Delivering midstream solutions

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Year End Report February 14, 2017

2016 Year End Report

For the year ended December 31, 2016

HIGHLIGHTS

- Keyera delivered strong financial results in 2016 with net earnings of $217 million ($1.21 per share) compared to $202 million ($1.19 per share) reported in 2015.
- Both facility operating segments reported record results for the year as recent capital investments are generating incremental cash flow. The Gathering and Processing segment recorded an operating margin of $290 million in the year (2015 – $259 million) while the Liquids Infrastructure segment reported an operating margin of $246 million (2015 – $220 million).
- The Marketing segment's operating margin was $101 million (2015 – $244 million) primarily due to a lower contribution from iso-octane sales, as a result of the scheduled turnaround at Alberta EnviroFuels ("AEF") and lower iso-octane margins.
- Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1] was $605 million compared to $705 million in 2015. Distributable cash flow[1] was $460 million ($2.56 per share) in 2016 compared to $482 million ($2.84 per share) recorded in 2015. The prior year's financial results included a non-recurring gain of approximately $40 million on risk management contracts.
- To support future growth, Keyera recently purchased 1,290 acres of undeveloped land in the Industrial Heartland area near Fort Saskatchewan, providing the company with significant growth optionality.
- Keyera today announced plans to construct a new NGL gathering pipeline system ("Keylink") that will provide producers in west central Alberta with a pipeline alternative for transporting NGLs from a number of Keyera gas plants. The estimated $147 million[2] Keylink system is targeted to be operational by mid-2018.
- Keyera also announced a project to expand the liquids handling capacity at the Simonette gas plant to meet customers' growing needs. The project is estimated to cost $100 million[2] and to be operational by mid-2018, based on the proposed construction schedule.
- Growth capital invested in 2016, excluding acquisitions, was $502 million[2] and included the NGL fractionation expansion at Keyera's Fort Saskatchewan facility that was completed in the second quarter. During the year, construction also progressed on three major Liquids Infrastructure joint-venture projects: the Norlite diluent pipeline, the South Grand Rapids diluent pipeline, and the Base Line Terminal crude oil storage facility. These projects are expected to begin generating cash flow over the next 6 to 12 months.
- Acquisitions in 2016 included an additional 35% ownership interest in the Alder Flats gas plant and gathering lines, as well as the Wapiti gas plant site, acid gas injection well and associated third-party engineering work. Keyera completed its detailed cost estimate for the Wapiti project and is in discussions with the primary customer regarding sanctioning phase one.
- In 2017, Keyera expects to invest growth capital of between $600 million and $700 million[2], mainly to complete its three major Liquids Infrastructure projects including acquiring the South Grand Rapids pipeline, expand the liquids handling capacity at the Simonette gas plant and advance work on the Keylink pipeline.

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

[2] See section titled "Capital Expenditures and Acquisitions" of the MD&A for further discussion of Keyera's capital investment program.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended December 31,** **2016**	 2015	**Twelve months ended December 31,** **2016**	 2015
Net earnings	**34,621**	20,215	**216,851**	201,920
Per share ($/share) – basic	**0.19**	0.12	**1.21**	1.19
Cash flow from operating activities	**40,223**	126,444	**412,926**	648,155
Distributable cash flow[1]	**104,006**	123,176	**459,583**	482,118
Per share ($/share)[1]	**0.56**	0.72	**2.56**	2.84
Dividends declared	**73,657**	64,259	**277,578**	240,685
Per share ($/share)	**0.40**	0.38	**1.54**	1.42
Payout ratio %[1]	**71%**	52%	**60%**	50%
Adjusted EBITDA[2]	**153,535**	175,249	**605,127**	704,640
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,362**	1,541	**1,431**	1,498
Net processing throughput (MMcf/d)	**1,088**	1,174	**1,123**	1,155
Liquids Infrastructure[3]:				
Gross processing throughput (Mbbl/d)	**152**	137	**147**	133
Net processing throughput (Mbbl/d)	**50**	41	**53**	41
AEF iso-octane production volumes (Mbbl/d)	**9**	13	**11**	13
Marketing:				
Inventory value	**107,876**	76,989	**107,876**	76,989
Sales volumes (Bbl/d)	**134,600**	118,300	**129,300**	110,500
Acquisitions	**8,033**	6,949	**190,375**	24,644
Growth capital expenditures	**119,018**	129,089	**501,503**	641,427
Maintenance capital expenditures	**29,305**	6,103	**65,539**	64,831
Total capital expenditures	**156,356**	142,141	**757,417**	730,902

	As at December 31, **2016**	 2015
Long-term debt	**1,437,413**	1,156,486
Credit facilities	**235,000**	370,000
Working capital (surplus) deficit [4]	**(46,322)**	73,622
Net debt	**1,626,091**	1,600,108

	Three months ended December 31, **2016**	 2015	 **2016**	 2015
Common shares outstanding – end of period			**185,683**	171,702
Weighted average number of shares outstanding – basic	**185,116**	171,199	**179,688**	169,936
Weighted average number of shares outstanding – diluted	**185,116**	171,199	**179,688**	169,936

Notes:

[1] Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow. Payout ratio and distributable cash flow are not standard measures under Generally Accepted Accounting Principles ("GAAP"). See the section titled, "Dividends: Distributable Cash Flow", for a reconciliation of distributable cash flow to its most closely related GAAP measure.

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

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

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

Message to Shareholders

More than two years after the energy industry entered the current economic downturn, Keyera's assets continue to generate strong returns. Our Gathering and Processing and Liquids Infrastructure segments once again delivered record results in 2016 as our recent capital investments, along with increasing demand for our oil sands services, generated incremental cash flow. The Marketing segment's results were affected by the scheduled turnaround at our Alberta EnviroFuels facility and iso-octane margins narrowing during the year after very strong margins in 2015. Adjusted EBITDA was $605 million, while distributable cash flow was $460 million and net earnings were $217 million.

I am pleased with Keyera's performance during this time. We continue to strengthen our competitive advantages and position the company for growth. We have successfully reduced our operating costs, strengthened our balance sheet and continued to focus on operational excellence. During the year, we invested almost $700 million in growth capital projects and acquisitions. In 2017, we expect to invest another $600 million to $700 million in growth capital, excluding acquisitions. We are confident in our business and remain committed to growing shareholder returns. In 2016, we increased our dividend per share by 6%.

Gathering and Processing Business Unit

The Gathering and Processing segment delivered record financial results in 2016, despite the low commodity price environment and corresponding low producer drilling activity in Alberta. Operating margin of $290 million was 12% higher than in 2015. This increase was primarily the result of a full year of incremental cash flow associated with capital projects completed in the prior year, as well as the additional 35% ownership interest in the Alder Flats gas plant and gathering pipelines acquired mid-year.

Gross processing throughput volumes for the year averaged 1,431 million cubic feet per day, down 4% from the 1,498 million cubic feet per day processed in 2015 due to low drilling activity and curtailments on TransCanada PipeLines' sales gas system. In the fourth quarter of 2016, gross throughput volumes averaged 1,362 million cubic feet per day, consistent with the 1,367 million cubic feet per day processed in the third quarter. We are encouraged by the recovery in commodity prices compared to the first half of 2016. There are indications that drilling activity has increased, particularly in geological zones rich in NGLs, such as the Spirit River (near the Alder Flats gas plant) and the Montney (near our Simonette gas plant).

To support future growth, in 2016 we entered into agreements with the Canadian subsidiary of a large creditworthy multi-national producer for the proposed construction of a natural gas gathering and processing complex in the Wapiti area of Alberta. In the fourth quarter, we received regulatory approvals for the acid gas injection well and completed front-end engineering and design work. The current cost estimate for the project is approximately $625 million, which includes up to 300 million cubic feet per day of sour gas processing capacity and 25,000 barrels per day of field condensate capacity. We are continuing to work closely with our customer towards sanctioning of phase one, which would consist of 150 million cubic feet per day of processing capacity, the associated gathering system and an acid gas injection well, for an estimated cost of $470 million. This investment would be underpinned by a long-term contract consisting of a combination of an area dedication and minimum volume commitments. We are also negotiating with other producers with Montney-based development plans in the area.

We continue to focus on delivering cost-effective and value-added services to enhance customer economics, while maximizing throughput and efficiencies at our facilities. During the year, we reduced our operating costs by 13% compared to 2015. To meet our customers' growing needs at the Simonette gas plant, we are proceeding with a project to expand the liquids handling capacity. This project is estimated to cost approximately $100 million and is anticipated to be operational by mid-2018, assuming construction proceeds as planned. Upon completion of this project, the condensate handling operational capacity at the Simonette gas plant is expected to be approximately 27,000 barrels per day.

Liquids Business Unit - Liquids Infrastructure Segment

The Liquids Infrastructure segment generated record results in 2016, reporting an operating margin of $246 million, a 12% increase over the $220 million reported in the prior year. The robust performance was supported by a full year of contributions from projects completed in 2015, along with the completion of the

35,000 barrel per day fractionation expansion at Keyera Fort Saskatchewan in late May and growing volumes flowing through Keyera's condensate network.

Significant progress was made on Keyera's three major joint-venture projects in 2016, with their total cost trending lower than budget. The Norlite diluent pipeline project with Enbridge is on track to be operational this summer, followed by the South Grand Rapids diluent pipeline project with TransCanada PipeLines and Brion Energy late in 2017. The Base Line Terminal crude oil storage project with Kinder Morgan is expected to have its first set of tanks ready for commercial use in early 2018. These projects are expected to begin generating cash flow over the next 6 to 12 months.

In 2016, we continued to focus on developing strategic projects that are expected to provide Keyera with further growth opportunities and enhance our integrated service offering. To add to this growth profile, we are announcing plans to construct a new NGL gathering pipeline system, called "Keylink". The Keylink pipeline will connect several Keyera gas plants, including the Brazeau River, West Pembina, and Minnehik Buck Lake, to the Rimbey gas plant where we can provide onsite fractionation. The Rimbey gas plant is pipeline connected to our Edmonton rail terminal and Fort Saskatchewan fractionation and storage complex. We believe Keylink will provide producers with a safe, reliable and economically improved alternative to trucking NGL volumes in the region. We are pleased with the progress we have made with our engineering work, as well as our regulatory and construction plans. Assuming progress continues on schedule, our goal is to have the Keylink pipeline system operational in the second quarter of 2018 at an estimated cost of $147 million.

We recently completed the acquisition of 1,290 acres of undeveloped land adjacent to our Josephburg rail terminal in Alberta's Industrial Heartland near Fort Saskatchewan. Strategically located in western Canada's liquids hub, this land is expected to provide Keyera with a wide range of business opportunities for future growth.

Liquids Business Unit - Marketing Segment

The Marketing segment continued to contribute to Keyera's integrated value chain during the year, generating operating margin of $101 million compared to $244 million in 2015. Results were lower than the prior year due to a reduced contribution from iso-octane, as a result of the eight week scheduled turnaround at AEF and lower iso-octane margins. After a very strong year in 2015, iso-octane margins have returned close to the levels realized in 2014.

Keyera's Marketing group also manages the sale of propane, butane and condensate. All products contributed positively to the segment's results in 2016, with propane earning strong margins late in the fourth quarter mainly due to colder than expected winter weather.

Outlook

While it remains a challenging time for the industry, our disciplined approach to executing our strategy has served our shareholders well. We continue to improve and expand our integrated network of assets and look for opportunities to enhance our value chain. The proposed Wapiti gas gathering and processing complex, the new Keylink NGL gathering pipeline system, the liquids handling expansion at the Simonette gas plant and our recent land acquisition in the Industrial Heartland all represent exciting growth opportunities. Our strong balance sheet, access to capital and conservative payout ratio allow us to pursue these and other opportunities to enhance shareholder returns. In addition, we will continue to work with the industry to provide midstream solutions that are efficient and cost-effective to help support the overall competitiveness of the Western Canada Sedimentary Basin in the global market.

I am confident that Keyera is well positioned for the future and on behalf of Keyera's board of directors and management team, I would like to thank our employees, customers, shareholders and other stakeholders for their continued support.

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

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of February 14, 2017, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying audited consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the years ended December 31, 2016 and 2015 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. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

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

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

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

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

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

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the years ended December 31, 2016 and 2015:

(Thousands of Canadian dollars, except per share data)	**2016**	2015
Net earnings	**216,851**	201,920
Net earnings per share (basic)	**1.21**	1.19
Operating margin	**646,173**	742,338
Adjusted EBITDA[1]	**605,127**	704,640
Cash flow from operating activities	**412,926**	648,155
Distributable cash flow[2]	**459,583**	482,118
Distributable cash flow per share[2] (basic)	**2.56**	2.84
Dividends declared	**277,578**	240,685
Dividends declared per share	**1.54**	1.42
Payout ratio[3]	**60%**	50%

Notes:

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

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

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

Keyera recorded strong financial results from its facilities operating segments (Gathering and Processing and Liquids Infrastructure) in 2016, despite continued low commodity prices and lower throughput in the Gathering and Processing segment. As described in more detail throughout this MD&A, these results were achieved largely due to the strategic locations and capabilities of Keyera's infrastructure assets. Operating results from the Marketing segment were weaker in 2016 compared to the prior year due to a lower contribution from the sale of iso-octane, partly due to the scheduled turnaround at AEF in September and October.

Net Earnings

For the year ended December 31, 2016, net earnings were $217 million, $15 million higher than the prior year. The effect of lower operating margin from the Marketing segment in 2016 was more than offset by the following non-cash items:

- a net foreign currency loss of $2 million recorded in 2016 compared to a loss of $30 million in 2015 that resulted from the significant volatility in the United States ("U.S.")/Canadian foreign exchange rate associated with Keyera's U.S. denominated long-term debt and related U.S. currency swaps; and

- a net impairment charge of $12 million recorded in 2016 compared to an impairment charge of $95 million recorded in the prior year. The 2016 net impairment charge consisted of:

  i) $45 million expense to reduce the carrying value of Keyera's share of the capital invested in the sulphur handling fertilizer project at its Strachan gas plant to its recoverable value. Keyera and its 50/50 joint venture partner, Sulvaris, continue to review the project and the associated commercial arrangements, with a view to resuming it in the future if the business plans and costs to complete construction are economic; and

ii) $33 million recovery to reverse previous impairment losses associated with the Brazeau River and West Pembina gas plants. GAAP requires assets that have subsequently recovered in value to be written up when conditions have improved.

See the section of this MD&A titled, “Corporate and Other”, for more information related to these charges.

Operating Margin

For the year ended December 31, 2016, operating margin was $646 million, $96 million lower than 2015. While Keyera generated approximately $60 million of incremental cash flow from new investments made over the past two years, this positive variance was more than offset by approximately $143 million in lower operating margin from the Marketing segment in 2016 that was attributable to the following factors:

- the inclusion of an approximately $40 million non-recurring cash gain in the first quarter of 2015 related to the settlement of risk management contracts associated with 2014 year-end inventory;
- lower sales volumes for iso-octane in 2016 due to: i) the scheduled major turnaround at AEF in the second half of the year that resulted in the facility being off-line for approximately eight weeks; and ii) unscheduled downtime resulting in the AEF facility operating, on average, at approximately 80% of capacity in the first quarter;
- lower margins from the sale of iso-octane in 2016 due to: i) weaker gasoline prices and lower iso-octane premiums during the second and third quarters resulting from higher gasoline inventory levels in the U.S; and ii) lower hedged prices in the fourth quarter of 2016 compared to the same period in 2015 resulting from weaker gasoline prices at the time of entering into the risk management contracts. Keyera’s risk management objective for iso-octane is to mitigate the effect of price fluctuations through the use of Reformulated Blendstock for Oxygen Blending (“RBOB”) forward financial contracts. Iso-octane is generally priced at a premium to the price of RBOB; and
- approximately $12 million in higher lease and storage costs associated with the receipt of previously ordered railcars and lower railcar utilization.

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

Cash Flow Metrics

Cash flow from operating activities was $413 million in 2016, $235 million lower than in 2015 primarily due to: i) the lower contribution from the sale of iso-octane in the Marketing segment in 2016; ii) a $55 million cash payment for the acquisition of land in the Industrial Heartland that closed in early 2017; iii) the realization of approximately $40 million of cash gains generated in the first quarter of 2015 as described above; and iv) a higher cash requirement to fund inventory in 2016 as NGL prices increased significantly at the end of 2016 compared to the prior year-end.

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

Distributable cash flow for 2016 was $460 million, $23 million lower than the prior year. Despite the lower contribution from the Marketing segment in 2016, the prolonged low commodity price environment and low producer activity in Alberta, distributable cash flow for 2016 was robust. These financial results stemmed from: i) incremental cash flow generated from the various projects completed in the prior year; and ii) strong demand for Keyera’s diluent handling services including storage and transportation services. In addition, current income taxes were $73 million lower in 2016 compared to 2015.

