, the right-of-use asset is depreciated from the lease commencement date to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated to the earlier of the end of the useful life of the underlying asset or to the end of the lease term.

Impairment – right-of-use assets
Similar to property plant and equipment, right-of-use assets are subject to the impairment requirements of *IAS 36, Impairment of Assets*. Keyera assesses right-of-use assets for impairment whenever events or changes in circumstances indicate that the carrying value of the right-of-use asset may not be recoverable. A right-of-use asset may be assessed for impairment individually, or as part of a cash-generating unit ("CGU") if the cash flows related to the lease are not independent from the cash flows of the CGU. An impairment loss is recognized immediately in the consolidated statements of net earnings and comprehensive income for the amount that the right-of-use asset's carrying amount exceeds its recoverable amount.

Finance costs
Finance costs include interest expense on debt, interest charges related to leases, non-cash expense related to the unwinding of the debt discount, and non-cash accretion expense related to decommissioning liabilities, net of interest capitalized for qualifying projects and interest income.

All finance costs are recognized in the consolidated statements of net earnings and comprehensive income in the period in which they are incurred.

Earnings per share
Basic earnings per share are calculated by dividing net earnings by the weighted average number of shares outstanding during the period. For the calculation of the weighted average number, shares are determined to be outstanding from the date they are issued. Diluted earnings per share are calculated by adding the weighted average number of shares outstanding during the period to the additional shares that would have been outstanding if potentially dilutive shares had been issued as a result of any convertible debentures outstanding, using the "if converted" method.

Accumulated deficit
Accumulated deficit includes opening deficit, net earnings for the period to date, and dividends declared to shareholders.

Reclassification
Certain information provided for the prior year has been reclassified to conform to a change in presentation adopted in 2019.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Allowance for expected credit losses
Keyera provides services and sells NGLs and iso-octane to a number of counterparties on credit terms. The allowance for credit losses is reviewed on a monthly basis. An assessment is made whether an

account is deemed impaired based on expected credit losses, which includes the number of days outstanding and the likelihood of collection from the counterparty.

Depreciation of property, plant and equipment and amortization of intangible assets
For purposes of determining depreciation, depletion and amortization expense, estimates and judgments are required to establish depreciation methods, useful lives, and residual values for Keyera's assets. Determining depreciation methods requires management to make judgments that most appropriately reflect the pattern of an asset's future economic benefit expected to be consumed by Keyera. For assets other than production assets, useful life estimates include management's assumptions regarding the period over which the asset is expected to be available for use by the company. This includes assessing the assets' physical and economic lives and, if applicable, may include an estimation of the associated reserve lives and production activity related to the assets' respective capture areas.

Production assets are depleted using the unit-of-production method based on estimated proved reserves, which are determined by Keyera's independent qualified reserves evaluator. The estimation of reserves involves the exercise of professional judgment and is inherently subject to uncertainty. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves.

Depreciation methods, useful lives and residual values are reviewed on an annual basis and, if necessary, any changes are accounted for prospectively.

Fair value estimates of property, plant and equipment
Determination of the fair value of identifiable assets acquired in a business combination requires Keyera's management to make assumptions and estimates about future events. The fair value of identifiable assets such as gathering and processing, storage and fractionation facilities, pipelines, terminals and other equipment is estimated with reference to the expected discounted future cash flows expected to be derived from the acquired assets. These assumptions and estimates generally require judgment and include estimates of future revenues, costs and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired in a business combination.

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

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

Derivative financial instruments
Keyera utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices or foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spreads.

Long-term incentive plan liability
The LTIP is accounted for using the liability method and is measured at fair value. Determining the fair value requires management to estimate Keyera's financial performance over a three-year period to determine the appropriate payout multiplier associated with the Performance Awards. The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the performance period of three years and 30% on the relative total shareholder return in a defined peer group over the performance period of three years. The payout multiplier determines the number of shares expected to be settled following the third anniversary of the grant date of the Performance Awards.

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

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

Leases
To account for Keyera's lease obligations, the following significant judgments and estimates are utilized which affect the valuation of the lease liabilities and the right-of-use assets:

a) Determination of lease term
In determining lease term, management must consider all relevant facts and circumstances that create an economic incentive for Keyera, and as a result, make it reasonably certain, that Keyera will exercise a lease extension option or not exercise a termination option. Upon the occurrence of a significant event or change in circumstances, Keyera reviews its assessment and if required, revises the lease term.

b) Estimation uncertainty arising from variable lease payments
Some of Keyera's lessee lease contracts contain lease payments that are only payable if certain options are elected under the arrangement. In these scenarios, there is more than one set of payments that Keyera can be expected to make: (i) $nil if the option is not elected, or (ii) the fixed payment outlined in the arrangement if the option is elected. As a result, these payments are only included in the measurement of the lease liability when they become in-substance fixed lease payments, which is if and when the variability associated with electing the option is resolved.

Revenue Recognition
To determine the timing and amount of revenue recognition, management must utilize significant judgments and estimates, which include: the nature and type of performance obligations under contract, the timing of when such performance obligations have been satisfied, the amount of any variable consideration associated with a revenue contract and whether such consideration is constrained or not reasonably estimable, the contract term, and the likelihood that customers will have the ability to exercise any make-up rights that have accumulated before they expire.

Operating revenues and operating expenses
a) Gathering and Processing and Liquids Infrastructure
Each month, actual volumes processed and fees earned from the Gathering and Processing and Liquids Infrastructure assets are not known until the following month. In addition, the period in which invoices are rendered for the supply of goods and services necessary for the operation of the Gathering and Processing and Liquids Infrastructure assets is generally later than the period in which the goods or

services were provided. Estimates of one month's revenue and one month's operating costs are recorded in the consolidated financial statements based upon a review of historical trends that is adjusted for events that are known to have a significant effect on the month's operations.

b) Marketing

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

Equalization Adjustments

Much of the revenue from the Gathering and Processing segment includes a recovery of operating costs. Users of each facility are charged a per unit fee based upon estimated costs and throughput, with an adjustment to actual throughput completed after the end of the year. On a quarterly basis, throughput volumes and operating costs are reviewed and adjustments are made to revenue and operating expenses based on actual operating costs incurred to date.

5. FUTURE ACCOUNTING PRONOUNCEMENTS

There were no significant new accounting standards or interpretations issued during the year ended December 31, 2019.

6. SOUTH GRAND RAPIDS JOINT ARRANGEMENT

On September 14, 2018, Keyera acquired a 50% ownership interest in the southern portion of the Grand Rapids Pipeline for total consideration of $104,883. The pipeline, a 20-inch 45-kilometre diluent pipeline that extends from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal, was constructed and acquired from Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and PetroChina Canada. Concurrent with the acquisition, Keyera disposed of a 50% ownership interest in a newly constructed pump station that is connected to the Grand Rapids Pipeline at Keyera's Edmonton Terminal to GRPLP for proceeds of $19,484 which was equivalent to its net book value. The pipeline and pump station transactions were accounted for as an acquisition and disposition of Property, Plant and Equipment, respectively, and the joint arrangement with GRPLP is considered to be a joint operation.

7. 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) 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.

Purchase price allocation

	As at June 19, 2018	
(Thousands of Canadian 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 of 12 years. Amortization is recorded in depreciation, depletion and amortization expenses.

8. TRADE AND OTHER RECEIVABLES

As at December 31,

(Thousands of Canadian dollars)	**2019**	2018
Trade and other receivables	**490,328**	424,850
Allowance for expected credit losses:		
Balance at beginning of the year	**(2,103)**	(3,226)
Impairment losses – trade receivables	**362**	1,123
Balance at the end of the year	**(1,741)**	(2,103)
Total trade and other receivables	**488,587**	422,747

Trade receivables are non-interest bearing and are generally on 5 to 30 day terms which are classified as neither past due or impaired in the aging analysis below.

Aging of receivables that are not impaired

As at December 31,

(Thousands of Canadian dollars)	**2019**	2018
Neither past due or impaired	**485,085**	419,939
Past due 31 to 60 days	**3,502**	1,568
Past due over 60 days	—	1,240
Total trade and other receivables	**488,587**	422,747

9. INVENTORY

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

As at December 31,

(Thousands of Canadian dollars)	**2019**	2018
NGLs and iso-octane	**83,334**	230,489
Other	**10,348**	5,067
Total inventory	**93,682**	235,556

For the year ended December 31, 2019, $93,682 (2018 – $204,149) of inventory was carried at cost and $nil (2018 – $31,407) was carried at net realizable value. During the year, a write-down of $2,946 was recorded to adjust the carrying amount of inventory to its net realizable value (2018 – $4,853). The cost of inventory expensed for the year ended December 31, 2019 was $2,075,816 (2018 – $2,998,966).