SEGMENTED RESULTS OF OPERATIONS

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

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. These segment measures of profitability for the years ended December 31, 2016 and 2015 are reported in note 30, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 17 active gas plants in western Canada and is operator of 15 of these facilities, making it one of the largest natural gas processors in Alberta. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin ("WCSB"). Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

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

Operating Margin and Throughput Information (Thousands of Canadian dollars)	**2016**	2015
Revenue including inter-segment transactions	**471,463**	466,733
Operating expenses	**(181,212)**	(207,666)
Unrealized (loss) gain on electricity financial contracts	**(26)**	27
Total operating expenses	**(181,238)**	(207,639)
Operating margin	**290,225**	259,094
Gross processing throughput – (MMcf/d)	**1,431**	1,498
Net processing throughput[1] – (MMcf/d)	**1,123**	1,155

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

Operating Margin and Revenues

The Gathering and Processing segment posted record financial results in 2016, despite the low commodity price environment and the corresponding low producer drilling activity in Alberta. Operating margin for the year ended December 31, 2016 was $290 million, $31 million higher than the prior year largely due to approximately $43 million of incremental cash flow associated with the following projects that came on stream in 2015:

- the Twin Rivers pipeline system that was operational in April 2015 and is delivering additional volume to the Brazeau River and West Pembina gas plants;
- the Rimbey turbo expander and fractionation de-bottlenecking projects that were operational in July 2015, including the revenue from ethane sales under a long-term contract; and
- the addition of the Alder Flats gas plant that became operational in May 2015 as well as the acquisition of an additional 35% ownership interest in the plant and gathering pipeline in August 2016.

The effect of these incremental cash flows was partly offset by: i) $6 million in lower operating margin from the Strachan gas plant resulting from lower volumes; and ii) $3 million in one-time upward adjustments to revenue that were included in the first quarter of 2015 financial results for the Simonette gas plant.

Gathering and Processing revenue for the year ended December 31, 2016 was $5 million higher compared to 2015. For 2016, gross revenue did not grow in proportion to the increase in operating margin due to Keyera's efforts to reduce operating costs. As most of Keyera's facilities flow operating costs through to customers, lower operating expenses result in lower revenues with minimal impact on Keyera's overall margin, as discussed in greater detail below.

Gathering and Processing Activity

In 2016, the Gathering and Processing segment continued to focus on delivering cost-effective and value-added services intended to enhance its customers' economics, while at the same time maximizing throughput and efficiencies at its gathering and processing facilities. During the year, Keyera placed increased emphasis on reducing operating costs at several of its gas plants as a result of the low commodity price environment that limited overall producer activity in western Canada. This cost reduction initiative resulted in a 13% decrease in operating expenses in 2016 compared to the prior year, despite adding new facilities in 2015. Most of Keyera's facilities follow a flow-through operating cost model by which operating expenses are passed on to customers and directly improve producer net-back calculations.

Gross processing throughput averaged 1,431 million cubic feet per day in 2016, a 4% decrease compared to 2015. Lower overall throughput in 2016 was a result of several factors, including the low drilling activity in Alberta due to the low commodity price environment. Throughput in 2016 was also negatively affected by restrictions imposed by TransCanada PipeLines Limited ("TransCanada") on its sales gas pipelines at several Keyera facilities, including the Strachan, Brazeau River, West Pembina and Minnehik Buck Lake gas plants. Although it is difficult to accurately quantify the effect of these restrictions on throughput, Keyera estimates that the impact was lower in 2016 compared to 2015.

Despite the reduction in overall average gross processing throughput at Keyera's facilities, 2016 financial results remained stable because of producer commitments at certain facilities, along with the contribution from expanded service offerings, such as the sale of ethane associated with Keyera's investment in the Rimbey turbo expander.

Keyera is encouraged by the recent recovery in commodity prices compared to the first half of 2016. In early 2016, a producer diverted a portion of their gas away from the Rimbey gas plant due to low commodity prices. These volumes returned to Rimbey for processing in November as NGL prices improved. There are also indications that drilling activity has increased, particularly in geological zones that are rich in natural gas liquids. As a recent example, Bellatrix Exploration Ltd. ("Bellatrix") announced their intent to invest in increased drilling and completion activities in 2017. Assuming Bellatrix's drilling proceeds as planned, throughput at Keyera's Minnehik Buck Lake and Brazeau River gas plants may increase throughout the year.

Keyera is also encouraged by the robust drilling activity in the Montney geological zone where volumes at its Simonette gas plant have remained stable in spite of the low commodity price environment. In February 2017, Keyera announced a project to expand its liquids handling capabilities at Simonette in order to meet the growing needs of its customers. Upon completion of this project, the condensate operational capacity at Simonette is expected to be approximately 27,000 barrels per day. The liquids handling expansion is anticipated to be complete by mid-2018, assuming construction proceeds as planned. This project is intended to maximize producers' netbacks by increasing liquids recoveries at the facility and in turn provide long-term growth opportunities for Keyera. Refer to the table below, "Capital Projects – Gathering and Processing" for more information related to this project.

In early 2016, Keyera entered into agreements with the Canadian subsidiary of a large creditworthy multi-national producer for the proposed construction of a natural gas gathering and processing complex in the Wapiti area south of Grand Prairie, Alberta (the "Wapiti gas plant"). As part of the project, Keyera acquired

the main project site, all third-party engineering work completed to the date of acquisition and a successfully-tested acid gas injection well, for a total cost of approximately $19 million. In connection with this acquisition, the parties also entered into a long-term gas handling agreement which includes an area dedication and a take-or-pay commitment, making the vendor the primary customer should the project be sanctioned.

Regulatory approvals for the acid gas injection well were received and front-end engineering work was completed in the fourth quarter of 2016. The current estimated cost for the Wapiti project is approximately $625 million and it would be designed to process up to 300 million cubic feet per day of sour gas and 25,000 barrels per day of field condensate. The project may be sanctioned by either Keyera or its primary customer at any time prior to the end of 2018. Phase one would consist of constructing 150 million cubic feet per day of capacity and the associated gathering systems and acid gas injection well, for an estimated cost of approximately $470 million. Keyera is also negotiating with other producers in the area to commit additional volumes.

In August, Keyera acquired an additional 35% ownership interest in the Alder Flats gas plant and the associated gathering pipelines from Bellatrix. The total consideration for the acquisition was approximately $113 million, which included: i) the additional working interest in the facility; ii) a 10-year take-or-pay commitment and an area dedication; and iii) a pre-payment in the amount of approximately $27 million for future construction costs associated with Keyera's additional 35% ownership in phase two of the Alder Flats gas plant. Keyera now owns 70% of the Alder Flats gas plant and gathering pipelines, while Bellatrix continues to be an owner and the operator of the facility. Currently, the Alder Flats gas plant, which is located in west central Alberta, has a licensed capacity of 110 million cubic feet per day and is running at capacity. Phase two is expected to have a design inlet capacity of 120 million cubic feet per day and a target on stream date in the first half of 2018. Bellatrix is responsible for constructing phase two.

A maintenance turnaround was completed at the Nordegg River gas plant in the third quarter of 2016 at a cost of approximately $5 million, of which Keyera's net share was approximately $3 million. For 2017, turnarounds are scheduled for the Simonette and Gilby gas plants at a combined cost of approximately $14 million. The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangement at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

The table below provides more detail related to the liquids handling expansion project at Simonette within the Gathering and Processing segment:

Capital Projects – Gathering and Processing		
Facility/Area	**Project Description**	**Project Status Update**
Simonette	***Simonette Liquids Handling Expansion Project:*** Project consists of construction of NGL mix and condensate above ground storage facilities, addition of a truck loading facility, redesign of the existing condensate stabilization facilities and the addition of new facilities to handle growing volumes of condensate and improve overall liquids recoveries. Upon completion of this project, the condensate operational capacity at Simonette is expected to be approximately 27,000 barrels per day. The project also includes a pipeline connection from Keyera's Simonette gas plant to the Peace pipeline system's custody transfer point. This connection will provide Keyera's customers with the flexibility to transport greater volumes of NGL mix and condensate by pipeline compared to the higher cost alternative of transportation by truck.	The expansion is expected to be complete by mid-2018. *Estimated total cost to complete:* • Cost to Keyera is approximately $100 million including associated process equipment, pumps and pipeline connections. *Total net costs incurred by Keyera to December 31, 2016:* • $2 million for the year ended December 31, 2016 • $2 million since inception

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

Liquids Infrastructure

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

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

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

Most of Keyera's Liquids Infrastructure assets are located in, or connected to, the Edmonton/Fort Saskatchewan area of Alberta, one of four key NGL hubs in North America. A significant portion of the NGL production from Alberta raw gas processing plants is delivered into the Edmonton/Fort Saskatchewan area via

multiple NGL gathering systems for fractionation into specification products and delivery to market. Keyera's underground storage caverns at Fort Saskatchewan are used to store NGL mix and specification products. For example, propane can be stored in the summer months to meet winter demand; condensate can be stored to meet the continuous diluent supply needs of the oil sands sector; and butane can be stored to meet blending and iso-octane feedstock requirements.

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**2016**	2015
Revenue including inter-segment transactions	**369,393**	347,191
Operating expenses	**(123,275)**	(127,365)
Unrealized (loss) gain on electricity and natural gas contracts	**(14)**	32
Total operating expenses	**(123,289)**	(127,333)
Operating margin	**246,104**	219,858

Operating Margin and Revenues

The Liquids Infrastructure segment posted another year of record financial results in 2016. For the year ended December 31, 2016, operating margin was $246 million, an increase of $26 million or 12% over the prior year. The higher financial results were largely due to the following:

- approximately $17 million in incremental margins generated from recent investments, including the de-ethanizer facility that became operational in April 2015, the fractionation expansion at Fort Saskatchewan that came on stream in May 2016, and the Josephburg rail terminal which started operations in July 2015;

- approximately $11 million in higher operating margin from Keyera's condensate network, including higher storage revenue resulting from long-term, fee-for-service arrangements with oil sands producers; and

- approximately $7 million in higher fees charged to the Marketing segment for terminalling services at the Hull rail and truck terminal.

These factors were partly offset by: i) a $5 million reduction in tariffs offered to a customer on the Fort Saskatchewan Pipeline effective September 2015, as part of an agreement to secure a longer term commitment for service; and ii) lower fractionation rates. As the contract year commenced on April 1st, fractionation rates, on average, were lower compared to the prior year due to the low commodity price environment, low producer activity and incremental fractionation capacity in Alberta.

Liquids Infrastructure revenues for the year ended December 31, 2016, were $22 million higher than 2015, primarily due to the same factors that contributed to higher operating margin.

Liquids Infrastructure Activity

Over the last several years, Keyera has strengthened its infrastructure in the Edmonton/Fort Saskatchewan energy hub to provide NGL and diluent handling services to its producer customers. A recent example was the completion of the fractionation expansion at Fort Saskatchewan. This project was completed approximately $30 million under budget and became operational in late May 2016. The fractionation expansion added approximately 35,000 barrels per day of incremental fractionation capacity and a portion of this additional capacity is supported by long-term agreements. Overall fractionation revenue was higher in 2016 compared to the prior year due to higher volumes, partly offset by lower average fractionation rates as discussed in the section above.

In 2016, the Liquids Infrastructure segment continued to focus on developing strategic projects that are expected to provide Keyera with future growth opportunities and in turn provide long-term, fee-for-service revenues intended to enhance shareholder value. As an example, Keyera has made a decision to proceed with the development of the Keylink pipeline system. This new NGL pipeline system will comprise over 240 kilometres of pipeline and consist of newly constructed and repurposed existing pipelines that will transport NGL mix to the Rimbey gas plant for fractionation into specification products, with the option to transport NGL mix to Keyera's Fort Saskatchewan fractionation facility. Keylink will connect several Keyera gas plants, including the Brazeau River, West Pembina, and Minnehik Buck Lake gas plants. This new pipeline system will provide producers with an alternative to transporting NGL volumes by truck. The Keylink pipeline system is expected to be operational in mid-2018 and is anticipated to cost approximately $147 million, assuming construction proceeds as planned and regulatory approvals are received on a timely basis. The current cost estimate includes the various tie-ins to gas plants, pumps and additional NGL storage at the Rimbey gas plant.

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

In early 2016, Keyera acquired a pipeline (the "Hull Terminal Pipeline System") for approximately US$24 million and subsequently entered into an agreement with a major U.S. midstream energy company to construct pipeline connections to its infrastructure in Mont Belvieu, North America's largest NGL hub. As part of this agreement, the parties have also agreed on the commercial terms pursuant to which Keyera will have access to long-term storage and other midstream services once the connections have been completed. These connections and the work Keyera is undertaking on the Hull Terminal Pipeline System, combined with the commercial arrangements that have been negotiated, are expected to provide Keyera with access to transport NGLs (NGL mix and specification products) in and out of the Mont Belvieu area, providing further commercial opportunities for its Marketing segment in the United States.

The combined total cost for the third party pipeline connections and the work being undertaken to prepare the Hull Terminal Pipeline System for operation (including the connection facilities at the Hull Terminal, installation of pumps and metering systems and completion of pipeline repairs and integrity work), is expected to be between US$20 million and US$25 million. This pipeline system is anticipated to be in service by 2018, assuming construction of the pipeline connections and the pipeline preparation work is completed in a timely manner.

Over the past several years, Keyera has also focused on developing infrastructure in the Edmonton/Fort Saskatchewan energy hub to enable it to provide a range of services required by oil sands producers. Keyera continues to invest in its extensive diluent handling network in order to provide its oil sands customers with comprehensive and reliable service solutions. As a recent example, Keyera acquired the northern segment of a 49-kilometre, 8-inch pipeline between Fort Saskatchewan and Redwater for an acquisition cost of approximately $18 million in the third quarter of 2016. This section of pipeline has been converted into condensate service in order to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement (the "North Condensate Connector pipeline"). Services on this pipeline will coincide with the startup of the refinery.

Demand for Keyera's diluent handling services has been strong and continues to grow as both new oil sands projects and phased expansions of existing projects commence operation. Keyera has long-term, take-or-pay agreements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and CNRL. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area.

The AEF facility is operated by the Liquids Infrastructure operating segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. AEF was off-line for its scheduled turnaround beginning in early September until early November, approximately two weeks longer than initially

planned. As a result of the turnaround, there was no production for most of September and all of October. The total cost of the turnaround was approximately $40 million, including the replacement of catalyst. In addition, approximately $8 million of maintenance capital projects were completed while the facility was off-line. Keyera's investment in the maintenance turnaround at AEF is to support safe, efficient and reliable operations for the long term. The next scheduled major turnaround is expected to be in 2020.

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

Capital Projects Status Update – Liquids Infrastructure		
Facility/Area	**Project Description**	**Project Status Update**
Keyera Fort Saskatchewan	***NGL Fractionation Expansion:*** construction of a 35,000 barrel per day C3+ mix fractionation facility, more than doubling the facility's existing capacity to 65,200 barrels per day. The project includes the construction of new receipt facilities, operational storage and pipeline connections.	The fractionation expansion was operational in late May. • Completed at a final gross cost of approximately $203 million (Keyera's share was $156 million). • Total gross cost was approximately $30 million below the original cost estimate for this project due to project efficiencies and improved labour costs and productivity. *Total net costs incurred by Keyera to December 31, 2016:* • $31 million for the year ended December 31, 2016 • $156 million since inception

Facility/Area	Project Description	Project Status Update
Keyera Fort Saskatchewan	***Underground Storage Development:*** development of four additional underground storage caverns, including ancillary infrastructure such as pumps, piping and brine pond capacity.	Washing of the 14th cavern was completed in the fourth quarter of 2016 and is expected to be in service in the second quarter of 2017. Washing of the 15th cavern continued in the fourth quarter of 2016 and is expected to be in service in the first half of 2018. Drilling of the well bores for the 16th and 17th caverns was completed in the third quarter of 2016 and washing of both caverns is expected to commence in the first half of 2017. *Estimated total cost to complete:* • Gross cost is approximately $115 million (Keyera's net share is approximately $90 million). *Total net costs incurred by Keyera to December 31, 2016:* • $21 million for the year ended December 31, 2016 • $72 million since inception
Edmonton	***Condensate Tanks:*** construction of four condensate storage tanks, each with operating capacity of approximately 60,000 barrels of product.	Construction is progressing and the tanks are expected to be operational in mid-2017. *Estimated total cost to complete:* • Cost to Keyera is approximately $60 million, approximately $30 million lower than originally forecasted. *Total net costs incurred by Keyera to December 31, 2016:* • $22 million for the year ended December 31, 2016 • $24 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton/Fort Saskatchewan	***North Condensate Connector and South NGL Connector:*** purchase of the northern segment of a 49-kilometre, 8-inch pipeline ("North Condensate Connector pipeline") that will be used to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement. The north segment of the pipeline was acquired for approximately $18 million in the third quarter of 2016. Keyera is leasing the southern portion of this pipeline between Edmonton and Fort Saskatchewan to provide increased flexibility and capacity (up to 60,000 barrels per day) for transportation services in the Edmonton/Fort Saskatchewan area ("South NGL Connector").	Approximately $50 million of capital cost for connections and other conversion work is required for both segments of the pipeline to be put into service. The in-service date of the North Condensate Connector will coincide with the startup of the North West Sturgeon Refinery. The lease of the South NGL Connector commenced December 1, 2016 as the applicable licenses were transferred to Keyera. This pipeline is expected to be operational in the second half of 2017, once all necessary steps have been taken to convert the pipeline to NGL service. *Total net costs incurred by Keyera to December 31, 2016 for connections and conversion work:* • $13 million for the year ended December 31, 2016 • $14 million since inception
Norlite Pipeline (30/70 joint venture with Enbridge Pipelines (Athabasca) Inc. ("Enbridge"))	***Norlite Pipeline:*** Keyera has committed to participate as a 30% non-operating owner in the Norlite Pipeline which delivers diluent from the Fort Saskatchewan area to certain oil sands projects. Enbridge will construct and operate the pipeline which is expected to be in service mid-2017. The scope includes a 24-inch pipeline, providing an initial capacity of approximately 224,000 barrels per day of diluent and the potential to be further expanded to 400,000 barrels per day with the addition of pump stations. Keyera's diluent transportation system in the Fort Saskatchewan area will deliver product into the Norlite Pipeline, providing the Norlite shippers with access to multiple sources of diluent supply.	Construction continues to progress. *Estimated total cost to complete:* • Gross cost as estimated by Enbridge is approximately $1.3 billion (Keyera's net share is approximately $390 million). *Total net costs incurred by Keyera to December 31, 2016:* • $167 million for the year ended December 31, 2016 • $231 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton (50/50 joint venture with Kinder Morgan)	***Base Line Terminal:*** construction of 12 above ground crude oil storage tanks with the ability to provide customers with 4.8 million barrels of storage capacity. Kinder Morgan will construct the project and operate the terminal once it is in service. The project is expected to be commissioned in phases, with the first tanks scheduled to be commissioned in early 2018, and the remaining tanks scheduled for commissioning throughout the remainder of 2018, based on the most recent construction schedule.	All third party and regulatory consents and approvals have been received for this project. Construction of the tanks and associated infrastructure continues to progress. *Estimated total cost to complete:* • Keyera's net share of costs is approximately $330 million. *Total net costs incurred by Keyera to December 31, 2016:* • $80 million for the year ended December 31, 2016 • $90 million since inception
Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)	***South Grand Rapids Pipeline:*** Keyera has committed to acquire a 50% interest in the southern portion of the 20-inch, 45-kilometre diluent Grand Rapids Pipeline when it is completed in 2017. The pipeline is being constructed by Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and Brion Energy Corporation. The pipeline will extend from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal near Fort Saskatchewan. Keyera will be the operator of the pipeline. As part of this project, Keyera is constructing a pump station at its Edmonton Terminal where the pipeline will connect. Keyera will sell a 50% ownership interest in the pump station to GRPLP once the pipeline is complete.	Engineering work associated with the pump station progressed and construction is underway. The pipeline and associated pump station is expected to be in service in late 2017. *Estimated total cost to complete:* • Keyera's 50% share is $118 million for acquisition of the pipeline and $30 million for construction of the pump station for a total combined cost of approximately $148 million. *Total net costs incurred by Keyera to December 31, 2016:* • $12 million for the year ended December 31, 2016 • $12 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton	***Fort Saskatchewan Condensate System Expansion:*** construction of a 24-inch pipeline and manifold that will connect the Norlite Pipeline and the South Grand Rapids Pipeline to Keyera's existing condensate transportation infrastructure.	Construction of the 24-inch pipeline was completed in the first quarter of 2016. Commencement of service on this line will coincide with the startup of the Norlite Pipeline. Construction of the manifold within the Heartland area is expected to be completed in the first quarter of 2017 and will be incorporated into Keyera's condensate system in the second quarter. *Estimated total cost to complete:* • Cost is expected to be $30 million, approximately $15 million lower than the original estimate. *Total net costs incurred by Keyera to December 31, 2016:* • $23 million for the year ended December 31, 2016 • $26 million since inception
West Central Alberta	***Keylink Pipeline:*** project consists of over 240 kilometres of newly constructed and repurposed existing pipelines that will transport NGL mix to the Rimbey gas plant for fractionation into specification products. Keylink will connect several Keyera gas plants, including Brazeau River, West Pembina, and Minnehik Buck Lake.	The Keylink pipeline system is expected to be operational in mid-2018. *Estimated total cost to complete:* • Cost is expected to be approximately $147 million *Total net costs incurred by Keyera to December 31, 2016:* • $7 million for the year ended December 31, 2016 • $7 million since inception

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

Marketing

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

additional condensate or butane, including from the U.S., when market conditions and associated sales contracts are favourable.

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

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

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

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

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

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

Operating margin for the Marketing segment was as follows:

Operating Margin and Sales Volumes Information (Thousands of Canadian dollars)	**2016**	2015
Revenue	**1,924,614**	1,967,726
Operating expenses including inter-segment transactions	**(1,823,505)**	(1,723,945)
Operating margin	**101,109**	243,781
Sales volumes (Bbl/d)	**129,300**	110,500

Composition of Marketing Revenue (Thousands of Canadian dollars)	**2016**	2015
Physical sales	**1,963,762**	1,943,280
Realized cash (loss) gain on financial contracts[1]	**(3,752)**	68,339
Unrealized loss due to reversal of financial contracts existing at end of prior period	**(6,178)**	(42,528)
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	**(27,902)**	6,178
Unrealized loss due to reversal of fixed price physical contracts existing at end of prior period	**(1,302)**	(8,845)
Unrealized (loss) gain due to fair value of fixed price physical contracts existing at end of current period[2]	**(14)**	1,302
Total unrealized loss on risk management contracts	**(35,396)**	(43,893)
Total (loss) gain on risk management contracts	**(39,148)**	24,446
Total Marketing revenue	**1,924,614**	1,967,726

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

Revenue and Operating Margin

The Marketing segment recorded weaker financial results in 2016 compared to the prior year as operating margin was $101 million in 2016, $143 million lower than the prior year. Excluding the effect of non-cash unrealized gains and losses from risk management contracts in both periods, operating margin was $151 million lower in 2016 compared to the prior year. The factors that contributed to the significantly lower realized operating results in 2016 were as follows:

- the inclusion of an approximately $40 million non-recurring cash gain in the first quarter 2015 financial results related to the settlement of financial and physical risk management contracts associated with 2014 year-end inventory;

- lower sales volumes for iso-octane due to: i) the scheduled turnaround that began in early September and concluded in early November; and ii) unscheduled downtime at the AEF facility in the first quarter of 2016 when the facility operated on average at approximately 80% of capacity;

- lower operating margin from the sale of iso-octane due to: i) lower hedged prices in the fourth quarter of 2016 compared to the same period in 2015; and ii) weaker gasoline prices and lower iso-octane

premiums earned on the sale of iso-octane in the second and third quarters of 2016. Iso-octane premiums were especially high in the second and third quarters of 2015. The market fundamentals that resulted in weaker iso-octane margins in 2016 are discussed in the "Market Overview" section below; and

- approximately $12 million in higher lease and storage costs associated with the receipt of previously ordered railcars and lower railcar utilization.

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

In general, gross revenue in the Marketing segment is influenced by sales volumes as well as commodity prices, in particular for NGLs and iso-octane. For the year ended December 31, 2016, revenue from physical sales was $20 million higher compared to 2015, due to the recovery in commodity prices in the fourth quarter of 2016. Sales volumes were higher primarily due to the increase in sales of ethane associated with Keyera's de-ethanizer facility in Fort Saskatchewan that became operational in April 2015. Ethane sales do not contribute a significant amount to operating margin in the Marketing segment.

Market Overview

Iso-octane sales volumes and operating margin were lower in 2016, partly due to the completion of a scheduled turnaround at AEF. Sales volumes were minimal in September and there was no production in October as the facility was off-line. Since completing the turnaround, AEF has been operating near capacity. Refer to the section of this MD&A, "Segmented Results of Operations: Liquids Infrastructure", for more information relating to the turnaround at AEF that was completed in early November.

Demand for iso-octane typically increases in the summer months as driving activity and gasoline demand increase, which generally translates into premium pricing for gasoline and iso-octane. According to the U.S. Energy Information Administration, there was a year-over-year growth in gasoline consumption in 2016. However, despite this rising demand, iso-octane margins were weaker in the second and third quarters of 2016 compared to the same periods last year, due to higher gasoline inventories in the U.S. market. In 2015, gasoline prices and in particular the premium charged for iso-octane were exceptionally strong due to high driving demand and lower gasoline inventory levels.

Margins from the sale of butane have become a smaller portion of Keyera's overall Marketing strategy as most of the butane purchased is utilized for its internal requirements, including the feedstock necessary for the production of iso-octane. As butane prices seasonally decline in the spring and summer months, Keyera has the ability to utilize its logistics and storage capabilities to import butane from the U.S. during these low demand periods. For the summer months of 2016, market fundamentals were not typical as butane prices were weaker in Alberta relative to markets in the U.S. As a result, Keyera imported significantly lower volumes of butane to meet the needs of AEF in 2016 compared to prior years.

As expected, demand and pricing for North American butane increased in the fourth quarter of 2016 and early part of 2017 due to the seasonal demand for cold weather gasoline blending. With the reduction in the drilling activity in North America in response to low commodity prices, butane prices have recently strengthened. Although this trend may continue, butane prices are expected to remain weak compared to longer term historical norms. Butane costs directly affect iso-octane margins as it takes approximately 1.4 barrels of butane to yield a barrel of iso-octane when the facility is operating near full utilization. The section below titled, "Risk Management", provides more information related to Keyera's hedging strategy.

As oil sands projects have come on stream in 2015 and 2016, bitumen production has increased along with demand for condensate that is used as a diluent. As a result, condensate supply and demand fundamentals are expected to remain balanced for the near term. Keyera imports condensate into Alberta when demand fundamentals support positive operating margins. Contribution from the sale of condensate in 2016 was similar to the prior year.

Propane prices reached historically low levels in the first quarter of 2016 due to unseasonably warm winter weather and a surplus of inventory in North America. Despite this, propane margins were protected during this period through the use of effective risk management contracts. Propane prices recovered significantly in the fourth quarter of 2016 due to cold winter weather conditions which continued into early 2017. Consequently, propane margins were robust in the fourth quarter of 2016. Keyera utilized its Josephburg Rail Terminal to export rail by propane to meet demand in other markets. Refer to the section of this MD&A, “Marketing: Risk Management”, for more information relating to Keyera’s risk management strategies.

Risk Management

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

To protect the value of its NGL inventory from fluctuations in commodity prices, Keyera typically uses physical and financial forward contracts. For propane in particular, contracts are generally put in place as inventory builds for settlement when products are expected to be withdrawn from inventory and sold. In general, the increase or decrease in the fair value of the contracts is intended to mitigate fluctuations in the value of the inventories and protect operating margin. For the past few years, Keyera has used propane physical and financial forward contracts to hedge its propane inventory.

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

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

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

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

For the year ended December 31, 2016, the total unrealized loss on risk management contracts was $35 million. Further details are provided in the “Composition of Marketing Revenue” table above.

The fair value of outstanding financial contracts as at December 31, 2016 resulted in an unrealized (non-cash) loss of $28 million that includes the following significant items:

- a $9 million non-cash loss relating to propane risk management contracts;

- a $1 million non-cash gain relating to butane and condensate supply and inventory risk management contracts;

- a $18 million non-cash loss relating to iso-octane risk management contracts; and

- a $2 million non-cash loss relating to foreign currency and other financial contracts.

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

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at December 31, 2016, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 22, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	**2016**	2015
Other income (operating margin)	**8,735**	19,605
General and administrative (net of overhead recoveries on operated facilities)	**(62,847)**	(51,010)
Finance costs	**(72,830)**	(63,168)
Depreciation, depletion and amortization expenses	**(171,615)**	(169,318)
Net foreign currency loss on U.S. debt	**(2,442)**	(29,668)
Long-term incentive plan expense	**(16,840)**	(32,146)
Net impairment expense	**(12,270)**	(95,305)
Income tax expense	**(90,478)**	(99,803)

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, 2016 was $9 million, $11 million lower than the prior year due to significantly lower commodity prices in 2016. Production for the year ended December 31, 2016 averaged 4,505 barrels of oil equivalent per day compared to 6,473 barrels of oil equivalent per day in 2015.

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

General and Administrative Expenses

General and administrative ("G&A") expenses for 2016 were $63 million, $12 million higher than the prior year due to the following factors:

- a $6 million charge in the first quarter to write-off previously capitalized front-end engineering costs for various small projects that are at a reduced probability of proceeding;

- $5 million in lower overhead recoveries resulting from lower operating expenses in the Gathering and Processing business unit; and

- a $1 million charge to adjust the final proceeds from the sale of the Bonnie Glen pipeline line-fill that was sold in the prior year.

Finance Costs (including accretion)

Finance costs for the year ended December 31, 2016 were $73 million, $10 million higher than 2015, largely due to lower interest capitalized on qualifying projects as several large scale projects were completed in the

first half of 2015. Interest capitalized on qualifying projects was $14 million in 2016 compared to $22 million in the prior year.

Depreciation, Depletion and Amortization Expenses
Depreciation, depletion and amortization ("DD&A") expenses were $172 million in 2016, only $2 million higher than the prior year despite adding the fractionation expansion and other depreciable assets in 2016. In the fourth quarter of 2016, Keyera conducted a useful life review of its assets. Based on this review, the useful life of several facilities was extended, including the Simonette and Rimbey gas plants as well as assets within Keyera's Liquids Infrastructure segment. This change in estimate was effective October 1, 2016 and was accounted for on a prospective basis. Keyera estimates that the revision in useful life will reduce depreciation expense by approximately $39 million on an annual basis. Refer to note 3, Significant Accounting Policies and note 10, Property, Plant & Equipment, of the accompanying financial statements.

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

Net Foreign Currency (Loss) Gain on U.S. Debt (Thousands of Canadian dollars)	**2016**	2015
Translation of long-term debt and interest payable	**25,159**	(112,615)
Change in fair value of cross currency swaps – principal and interest portion	**(31,179)**	76,287
Gain on cross currency swaps – principal and interest portion[1]	**3,578**	6,660
Net foreign currency loss on U.S. debt	**(2,442)**	(29,668)

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

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross currency agreements with a syndicate of Canadian banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Note 22, Financial Instruments and Risk Management, of the accompanying financial statements contains more information on the swap agreements.

A net foreign currency loss of $2 million was recorded for the year ended December 31, 2016. The translation of U.S. dollar denominated debt into Canadian dollars resulted in a $25 million non-cash gain as the Canadian dollar strengthened in relation to the U.S. dollar at the end of 2016 relative to the end of 2015. This unrealized gain was more than offset by a $31 million non-cash loss resulting from the change in fair value of cross currency swap agreements since the end of 2015.

Long-Term Incentive Plan Expense
The Long-Term Incentive Plan ("LTIP") expense was $17 million for the year ended December 31, 2016, $15 million lower than the prior year. The decrease was primarily due to a lower estimated payout multiplier associated with the 2015 and 2016 LTIP grants compared to the 2012 grant that was paid out to employees in the third quarter of 2015.

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 2016, a net impairment expense of $12 million was recorded related to the following long-term assets:

- $45 million impairment expense associated with Keyera's 50/50 joint venture with Sulvaris. In late 2015, Keyera and Sulvaris agreed to suspend construction of the sulphur handling fertilizer facility at Keyera's Strachan gas plant. As there have not been any positive developments to advance the project since the

decision to place the project on hold, an impairment expense was recorded in the fourth quarter of 2016. Keyera and Sulvaris are continuing to review the project and the associated commercial arrangements, with a view to resuming it in the future if the business plans and costs to complete construction are economic; and

- $33 million reversal related to previous impairment charges associated with Keyera's Brazeau River ($15 million) and West Pembina ($18 million) gas plants. As a result of the interconnectivity achieved by the Twin Rivers pipeline system, additional volumes are being delivered to these gas plants, thereby increasing the cash flow generated at these facilities.

In 2015, an impairment expense of $95 million was recorded that related to the Caribou and Nevis gas plants, the Bonnie Glen pipeline (including line-fill) and the Cynthia and Minnehik Buck Lake reserves.

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

Taxes

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

Current Income Taxes

Current income tax expense for 2016 was $15 million, compared to an expense of $88 million in 2015. The significantly lower current tax expense in 2016 compared to the prior year is a direct result of higher capital cost allowance deductions associated with several major capital projects that became available for use in 2015.

For 2017, current income tax expense is expected to range between $5 million and $10 million which is largely based on 2016 taxable income from the Partnership that is allocated to Keyera Corp. in 2017. This income deferral is available to Keyera as its corporate structure includes a deferral partnership. The largest single undepreciated capital cost ("UCC") balance relates to Class 41, which are generally depreciated at a rate of 25%. Keyera estimates its tax pools at December 31, 2016 were approximately $2 billion.

Deferred Income Taxes

For the year ended December 31, 2016, deferred income tax expense was $75 million, $63 million higher than the prior year. The higher deferred income tax expense in 2016 was largely due to lower current income taxes as sufficient tax pools were available to shelter a substantial portion of taxable income in 2016. Deferred taxes in 2015 were higher as a result of the increase in the provincial corporate tax rate from 10% to 12% that was substantively enacted on July 1, 2015.