10. OTHER ASSETS

As at December 31, *(Thousands of Canadian dollars)*	**2019**	2018
Prepaid deposits	**3,469**	3,035
Other	**7,081**	5,947
Total other assets	**10,550**	8,982

11. PROPERTY, PLANT, AND EQUIPMENT

Cost *(Thousands of Canadian dollars)*	**General plant & processing equipment**	**Other properties & equipment**	**Turnarounds**	**Land & linefill**	**Total**
Balance at January 1, 2018 (Restated – Note 2)	**5,562,595**	**210,736**	**248,971**	**170,186**	**6,192,488**
Additions	1,118,307	26,755	23,562	14,997	1,183,621
Disposals	(34,430)	—	—	—	(34,430)
Decommissioning asset	(11,096)	—	—	—	(11,096)
Foreign currency translation	17,165	3	—	894	18,062
Balance at December 31, 2018 (Restated – Note 2)	**6,652,541**	**237,494**	**272,533**	**186,077**	**7,348,645**
Additions	1,009,831	33,952	47,949	69	1,091,801
Disposals	(499)	—	—	—	(499)
Decommissioning asset	(13,138)	—	—	—	(13,138)
Foreign currency translation	(12,406)	(14)	—	(809)	(13,229)
Balance at December 31, 2019	**7,636,329**	**271,432**	**320,482**	**185,337**	**8,413,580**

Accumulated depreciation, depletion and impairment *(Thousands of Canadian dollars)*	**General plant & processing equipment**	**Other properties & equipment**	**Turnarounds**	**Land & linefill**	**Total**
Balance at January 1, 2018 (Restated – Note 2)	**(1,144,893)**	**(164,946)**	**(201,219)**	**(2,291)**	**(1,513,349)**
Impairment expense	(56,911)	—	—	—	(56,911)
Depreciation and depletion expenses	(142,040)	(15,009)	(36,821)	—	(193,870)
Disposals and other	9,897	—	—	—	9,897
Foreign currency translation	(2,085)	—	—	—	(2,085)
Balance at December 31, 2018 (Restated – Note 2)	**(1,336,032)**	**(179,955)**	**(238,040)**	**(2,291)**	**(1,756,318)**
Impairment expense	(77,095)	—	—	—	(77,095)
Depreciation and depletion expenses	(174,431)	(16,694)	(23,429)	—	(214,554)
Foreign currency translation	219	—	—	—	219
Balance at December 31, 2019	**(1,587,339)**	**(196,649)**	**(261,469)**	**(2,291)**	**(2,047,748)**

Carrying value *(Thousands of Canadian dollars)*	**General plant & processing equipment**	**Other properties & equipment**	**Turnarounds**	**Land & linefill**	**Total**
As at January 1, 2018 (Restated – Note 2)	4,417,702	45,790	47,752	167,895	4,679,139
As at December 31, 2018 (Restated – Note 2)	5,316,509	57,539	34,493	183,786	5,592,327
As at December 31, 2019	**6,048,990**	**74,783**	**59,013**	**183,046**	**6,365,832**

Property, plant and equipment under construction included in carrying value *(Thousands of Canadian dollars)*	**Cost**
As at December 31, 2018	902,637
As at December 31, 2019	**790,796**

Impairment expense *(Thousands of Canadian dollars)*	**2019**	2018 (Restated – Note 2)
Gathering and processing segment	**77,095**	56,911
Total impairment expense	**77,095**	56,911

2019 Impairment Expense

In the fourth quarter of 2019, Keyera identified through its impairment review that certain gas plants had carrying values that were greater than their recoverable amounts. The recoverable amount for each asset was calculated based on value in use which represents the estimated net present value of the cash flows expected to be derived from the asset, and were nominal in value. For the Bigoray gas plant, underutilization of the facility was the primary factor that resulted in a reduction in the carrying value of the asset. For the Gilby gas plant, the reduction was due to the suspension of operations at the facility, which also triggered a reduction in carrying value for the Willesden Green gas plant as this facility was repurposed. The reduction for the Minnehik Buck Lake gas plant was due to lower throughput in the capture area that surrounds this asset.

In addition, Keyera also impaired its West Pembina production wells during the fourth quarter of 2019. The wells were shut-in and management does not have any plans to recommence production from these wells in the near future.

The following impairment expenses with a combined value of $77,095 were recognized in the Gathering and Processing segment during the year ended December 31, 2019:

	Applicable value in use discount rate	**Impairment expense recognized**
Bigoray gas plant[1]	10.1%	28,415
Willesden Green gas plant[2]	9.4%	19,127
Gilby gas plant[2]	9.4%	16,125
Minnehik Buck Lake gas plant[3]	9.4%	12,370
West Pembina production wells[4]	10.1%	1,058
Total impairment expense recognized in Gathering and Processing segment		**77,095**

Notes:
1 The Bigoray gas plant is included in the Drayton Valley North Cash Generating Unit ("CGU").
2 The Willesden Green and Gilby gas plants are included in the Rimbey Area CGU.
3 The Minnehik Buck Lake gas plant is included in the Alder Flats & Minnehik Buck Lake CGU.
4 The West Pembina production wells are included in the Production CGU, which includes all of Keyera's producing wells.

2018 Impairment Expense

In the third quarter of 2018, Keyera identified through its impairment review that the Minnehik Buck Lake and Zeta Creek gas plants had carrying values that were greater than their recoverable amounts. The recoverable amount for each asset was calculated based on value in use which represents the estimated net present value of the cash flows expected to be derived from the asset. The main factors leading to a reduction in the carrying value of the assets were due to lower producer activity and throughput in the capture areas surrounding these assets. The following impairment expenses with a combined value of $56,911 were recognized in the Gathering and Processing segment during the third quarter of 2018:

	Applicable value in use discount rate	**Impairment expense Recognized** (Restated – Note 2)
Minnehik Buck Lake gas plant[1]	10.0%	25,441
Zeta Creek gas plant[2]	10.0%	31,470
Total impairment expense recognized in Gathering and Processing segment		**56,911**

Notes:
1 The Minnehik Buck Lake gas plant is included in the Alder Flats & Minnehik Buck Lake CGU.
2 The Zeta Creek gas plant is included in the Zeta Creek CGU.

12. RIGHT-OF-USE ASSETS

Cost *(Thousands of Canadian dollars)*	**Rail cars**	**Pipeline Transportation**	**Real Estate**	**Other**	**Total**
Balance at January 1, 2019	**141,356**	**44,669**	**10,269**	**2,225**	**198,519**
Additions and adjustments	91,919	—	6,986	(110)	98,795
Balance at December 31, 2019	**233,275**	**44,669**	**17,255**	**2,115**	**297,314**

Accumulated depreciation *(Thousands of Canadian dollars)*	**Rail cars**	**Pipeline Transportation**	**Real Estate**	**Other**	**Total**
Balance at January 1, 2019	**—**	**—**	**—**	**—**	**—**
Depreciation expense	(52,602)	(1,787)	(1,287)	(186)	(55,862)
Balance at December 31, 2019	**(52,602)**	**(1,787)**	**(1,287)**	**(186)**	**(55,862)**

Carrying value *(Thousands of Canadian dollars)*	**Rail cars**	**Pipeline Transportation**	**Real Estate**	**Other**	**Total**
As at January 1, 2019	**141,356**	**44,669**	**10,269**	**2,225**	**198,519**
As at December 31, 2019	**180,673**	**42,882**	**15,968**	**1,929**	**241,452**

13. GOODWILL

As at *(Thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018 (Restated – Note 2)	January 1, 2018 (Restated – Note 2)
Cost and carrying value	**55,761**	55,761	55,761

Impairment test of goodwill
Keyera performed its annual tests for goodwill impairment on December 31, 2019 and 2018 in accordance with its policy described in note 3 and determined that goodwill was not impaired.

Allocation of goodwill to cash-generating units
For the purpose of impairment testing, goodwill is allocated to Keyera's CGUs which represent the lowest level within Keyera at which the goodwill is monitored for internal management purposes.