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,**	
	2016	2015
Operating Margin[1]		
Gathering and Processing	**79,881**	73,564
Liquids Infrastructure	**62,781**	55,886
Marketing	**8,581**	54,731
Other	**4,196**	4,441
	155,439	188,622
Net earnings	**34,621**	20,215
Net earnings per share (basic) [2]	**0.19**	0.12
Cash flow from operating activities	**40,223**	126,444
Distributable cash flow[3]	**104,006**	123,176
Distributable cash flow per share (basic)[2,3]	**0.56**	0.72
Dividends declared	**73,657**	64,259
Dividends declared per share [2]	**0.40**	0.38
Adjusted EBITDA[4]	**153,535**	175,249
Capital expenditures (including acquisitions)	**156,356**	142,141
Dispositions	**—**	(1,587)
Volumetric Information		
Gathering and Processing:		
Gross processing throughput (MMcf/d)	**1,362**	1,541
Net processing throughput (MMcf/d)	**1,088**	1,174
Liquids Infrastructure[5]:		
Gross fractionation throughput (Mbbl/d)	**152**	137
Net fractionation throughput (Mbbl/d)	**50**	41
AEF iso-octane production volumes (Mbbl/d)	**9**	13
Marketing:		
Sales volumes (Bbl/d)	**134,600**	118,300

Notes:

1. Total operating margin refers to total operating revenues less total operating expenses and general and administrative expenses associated with the Marketing segment. See section titled “Additional Information, Fourth Quarter Results” of the accompanying financial statements.
2. On April 1, 2015, Keyera’s outstanding common shares were split on a two-for-one basis. All per share information has been presented on a post-share split basis.
3. Distributable cash flow is not a standard measure under GAAP. See the section titled, “Dividends: Distributable Cash Flow”, for a reconciliation of distributable cash flow to its most closely related GAAP measure.
4. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, accretion, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. Adjusted EBITDA is not a standard measure under GAAP. See the section of the MD&A titled, “EBITDA”, for a reconciliation of Adjusted EBITDA 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 Margin (Thousands of Canadian dollars)	**Three months ended December 31,** **2016**	 2015
Physical sales	**571,566**	454,093
Realized cash (loss) gain on financial contracts[1]	**(24,349)**	28,572
Unrealized gain (loss) due to reversal of financial contracts existing at end of prior period	**16,298**	(16,761)
Unrealized (loss) gain due to fair value of financial contracts existing at end of current period	**(27,902)**	6,178
Unrealized gain resulting from change in fair value of fixed price physical contracts[2]	**95**	32
Total unrealized loss on risk management contracts	**(11,509)**	(10,551)
Total (loss) gain on risk management contracts	**(35,858)**	18,021
Total Marketing revenue	**535,708**	472,114
Operating expenses including inter-segment transactions	**(527,127)**	(417,383)
Marketing Operating margin	**8,581**	54,731

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.

Net Earnings
Net earnings in the fourth quarter of 2016 were $35 million, $14 million higher than the same period in 2015 primarily due to:

- a net impairment expense of $12 million in 2016, $47 million lower than the impairment expense recorded in the same period last year; and
- a LTIP recovery of virtually $nil in 2016 compared to an expense of $10 million in the same period in 2015. The lower LTIP expense in 2016 was primarily due to reduced payout multipliers associated with the 2015 and 2016 LTIP grant as well as an approximately 5% reduction in Keyera's share price at the end of December relative to the end of the third quarter of 2016. This is compared to an approximately 10% increase in share price for the same periods in 2015.

These factors were partly offset by: i) $33 million in lower operating margin in the fourth quarter of 2016 discussed below and ii) $12 million in higher income tax expense.

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

Operating Margin
Total operating margin for the fourth quarter of 2016 was $155 million, $33 million lower than the same period in 2015 largely due to weaker financial results from the Marketing segment.

Gathering and Processing
Operating margin for the Gathering and Processing business segment was $80 million in the fourth quarter of 2016, $6 million higher than the same period last year due to the following:

- the inclusion of a $6 million adjustment relating to prior periods in 2016 to record revenue associated with the recovery of turnaround costs at the Gilby and Strachan gas plants that are scheduled to occur in 2017

and 2018, respectively. Keyera collects turnaround fees at these facilities over a four year period. Beginning in 2016, Keyera charged and collected a fee to recover a portion of the estimated cost of the future turnarounds at these gas plants. Charging the fee over a four year period benefits both Keyera and producers as the cost is spread over a longer period of time (i.e. four years), thereby reducing large increases in operating costs to a producer during the year of a turnaround; and

- approximately $4 million in incremental margin from Keyera's acquisition of an additional 35% in the Alder Flats gas plant and gathering pipelines that closed in August 2016.

Partly offsetting these positive factors was approximately $3 million in lower revenue at the Strachan gas plant resulting from lower throughput in 2016 compared to the fourth quarter of 2015. Gross processing throughput averaged 1,362 million cubic feet per day for the fourth quarter of 2016, a 12% decrease compared to the same period in 2015. Lower overall throughput in 2016 was a result of several factors, including the continued low drilling activity in Alberta due to the low commodity price environment.

Liquids Infrastructure
Operating margin from the Liquids Infrastructure segment was $63 million in the fourth quarter of 2016, $7 million higher than the same period in 2015. The higher financial results for the quarter were largely due to the following:

- approximately $6 million in incremental operating margin associated with the fractionation expansion at Fort Saskatchewan that became operational in late May and Keyera's condensate network, including higher storage revenue resulting from long-term, fee-for-service arrangements with oil sands producers; and

- approximately $2 million in higher fees charged to the Marketing segment for terminalling services at Keyera's Hull terminal in Texas.

These factors were partly offset by a reduction in average fractionation rates compared to the prior year.

Marketing
Operating margin from the Marketing segment was $9 million in the fourth quarter of 2016, $46 million lower than the same period in 2015. The lower financial results in 2016 primarily resulted from approximately $36 million in lower realized margins from the sale of iso-octane due to: i) lower sales volumes resulting from the turnaround at AEF that commenced in early September and concluded in early November; and ii) lower hedged prices in 2016 compared to the prior year resulting from weaker gasoline prices at the time of entering into the risk management contracts.

The financial effect from the scheduled turnaround at AEF was greater in the fourth quarter of 2016 compared to the prior quarter. Although AEF was taken off-line in early September, some sales were made in the month from existing inventory. By comparison, AEF was off-line for all of October and a few days in November and inventory had to be rebuilt. As a result, sales volumes were significantly lower in the fourth quarter of 2016 compared to the prior quarter.

Corporate and Other
Keyera reports operating margin (net of royalties and operating expenses) from the production associated with all of its reserves as other income. Other income was $4 million in the fourth quarter of 2016, virtually unchanged from the same quarter in 2015. Production for the three months ended December 31, 2016 averaged 4,353 barrels of oil equivalent per day compared to 6,200 barrels of oil equivalent per day in the same period in 2015.

Cash Flow Metrics
For the three months ended December 31, 2016, cash flow from operating activities was $40 million, $86 million lower than the same period in 2015, in part due to an approximately $55 million cash payment for the acquisition of land in the Industrial Heartland that closed in early 2017. Distributable cash flow was $104 million, $19 million lower than 2015. Both cash flow from operating activities and distributable cash flow were

reduced in the fourth quarter of 2016 due to the lower contribution from the sale of iso-octane in the Marketing segment as discussed above. Distributable cash flow was also reduced as a result of approximately $20 million in maintenance capital expenditures associated with the AEF turnaround.

For the three months ended December 31, 2016, dividends declared were $74 million, or 71% of distributable cash flow, compared to dividends declared of $64 million, or 52% of distributable cash flow for the same period in 2015.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's audited 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, 2016, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately $59 million primarily for December 2016 operations.

Marketing:

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

At December 31, 2016, the Marketing sales and accounts receivable contained an estimate for December 2016 revenues of approximately $124 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, 2016, operating expenses and accounts payable contained an estimate of approximately $20 million primarily for December 2016 operations.

Marketing:

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

are based upon contract volumes and prices. Accordingly, the financial statements contain an estimate for one month of these purchases.

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of approximately $112 million at December 31, 2016.

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

For the Gathering and Processing segment, an equalization adjustment of $4 million was included in revenue and accounts receivable at December 31, 2016. Operating expenses and accounts payable contained an equalization adjustment of $11 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 Keyera. 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. Refer to note 3, Significant Accounting Policies and note 27, Depreciation, Depletion and Amortization, of the accompanying financial statements for further details of the estimated useful lives of Keyera's property, plant and equipment, as well as a summary of the depreciation, depletion and amortization expenses recorded for the year ended December 31, 2016.

Allowance for Doubtful Accounts
The allowance for doubtful accounts is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter-party. The allowance for doubtful accounts was $4 million as at December 31, 2016, 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 22, 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, 2016.

Fair value estimates of property, plant and equipment

Determination of the fair value of property, plant and equipment acquired in a business combination requires Keyera's management to make assumptions and estimates about future events. The fair value of general plant and processing equipment is estimated with reference to the discounted cash flows expected to be derived from gas processing. These assumptions and estimates generally require judgment and include estimates of future gas processing revenues 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. Refer to note 6, Business Combination, of the accompanying financial statements for further details of the additional 35% ownership interest in the Alder Flats gas plant and associated gathering systems acquired in 2016.

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 cash generating units ("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 10, Property, Plant and Equipment and note 12, Goodwill, of the accompanying financial statements for further details of the impairment expense and reversal recorded for the year ended December 31, 2016.

Decommissioning Liability

Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its facilities at the end of their economic life. The decommissioning obligations are generally expected to be incurred over the next 25 to 45 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

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

Keyera has estimated the net present value of its total decommissioning liability to be approximately $476 million at December 31, 2016, compared to $485 million at December 31, 2015. The decrease in the liability since the end of 2015 largely relates to an increase in the risk free rate, which is used to calculate the fair value of the decommissioning liability, from 2.15% to 2.31%.

For an investor to compare Keyera's decommissioning liability with that of midstream peers who use a credit adjusted discount rate, the net present value of Keyera's decommissioning liability would have been $215 million as of December 31, 2016 (December 31, 2015 – $244 million), assuming an estimated credit adjusted interest rate of 5.65%.

Refer to note 15, 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 17, 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, 2016.

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, 2016 and 2015:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	2016	2015	**Increase (decrease)**	**Explanation**
Operating	**412,926**	648,155	(235,229)	The decrease in cash flow from operating activities in 2016 was largely due to: i) the lower contribution from the sale of iso-octane in the Marketing segment; ii) a $55 million cash payment for the acquisition of land that closed in early 2017; and iii) a higher cash requirement to fund inventory as NGL prices increased significantly at the end of 2016 compared to the end of 2015. Cash flow from operating activities was unusually high in 2015, due to the inclusion of approximately $40 million of realized cash gains from the settlement of risk management contracts that related to inventory existing at the end of 2014.
Investing	**(760,974)**	(757,416)	(3,558)	Capital spending in 2016 primarily related to growth capital projects in the Liquids Infrastructure segment, along with $190 million in acquisitions. Refer to the section of this MD&A, "Capital Expenditures and Acquisitions", for more information related to acquisitions. Capital spending in 2015 was significant in the first half of the year as several internal growth projects were completed, including the Simonette plant expansion, the de-ethanizer project at Fort Saskatchewan, the Rimbey turbo expander project, and the fractionation de-bottleneck and NGL truck off-load expansion at Rimbey.
Financing	**350,516**	109,692	240,824	In 2016, Keyera issued 9,487,500 common shares for gross proceeds of approximately $345 million (net proceeds were $331 million). Keyera also placed $360 million of long-term notes. Net proceeds from these financing activities were used to support Keyera's ongoing capital program. Keyera also repaid approximately $98 million of long-term private notes. In 2015, net cash proceeds of $280 million from Keyera's bank credit facility and receipts from the dividend reinvestment plan were used to repay approximately $50 million of long-term debt and to fund capital expenditures in the year.

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

A working capital surplus (current assets less current liabilities) of $46 million existed at December 31, 2016. This is compared to a deficit of $74 million at December 31, 2015. Keyera has access to a credit facility in the amount of $1.5 billion, of which $235 million was drawn as at December 31, 2016, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's Credit Facility.

Equity Financing

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

Dividend Reinvestment Plan

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

Effective with the May 2015 dividend, Keyera reinstated the Premium DRIP™ component of the Plan. The Premium DRIP™ component permits eligible shareholders to elect to have the additional shares issued at the 3% discount delivered to the designated Plan Broker in exchange for a premium cash payment equal to 101% of the regular, declared cash dividend that was reinvested on their behalf under the Plan. A copy of the Plan (as amended) is available on Keyera's website at www.keyera.com and on SEDAR at www.sedar.com.

The DRIP and Premium DRIP™ generated cash of $170 million for the year ended December 31, 2016. In 2015, the plan generated cash of $119 million.

Long-term Debt (including Credit Facilities)
Below is a summary of Keyera's long-term debt obligations as at December 31, 2016:

As at December 31, 2016 (Thousands of Canadian dollars)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
Credit Facilities							
Bank credit facilities	235,000	—	—	—	—	235,000	—
Total credit facilities	**235,000**	—	—	—	—	**235,000**	—
Canadian dollar denominated debt							
5.89% due December 3, 2017	60,000	60,000	—	—	—	—	—
5.01% due January 4, 2019	70,000	—	—	70,000	—	—	—
4.35% due June 19, 2019	52,000	—	—	52,000	—	—	—
5.68% due September 8, 2020	2,000	—	—	—	2,000	—	—
6.14% due December 3, 2022	60,000	—	—	—	—	—	60,000
3.50% due June 16, 2023	30,000	—	—	—	—	—	30,000
4.91% due June 19, 2024	17,000	—	—	—	—	—	17,000
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
4.15% due June 16, 2026	30,000	—	—	—	—	—	30,000
3.96% due October 13, 2026	200,000	—	—	—	—	—	200,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
4.11% due October 13, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	916,000	60,000	—	122,000	2,000	—	732,000
U.S. dollar denominated debt							
3.42% due June 19, 2019 (US$3,000)	4,028	—	—	4,028	—	—	—
5.14% due September 8, 2020 (US$103,000)	138,298	—	—	—	138,298	—	—
4.19% due June 19, 2024 (US$128,000)	171,866	—	—	—	—	—	171,866
4.75% due November 20, 2025 (US$140,000)	187,978	—	—	—	—	—	187,978
4.95% due November 20, 2028 (US$65,000)	87,276	—	—	—	—	—	87,276
	589,446	—	—	4,028	138,298	—	447,120
Less: current portion of long-term debt	(60,000)	(60,000)	—	—	—	—	—
Total long-term debt	**1,445,446**	**—**	—	**126,028**	**140,298**	—	**1,179,120**

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

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

In the fourth quarter of 2016, the Prudential shelf facility was amended to increase the capacity and extend the issuance period to December 15, 2019. As at December 31, 2016, there was approximately US$52 million of capacity under the amended shelf facility.

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

As at December 31, 2016, Keyera had $916 million and US$439 million of unsecured senior notes including amounts drawn under the uncommitted notes facility. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at December 31, 2016, Keyera had entered into cross-currency agreements with a syndicate of Canadian banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" provides more information.

Keyera has an unsecured revolving credit facility (the "Credit Facility") with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at December 31, 2016, $235 million was drawn under this facility (December 31, 2015 – $370 million). The term of the Credit Facility is through to December 6, 2021. Management expects that upon maturity of the Credit Facility, an adequate replacement will be established.

The Credit Facility and senior note agreements contain a number of covenants, all of which were met as at December 31, 2016. The agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for all of Keyera's long-term debt, including its Credit Facility, is the 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, 2016, Keyera's Net Debt to EBITDA ratio was 2.67 for covenant test purposes (December 31, 2015 – 2.31).

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

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the years ended December 31, 2016 and 2015:

Capital Expenditures and Acquisitions (Thousands of Canadian dollars)	**2016**	2015
Acquisitions	**190,375**	24,644
Growth capital expenditures	**501,503**	641,427
Maintenance capital expenditures	**65,539**	64,831
Total capital expenditures	**757,417**	730,902

Growth capital expenditures for the year ended December 31, 2016 amounted to $502 million and primarily related to projects in the Liquids Infrastructure segment. Actual growth capital spent in 2016 was lower than Keyera's guidance of $600 million largely due to lower than estimated costs on certain projects and slower than anticipated pace of spending on various active projects.

Refer to the section of this MD&A, "Results of Operations: Liquids Infrastructure", for information related to the various growth capital projects, including estimated costs to complete, costs incurred in 2016 and since inception of the project, and estimated completion timeframes. Growth capital expenditures for the year ended December 31, 2016 also included $10 million for the connection to the TransCanada meter station from the Simonette gas plant. This connection allows Keyera's customers the flexibility to flow greater volumes of gas on either the TransCanada or Alliance sales gas pipeline systems.

Acquisitions in 2016 were $190 million and included the following:

- purchase of the Hull Terminal pipeline system for US$24 million (approximately CDN$32 million) in the first quarter of 2016;
- purchase of the proposed Wapiti gas plant project, including the plant site, engineering work and a successfully tested acid gas injection well for $19 million in the second quarter of 2016;
- purchase of the North Condensate Connector for $18 million in the third quarter of 2016; and
- purchase of an additional 35% ownership interest in the Alder Flats gas plant and associated gathering pipelines, including a pre-payment for costs associated with phase two for proceeds of $113 million.

For 2015, acquisitions included the purchase of land in the Edmonton/Fort Saskatchewan area for future development as well as an additional 0.9% working interest in the Rimbey gas plant and an additional 8% ownership interest in the Cynthia gas plant.

Maintenance capital expenditures for 2016 included approximately $48 million for the turnaround at AEF, including the replacement of catalyst as well as other maintenance related projects that were completed while the facility was off-line. The AEF facility was off-line from the beginning of September until early November.

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 $37 million for the year ended December 31, 2016, compared to $51 million in 2015. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

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

Dividends

Distributable Cash Flow

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

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

Distributable Cash Flow (Thousands of Canadian dollars)	2016	2015
Cash flow from operating activities	**412,926**	648,155
Add (deduct):		
Changes in non-cash working capital	**129,224**	(65,672)
Long-term incentive plan expense	**(16,840)**	(32,146)
Maintenance capital	**(65,539)**	(64,831)
Finance lease liabilities	**(188)**	—
Inventory write-down	—	(3,388)
Distributable cash flow	**459,583**	482,118
Dividends declared to shareholders	**277,578**	240,685

For the year ended December 31, 2016, dividends declared were $278 million, or 60% of distributable cash flow, compared to dividends declared of $241 million, or 50% of distributable cash flow in 2015.

Distributable cash flow for 2016 was $460 million, $23 million lower than the prior year primarily due to lower contribution from the sale of iso-octane in the Marketing segment. Distributable cash flow was unusually high in 2015 due to the inclusion of approximately $40 million of realized cash gains relating to the settlement of financial and physical risk management contracts associated with Keyera's year-end 2014 inventory.

Despite the prolonged low commodity price environment and low producer activity in Alberta, distributable cash flow for 2016 was robust. These financial results stemmed from: i) incremental cash flow generated from the various projects completed in the prior year; and ii) strong demand for Keyera's diluent handling services including storage and transportation services. In addition, current income taxes were $15 million in 2016 compared to $88 million in the prior year. Refer to the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the year ended December 31, 2016.

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

Dividend Policy

Keyera increased its dividend by 6% from $0.125 per share per month to $0.1325 per share per month, or $1.59 per share annually, beginning with its dividend payable on September 15, 2016. In determining the level of cash dividends to shareholders, Keyera's board of directors considers current and expected future levels of distributable cash flow, capital expenditures, borrowings and debt repayments, changes in working capital requirements and other factors.

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

EBITDA

EBITDA and Adjusted EBITDA are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure showing earnings before

finance costs, taxes, depreciation, and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. Management believes that these supplemental measures facilitate the understanding of Keyera's results from operations.

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

EBITDA **For the year ended** (Thousands of Canadian dollars)	**December 31, 2016** **$**	December 31, 2015 $
Net earnings	**216,851**	201,920
Add (deduct):		
Finance costs	**72,830**	63,168
Depreciation, depletion and amortization expenses	**171,615**	169,318
Income tax expense	**90,478**	99,803
EBITDA	**551,774**	534,209
Unrealized loss on commodity contracts	**37,751**	45,056
Net foreign currency loss on U.S. debt	**2,442**	29,668
Loss on disposal of property, plant and equipment	**890**	402
Net impairment expense	**12,270**	95,305
Adjusted EBITDA	**605,127**	704,640

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. At December 31, 2016, 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** **$**	**2017** **$**	**2018** **$**	**2019** **$**	**2020** **$**	**2021** **$**	**After 2021** **$**
Dividends payable	24,603	24,603	—	—	—	—	—
Derivative financial instruments	36,586	36,086	500	—	—	—	—
Credit facility	235,000	—	—	—	—	235,000	—
Long-term debt[1]	1,505,446	60,000	—	126,028	140,298	—	1,179,120
Long-term incentive plan	27,863	24,429	2,538	896	—	—	—
Finance lease liabilities[2]	82,000	2,250	4,500	5,250	5,250	5,250	59,500
Decommissioning liabilities[3]	476,199	11,960	—	—	—	—	464,239
Operating leases[4]	514,822	187,559	66,262	52,832	43,052	35,463	129,654
Purchase obligations[5,6]	424,160	306,908	109,728	7,524	—	—	—
Total contractual obligations	3,326,679	653,795	183,528	192,530	188,600	275,713	1,832,513

Notes:

1. Long-term debt obligations do not include interest payments and are shown net of issuance costs. For the U.S. denominated senior unsecured notes, the principal obligations are converted at the December 31, 2016 spot foreign exchange rate of 1.3427.
2. Finance lease liabilities include only future minimum lease payments due.
3. The majority of these obligations are expected to be settled between 2017 and 2045. No assets have been legally restricted for settlement of the liability.
4. Keyera has lease commitments relating to railway tank cars, vehicles, computer hardware, office space, terminal lease space and natural gas transportation.
5. Purchase obligations include the construction of pipelines and other major capital projects which are contracted out to third parties.
6. 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 and expire in 2018. 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.

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 28, Related Party Transactions, of the accompanying December 31, 2016 financial statements.

RISK FACTORS

Historically, the majority of Keyera's cash flow is derived from the Gathering and Processing and Liquids Infrastructure business segments. The contribution generated from Gathering and Processing facilities is not significantly exposed to changes in operating costs, due to the nature of most fee structures, which 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. Keyera's facilities are located in significant natural gas supply areas of the Western Canada Sedimentary Basin 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 price changes 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, 2016, the allowance for doubtful accounts was $4 million (December 31, 2015 – $4 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 22, 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.

Marketing Risk

Keyera enters into contracts to purchase and sell natural gas, NGLs, crude oil and iso-octane. 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 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 most of the NGL products that it markets, and may store NGLs 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 crude oil 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. While hedging and other efforts to manage market and inventory risk are intended to mitigate Keyera's risk exposure, because of the inherent nature and risk of such transactions, those activities can result in losses. 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 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 Gathering and Processing and Liquids Infrastructure

segments are not subject to foreign currency risk as all sales and virtually all purchases are denominated in Canadian dollars. In the Marketing business, approximately US$635 million of sales and US$374 million of purchases were priced in U.S. dollars in 2016 compared to US$679 million of sales and US$353 million of purchases denominated in U.S. dollars in 2015. 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.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

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

Keyera is closely monitoring the ongoing development and implementation of the regulatory framework through which the federal and provincial governments are implementing their climate change and emissions reduction policies. In the near term, the majority of Keyera's facilities initially fall within the exemptions to the Alberta carbon levy that came into force in 2017. For example, there are exemptions for heating fuels on sites subject to the Specified Gas Emitters Regulations ("SGER") until the end of 2017 when a new Output Based Allocation ("OBA") framework is to be introduced for Large Final Emitters ("LFE"). There is also an exemption for natural gas produced and consumed on site for conventional oil and gas activities until 2023 as the regulators focus on methane reduction initiatives in these areas. Five of Keyera's facilities are LFEs and will continue to be subject to the performance targets under the SGER regime until the OBA replacement program is in place. As the details of the replacement program are still being defined, it is not known at this time how Keyera will be affected. Similarly, details with respect to the Alberta Government's methane reduction program for conventional oil and gas activities continue to evolve. Keyera is engaged in the ongoing consultation initiatives underway with the Government of Alberta with respect to the proposed changes to the SGER framework and is working through industry with respect to the Joint Initiative on Methane Reduction and Verification.

While Keyera anticipates that its compliance costs will increase as a result of the changing regulatory requirements with respect to emissions and climate change, at this time it is not expected that it will be affected in a manner materially different from its peers with similar operations. Based on currently available

information, Keyera does not expect the incremental direct cost of compliance between now and 2023 to be material. There may be indirect costs or consequences with implications for Keyera. For example, to the extent that electricity costs increase as a result of these changes, the operating costs of some of Keyera's facilities may increase. To mitigate the impact of these regulatory changes, Keyera is evaluating new emission reduction opportunities at its facilities through its Emissions Reduction Task Force, and is also continuing to integrate emissions considerations into overall lifecycle planning for its facilities through its Climate Change and Emissions Strategy Committee.

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

SELECTED FINANCIAL INFORMATION

The following table presents selected annual financial information for Keyera:

(Thousands of Canadian dollars, except per share information)	**2016**	2015	2014
Revenue before intersegment eliminations[1]			
- Gathering and Processing	**471,463**	466,733	426,455
- Liquids Infrastructure	**369,393**	347,191	306,065
- Marketing	**1,924,614**	1,967,726	3,123,535
- Other	**22,625**	40,188	46,863
Operating Margin			
- Gathering and Processing	**290,225**	259,094	218,296
- Liquids Infrastructure	**246,104**	219,858	188,756
- Marketing	**101,109**	243,781	237,439
- Other	**8,735**	19,605	26,704
Net earnings	**216,851**	201,920	229,989
Net earnings per share ($/share): [2]			
- Basic	**1.21**	1.19	1.40
- Diluted	**1.21**	1.19	1.40
Dividends to shareholders	**277,578**	240,685	207,228
Dividends per share (basic) [2]	**1.54**	1.42	1.26
Shares outstanding (thousands) [2]			
- Weighted average (basic)	**179,688**	169,936	164,366
- Weighted average (diluted)	**179,688**	169,936	164,366
Total assets	**4,956,961**	4,296,569	3,850,826
Total long-term liabilities	**2,582,728**	2,334,513	1,991,661

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] On April 1, 2015, Keyera's outstanding common shares were split on a two-for-one basis. All per share information has been presented on a post-share split basis.

Keyera's fee-for-service business segments (i.e. Gathering and Processing and Liquids Infrastructure) set a new record for operating margin in 2016 despite the ongoing low commodity price environment. Keyera's facilities segments are receiving the benefit of incremental cash flows associated with major capital projects that were completed in 2015 and 2016. Some examples of these projects include construction of extensive gathering systems and plant expansions that are bringing incremental throughput to Keyera's gas plants for processing, the Rimbey turbo expander, and the addition of new rail terminals and the de-ethanizer facility and fractionation expansion at Fort Saskatchewan. Although drilling activity was reduced in Western Canada in 2016, Keyera believes that the location of its assets within the Western Canada Sedimentary Basin, where attractive geological opportunities exist, and its network of gathering systems and processing solutions will provide it with the competitive advantage required to be successful for the long term.

In the Marketing segment, iso-octane margins were weaker in 2016 due to lower sales volumes resulting from the major turnaround at AEF and lower gasoline prices and iso-octane premiums on the sale of iso-octane in the second and third quarters of 2016. Iso-octane margins were exceptionally robust in 2015 resulting from strong premiums for gasoline and iso-octane during the peak driving season. 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, 2016.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Revenue before inter-segment eliminations [1]								
Gathering and Processing	**129,035**	119,952	106,842	115,634	129,074	123,752	107,169	106,738
Liquids Infrastructure	**94,712**	90,178	90,402	94,101	90,958	87,310	85,095	83,828
Marketing	**535,708**	472,442	457,447	459,017	472,114	497,951	480,590	517,071
Other	**7,512**	5,643	3,044	6,426	9,141	10,600	10,723	9,724
Operating Margin								
Gathering and Processing	**79,881**	71,689	70,457	68,198	73,564	69,237	56,147	60,146
Liquids Infrastructure	**62,781**	62,781	59,018	61,524	55,886	55,531	54,869	53,572
Marketing	**8,581**	23,825	24,582	44,121	54,731	99,307	53,483	36,260
Other	**4,196**	2,663	(67)	1,943	4,441	4,400	6,691	4,073
Net earnings	**34,621**	52,420	59,679	70,131	20,215	109,538	15,587	56,580
Net earnings per share ($/share)								
Basic	**0.19**	0.28	0.34	0.41	0.12	0.64	0.09	0.33
Diluted	**0.19**	0.28	0.34	0.41	0.12	0.64	0.09	0.33
Weighted average common shares (basic)	**185,116**	183,962	177,309	172,258	171,199	170,191	169,411	168,915
Weighted average common shares (diluted)	**185,116**	183,962	177,309	172,258	171,199	170,191	169,411	168,915
Dividends declared to shareholders	**73,657**	71,819	67,440	64,662	64,259	62,178	58,479	55,769

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.

The Gathering and Processing segment has continued to grow as a result of acquiring ownership interests in new or existing facilities as well as its investment in gathering systems and plant expansions that are now generating incremental cash flow. Overall throughput has declined in 2016 due to several factors including: i) ongoing TransCanada pipeline restrictions; ii) shut-in gas due to low commodity prices and iii) natural declines in production. Despite the reduction in overall average gross processing throughput at Keyera's facilities in 2016, financial results from the Gathering and Processing segment remained stable because of producer commitments at certain facilities along with the contribution from investments in expanded service offerings, such as the sale of ethane associated with Keyera's investment in the Rimbey turbo expander.

In the Liquids Infrastructure segment, incremental cash flow from recent investments, including addition of the de-ethanizer and the fractionation expansion at Fort Saskatchewan, have contributed to the growth in operating margin. In addition, Keyera has long-term agreements in place to provide diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area for several oil sands producers and the demand for these services steadily increased throughout 2015 and 2016.

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

management for its NGL and iso-octane products. Marketing results were lower in 2016 due to a lower contribution from the sale of iso-octane, partly due to the scheduled maintenance turnaround at AEF in the second half of the year as well as other factors described throughout this MD&A.

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, 2016.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 9, Financial Instruments

IFRS 9 is now the standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 provides a single model of classifying and measuring financial assets and liabilities, and provides for only two classification categories: amortized cost and fair value. Hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted; however, if an entity elects to apply this standard early, it must disclose that fact and apply all of the requirements in this standard at the same time.

Expected Impact

Keyera has reviewed the standard to determine whether there would be any changes to how Keyera currently recognizes and measures financial instruments. Based on Keyera’s assessment, there would likely not be material differences to its consolidated financial statements upon the adoption of IFRS 9 with respect to the recognition and measurement of financial instruments. Keyera currently does not follow hedge accounting to reflect its risk management activities and would likely not early adopt IFRS 9.

IFRS 15, Revenue from Contracts with Customers

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

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

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

Expected Impact

Keyera is in the process of developing an implementation plan to identify all contracts and arrangements which will fall within the scope of IFRS 15. Keyera’s management believes that it has sufficient resources allocated to the project to ensure timely implementation and has commenced its assessment of key contracts. Once all applicable contracts and arrangements are identified and reviewed, Keyera will assess applicable impacts. These include, but are not limited to, impacts to (i) recognition and measurement of revenue on Keyera’s consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required. In addition, once all applicable contracts and arrangements have been assessed, Keyera will make a decision regarding its adoption approach for IFRS 15. Keyera currently anticipates that the adoption of this new accounting standard will mostly affect its

Liquids Infrastructure reportable segment; however, Keyera is still completing detailed assessments of this standard. IFRS 15 will be adopted by Keyera on January 1, 2018.

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

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

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

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

Amendments to IAS 7, Statement of Cash Flows
In January 2016, the IASB issued Disclosure Initiative (Amendments to IAS 7) which requires reporting issuers to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted. Comparative information is not required to be disclosed when entities first apply the amendments.

Expected impact
The effect of this initiative will only relate to Keyera's disclosures and will be adopted on January 1, 2017.

Amendments to IFRS 2, Share-based Payment
In June 2016, the IASB issued amendments to IFRS 2, Share-based Payment which is to be applied to annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The amendments clarify how to classify and measure certain types of share-based payment transactions.

Expected impact
Keyera is currently determining the effect of applying the amendments to IFRS 2 on its consolidated financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration
In December 2016, the IFRS Interpretations Committee (IFRIC) issued IFRIC 22, Foreign Currency Transactions and Advance Consideration, an interpretation that clarifies the requirements in IAS 21, The Effects of Changes in Foreign Exchange Rates. Specifically, IFRIC 22 addresses transactions that include the receipt or payment of advance consideration in a foreign currency. Previously, when non-monetary assets or non-monetary liabilities arising from the payment or receipt of advance consideration were recognized before recognition of the asset, expense or income it related to, there was diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that for the purpose of determining this exchange rate, the date of transaction is the date of initial recognition of the non-monetary asset or non-monetary liability arising from the advance consideration. If a transaction involves multiple payments or receipts of advance consideration, an entity shall determine a separate date of transaction for each payment or receipt. IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018 with early adoption permitted. This interpretation can be adopted either retrospectively or prospectively to all assets, expenses and income in the scope of the interpretation initially recognized on or after: (i) the beginning of the reporting period in which the entity first applies the interpretation; or (ii) the beginning of a prior reporting period presented as comparative information.

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

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of December 31, 2016, Keyera's disclosure controls and procedures have provided reasonable assurance that material information relating to Keyera and its consolidated subsidiaries has been brought to their attention and that information required to be disclosed pursuant to applicable securities legislation has been recorded, processed, summarized and reported in an appropriate and timely manner.

Internal Controls Over Financial Reporting

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

No changes were made for the period beginning January 1, 2016 and ending December 31, 2016 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

There were 4,494,212 common shares issued under the DRIP and the Premium DRIP™ for consideration of $170 million, bringing the total common shares outstanding at December 31, 2016 to 185,683,427.