The carrying amount of goodwill was allocated to CGUs as follows:

As at *(Thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018 (Restated – Note 2)	January 1, 2018 (Restated – Note 2)
Liquids infrastructure facilities	**32,015**	32,015	32,015
Rimbey gas plant	**14,947**	14,947	14,947
Simonette gas plant	**8,799**	8,799	8,799
Total goodwill	**55,761**	55,761	55,761

The recoverable amount for Keyera's CGUs was determined based on a value in use calculation. Value in use was calculated by discounting future cash flow projections that are based on Keyera's internal budget. Keyera projected cash flows for a period of five years, and then applied a perpetual long-term

declining rate thereafter. In arriving at its forecasts, Keyera considered past experience, economic trends such as inflation as well as industry and market trends.

The discount rate used in the calculation of value in use represented a weighted average cost of capital ("WACC"). The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU. The pre-tax discount rate used for goodwill impairment testing was 9.4% at December 31, 2019 (December 31, 2018 – 10.2%).

14. TRADE AND OTHER PAYABLES, AND PROVISIONS

The components of trade and other payables, and provisions were as follows:

As at December 31, *(Thousands of Canadian dollars)*	**2019**	2018
Trade and accrued payables	**463,358**	476,586
Other payables	**16,707**	16,611
Current portion of long-term incentive plan	**15,389**	7,583
Current income taxes payable	**64,884**	32,155
Total trade and other payables, and provisions	**560,338**	532,935

15. LONG-TERM DEBT

Carrying value
Amounts recorded in the consolidated financial statements are referred to as carrying value. The carrying value of debt is reflected in current debt and long-term debt on the consolidated statements of financial position.

Fair value
The fair value of long-term debt is based on third party estimates for similar issues or current rates offered to Keyera for debt of the same maturity. The fair value of Keyera's senior unsecured notes at December 31, 2019, as noted below was determined by reference to valuation inputs under Level 2 of the fair value hierarchy as referenced in note 24.

The following is a summary of Keyera's current and long-term debt:

As at December 31, 2019	Effective Interest Rate	Notes	Carrying Value	Fair Value
			(Thousands of Canadian dollars)	
Bank credit facilities	3.30%	(a)	90,000	90,000
Total credit facilities			**90,000**	**90,000**
Canadian dollar denominated debt				
Senior unsecured notes:				
5.68% due September 8, 2020	5.75%		2,000	2,000
6.14% due December 3, 2022	6.21%		60,000	64,700
3.50% due June 16, 2023	3.55%		30,000	30,100
4.91% due June 19, 2024	4.97%		17,000	18,000
4.92% due October 10, 2025	4.94%		100,000	106,700
5.05% due November 20, 2025	5.14%		20,000	21,500
4.15% due June 16, 2026	4.19%		30,000	30,800
3.96% due October 13, 2026	4.01%		200,000	203,400
3.68% due September 20, 2027	3.72%		400,000	398,600
5.09% due October 10, 2028	5.10%		100,000	110,200
4.11% due October 13, 2028	4.16%		100,000	102,900
5.34% due April 8, 2029	5.38%		75,000	84,500
			1,134,000	1,173,400
Senior unsecured medium-term notes:				
3.93% due June 21, 2028	4.00%	(b)	400,000	417,400
Subordinated hybrid notes:				
6.88% due June 13, 2079	6.89%	(c)	600,000	625,500
			2,134,000	2,216,300
U.S. dollar denominated debt				
Senior unsecured notes:				
5.14% due September 8, 2020 (US$103,000)	5.22%		133,540	135,400
4.19% due June 19, 2024 (US$128,000)	4.24%		165,952	172,300
4.75% due November 20, 2025 (US$140,000)	4.81%		181,510	193,700
4.95% due November 20, 2028 (US$65,000)	4.99%		84,273	92,400
			565,275	593,800
Less: Issuance costs			(15,267)	—
Less: Current portion of long-term debt			(135,540)	(137,400)
Total long-term debt			**2,548,468**	**2,672,700**

As at December 31, 2018	Effective Interest Rate	Notes	Carrying Value	Fair Value
			(Thousands of Canadian dollars)	
Bank credit facility	3.30%	(a)	80,000	80,000
Total credit facilities			**80,000**	**80,000**
Canadian dollar denominated debt				
Senior unsecured notes:				
5.01% due January 4, 2019	5.07%		70,000	70,000
4.35% due June 19, 2019	4.48%		52,000	52,000
5.68% due September 8, 2020	5.75%		2,000	2,100
6.14% due December 3, 2022	6.21%		60,000	65,200
3.50% due June 16, 2023	3.55%		30,000	29,700
4.91% due June 19, 2024	4.97%		17,000	17,900
4.92% due October 10, 2025	4.94%		100,000	105,000
5.05% due November 20, 2025	5.14%		20,000	21,200
4.15% due June 16, 2026	4.19%		30,000	30,000
3.96% due October 13, 2026	4.01%		200,000	197,700
3.68% due September 20, 2027	3.72%		400,000	384,900
5.09% due October 10, 2028	5.10%		100,000	107,000
4.11% due October 13, 2028	4.16%		100,000	99,200
5.34% due April 8, 2029	5.38%		75,000	82,000
			1,256,000	1,263,900
Senior unsecured medium-term notes:				
3.93% due June 21, 2028	4.00%	(b)	400,000	391,300
			1,656,000	1,655,200
U.S. dollar denominated debt				
Senior unsecured notes:				
3.42% due June 19, 2019 (US$3,000)	3.52%		4,094	4,100
5.14% due September 8, 2020 (US$103,000)	5.22%		140,549	144,200
4.19% due June 19, 2024 (US$128,000)	4.24%		174,662	173,600
4.75% due November 20, 2025 (US$140,000)	4.81%		191,037	193,400
4.95% due November 20, 2028 (US$65,000)	4.99%		88,696	90,900
			599,038	606,200
Less: Issuance costs			(11,683)	—
Less: Current portion of long-term debt			(126,094)	(126,100)
Total long-term debt			**2,117,261**	**2,135,300**

(a) On December 11, 2019, the Partnership amended its unsecured revolving credit facility ("Credit Facility") with a syndicate of eight financial institutions under which it can borrow up to $1,500,000, with the potential to increase this limit to $1,850,000 subject to certain conditions. The Credit Facility has a five-year revolving term and the maturity date has now been extended to December 6, 2024.

Financing costs of $1,057 were incurred upon the renewal and extension of the Credit Facility and have been deferred and are amortized using the effective interest method over the remaining term of the Credit Facility.

In addition, the Toronto Dominion Bank has provided a $25,000 unsecured revolving demand facility and the Royal Bank of Canada has provided a further unsecured revolving demand facility that is equal to the amount of outstanding letters of credit, up to $50,000. These unsecured revolving credit facilities bear interest based on the lenders' rates for Canadian prime commercial loans, U.S. base rate loans, LIBOR loans, or bankers' acceptances. As at December 31, 2019, outstanding letters of credit issued were $6,543 (December 31, 2018 – $6,136).

(b) 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 $2,500 have been deferred and are amortized using the effective interest method over the remaining term of the debt.

(c) On June 13, 2019, Keyera closed a hybrid note offering of $600,000 of fixed-to-floating rate subordinated notes due June 13, 2079 to investors in Canada. The interest rate of 6.875% is paid semi-annually and is fixed from June 13, 2019 to June 13, 2029. Commencing June 13, 2029, on every interest reset date (September 13, December 13, March 13, and June 13) until June 13, 2049, the interest rate will be reset to the three-month banker's acceptance rate plus 5.17%. Commencing June 13, 2049, on every interest rate reset date until June 13, 2079, the interest rate will be reset to the three-month banker's acceptance rate plus 5.92%.

On or after June 13, 2029, the hybrid notes are subject to optional redemption by Keyera without the consent of the holders, whereby Keyera may redeem the notes in whole at any time, or in part on any interest payment date. The hybrid notes are also subject to an automatic conversion feature under certain bankruptcy and insolvency events. Upon an automatic conversion event, the notes will automatically be converted, without the consent of the note holders, into a newly issued series of First Preferred Shares (Preference Shares, Series 2019-A), that will carry the right to receive cumulative preferential cash dividends at the same rate as the interest rate that would have accrued on the notes. The fair value of the automatic conversion feature was deemed to be nominal at inception.

The associated financing costs of approximately $5,429 have been deferred and are amortized using the effective interest method over the remaining term of the debt.