Subsequent to December 31, 2016, 385,469 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP™ for consideration of $15 million, bringing the total common shares outstanding at February 14, 2017 to 186,068,896.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with GAAP. Measures such as distributable cash flow (cash flow from operating activities adjusted for changes in non-cash working capital, long-term incentive plan costs, inventory write-down, maintenance capital expenditures and finance lease liabilities); distributable cash flow per share (distributable cash flow divided by weighted average number of shares – basic); EBITDA (earnings before finance costs, taxes, depreciation, and amortization); and Adjusted EBITDA (calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses, impairment expenses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment) are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. Management believes that these supplemental measures facilitate the understanding of Keyera's results of operations, leverage, liquidity and financial position. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. EBITDA and Adjusted EBITDA are measures used as an indication of earnings generated from operations after consideration of administrative and overhead costs. Investors are cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP as an indication of Keyera's performance.

FORWARD-LOOKING STATEMENTS

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

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

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward-looking statements. Such factors include but are not limited to: general economic, market and business conditions; access to capital and debt markets; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; access to third party facilities, competitive action by other companies; activities of producers and other customers and overall industry activity levels; changes in gas composition; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; availability of construction crews and materials; fluctuations in interest rates and foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; compliance with regulatory requirements; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on shareholders, and in particular any differential effects relating to shareholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 14, 2017, filed on SEDAR at www.sedar.com and available on the Keyera website at www.keyera.com.

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

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

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

All forward-looking statements contained in this MD&A and accompanying documents are expressly qualified by this cautionary statement. Such statements speak only as of the date hereof. Further information about the factors affecting forward-looking statements and management's assumptions and analysis thereof, is available in filings made by Keyera with Canadian provincial securities commissions, which can be viewed on SEDAR at www.sedar.com.

Investor Information

DIVIDENDS TO SHAREHOLDERS

Dividends declared to shareholders of Keyera were $0.3975 per share in the fourth quarter and a total of $1.5375 per share in 2016. Effective with the August 2016 dividend and payable to shareholders on September 15, 2016, Keyera's dividend increased by 6% to $0.1325 per share per month or $1.59 per share annually. Keyera is focused on providing stable long-term dividends per share that grow over time.

TAXABILITY OF DIVIDENDS

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

SUPPLEMENTARY INFORMATION

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

YEAR END 2016 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the 2016 results at 8:00 am Mountain Time (10:00 am Eastern Time) on February 15, 2017. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 11:59 pm Mountain Time on March 1, 2017 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 50754749.

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

QUESTIONS

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

Keyera Corp.

Consolidated Statements of Financial Position

(Thousands of Canadian dollars)

As at	Note	December 31, 2016 $	December 31, 2015 $
ASSETS			
Cash		**16,477**	13,447
Trade and other receivables	7	**364,081**	344,006
Derivative financial instruments	22	**9,021**	46,862
Inventory	8	**107,876**	76,989
Other assets	9	**81,592**	8,860
Total current assets		**579,047**	490,164
Long-term portion of other assets	9	**4,200**	—
Derivative financial instruments	22	**119,606**	141,770
Property, plant and equipment	10	**4,200,484**	3,610,427
Intangible assets	11	**—**	584
Goodwill	12	**53,624**	53,624
Total assets		**4,956,961**	4,296,569
LIABILITIES AND EQUITY			
Trade and other payables	13	**400,076**	400,245
Derivative financial instruments	22	**36,086**	27,309
Dividends payable	20	**24,603**	21,463
Current portion of long-term debt	14	**60,000**	104,200
Current portion of decommissioning liability	15	**11,960**	10,569
Total current liabilities		**532,725**	563,786
Derivative financial instruments	22	**500**	352
Credit facilities	14	**235,000**	370,000
Long-term debt	14	**1,437,413**	1,156,486
Decommissioning liability	15	**464,239**	474,477
Other long-term liabilities	16	**57,463**	16,346
Deferred tax liabilities	17	**388,113**	316,852
Total liabilities		**3,115,453**	2,898,299
Equity			
Share capital	18	**1,987,341**	1,483,376
Accumulated deficit		**(145,833)**	(85,106)
Total equity		**1,841,508**	1,398,270
Total liabilities and equity		**4,956,961**	4,296,569

See accompanying notes to the consolidated financial statements.
Commitments and contingencies (note 31)

These consolidated financial statements were approved by the board of directors of Keyera Corp. on February 14, 2017.

(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	**2016** **$**	2015 $
Revenues	30	**2,508,973**	2,521,080
Expenses	30	**(1,862,800)**	(1,778,742)
Operating margin		**646,173**	742,338
General and administrative expenses	25	**(62,847)**	(51,010)
Finance costs	26	**(72,830)**	(63,168)
Depreciation, depletion and amortization expenses	27	**(171,615)**	(169,318)
Net foreign currency loss on U.S. debt	23	**(2,442)**	(29,668)
Long-term incentive plan expense	21	**(16,840)**	(32,146)
Net impairment expense	10	**(12,270)**	(95,305)
Earnings before income tax		**307,329**	301,723
Income tax expense	17	**(90,478)**	(99,803)
Net earnings		**216,851**	201,920
Other comprehensive income		**—**	—
Net earnings and comprehensive income		**216,851**	201,920
Earnings per share			
Basic earnings per share	19	**1.21**	1.19
Diluted earnings per share	19	**1.21**	1.19

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	**2016** **$**	2015 $
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net earnings:		**216,851**	201,920
Adjustments for items not affecting cash:			
Finance costs	26	**12,220**	10,930
Depreciation, depletion and amortization expenses	27	**171,615**	169,318
Long-term incentive plan expense	21	**16,840**	32,146
Unrealized loss (gain) on derivative financial instruments	22	**68,930**	(31,231)
Unrealized (gain) loss on foreign exchange		**(28,323)**	95,517
Deferred income tax expense	17	**75,106**	11,791
Inventory write-down	8	**—**	3,388
Net impairment expense	10	**12,270**	95,305
Loss on disposal of property, plant and equipment	10	**890**	402
Decommissioning liability expenditures	15	**(4,249)**	(7,003)
Changes in non-cash working capital	29	**(129,224)**	65,672
Net cash provided by operating activities		**412,926**	648,155
INVESTING ACTIVITIES			
Acquisitions	10	**(190,375)**	(24,644)
Capital expenditures	10	**(567,042)**	(706,258)
Proceeds on sale of assets		**85**	3,478
Changes in non-cash working capital	29	**(3,642)**	(29,992)
Net cash used in investing activities		**(760,974)**	(757,416)
FINANCING ACTIVITIES			
Borrowings under credit facilities	14	**1,397,406**	1,300,000
Repayments under credit facilities	14	**(1,532,406)**	(1,020,000)
Proceeds from issuance of long-term debt	14	**360,000**	—
Repayment of long-term debt	14	**(97,740)**	(49,799)
Financing costs related to credit facilities/long-term debt	14	**(2,238)**	(2,008)
Proceeds from equity offering	18	**344,871**	—
Issuance costs related to equity offering	18	**(14,528)**	—
Proceeds from issuance of shares related to DRIP	18	**169,777**	118,854
Repayment of finance lease liabilities	16	**(188)**	—
Dividends paid to shareholders	20	**(274,438)**	(237,355)
Net cash provided in financing activities		**350,516**	109,692
Effect of exchange rate fluctuations on foreign cash held		**562**	1,707
Net increase in cash		**3,030**	2,138
Cash at the beginning of the year		**13,447**	11,309
Cash at the end of the year		**16,477**	13,447
Income taxes paid in cash		**73,348**	61,492
Interest paid in cash		**84,134**	74,383

See accompanying notes to the consolidated financial statements.

Keyera Corp.
Consolidated Statements of Changes in Equity
(Thousands of Canadian dollars)

As at	Share Capital $	Accumulated (Deficit) $	Total $
Balance at December 31, 2014	**1,364,522**	**(46,341)**	**1,318,181**
Common shares issued pursuant to dividend reinvestment plans	118,854	—	118,854
Net earnings and total comprehensive income	—	201,920	201,920
Dividends declared to shareholders	—	(240,685)	(240,685)
Balance at December 31, 2015	**1,483,376**	**(85,106)**	**1,398,270**
Common shares issued pursuant to dividend reinvestment plans	169,777	—	169,777
Common shares issued pursuant to equity offering[1]	334,188	—	334,188
Net earnings and total comprehensive income	—	216,851	216,851
Dividends declared to shareholders	—	(277,578)	(277,578)
Balance at December 31, 2016	**1,987,341**	**(145,833)**	**1,841,508**

Note:
[1] Net of issuance costs and related deferred income tax asset recorded. See note 18 for further information.

See accompanying notes to the consolidated financial statements.

Keyera Corp.
Notes to Consolidated Financial Statements
As at and for the years ended December 31, 2016 and 2015
(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 Midstream Ltd. (“KML”), Keyera Energy Ltd. (“KEL”), Keyera Energy Inc. (“KEI”), Keyera Rimbey Ltd. (“KRL”), Keyera RP Ltd. (“KRPL”), Rimbey Pipeline Limited Partnership (“RPLP”), Alberta Diluent Terminal Ltd. (“ADT”) and Alberta EnviroFuels Inc. (“AEF”). Keyera Corp. and its subsidiaries are involved in the business of natural gas gathering and processing; as well as transportation, storage and marketing of natural gas liquids (“NGLs”) and iso-octane in Canada and the United States (“U.S.”). In addition, Keyera Partnership is involved in crude oil midstream activities in Canada.

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

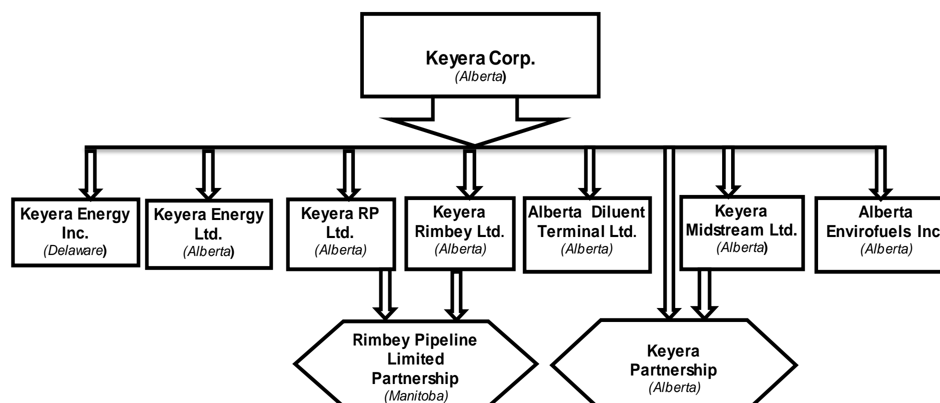
Pursuant to its Articles of Amalgamation, Keyera Corp. is authorized to issue an unlimited number of common shares (the “Shares”). The Shares trade on the Toronto Stock Exchange under the symbol “KEY”.

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

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, 2016.



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. The Edmonton Terminal which was previously owned and operated by RPLP was transferred to the Partnership on January 1, 2016.

Keyera Energy Inc. is Keyera's U.S. subsidiary. It carries out Keyera's NGL and iso-octane 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 and 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*
Brazeau River Gas Plant	*Alberta*	*94%*	*Gathering and Processing Facilities*
Cynthia Gas Plant	*Alberta*	*93%*	*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*
Ricinus Gas Plant	*Alberta*	*71%*	*Gathering and Processing Facilities*
Rimbey Gas Plant	*Alberta*	*99%*	*Gathering and Processing Facilities*
South Cheecham Rail and Truck Terminal	*Alberta*	*50%*	*Rail Loading, Offloading and Storage*
West Pembina Gas Plant	*Alberta*	*78%*	*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 14, 2017 by the board of directors.

New and amended IFRS standards adopted by Keyera

Keyera has applied the following new IFRS amendments in 2016:

Amendments to IFRS 11, Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
Effective January 1, 2016, Keyera adopted the amendments to IFRS 11, which requires entities acquiring an interest in a joint operation to apply, for its share of the business, all of the principles of a business combination set out in IFRS 3, Business Combinations, on a prospective basis. The amendments clarify that for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, the acquirers of such interests are to apply the relevant accounting principles of IFRS 3 and other standards, as well as disclosing the relevant information specified in these standards for business combinations.

The acquisition of an additional 35% ownership interest in the jointly operated asset called Alder Flats as set out in note 6, Business Combination, was accounted for in accordance with this amendment.

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

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

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 statement 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 statement 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 re-measured at fair value with changes recorded through the consolidated statement 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 statement 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 its subsidiaries is Canadian dollars. Keyera's only foreign subsidiary, KEI, has a functional currency of Canadian dollars as its operations are carried out as an extension of the Canadian Marketing business and is integrated with the Canadian reporting entity.

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 retranslated 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 statement 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, after eliminating intercompany sales.

Revenue from the rendering of services is recognized when the following criteria are met:

- the amount of revenue can be measured reliably;
- the stage of completion can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred can be measured reliably.

Revenue from the sale of products is recognized when the following criteria are met:

- the risks and rewards of ownership have transferred to the customer;
- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred can be measured reliably.

In addition to the above general principles, Keyera applies the following specific revenue recognition policies:

Marketing revenue
Revenue from marketing NGLs, iso-octane and natural gas as well as from crude oil midstream activities is recognized based on volumes delivered to customers at contracted rates and delivery points.

Gathering and Processing revenue
Gathering and Processing revenue is generated through fixed fee arrangements or flow-through arrangements that are designed to recover operating costs and provide a return on capital. Under fixed fee arrangements, the fee is a fixed charge per unit transported or processed. Under the flow-through method, the operating costs for the facility are recovered from each customer based upon that customer's pro rata share of total throughput. Users 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 plant 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.

Revenue from take or pay arrangements is recognized as service is provided or in accordance with the terms of the agreement.

Liquids Infrastructure revenue
Revenue from transportation, processing and storage of NGLs is generated through fee-for-service arrangements. The fee is generally comprised of a fixed charge per unit transported, processed or stored. Revenue is recognized when services have been performed and collection is reasonably assured.

Share-based compensation
Keyera has a Long-Term Incentive Plan ("LTIP"), which is described in note 21. 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 on the statement 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 doubtful accounts.
Keyera maintains an allowance for doubtful accounts 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 statement 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. 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 statement 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 statement 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. Capitalized leased assets under finance lease arrangements are depreciated over the shorter of the estimated useful life of the asset or the lease term if the lease arrangement does not transfer ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the capitalized leased asset does not reflect that the lessee will exercise a purchase option. Otherwise, the capitalized leased asset is depreciated from the commencement date to the end of the useful life of the underlying asset. 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.

Intangible assets
Intangible assets consist of long-term contracts relating to the marketing business acquired in previous business combinations and asset purchases. Intangible assets are reported at cost less any accumulated amortization and any impairment losses.

Amortization is recognized in the consolidated statement of net earnings and comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets. The amortization methods and expected useful lives of intangible assets are reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

These assets are being amortized over the remaining economic life of the related assets, generally over a three year period.

Impairment of intangible assets and 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 statement 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 statement 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 statement 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 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 statement 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
Financial assets include cash, trade and other receivables and derivative financial instruments. Keyera determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value net of transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of net earnings and comprehensive income when the loans and receivables are derecognized or impaired. Assets in this category include trade and other receivables that are classified as current assets on the consolidated statement of financial position.

b) Financial assets at fair value through the consolidated statement of net earnings and comprehensive income
A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through the consolidated statement of net earnings and comprehensive income and are included in this category. Keyera has not designated any derivative instruments as hedges.

These assets are carried on the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement 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 the consolidated statement 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 statement of net earnings and comprehensive income as incurred.

c) Available for sale
Financial assets available for sale are non-derivatives that are either designated in this category or not classified in any of the other categories. These assets are measured at fair value, with changes in those fair values recognized in other comprehensive income. Transaction costs are initially recognized as part of the carrying amount of the financial asset. The costs are then amortized through the consolidated statement of net earnings and comprehensive income over the term of the instrument using the effective interest method. Currently, Keyera does not have any financial assets classified as available for sale.

Impairment of financial assets
Keyera assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the consolidated statement of net earnings and comprehensive income.

Financial liabilities

Financial liabilities consist of current and long-term debt, credit facilities, trade and other payables, derivative financial instruments, dividends payable and finance lease liabilities. Financial liabilities are classified in the following categories at the time of initial recognition:

a) Financial liabilities at fair value through the consolidated statement of net earnings and comprehensive income

Derivatives are classified as fair value through the consolidated statement of net earnings and comprehensive income and are included in this category. These liabilities are carried on the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement 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 statement of net earnings and comprehensive income as incurred.

b) Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value. 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 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. Embedded derivatives are accounted for as derivative instruments.

Changes in the fair value of derivatives are recognized in the consolidated statement 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). The grouping of these gains and losses in the consolidated statement of net earnings and comprehensive income is consistent with the underlying nature and purpose of the derivative instruments (see note 22).

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 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 statement 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 statement 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 statement 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
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to Keyera. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the lease property or the present value of minimum lease payments and are included in property, plant and equipment. All other leases are classified as operating leases and are expensed to the consolidated statement of net earnings and comprehensive income based on the terms of the lease.