16. DECOMMISSIONING LIABILITY

Keyera estimates the future costs of decommissioning for its gathering and processing, fractionation, iso-octane and storage facilities, pipelines and terminals on a discounted basis upon acquisition or installation of these assets. The total undiscounted amount of cash flows required to settle the decommissioning liability is $1,020,718 (2018 – $909,004) which has been discounted using a credit-adjusted risk-free rate of 4.3% (2018 – 5.1%). The majority of these costs are expected to be incurred over the next 25 to 55 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

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

As at December 31, *(Thousands of Canadian dollars)*	**2019**	2018 (Restated – Note 2)
Decommissioning liability, beginning of the year	**262,313**	269,570
Liabilities acquired	**19**	2,237
Liabilities disposed	**—**	(867)
Liabilities settled	**(9,628)**	(9,753)
Change in estimated cash flows and additions	**10,877**	17,445
Change in discount rate	**41,840**	(28,325)
Change in estimated timing of settlement	**(65,895)**	(851)
Unwinding of discount included in finance costs	**10,294**	12,702
Foreign currency translation	**(67)**	155
Decommissioning liability, end of the year	**249,753**	262,313

As at *(Thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018 (Restated – Note 2)	January 1, 2018 (Restated – Note 2)
Current portion of decommissioning liability	**16,533**	11,804	9,584
Long-term portion of decommissioning liability	**233,220**	250,509	259,986
Decommissioning liability, end of the year	**249,753**	262,313	269,570

17. LEASE LIABILITIES

As at December 31, *(Thousands of Canadian dollars)*	**2019**
Lease liabilities at January 1, 2019	**202,698**
Additions	**98,905**
Interest on leases	**10,349**
Lease payments	**(52,647)**
Foreign exchange re-measurement and other	**(10,848)**
Total lease liabilities	**248,457**
Less: current portion of lease liabilities	**(38,470)**
Long-term lease liabilities	**209,987**

Keyera's most significant lease payments are incurred for rail car, pipeline transportation and real estate arrangements. The longest initial lease term for Keyera's lease contracts is 15 years. For certain lease arrangements, Keyera has the option to extend the lease for additional terms, up to 5 years each. As at December 31, 2019, the incremental borrowing rates used to measure the lease liabilities were 3.9% and 4.2%, which have been applied to Canadian dollar and U.S. dollar denominated leases, respectively.

(Thousands of Canadian dollars)	**2019**
Variable lease payments[1]	**708**
Short-term and low-value leases	**2,024**
Total lease payments expensed for the period	**2,732**

Note:
[1] The variable lease payments recognized have been reduced for lease incentives received. Total variable lease payments prior to the inclusion of the lease incentives was $3,275 for the year ended December 31, 2019.

The variable lease payments primarily relate to operating expenses and property taxes for real estate contracts. Short-term leases include certain contracts which have a lease term that is 12 months or less. Low-value lease arrangements include certain contracts whereby the value of the underlying asset is of low-value, and are therefore insignificant to Keyera.

18. OTHER LIABILITIES

As at December 31, *(Thousands of Canadian dollars)*	**2019**	2018
Long-term incentive plan	**11,012**	7,830
Other liabilities	**5,900**	8,584
Total other liabilities	**16,912**	16,414

19. INCOME TAXES

The components of the income tax expense were as follows:

(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)
Current income taxes		
Current income tax charge	**97,435**	32,109
Adjustments with respect to current income tax of the previous year	**618**	(543)
Current income tax expense	**98,053**	31,566
Deferred income taxes		
Related to the origination and reversal of temporary differences	**(80,726)**	102,012
Adjustments to opening deferred tax balances	**(530)**	289
Deferred income tax (recovery) expense	**(81,256)**	102,301
Total income tax expense	**16,797**	133,867

The following is a reconciliation of income taxes, calculated at the combined federal and provincial income tax rate, to the income tax provision included in the consolidated statements of net earnings and comprehensive income.

(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)
Earnings before income tax	**460,406**	536,695
Income tax at statutory rate of 26.5% (2018 – 27.0%)	**122,008**	144,908
Decrease in valuation allowance	**(3,980)**	(15,183)
Permanent differences	**(4,793)**	3,110
Effect of reduction in tax rate	**(95,753)**	—
Tax rate differences and adjustments	**(27)**	436
Adjustments to tax pool balances	**88**	(254)
Other	**(746)**	850
Total income tax expense	**16,797**	133,867

Deferred tax balances

(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)
Deferred tax assets	**18,826**	17,796
Deferred tax liabilities	**(544,789)**	(624,137)
Net deferred tax liabilities	**(525,963)**	(606,341)

The deferred tax (liabilities) assets relate to losses and to the (taxable) deductible temporary differences in the carrying values and tax bases as follows:

	Consolidated Statements of Financial Position as at December 31,		Consolidated Statements of Net Earnings Years ended December 31,	
(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)	**2019**	2018 (Restated – Note 2)
Property, plant and equipment	**(671,320)**	(628,263)	**43,052**	41,463
Intangible assets	**801**	1,241	**569**	4,855
Lease liabilities	**58,305**	—	**(58,305)**	14,624
Non-capital losses	**13,698**	28,402	**13,289**	(25,726)
Partnership deferral	**—**	(71,959)	**(71,958)**	50,566
Decommissioning liability	**57,553**	70,786	**13,877**	1,892
Other	**15,000**	(6,548)	**(21,780)**	14,627
Net deferred tax liabilities	**(525,963)**	(606,341)		
Deferred income tax (recovery) expense			**(81,256)**	102,301

Reconciliation of net deferred tax liabilities

(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)
Balance at the beginning of the year	**(606,341)**	(504,695)
Income tax recovery (expense) recognized in net earnings	**81,256**	(102,301)
Revaluation of foreign net deferred tax liabilities	**(878)**	655
Balance at the end of the year	**(525,963)**	(606,341)

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

As at December 31, 2019, Keyera and its subsidiaries have non-capital losses carried forward of $57,084 (2018 – $118,318) which are available to offset income of specific entities of the consolidated group in future periods. The amount of unrecognized net capital losses and other assets as at December 31, 2019 is $7,122 (2018 – $20,516).

20. CAPITAL

	Number of Common Shares	Share Capital (Thousands of Canadian dollars)
Balance at December 31, 2017	**204,547,142**	**2,647,836**
Common shares issued pursuant to dividend reinvestment plans	5,931,601	196,419
Issuance costs related to 2017 equity offering and other	—	(416)
Other adjustments	—	2,657
Balance at December 31, 2018	**210,478,743**	**2,846,496**
Common shares issued pursuant to dividend reinvestment plans	7,437,050	226,704
Balance at December 31, 2019	**217,915,793**	**3,073,200**

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 on the applicable dividend date without Keyera incurring typical financing costs.

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.

For the year ended December 31, 2019, dividends declared totaled $396,862 or $1.85 per common share (2018 – $359,269 or $1.73 per common share).

21. 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.

(Thousands of Canadian dollars, except per share amounts)	**2019**	2018 (Restated – Note 2)
Basic and diluted earnings per share	**2.07**	1.94
Net earnings – basic and diluted	**443,609**	402,828

(Thousands)	**2019**	2018
Weighted average number of shares – basic and diluted	**214,186**	207,397

22. ACCUMULATED DIVIDENDS TO SHAREHOLDERS

The following table presents the reconciliation between the beginning and ending accumulated dividends to shareholders.

(Thousands of Canadian dollars)	
Balance at December 31, 2017	**2,189,097**
Dividends declared and paid	327,697
Dividends declared	31,572
Balance at December 31, 2018	**2,548,366**
Dividends declared and paid	361,995
Dividends declared	34,867
Balance at December 31, 2019	**2,945,228**

Keyera's general practice is to pay a monthly dividend on the closest business day to the 15th of each calendar month to shareholders of record as of the dividend record date, which is usually 20 to 26 days prior to the dividend payment date.

Keyera's dividend policy is to provide shareholders with relatively stable and predictable monthly dividends, while retaining a portion of cash flow to fund ongoing growth projects. The amount of dividends to be paid on the common shares, if any, is subject to the discretion of the board of directors and may vary depending on a variety of factors. In determining the level of dividends to be declared each month, the board of directors takes into consideration such factors as current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

23. 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, which are described below:

(a) Performance Awards

All Performance Awards issued and outstanding are settled on or before September 1st following the third anniversary of the grant date. The number of shares to be delivered will be determined by the financial performance of Keyera over the three-year period. The number of shares to be delivered will be calculated by multiplying the number of share awards by an adjustment ratio and a payout multiplier. The adjustment ratio adjusts the number of shares to be delivered to reflect the per share cash dividends paid by Keyera to its shareholders during the term that the share award is outstanding.

The payout multiplier is based 70% on the average annual pre-tax distributable cash flow per share over the performance period of three years and 30% on the relative total shareholder return in a defined peer group over the performance period of three years.

(b) Time Vested Awards ("Restricted Awards")

Restricted Awards are settled in three equal installments over a three-year period regardless of the performance of Keyera. The number of shares to be delivered will be multiplied by an adjustment ratio which reflects the per share cash dividends paid by Keyera to its shareholders during the term that the share award is outstanding.

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 December 31, 2019 share price of Keyera, which was $34.02 per share (December 31, 2018 – $25.81 per share).

The compensation cost recorded for the LTIP was as follows:

(Thousands of Canadian dollars)	**2019**	2018
Performance Awards	**22,715**	11,841
Restricted Awards	**3,419**	2,421
Total long-term incentive plan expense	**26,134**	14,262

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**December 31, 2019**	December 31, 2018
Issued July 1, 2016 – Performance Awards	—	331,856
Issued July 1, 2017 – Performance Awards	**317,168**	334,765
Issued July 1, 2018 – Performance Awards	**401,812**	415,856
Issued July 1, 2019 – Performance Awards	**544,975**	—
Issued July 1, 2016 – Restricted Awards	—	21,542
Issued July 1, 2017 – Restricted Awards	**21,998**	45,837
Issued July 1, 2018 – Restricted Awards	**57,926**	89,747
Issued July 1, 2019 – Restricted Awards	**98,207**	—

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 year ended December 31, 2019, Keyera made pension contributions of $10,365 (2018 – $9,675) 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 termination. For the year ended December 31, 2019, Keyera recorded $1,662 (2018 – $684) in general and administrative expenses related to the DSU plan.

The following table reconciles the number of DSUs outstanding:

	2019	2018
Balance at the beginning of the year	**80,521**	46,171
Granted	**36,983**	37,686
Redeemed	**(19,931)**	(3,336)
Balance at the end of the year	**97,573**	80,521

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments include cash, trade and other receivables, derivative financial instruments, bank indebtedness, trade and other payables, dividends payable, current and long-term lease liabilities, credit facilities, 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 measured at fair value through profit or loss in the consolidated statements of net earnings and comprehensive income. 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 statements 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

Refer to note 15 for the fair value amounts of the senior unsecured notes, the senior unsecured medium-term notes, and the subordinated hybrid notes.

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.

				(Thousands of Canadian Dollars)		
		Weighted	Fair Value			
	Notional	Average	Hierarchy	Net Fair	Carrying Value	
As at December 31, 2019	**Volume[1]**	**Price**	**Level**	**Value**	**Asset**	**Liability**
Marketing NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI[2] swaps (maturing by December 31, 2020)	4,419,479 Bbls	74.85/Bbl	Level 2	(13,876)	989	(14,865)
Buyer of fixed price WTI[2] swaps (maturing by December 31, 2020)	1,116,000 Bbls	73.42/Bbl	Level 2	5,065	5,486	(421)
Seller of fixed price NGL swaps (maturing by December 31, 2020)	1,660,200 Bbls	37.91/Bbl	Level 2	9,651	9,777	(126)
Buyer of fixed price NGL swaps (maturing by December 31, 2020)	1,800,400 Bbls	41.44/Bbl	Level 2	(11,771)	628	(12,399)
Seller of fixed price RBOB[3] basis spreads (iso-octane) (maturing by December 31, 2020)	1,920,000 Bbls	19.59/Bbl	Level 2	1,257	3,679	(2,422)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by January 31, 2020)	130,000 Bbls	24.94/Bbl	Level 2	464	464	—
Buyer of fixed price NGL forward contracts (maturing by January 31, 2020)	105,000 Bbls	27.12/Bbl	Level 2	(533)	—	(533)
Currency:						
Seller of forward contracts (maturing by June 30, 2020)	US$146,500,000	1.33/USD	Level 2	4,303	4,303	—
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2020)	131,760 MWhs	57.55/MWh	Level 2	144	501	(357)
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2020)	43,920 MWhs	56.15/MWh	Level 2	109	199	(90)
Long-term Debt						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$534,286,100	0.98/USD - 1.22/USD	Level 2	124,009	124,009	—
				118,822	**150,035**	**(31,213)**

Notes:

1 All notional amounts represent actual volumes or actual prices and are not expressed in thousands.

2 West Texas Intermediate ("WTI") crude oil.

3 Reformulated Blendstock for Oxygen Blending ("RBOB").

As at December 31, 2018	Notional Volume[1]	Weighted Average Price	Fair Value Hierarchy Level	(Thousands of Canadian Dollars) Net Fair Value	Carrying Value Asset	Liability
Marketing NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI[2] swaps (maturing by March 31, 2020)	2,968,189 Bbls	73.15/Bbl	Level 2	31,322	31,584	(262)
Buyer of fixed price WTI[2] swaps (maturing by December 31, 2019)	367,074 Bbls	65.36/Bbl	Level 2	(429)	221	(650)
Seller of fixed price NGL swaps (maturing by March 31, 2020)	2,380,750 Bbls	44.22/Bbl	Level 2	14,315	14,955	(640)
Buyer of fixed price NGL swaps (maturing by March 31, 2020)	1,667,000 Bbls	51.05/Bbl	Level 2	(16,203)	—	(16,203)
Seller of fixed price RBOB[3] basis spreads (iso-octane) (maturing by December 31, 2019)	2,270,000 Bbls	25.02/Bbl	Level 2	19,732	19,768	(36)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by February 28, 2019)	320,000 Bbls	37.36/Bbl	Level 2	885	887	(2)
Buyer of fixed price NGL forward contracts (maturing by January 31, 2019)	35,222 Bbls	42.84/Bbl	Level 2	71	71	—
Currency:						
Seller of forward contracts (maturing by December 31, 2019)	US$197,000,000	1.33/USD	Level 2	(7,221)	—	(7,221)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	78,840 MWhs	41.03/MWh	Level 2	1,000	1,000	—
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	8,760 MWhs	45.45/MWh	Level 2	72	72	—
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)	26,280 MWhs	43.47/MWh	Level 2	271	271	—
Long-term Debt						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$554,811,000	0.98/USD - 1.22/USD	Level 2	132,809	132,809	—
				177,216	**202,230**	**(25,014)**

Notes:
1 All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
2 West Texas Intermediate ("WTI") crude oil.
3 Reformulated Blendstock for Oxygen Blending ("RBOB").

Derivative instruments are recorded on the consolidated statements of financial position at fair value. Changes in the fair value of these financial instruments are recognized through profit or loss in the consolidated statements 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 statements 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

Unrealized gain (loss) *(Thousands of Canadian dollars)*	**2019**	2018
Marketing revenue	**(47,912)**	70,210
Liquids infrastructure operating expenses	**(856)**	(1,134)
Gathering and processing expenses	**(664)**	(681)
Corporate and Other:		
Corporate and Other revenues and expenses	**(162)**	505
Change in fair value of the cross currency swaps on U.S. debt[1]	**(8,800)**	42,265
Total unrealized (loss) gain	**(58,394)**	111,165

Note:
[1] Includes principal and interest portion.

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 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 Marketing segment has foreign currency risk associated with its sales and purchases denominated in U.S. dollars; however, the Gathering and Processing and Liquids Infrastructure segments have very little foreign currency risk as sales and purchases are primarily denominated in Canadian dollars.

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. These cross-currency contracts are accounted for as derivative instruments. Refer to note 25 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 December 31, 2019, fixed rate borrowings comprised 97% of total debt outstanding (December 31, 2018 – 97%). 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 does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at December 31, 2019.

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. The carrying amount of financial assets on the consolidated statements of financial position approximates Keyera's maximum exposure to credit risk.

(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.

The following table shows the contractual maturities for financial liabilities of Keyera as at December 31, 2019:

(Thousands of Canadian dollars)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**After 2024**
Trade and other payables	**560,338**	560,338	—	—	—	—	—
Derivative financial instruments[1]	**31,213**	31,213	—	—	—	—	—
Dividends payable	**34,867**	34,867	—	—	—	—	—
Credit facility	**90,000**	—	—	—	—	90,000	—
Long-term debt[2]	**2,699,275**	135,540	—	60,000	30,000	182,952	2,290,783
Lease liabilities[3]	**307,726**	47,801	42,989	34,529	24,727	22,352	135,328
Other liabilities	**16,912**	—	9,997	5,083	1,832	—	—
	3,740,331	**809,759**	**52,986**	**99,612**	**56,559**	**295,304**	**2,426,111**

Notes:
1 Derivative instruments include cross-currency swaps related to U.S. long-term debt.
2 Amounts represent principal only and exclude accrued interest.
3 Amounts represent the expected undiscounted cash payments related to leases.