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

All finance costs are recognized in the consolidated statement 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, total comprehensive income for the period to date, and dividends declared to shareholders.

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 doubtful accounts
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 the number of days outstanding and the likelihood of collection from the counterparty.

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.

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 property, plant and equipment acquired in a business combination requires Keyera's management to make assumptions and estimates about future events. The fair value of general plant and processing equipment is estimated with reference to the discounted cash flows expected to be derived from gas processing. These assumptions and estimates generally require judgment and include estimates of future gas processing revenues 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 is determined by the present value of future cash flows. Future cash flow estimates are based on future production profiles and reserves for surrounding wells, commodity prices and costs. Estimates are also made in determining the discount rate used to calculate the present value of future cash flows.

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

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

Deferred tax assets and liabilities
Deferred tax assets and liabilities require management's 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.

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 fee per unit based upon estimated costs and throughput, with an adjustment to actual throughput completed after the end of the year. On a quarterly basis, throughput volumes and operating costs are reviewed and adjustments are made to revenue and operating expenses based on actual operating costs incurred to date.

5. FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 9, Financial Instruments
IFRS 9 is now the standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 provides a single model of classifying and measuring financial assets and liabilities, and provides for only two classification categories: amortized cost and fair value. Hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted; however, if an entity elects to apply this standard early, it must disclose that fact and apply all of the requirements in this standard at the same time.

Expected Impact
Keyera has reviewed the standard to determine whether there would be any changes to how Keyera currently recognizes and measures financial instruments. Based on Keyera's assessment, there would likely not be material differences to its consolidated financial statements upon the adoption of IFRS 9 with respect to the recognition and measurement of financial instruments. Keyera currently does not follow hedge accounting to reflect its risk management activities and would likely not early adopt IFRS 9.

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

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

IFRS 15 also provides guidance for the recognition and measurement of gains and losses on the sale of certain non-financial assets, such as property, plant and equipment. The standard is required to be

adopted either retrospectively or using a modified retrospective transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted.

Expected Impact

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

IFRS 16, Leases

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

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

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

Expected impact

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

Amendments to IAS 7, Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative (Amendments to IAS 7) which requires reporting issuers to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted. Comparative information is not required to be disclosed when entities first apply the amendments.

Expected impact

The effect of this initiative will only relate to Keyera's disclosures and will be adopted on January 1, 2017.

Amendments to IFRS 2, Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, Share-based Payment which is to be applied to annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The amendments clarify how to classify and measure certain types of share-based payment transactions.

Expected impact
Keyera is currently determining the effect of applying the amendments to IFRS 2 on its consolidated financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration
In December 2016, the IFRS Interpretations Committee (IFRIC) issued IFRIC 22, Foreign Currency Transactions and Advance Consideration, an interpretation that clarifies the requirements in IAS 21, The Effects of Changes in Foreign Exchange Rates. Specifically, IFRIC 22 addresses transactions that include the receipt or payment of advance consideration in a foreign currency. Previously, when non-monetary assets or non-monetary liabilities arising from the payment or receipt of advance consideration were recognized before recognition of the asset, expense or income it related to, there was diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that for the purpose of determining this exchange rate, the date of transaction is the date of initial recognition of the non-monetary asset or non-monetary liability arising from the advance consideration. If a transaction involves multiple payments or receipts of advance consideration, an entity shall determine a separate date of transaction for each payment or receipt. IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018 with early adoption permitted. This interpretation can be adopted either retrospectively or prospectively to all assets, expenses and income in the scope of the interpretation initially recognized on or after: (i) the beginning of the reporting period in which the entity first applies the interpretation; or (ii) the beginning of a prior reporting period presented as comparative information.

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

6. BUSINESS COMBINATION

The acquisition listed below has been recorded as a business combination under IFRS 3.

On August 9, 2016 Keyera completed its acquisition of an additional 35% ownership interest in the O'Chiese Nees-Ohpawganu'ck gas plant ("Alder Flats") and associated gathering pipelines (collectively the "Facilities") from Bellatrix Exploration Ltd. ("Bellatrix"). Before this transaction, Keyera's existing ownership interest was 35% in the Facilities. As opportunities arise to acquire additional working interests in Keyera's jointly operated facilities, Keyera will assess these opportunities and invest further when appropriate. Keyera's total ownership interest in the Facilities is now 70%.

There was no change in control and Bellatrix will continue to operate the Facilities. As the Facilities are jointly controlled, they continue to be accounted for as a joint operation.

Total consideration for the fair value acquisition was $112,500. Of the total consideration, $27,125 was a prepayment for future construction costs related to the phase two expansion of Alder Flats, while $86,080 relates to a 35% working interest in the existing plant, processing equipment, gathering lines, and costs incurred to date on the phase two expansion. Decommissioning liabilities of $705 were assumed in the acquisition. No goodwill was recognized on this business combination.

The prepayment of $27,125 was allocated to Other Assets while the remaining balance of $86,080 was allocated to Property, Plant and Equipment on the consolidated statement of financial position. Within Property, Plant and Equipment, the amount resides in the general plant and processing equipment component group.

At December 31, 2016, the prepayment amount residing in Other Assets was $22,857 (see note 9) while the amount residing in Property, Plant and Equipment was $90,348.

The acquisition was settled using existing cash flow and funding from Keyera's bank credit facility.

The revenue and profit included in the consolidated statement of net earnings and comprehensive income since August 9, 2016 contributed by the Facilities was $7,378 and $4,525, respectively.

Had the Facilities been consolidated from January 1, 2016, the consolidated statement of net earnings and comprehensive income would have included revenue and profit of $18,800 and $11,576, respectively.

7. TRADE AND OTHER RECEIVABLES

As at December 31,	**2016** **$**	2015 $
Trade and accrued receivables	**368,114**	348,039
Allowance for doubtful accounts:		
Balance at beginning of the period	**(4,033)**	(2,573)
Impairment losses – trade receivables	**—**	(1,460)
Balance at the end of the period	**(4,033)**	(4,033)
Total trade and accrued receivables	**364,081**	344,006

In determining the recoverability of a trade receivable, Keyera considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date in addition to normal credit risks associated with entities in the oil and gas industry. The allowance for doubtful accounts is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter-party. The concentration of credit risk is mitigated by having a broad domestic and international customer base.

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,	**2016** **$**	2015 $
Neither past due or impaired	**361,919**	333,744
Past due 31 to 60 days	**2,162**	10,120
Past due over 60 days	**—**	142
Total trade and accrued receivables	**364,081**	344,006

8. INVENTORY

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

As at December 31,	**2016** **$**	2015 $
NGLs and iso-octane	**103,233**	71,148
Other	**4,643**	5,841
Total inventory	**107,876**	76,989

For the year ended December 31, 2016, $107,876 (2015 – $66,100) of inventory was carried at cost and $nil (2015 – $10,889) was carried at net realizable value. During the year $nil (2015 – $3,388) of inventory was written down to net realizable value.

9. OTHER ASSETS

As at December 31,	2016 $	2015 $
Prepaid deposits	**615**	1,414
Other	**85,177**	7,446
Other assets	**85,792**	8,860
Less: long-term portion of other assets	**(4,200)**	—
Total other assets	**81,592**	8,860

Other assets consists of funds advanced to a joint venture partner for the future construction of the expansion phase on an existing gas plant jointly owned by Keyera and the joint venture partner. As at December 31, 2016, the prepaid balance was $22,857 with $18,657 recorded in current other assets and the remaining amount of $4,200 recorded as the long-term portion of other assets. Also included in other assets is the $55,054 prepayment made by Keyera for the acquisition of 1,290 acres of undeveloped land in the Fort Saskatchewan area.

10. PROPERTY, PLANT, AND EQUIPMENT

Cost	General plant & processing equipment $	Other properties & equipment $	Turnarounds $	Land & linefill $	Total $
Balance at December 31, 2014	**3,716,329**	**150,482**	**161,096**	**83,482**	**4,111,389**
Additions	658,489	18,034	44,117	10,262	730,902
Disposals	—	—	—	(3,877)	(3,877)
Other:					
Decommissioning asset	48,423	—	—	—	48,423
Balance at December 31, 2015	**4,423,241**	**168,516**	**205,213**	**89,867**	**4,886,837**
Additions	655,972	29,986	29,453	19,062	734,473
Other:					
Finance lease asset	54,234	—	—	—	54,234
Decommissioning asset	(15,350)	—	—	—	(15,350)
Balance at December 31, 2016	**5,118,097**	**198,502**	**234,666**	**108,929**	**5,660,194**

Accumulated depreciation, depletion and impairment	General plant & processing equipment $	Other properties & equipment $	Turnarounds $	Land & linefill $	Total $
Balance at December 31, 2014	**(827,876)**	**(80,076)**	**(104,308)**	**—**	**(1,012,260)**
Impairment expense	(76,581)	(16,433)	—	(2,291)	(95,305)
Depreciation and depletion expenses	(106,999)	(29,691)	(32,155)	—	(168,845)
Balance at December 31, 2015	**(1,011,456)**	**(126,200)**	**(136,463)**	**(2,291)**	**(1,276,410)**
Net impairment expense	(12,270)	—	—	—	(12,270)
Depreciation and depletion expenses	(122,416)	(19,018)	(29,596)	—	(171,030)
Balance at December 31, 2016	**(1,146,142)**	**(145,218)**	**(166,059)**	**(2,291)**	**(1,459,710)**

Carrying value	General plant & processing equipment $	Other properties & equipment $	Turnarounds $	Land & linefill $	Total $
As at December 31, 2015	3,411,785	42,316	68,750	87,576	3,610,427
As at December 31, 2016	**3,971,955**	**53,284**	**68,607**	**106,638**	**4,200,484**

Property, plant and equipment under construction included in carrying value	Cost $
As at December 31, 2015	412,678
As at December 31, 2016	**770,816**

Assets under finance leases included in carrying value	As at December 31, 2016 $	As at December 31, 2015 $
General plant & processing equipment	**45,233**	—
Land	**9,001**	—
Total finance lease assets	**54,234**	—

Net impairment expense (reversal)	2016 $	2015 $
Gathering and processing segment – impairment expense	**45,533**	58,964
Gathering and processing segment – impairment reversal	**(33,263)**	–
Liquids infrastructure segment	–	19,908
Corporate & other segment	–	16,433
Total net impairment expense	**12,270**	95,305

Gathering and processing impairment expense (reversal)

Expense
Keyera and Sulvaris agreed to suspend construction of the sulphur handling fertilizer facility at Keyera's Strachan gas plant in late 2015. As of December 31, 2016, there have not been any positive developments to advance the project since the decision to place the project on hold, therefore, an impairment expense was recorded in the fourth quarter of 2016. Keyera and Sulvaris are continuing to review the project and the associated commercial arrangements, with a view to resuming it in the future if the business plans and costs to complete construction are economic.

The recoverable amount was calculated based on value in use, which represents the net present value of the cash flows expected to be derived from the asset, using a discount rate of 12%. The asset was written down to its recoverable amount of $1,000 and Keyera recorded an impairment loss of $45,533 in the Gathering and Processing segment for the year ended December 31, 2016 (2015 – $58,964).

Reversals
In the fourth quarter of 2016, indicators existed that the recoverable amounts of Keyera's previously impaired Brazeau River and West Pembina gas plants subsequently increased. Additional pipeline infrastructure resulted in interconnectivity between the Brazeau River and West Pembina gas plants, bringing additional volumes, and thereby increasing the cash flow generated at these facilities. The recoverable amounts of these facilities were calculated based on value in use. In determining the revised carrying value of an asset subject to a reversal of a previous impairment loss, the carrying value is revised to the lower of the asset's recoverable amount or the carrying value that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. The following impairment loss reversals were recorded in the Gathering and Processing segment for the year ended December 31, 2016 (2015 – $nil).

	Applicable Value in Use Discount Rate %	Recoverable Amount as at December 31, 2016 $	Impairment Reversal Recognized for Year Ended December 31, 2016 $
Brazeau River	9.46	232,714	(15,491)
West Pembina	9.46	79,183	(17,772)
Total for Gathering and Processing Segment			**(33,263)**

The previous recoverable amounts of Brazeau River and West Pembina were $138,944 and $44,187 respectively based on a value in use discount rate of 9.13%.

Change in accounting estimate
As referenced in notes 3 and 27, Keyera has extended the estimated useful lives of certain assets as part of its annual review of the residual values and useful lives of all assets. As a result of this review, The revision was accounted for prospectively as a change in accounting estimate, effective October 1, 2016. As a result of the change, the estimated useful lives of its general plant and processing equipment is generally depreciated over a period ranging from 4 to 45 years under the straight-line depreciation method. See note 27, Depreciation, depletion and amortization expenses, for further details of the impact on the consolidated statement of net earnings and comprehensive income as a result of this change.

11. INTANGIBLE ASSETS

	Cost **$**	**Accumulated amortization and impairment expense** **$**	**Carrying value** **$**
Balance at December 31, 2014	**24,623**	**(23,563)**	**1,060**
Amortization expense	—	(476)	(476)
Balance at December 31, 2015	**24,623**	**(24,039)**	**584**
Amortization expense	—	(584)	(584)
Balance at December 31, 2016	**24,623**	**(24,623)**	**—**

12. GOODWILL

Cost and Carrying Value as at December 31,	**2016** **$**	2015 $
Balance at end of the year	**53,624**	53,624

Impairment test of goodwill
Keyera performed its annual test for goodwill impairment at December 31, 2016, in accordance with its policy described in note 3. Keyera assessed the recoverable amount of goodwill 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 December 31,	**2016** **$**	2015 $
Liquids infrastructure facilities	**32,015**	32,015
Rimbey gas plant	**12,810**	12,810
Simonette gas plant	**8,799**	8,799
Total goodwill	**53,624**	53,624

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 discount rate used for the Liquids Infrastructure CGU and the Rimbey and Simonette gas plant CGUs was 9.46% at December 31, 2016 (December 31, 2015 – 9.41% for the same CGUs).

13. TRADE AND OTHER PAYABLES

The components of trade and other payables were as follows:

As at December 31,	**2016** **$**	2015 $
Trade and accrued payables	**363,287**	310,610
Current portion of long-term incentive plan	**24,429**	23,774
Current income taxes payable	**—**	54,581
Other payables	**12,360**	11,280
Total trade and other payables	**400,076**	400,245

14. 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 statement 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, 2016, as noted below was determined by reference to quoted market prices in active markets for identical liabilities under Level 2 of the fair value hierarchy as referenced in note 22.

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

As at December 31, 2016	**Effective Interest Rate**	**Notes**	**Carrying Value $**	**Fair Value $**
Bank credit facilities	3.76%	(a)	235,000	235,000
Total credit facilities			**235,000**	**235,000**
Canadian dollar denominated debt (unsecured)				
5.89% due December 3, 2017	5.98%		60,000	61,900
5.01% due January 4, 2019	5.03%		70,000	73,400
4.35% due June 19, 2019	4.45%		52,000	54,300
5.68% due September 8, 2020	5.73%		2,000	2,200
6.14% due December 3, 2022	6.20%		60,000	69,600
3.50% due June 16, 2023	3.54%	(b)	30,000	30,200
4.91% due June 19, 2024	4.96%		17,000	18,500
4.92% due October 10, 2025	4.92%		100,000	108,700
5.05% due November 20, 2025	5.14%		20,000	22,000
4.15% due June 16, 2026	4.18%	(b)	30,000	30,600
3.96% due October 13, 2026	4.00%	(c)	200,000	201,300
5.09% due October 10, 2028	5.09%		100,000	110,500
4.11% due October 13, 2028	4.15%	(c)	100,000	101,400
5.34% due April 8, 2029	5.37%		75,000	85,000
			916,000	969,600
U.S. dollar denominated debt (unsecured)				
3.42% due June 19, 2019 (US$3,000)	3.49%		4,028	4,028
5.14% due September 8, 2020 (US$103,000)	5.20%		138,298	147,831
4.19% due June 19, 2024 (US$128,000)	4.23%		171,866	171,866
4.75% due November 20, 2025 (US$140,000)	4.80%		187,978	194,960
4.95% due November 20, 2028 (US$65,000)	4.99%		87,276	92,109
			589,446	610,794
Less: Issuance costs			(8,033)	—
Less: Current portion of long-term debt			(60,000)	(61,900)
Total long-term debt			**1,437,413**	**1,518,494**

As at December 31, 2015	**Effective Interest Rate**	**Notes**	**Carrying Value $**	**Fair Value $**
Bank credit facilities	3.79%	(a)	370,000	370,000
Total credit facilities			**370,000**	**370,000**
Canadian dollar denominated debt (unsecured)				
7.87% due May 1, 2016	7.94%		35,000	35,500
5.89% due December 3, 2017	5.98%		60,000	63,000
5.01% due January 4, 2019	5.03%		70,000	72,900
4.35% due June 19, 2019	4.45%		52,000	53,300
5.68% due September 8, 2020	5.73%		2,000	2,200
6.14% due December 3, 2022	6.20%		60,000	67,200
4.91% due June 19, 2024	4.96%		17,000	17,400
4.92% due October 10, 2025	4.92%		100,000	102,600
5.05% due November 20, 2025	5.14%		20,000	20,700
5.09% due October 10, 2028	5.09%		100,000	104,600
5.34% due April 8, 2029	5.37%		75,000	80,100
			591,000	619,500
U.S. dollar denominated debt (unsecured)				
8.40% due May 1, 2016 (US$50,000)	8.48%		69,200	70,446
3.42% due June 19, 2019 (US$3,000)	3.49%		4,152	4,014
5.14% due September 8, 2020 (US$103,000)	5.20%		142,552	146,566
4.19% due June 19, 2024 (US$128,000)	4.23%		177,152	167,049
4.75% due November 20, 2025 (US$140,000)	4.80%		193,760	189,746
4.95% due November 20, 2028 (US$65,000)	5.00%		89,960	88,576
			676,776	666,397
Less: Issuance costs			(7,090)	—
Less: Current portion of long-term debt			(104,200)	(105,946)
Total long-term debt			**1,156,486**	**1,179,951**

(a) On December 6, 2016, the Partnership amended its unsecured revolving credit facility (“Credit Facility”) with a syndicate of Canadian financial institutions, one foreign bank and one U.S. bank, co-lead by the Royal Bank of Canada and the National Bank of Canada. The Credit Facility has a five-year revolving term and the maturity date has now been extended to December 6, 2021.