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:

Risk sensitivities *(Thousands of Canadian dollars)*	**Impact on income before tax December 31, 2019**		Impact on income before tax December 31, 2018	
	Increase	**(Decrease)**	Increase	(Decrease)
Commodity price changes				
+ 10% in electricity price	**1,030**	**—**	612	—
- 10% in electricity price	**—**	**(1,030)**	—	(612)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(28,494)**	—	(23,086)
- 10% in NGL, crude oil and iso-octane prices	**28,494**	**—**	23,086	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(1,762)**	—	(1,093)
- $0.01 in U.S./Canadian dollar exchange rate	**1,762**	**—**	1,093	—
Interest rate changes				
+ 1% in interest rate	**—**	**(900)**	—	(800)
- 1% in interest rate	**900**	**—**	800	—

25. NET FOREIGN CURRENCY GAIN (LOSS) ON U.S. DEBT AND OTHER

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

(Thousands of Canadian dollars)	**2019**	2018
Foreign currency gain (loss) resulting from:		
Translation of long-term debt and interest payable	**29,861**	(50,297)
Change in fair value of the cross-currency swaps – principal and interest portion	**(8,800)**	42,265
Gain from cross-currency swaps – interest portion[1]	**3,116**	2,715
Foreign exchange re-measurement of lease liabilities and other	**10,175**	—
Total net foreign currency gain (loss) on U.S. debt and other	**34,352**	(5,317)

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.

26. CAPITAL MANAGEMENT

Keyera's objectives when managing capital are:

- to safeguard Keyera's ability to continue as a going concern;
- to maintain financial flexibility in order to fund investment opportunities and meet financial obligations; and
- to distribute to shareholders a significant portion of the current cash flow of its subsidiaries, after
  I. satisfaction of debt service obligations (principal and interest) and income tax expenses,
  II. satisfaction of any reclamation funding requirements,
  III. providing for maintenance capital expenditures, and
  IV. retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and capital expenditures as may be considered appropriate.

Keyera defines its capital as shareholders' equity, long-term debt, credit facilities, and working capital (defined as current assets less current liabilities). Keyera manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Keyera may adjust the amount of dividends paid to shareholders, issue new shares, issue new debt or replace existing debt with new debt having different characteristics.

For the year ended December 31, 2019, Keyera's capital management strategy was unchanged from the prior year. Keyera monitors its capital structure primarily based on its consolidated net debt to consolidated earnings before interest, taxes, depreciation, amortization, accretion, unrealized gains and losses, impairment expenses and any other non-cash items ("adjusted EBITDA") ratio. The definition of adjusted EBITDA for capital management purposes is similar, but not identical to the adjusted EBITDA financial measure used in the calculation of Keyera's financial covenants on its credit facilities and private long-term debt agreements. This ratio is calculated as consolidated net debt divided by a twelve-month trailing adjusted EBITDA, which are non-GAAP measures. For purposes of this financial covenant, Keyera has the ability to increase its Net Debt to EBITDA ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters. In addition, Keyera can utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each statement of financial position date.

Keyera is also subject to the following financial covenants: (i) adjusted EBITDA to consolidated interest charges, and (ii) priority debt to consolidated total assets. The calculation for each of these financial covenants is based on specific definitions and is not in accordance with GAAP, and cannot be directly derived from the consolidated financial statements. Keyera was in compliance with all financial covenants as at December 31, 2019.

27. GENERAL AND ADMINISTRATIVE EXPENSES

The components of general and administrative expenses were as follows:

(Thousands of Canadian dollars)	**2019**	2018[1]
Salaries and benefits	**69,747**	65,438
Professional fees and consulting	**15,227**	16,910
Other	**23,595**	24,895
Overhead recoveries on operated facilities	**(25,077)**	(21,569)
Total general and administrative expenses	**83,492**	85,674

Note:
[1] Certain information for the prior year has been reclassified to conform to a change in presentation adopted in 2019.

As operator of most of its facilities, Keyera is compensated for its administrative work by collecting an overhead recovery fee equal to a certain percentage of operating costs. The reimbursement of such costs is called overhead recoveries.

28. FINANCE COSTS

The components of finance costs were as follows:

(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)
Interest on bank indebtedness and credit facilities	**10,699**	5,786
Interest on long-term debt	**115,471**	89,264
Interest capitalized	**(36,198)**	(30,551)
Interest on leases	**10,349**	—
Other interest income	**(513)**	(1,426)
Total interest expense on leases, and current and long-term debt	**99,808**	63,073
Unwinding of discount on decommissioning liability	**10,294**	12,702
Unwinding of discount on long-term debt	**1,877**	1,646
Other	**1,087**	—
Non-cash expenses in finance costs	**13,258**	14,348
Total finance costs	**113,066**	77,421

For the year ended December 31, 2019, $36,198 of borrowing (interest) costs were capitalized (2018 – $30,551) at a weighted average capitalization rate of 5.0% on funds borrowed (2018 – 4.8%).

29. DEPRECIATION, DEPLETION AND AMORTIZATION

The components of depreciation, depletion and amortization expense were as follows:

(Thousands of Canadian dollars)	**2019**	2018 (Restated – Note 2)
Depreciation and depletion on property, plant and equipment	**214,609**	195,471
Depreciation on right-of-use assets	**55,862**	—
Amortization of intangible assets	**7,821**	4,162
Total depreciation, depletion and amortization expenses	**278,292**	199,633

30. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of Keyera's board of directors and executive officers.

Compensation of key management personnel was as follows:

(Thousands of Canadian dollars)	**2019**	2018
Salaries and other short-term benefits	**11,425**	11,104
Post-employment benefits	**375**	340
Share-based payments	**6,642**	4,574
Total related party transactions	**18,442**	16,018

31. SUPPLEMENTAL CASH FLOW INFORMATION

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

(Thousands of Canadian dollars)	**2019**	2018
Inventory	**134,543**	(81,457)
Trade and other receivables	**(66,572)**	11,639
Other assets	**(780)**	(3,461)
Trade and other payables, and provisions	**66,490**	(18,690)
Changes in non-cash working capital from operating activities	**133,681**	(91,969)

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

(Thousands of Canadian dollars)	**2019**	2018
Trade and other payables, and provisions	**(34,025)**	37,607
Changes in non-cash working capital from investing activities	**(34,025)**	37,607

Reconciliation of liabilities arising from financing activities:

(Thousands of Canadian dollars)	**Credit Facilities**	**Current and Long-term Debt**	**Derivative Financial Assets Related To U.S. Long-term Borrowings**	**Current and Long-term Lease Liabilities**
As at December 31, 2017	**—**	**1,795,530**	**90,544**	**54,029**
Cash changes:				
Inflows from borrowings	720,000	400,000	—	—
Outflows related to repayments	(640,000)	—	—	(42,687)
Outflows related to financing costs	—	(3,318)	—	—
Non-cash and other changes:				
Finance costs[1]	—	—	—	1,079
Fair value changes	—	—	42,265	(373)
Unrealized foreign exchange	—	49,497	—	—
Unwinding of discount on long-term debt	—	1,646	—	—
Remeasurement of capital lease	—	—	—	(12,048)
As at December 31, 2018	**80,000**	**2,243,355**	**132,809**	**—**
Cash changes:				
Inflows from borrowings	810,000	600,000	—	—
Outflows related to repayments	(800,000)	(126,019)	—	(52,647)
Outflows related to financing costs	—	(5,462)	—	10,349
Non-cash and other changes:				
Lease liabilities recognized upon the adoption of IFRS 16	—	—	—	202,698
Lease additions	—	—	—	98,905
Fair value changes	—	—	(8,800)	—
Unrealized foreign exchange and other	—	(29,743)	—	(10,848)
Unwinding of discount on long-term debt	—	1,877	—	—
As at December 31, 2019	**90,000**	**2,684,008**	**124,009**	**248,457**

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

32. SEGMENT INFORMATION

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

Gathering and Processing

The Gathering and Processing segment includes raw gas gathering systems and processing plants located in the natural gas production areas primarily on the western side of the Western Canada Sedimentary Basin. The operations primarily involve providing natural gas gathering and processing, including liquids extraction, and condensate stabilization services to customers on a fee-for-service basis. 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 on a fee-for-service basis. As well, it provides processing services to Keyera's Marketing business related to NGLs, iso-octane, and liquids blending on a fee-for-service basis. These services are provided to customers through an extensive network of facilities that include underground NGL storage caverns, NGL fractionation and de-ethanization facilities, NGL pipelines, rail and truck terminals, the AEF facility, a 50% interest in the Base Line Terminal, and the Oklahoma Liquids Terminal.

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.

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.

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.

Year ended December 31, 2019 *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Segmented revenue	513,452	544,318	2,879,757	21,167	(341,772)	3,616,922
Segmented expenses	(219,736)	(167,918)	(2,554,769)	(12,138)	341,772	(2,612,789)
Operating margin	293,716	376,400	324,988	9,029	—	1,004,133
General and administrative expenses	—	—	—	(83,492)	—	(83,492)
Finance costs	—	—	—	(113,066)	—	(113,066)
Depreciation, depletion and amortization expenses	—	—	—	(278,292)	—	(278,292)
Net foreign currency gain on U.S. debt and other	—	—	—	34,352	—	34,352
Long-term incentive plan expense	—	—	—	(26,134)	—	(26,134)
Impairment expense	(77,095)	—	—	—	—	(77,095)
Earnings (loss) before income tax	216,621	376,400	324,988	(457,603)	—	460,406
Income tax expense	—	—	—	(16,797)	—	(16,797)
Net earnings (loss)	**216,621**	**376,400**	**324,988**	**(474,400)**	**—**	**443,609**

Year ended December 31, 2018 *(Thousands of Canadian dollars)*	**Gathering & Processing** (Restated – Note 2)	**Liquids Infrastructure**	**Marketing**	**Corporate and Other** (Restated – Note 2)	**Inter-segment Eliminations**	**Total** (Restated – Note 2)
Segmented revenue	458,441	478,037	3,811,915	25,436	(308,618)	4,465,211
Segmented expenses	(186,608)	(153,581)	(3,445,685)	(11,756)	308,618	(3,489,012)
Operating margin	271,833	324,456	366,230	13,680	—	976,199
General and administrative expenses	—	—	—	(85,674)	—	(85,674)
Finance costs	—	—	—	(77,421)	—	(77,421)
Depreciation, depletion and amortization expenses	—	—	—	(199,633)	—	(199,633)
Net foreign currency loss on U.S. debt	—	—	—	(5,317)	—	(5,317)
Long-term incentive plan expense	—	—	—	(14,262)	—	(14,262)
Impairment expense	(56,911)	—	—	—	—	(56,911)
Loss on settlement of finance lease	—	(286)	—	—	—	(286)
Earnings (loss) before income tax	214,922	324,170	366,230	(368,627)	—	536,695
Income tax expense	—	—	—	(133,867)	—	(133,867)
Net earnings (loss)	**214,922**	**324,170**	**366,230**	**(502,494)**	**—**	**402,828**

DISAGGREGATION OF REVENUE

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

Year ended December 31, 2019 *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	450,000	107,975	—	—	557,975
Fractionation and storage services	10,803	223,754	—	—	234,557
Transportation and terminalling services	—	211,109	—	—	211,109
Marketing of NGLs and iso-octane	—	—	2,879,757	—	2,879,757
Other[2]	52,649	1,480	—	21,167	75,296
Revenue before inter-segment eliminations	**513,452**	**544,318**	**2,879,757**	**21,167**	**3,958,694**
Inter-segment revenue eliminations	(22,051)	(286,986)	(11,410)	(21,325)	(341,772)
Revenue from external customers	**491,401**	**257,332**	**2,868,347**	**(158)**	**3,616,922**

Year ended December 31, 2018 *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	394,585	85,065	—	—	479,650
Fractionation and storage services	7,764	188,756	—	—	196,520
Transportation and terminalling services	—	202,937	—	—	202,937
Marketing of NGLs and iso-octane	—	—	3,811,915	—	3,811,915
Other[2]	56,092	1,279	—	25,436	82,807
Revenue before inter-segment eliminations	**458,441**	**478,037**	**3,811,915**	**25,436**	**4,773,829**
Inter-segment revenue eliminations	(20,009)	(248,932)	(11,655)	(28,022)	(308,618)
Revenue from external customers	**438,432**	**229,105**	**3,800,260**	**(2,586)**	**4,465,211**

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.

Contract Balances

Contract liabilities are recorded when consideration has been received from a customer prior to Keyera's fulfillment of its obligation to provide future services. Contract liabilities primarily relate to consideration received under take-or-pay contract arrangements whereby the customer has the ability to exercise accumulated make-up rights prior to their expiry. Contract liabilities also arise when Keyera receives non-cash consideration or up-front payments from customers for the performance of future services. As at December 31, 2019 contract liabilities were $nil (December 31, 2018 – $nil) as there were no unperformed obligations related to customer make-up rights that were material and Keyera did not receive any non-cash consideration or up-front customer payments that required revenue deferral.

Contract assets are recorded when Keyera performs services for customers in advance of receiving consideration from the customer or before payment is due. As at December 31, 2019 contract assets were $nil (December 31, 2018 – $nil). All instances whereby Keyera's performance obligations were satisfied prior to receiving consideration from the customer were unconditional and therefore have been presented as a receivable.

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.

Revenue from external customers located in

(Thousands of Canadian dollars)	**2019**	2018
Canada	**2,939,018**	3,778,693
U.S.	**677,904**	686,518
Total revenue	**3,616,922**	4,465,211

Non-current assets[1] as at December 31, *(Thousands of Canadian dollars)*	**2019**	2018 (Restated – Note 2)
Canada	**6,328,560**	5,438,904
U.S.	**414,634**	301,597
Total non-current assets	**6,743,194**	5,740,501

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

Information about major customers

Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue for the years ended December 31, 2019 and 2018.

33. COMMITMENTS AND CONTINGENCIES

Keyera, through its operating entities, has assumed commitments in various contractual purchase agreements in the normal course of its operations. The agreements involve the purchase of NGL production from producers in the areas specified in the agreements. The purchase prices are based on then current market prices. The future volumes and prices for these contracts cannot be reasonably determined and therefore no amount has been included in purchase obligations to reflect these contractual agreements.

In addition, Keyera has service obligations relating to terminal storage and natural gas transportation, and third party contractual obligations related to assets under construction. The estimated annual minimum payments due for these commitments are as follows:

2020	440,345
2021	12,167
2022	10,594
2023	4,452
2024	3,078
Thereafter	3,834
Total commitments	**474,470**

Adoption of *IFRS 16, Leases ("IFRS 16")*

On January 1, 2019, Keyera adopted *IFRS 16* which required the recognition of lease liabilities on the consolidated statement of financial position for arrangements that were previously classified as operating leases. Prior to the adoption of *IFRS 16,* future operating lease obligations were disclosed as commitments. Refer to note 2 for a reconciliation of the operating lease obligations included in the Commitments and Contingencies note at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019. Refer to note 24 for the expected undiscounted cash payments relating to leases.

34. SUBSEQUENT EVENTS

On January 10, 2020, Keyera declared a dividend of $0.16 per share, payable on February 18, 2020 to shareholders of record as of January 22, 2020.

On February 12, 2020, Keyera declared a dividend of $0.16 per share, payable on March 16, 2020 to shareholders of record as of February 25, 2020.

Additional Information

Fourth Quarter Results

Statements of Net Earnings and Comprehensive Income	**(Unaudited) Three months ended December 31, 2019**	2018
(Thousands of Canadian dollars)		(Restated – Note 2)
Revenues	**985,166**	1,142,342
Expenses	**(722,725)**	(825,519)
Operating margin	**262,441**	316,823
General and administrative expenses	**(28,532)**	(21,219)
Finance costs	**(30,729)**	(20,478)
Depreciation, depletion and amortization expenses	**(85,542)**	(52,720)
Net foreign currency gain on U.S. debt and other	**5,332**	1,994
Long-term incentive plan (expense) recovery	**(5,540)**	3,920
Impairment expense	**(77,095)**	—
Earnings before income tax	**40,335**	228,320
Income tax expense	**(10,617)**	(62,374)
Net earnings	**29,718**	165,946
Other comprehensive income		
Foreign currency translation adjustment	**(8,589)**	19,032
Comprehensive income	**21,129**	184,978
Weighted average number of shares (in thousands)		
- basic	**216,938**	209,585
- diluted	**216,938**	209,585
Earnings per share	**$**	$
- basic	**0.14**	0.79
- diluted	**0.14**	0.79

Statements of Cash Flows
(Thousands of Canadian dollars)

	(Unaudited) Three months ended December 31,	
	2019	2018
Cash provided by (used in):		(Restated – Note 2)
OPERATING ACTIVITIES		
Net earnings	**29,718**	165,946
Adjustments for items not affecting cash:		
Finance costs	**5,401**	3,873
Depreciation, depletion and amortization expenses	**85,542**	52,720
Unrealized loss (gain) on derivative financial instruments	**44,527**	(84,147)
Unrealized (gain) loss on foreign exchange	**(14,462)**	26,034
Inventory write-down	**—**	4,853
Deferred income tax (recovery) expense	**(18,848)**	55,809
Impairment expense	**77,095**	—
Decommissioning liability expenditures	**(8,102)**	(5,419)
Changes in non-cash working capital	**12,805**	25,963
Net cash provided by operating activities	**213,676**	245,632
INVESTING ACTIVITIES		
Acquisitions	**(50)**	(5,609)
Capital expenditures	**(283,454)**	(242,964)
Proceeds on disposal of property, plant, and equipment	**104**	18
Changes in non-cash working capital	**1,111**	(18,913)
Net cash used in investing activities	**(282,289)**	(267,468)
FINANCING ACTIVITIES		
Borrowings under credit facilities	**170,000**	420,000
Repayments under credit facilities	**(80,000)**	(380,000)
Financing costs related to credit facilities/long-term debt	**—**	(1,068)
Issuance costs related to equity offering and other	**—**	(250)
Proceeds from issuance of shares related to DRIP	**61,758**	52,551
Lease payments	**(12,878)**	—
Dividends paid to shareholders	**(103,959)**	(94,179)
Net cash provided by (used in) financing activities	**34,921**	(2,946)
Effect of exchange rate fluctuations on foreign cash held	**(328)**	171
Net decrease in cash	**(34,020)**	(24,611)
Cash, start of period	**43,334**	13,751
Cash (bank indebtedness), end of period	**9,314**	(10,860)

SUPPLEMENTAL CASH FLOW INFORMATION

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

	(Unaudited) Three months ended December 31,	
(Thousands of Canadian dollars)	**2019**	2018
Inventory	**39,536**	69,483
Trade and other receivables	**(85,766)**	111,938
Other assets	**6,554**	6,867
Trade and other payables, and provisions	**52,481**	(162,325)
Changes in non-cash working capital from operating activities	**12,805**	25,963

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

	(Unaudited) Three months ended December 31,	
(Thousands of Canadian dollars)	**2019**	2018
Trade and other payables, and provisions	**1,111**	(18,913)
Changes in non-cash working capital from investing activities	**1,111**	(18,913)

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

	(Unaudited) Three months ended December 31,	
(Thousands of Canadian dollars)	**2019**	2018
Income taxes paid in cash	**9,973**	—
Interest paid in cash	**60,764**	38,617

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.

(Unaudited) **Three months ended** **December 31, 2019** *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Segmented revenue	143,736	142,885	783,899	5,772	(91,126)	985,166
Segmented expenses	(62,858)	(51,580)	(696,524)	(2,889)	91,126	(722,725)
Operating margin	80,878	91,305	87,375	2,883	—	262,441
General and administrative expenses	—	—	—	(28,532)	—	(28,532)
Finance costs	—	—	—	(30,729)	—	(30,729)
Depreciation, depletion and amortization expenses	—	—	—	(85,542)	—	(85,542)
Net foreign currency gain on U.S. debt and other	—	—	—	5,332	—	5,332
Long-term incentive plan expense	—	—	—	(5,540)	—	(5,540)
Impairment expense	(77,095)	—	—	—	—	(77,095)
Earnings (loss) before income tax	3,783	91,305	87,375	(142,128)	—	40,335
Income tax expense	—	—	—	(10,617)	—	(10,617)
Net earnings (loss)	**3,783**	**91,305**	**87,375**	**(152,745)**	**—**	**29,718**

(Unaudited) **Three months ended** **December 31, 2018** *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other** (Restated – Note 2)	**Inter-segment Eliminations**	**Total** (Restated – Note 2)
Segmented revenue	125,511	128,980	961,490	5,696	(79,335)	1,142,342
Segmented expenses	(51,981)	(45,212)	(804,867)	(2,794)	79,335	(825,519)
Operating margin	73,530	83,768	156,623	2,902	—	316,823
General and administrative expenses	—	—	—	(21,219)	—	(21,219)
Finance costs	—	—	—	(20,478)	—	(20,478)
Depreciation, depletion and amortization expenses	—	—	—	(52,720)	—	(52,720)
Net foreign currency gain on U.S. debt	—	—	—	1,994	—	1,994
Long-term incentive plan recovery	—	—	—	3,920	—	3,920
Earnings (loss) before income tax	73,530	83,768	156,623	(85,601)	—	228,320
Income tax expense	—	—	—	(62,374)	—	(62,374)
Net earnings (loss)	**73,530**	**83,768**	**156,623**	**(147,975)**	**—**	**165,946**

DISAGGREGATION OF REVENUE

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

(Unaudited) **Three months ended** **December 31, 2019** *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	126,718	32,219	—	—	158,937
Fractionation and storage services	3,209	56,277	—	—	59,486
Transportation and terminalling services	—	54,060	—	—	54,060
Marketing of NGLs and iso-octane	—	—	783,899	—	783,899
Other[2]	13,809	329	—	5,772	19,910
Revenue before inter-segment eliminations	**143,736**	**142,885**	**783,899**	**5,772**	**1,076,292**
Inter-segment revenue eliminations	(5,903)	(77,143)	(2,745)	(5,335)	(91,126)
Revenue from external customers	**137,833**	**65,742**	**781,154**	**437**	**985,166**

(Unaudited) **Three months ended** **December 31, 2018** *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	105,067	23,021	—	—	128,088
Fractionation and storage services	2,098	53,081	—	—	55,179
Transportation and terminalling services	—	52,566	—	—	52,566
Marketing of NGLs and iso-octane	—	—	961,490	—	961,490
Other[2]	18,346	312	—	5,696	24,354
Revenue before inter-segment eliminations	**125,511**	**128,980**	**961,490**	**5,696**	**1,221,677**
Inter-segment revenue eliminations	(4,826)	(66,396)	(2,348)	(5,765)	(79,335)
Revenue from external customers	**120,685**	**62,584**	**959,142**	**(69)**	**1,142,342**

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.

Corporate Information

Board of Directors

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

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

Blair Goertzen [(5)]
Corporate Director
Red Deer, 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
Denver, Colorado

Charlene Ripley [(4)(5)]
Executive Vice President
and General Counsel
SNC-Lavalin
Corporate Director
Vancouver, British Columbia

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

Officers

David G. Smith
President and Chief Executive Officer

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

Bradley W. Lock
Senior Vice President and Chief Operating Officer

C. Dean Setoguchi
Senior Vice President and Chief Commercial Officer

Nancy L. Brennan
Senior Vice President, General Counsel and Corporate Secretary

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President, Operations, Gathering and Processing

Kelly Hill
Vice President, Information Technology

John Hunszinger
Vice President, Operations, Liquids Infrastructure

Rick Koshman
Vice President, Corporate Development

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

Eileen Marikar
Vice President, Finance

Brian Martin
Vice President, Business Development, Liquids Infrastructure

Jamie Urquhart
Vice President, Marketing

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q4 2019

TSX:KEY – Cdn $	
High	$34.38
Low	$30.20
Close December 31, 2019	$34.02
Volume	80,926,967
Average Daily Volume	1,284,555

Head Office

Keyera Corp.
Suite 200, Sun Life Plaza West Tower
144 – 4th Avenue S.W.
Calgary, Alberta T2P 3N4
Main phone: 403-205-8300
Website: www.keyera.com

Auditors

Deloitte LLP
Chartered Professional Accountants
Calgary, Canada

Investor Relations

Contact:
Lavonne Zdunich or Calvin Locke
Toll Free: 1-888-699-4853
Direct: 403-205-7670
Email: ir@keyera.com