On November 25, 2016, Keyera revised the unsecured revolving demand facility with Royal Bank of Canada that is used to issue letters of credit. The new credit limit related to this facility is now $50,000. As at December 31, 2016, outstanding letters of credit issued were $11,359 (December 31, 2015 – $3,492).

Keyera’s $25,000 unsecured revolving demand facility with the Toronto Dominion Bank remains unchanged. The 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.

(b) On December 15, 2016, Keyera renewed and revised its unsecured uncommitted shelf facility with the Prudential Capital Group ("Prudential") providing Keyera the ability to borrow up to US$375,000 less any amount committed by Prudential on certain previous debt offerings issued by Keyera.

On June 3, 2016, Keyera issued $60,000 in long-term notes in two tranches pursuant to the Prudential uncommitted shelf facility:

- $30,000 bearing interest at 3.50% maturing on June 16, 2023; and
- $30,000 bearing interest at 4.15% maturing on June 16, 2026.

Financing costs of approximately $159 have been deferred and are amortized using the effective interest method over the remaining terms of the related debt.

Previous draw downs on the amended Prudential shelf facility were as follows:

- $70,000 bearing interest at 5.01% maturing on January 4, 2019;
- $100,000 bearing interest at 4.92% maturing on October 10, 2025; and
- $100,000 bearing interest at 5.09% maturing on October 10, 2028.

As at December 31, 2016, there was approximately US$52,000 of capacity remaining under the amended shelf facility that matures on December 15, 2019.

(c) On October 13, 2016, Keyera closed a private placement of 10-year and 12-year senior unsecured notes totaling $300,000 with a group of institutional investors in Canada and the U.S. The senior notes were issued in two tranches with $200,000 bearing interest at 3.96% and maturing on October 13, 2026 and $100,000 bearing interest at 4.11% and maturing on October 13, 2028. Interest will be paid semi-annually.

Financing costs of approximately $1,201 have been deferred and are amortized using the effective interest method over the remaining terms of the related debt.

15. DECOMMISSIONING LIABILITY

Keyera makes full provision for the future cost of decommissioning its gathering and processing facilities, pipelines and storage facilities on a discounted basis upon acquisition or installation of these facilities. The total undiscounted amount of cash flows required to settle the decommissioning liability is $895,330 (2015 – $768,812) which has been discounted using a risk-free rate of 2.31% (2015 – 2.15%). These costs are generally expected to be incurred over the next 25 to 45 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

The 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,	**2016** **$**	2015 $
Decommissioning liability, beginning of the period	**485,046**	433,769
Liabilities acquired	**1,110**	2,174
Liabilities settled	**(4,249)**	(7,003)
Revision in estimated cash flows	**54,832**	31,255
Revision due to change in useful lives	**(53,822)**	(2,244)
Revision due to change in discount rate	**(17,470)**	17,238
Unwinding of discount included in finance costs	**10,752**	9,857
	476,199	485,046
Less: Current portion of decommissioning liability	**(11,960)**	(10,569)
Decommissioning liability, end of the period	**464,239**	474,477

16. OTHER LIABILITIES

As at	**December 31, 2016** **$**	December 31, 2015 $
Long-term incentive plan	**3,434**	16,346
Finance lease liabilities	**54,029**	—
Total other liabilities	**57,463**	16,346

In 2015, Keyera entered into an arrangement for the use of a pipeline for transportation services in the Edmonton/Fort Saskatchewan area. The substance of the initial arrangement was determined to contain a lease and was classified as an operating lease. Subsequently, in September of 2016, Keyera finalized an agreement to purchase a segment of the pipeline. The remaining portion of pipeline not purchased by Keyera continues to be leased. The purchase transaction amended the terms of the initial arrangement and was re-assessed under the requirements of IFRIC 4, Determining Whether an Arrangement Contains a Lease and IAS 17, Leases. Effective December 1, 2016, the arrangement was classified as a finance lease as this was the date Keyera was entitled to exercise its right to use the pipeline for its sole benefit and the risks and rewards incidental to ownership was transferred to Keyera.

	Within 1 year		**After 1 year but no later than 5 years**		**Later than 5 years**		**Total**	
	2016 **$**	2015 $	**2016** **$**	2015 $	**2016** **$**	2015 $	**2016** **$**	2015 $
Interest payments	**2,057**	—	**12,379**	—	**20,845**	—	**35,281**	—
Future minimum lease payments	**2,250**	—	**20,250**	—	**67,000**	—	**89,500**	—
Present value of minimum lease payments	**1,470**	—	**8,816**	—	**43,743**	—	**54,029**	—

17. INCOME TAXES

The components of the tax expense were as follows:

	2016 **$**	2015 $
Current income taxes		
Current income tax charge	**16,810**	93,729
Adjustments in respect of current income tax of the previous year	**(1,438)**	(5,717)
Current income tax expense	**15,372**	88,012
Deferred income taxes		
Relating to the origination and reversal of temporary differences	**74,232**	(6,621)
Adjustments in respect of changes in tax rates	—	24,405
Benefit from previously unrecognized loss	—	(815)
Adjustments to opening deferred tax balances	**874**	(5,178)
Deferred income tax expense	**75,106**	11,791
Total income tax expense	**90,478**	99,803

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 statement of net earnings and comprehensive income.

Reconciliation of income tax expense	**2016** **$**	2015 $
Earnings before income tax	**307,329**	301,723
Income tax at statutory rate of 27% (26% in 2015)	**82,979**	78,448
Increase/(Decrease) in valuation allowance	**7,822**	(815)
Non-deductible items excluded from income for tax purposes	**(1,563)**	8,931
Tax rate differences and adjustments	**(540)**	22,938
Adjustments to tax pool balances	**(564)**	(10,801)
Other	**2,344**	1,102
Total income tax expense	**90,478**	99,803

Deferred income tax balances

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

	Balance at December 31, 2016 $	Deferred income tax recognized on the consolidated statement of net earnings $	Deferred income tax related to share issuance costs $	Balance at December 31, 2015 $
Deferred tax liabilities				
Property, plant and equipment	**(553,701)**	(108,870)	—	(444,831)
Decommissioning liabilities	**128,699**	(2,337)	—	131,036
Long-term incentive plan	**7,530**	(3,309)	—	10,839
Non-capital losses	**4,269**	1,423	—	2,846
Intangible assets	**7,983**	1,727	3,845	2,411
Partnership deferral	—	15,914	—	(15,914)
Finance lease liabilities	**14,639**	14,639	—	—
Other	**2,468**	5,707	—	(3,239)
Total deferred tax liabilities	**(388,113)**	(75,106)	3,845	(316,852)

	Balance at December 31, 2015 $	Deferred income tax recognized on the consolidated statement of net earnings $	Balance at December 31, 2014 $
Deferred tax liabilities			
Property, plant and equipment	**(444,831)**	(80,306)	(364,525)
Decommissioning liabilities	**131,036**	22,558	108,478
Long-term incentive plan	**10,839**	453	10,386
Non-capital losses	**2,846**	870	1,976
Intangible assets	**2,411**	(1,124)	3,535
Partnership deferral	**(15,914)**	31,270	(47,184)
Other	**(3,239)**	14,488	(17,727)
Total deferred tax liabilities	**(316,852)**	(11,791)	(305,061)

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, 2016, Keyera and its subsidiaries have non-capital losses carried forward of $49,348 (2015 – $39,207) which are available to offset income of specific entities of the consolidated group in future periods. The benefit related to $11,614 (2015 – $8,044) of these losses has been recorded.

The future utilization of most of the losses residing in Keyera's U.S. subsidiary is unlikely and as a result, the cumulative valuation allowance related to these losses at December 31, 2016 was $37,734 (2015 – $31,163). The remaining valuation allowance recorded for the year ended December 31, 2016 was related to temporary differences on unrealized net capital losses of $12,975.

18. CAPITAL

Keyera Corp. Share Capital	Number of Common Shares	Share Capital $
Balance at December 31, 2014	**168,677,428**	**1,364,522**
Common shares issued pursuant to dividend reinvestment plans	3,024,287	118,854
Balance at December 31, 2015	**171,701,715**	**1,483,376**
Common shares issued pursuant to equity offering[1]	9,487,500	334,188
Common shares issued pursuant to dividend reinvestment plans	4,494,212	169,777
Balance at December 31, 2016	**185,683,427**	**1,987,341**

Note:
[1] Net of issuance costs and related deferred income tax asset recorded.

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

On May 24, 2016, Keyera issued 8,250,000 common shares in a public offering and 1,237,500 common shares pursuant to the overallotment option in connection with the public offering, at a price of $36.35 per common share for net proceeds of $334,188 after underwriters' fees and issuance costs of $10,683, net of a deferred tax asset balance of $3,845.

For the year ended December 31, 2016, dividends declared totaled $277,578 or $1.54 per common share (2015 – $240,685 or $1.42 per common share).

19. 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.

	2016 $	2015 $
Basic & diluted earnings per share	**1.21**	1.19
Net earnings – basic & diluted	**216,851**	201,920

(in thousands)	2016	2015
Weighted average number of shares – basic & diluted	**179,688**	169,936

20. ACCUMULATED DIVIDENDS TO SHAREHOLDERS

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

	$
Balance, December 31, 2014	**1,358,191**
Dividends declared and paid	219,222
Dividends declared	21,463
Balance, December 31, 2015	**1,598,876**
Dividends declared and paid	252,975
Dividends declared	24,603
Balance, December 31, 2016	**1,876,454**

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.

21. SHARE-BASED COMPENSATION AND PENSION PLANS

Long-term incentive plan

The Long-Term Incentive Plan (“LTIP”) 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. The fair value of shares granted at December 31, 2016 was $40.46 per share (December 31, 2015 – $40.26 per share).

The compensation cost recorded for the LTIP was as follows:

	2016	2015
	$	$
Performance Awards	**14,260**	29,514
Restricted Awards	**2,580**	2,632
Total long-term incentive plan expense	**16,840**	32,146

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**December 31, 2016**	December 31, 2015
Issued July 1, 2013 – Performance Awards	**—**	307,050
Issued July 1, 2014 – Performance Awards	**335,398**	339,182
Issued July 1, 2015 – Performance Awards	**333,392**	333,412
Issued July 1, 2016 – Performance Awards	**345,081**	—
Issued July 1, 2013 – Restricted Awards	**—**	18,604
Issued July 1, 2014 – Restricted Awards	**19,634**	40,422
Issued July 1, 2015 – Restricted Awards	**40,859**	61,508
Issued July 1, 2016 – Restricted Awards	**69,645**	—

Employee Stock Purchase Plan

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

Defined Contribution Pension Plan

For the year ended December 31, 2016, Keyera made pension contributions of $8,869 (2015 – $8,625) on behalf of its employees. The contributions were recorded in general and administrative expenses.

Deferred Share Unit Plan

Effective January 1, 2016, Keyera implemented a deferred share unit ("DSU") plan, for non-employee directors. Each DSU vests on the date the grant is awarded but cannot be redeemed until a director ceases to be a member of the board of directors. The grant value is determined based on a 20 day

weighted average trading share price. DSUs are settled in cash (on an after-tax basis) based on the 20 day weighted average Keyera share price up to the date of settlement. For the year ended December 31, 2016, Keyera recorded $784 (2015 – $nil) in general and administrative expenses related to the DSU.

The following table reconciles the number of DSUs for the year ended December 31, 2016:

Deferred Share Units	**2016**	2015
Balance at beginning of period	**—**	—
Granted	**20,353**	—
Redeemed	**(526)**	—
Forfeited	**—**	—
Balance at end of period	**19,827**	—

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial Instruments

(a) Fair value

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

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

The fair value hierarchy has the following levels:

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

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

Financial instruments with fair value equal to carrying value

The carrying values of cash, trade and other receivables, trade and other payables and dividends payable approximate their fair values because the instruments are either near maturity, have 5 to 30 days payment terms or have no fixed repayment terms. The carrying value of the credit facilities approximates fair value due to their floating rates of interest.

Fair value of senior fixed rate debt
Refer to note 14 for the fair value amounts of the senior fixed rate debt.

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

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

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

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

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

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

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

The unrealized gains (losses) representing the change in fair value relating to derivative instruments were recorded in the following consolidated statement of net earnings and comprehensive income line items:

Unrealized (loss) gain	**2016** **$**	2015 $
Marketing revenue	**(35,396)**	(43,893)
Liquids Infrastructure operating expense	**(14)**	32
Production (net expense)	**(2,315)**	(1,222)
Gathering and Processing expense	**(26)**	27
Other:		
Foreign currency (loss) gain on U.S. debt	**(31,179)**	76,287
Total unrealized (loss) gain	**(68,930)**	31,231

Risk Management

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

(b) Commodity price risk

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

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

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

(c) Foreign currency risk

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

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

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

U.S. dollar sales and purchases	2016 $	2015 $
Sales priced in U.S. dollars	**635,297**	679,125
Purchases priced in U.S. dollars	**(374,187)**	(352,493)

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

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt and U.S. dollar denominated LIBOR loans drawn under Keyera's bank credit facilities. To manage this currency exposure, Keyera has entered into long-term cross-currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt as well as short-term cross-currency swaps relating to the LIBOR loans drawn under the credit facilities. These cross-currency contracts are accounted for as derivative instruments. As at December 31, 2016, Keyera has $nil of U.S. dollar denominated LIBOR loans drawn under the bank credit facilities (December 31, 2015 – $nil). Refer to note 23 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, 2016, fixed rate borrowings comprised 86% of total debt outstanding (December 31, 2015 – 77%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

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

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is $364,081 at December 31, 2016 (December 31, 2015 – $344,006). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at December 31, 2016. With respect to counterparties for derivative financial instruments, the credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which significantly reduce overall counter

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

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

(f) Liquidity risk

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

The following table shows the contractual maturities for financial liabilities of Keyera as at December 31, 2016:

	2017 $	2018 $	2019 $	2020 $	2021 $	After 2021 $
Trade and other payables	375,647	—	—	—	—	—
Derivative financial instruments[1]	36,086	500	—	—	—	—
Dividends payable	24,603	—	—	—	—	—
Long-term debt[2]	60,000	—	126,028	140,298	—	1,179,120
Credit facilities	—	—	—	—	235,000	—
Long-term incentive plan	24,429	2,538	896	—	—	—
Finance lease liabilities[3]	2,250	4,500	5,250	5,250	5,250	59,500
	523,015	**7,538**	**132,174**	**145,548**	**240,250**	**1,238,620**

Notes:
1 Derivative instruments include cross currency swaps related to U.S. long-term debt (note 23).
2 Amounts represent principal only and exclude accrued interest.
3 Finance lease liabilities include only future minimum lease payment due.

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	Impact on income before tax December 31, 2016 Increase $	Impact on income before tax December 31, 2016 (Decrease) $	Impact on income before tax December 31, 2015 Increase $	Impact on income before tax December 31, 2015 (Decrease) $
Commodity price changes				
+ 10% in natural gas price	**—**	**—**	—	(797)
- 10% in natural gas price	**—**	**—**	797	—
+ 10% in electricity price	**345**	**—**	924	—
- 10% in electricity price	**—**	**(345)**	—	(924)
+ 10% in NGL and iso-octane prices	**—**	**(21,306)**	—	(15,654)
- 10% in NGL and iso-octane prices	**21,306**	**—**	15,654	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**168**	**—**	90	—
- $0.01 in U.S./Canadian dollar exchange rate	**—**	**(168)**	—	(90)
Interest rate changes				
+ 1% in interest rate	**—**	**(3,140)**	—	(2,270)
- 1% in interest rate	**3,140**	**—**	2,270	—

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

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

	2016 $	2015 $
Foreign currency (loss) gain resulting from:		
Translation of long-term debt and interest payable	**25,159**	(112,615)
Change in fair value of the cross currency swaps – principal and interest portion	**(31,179)**	76,287
Gain from cross currency swaps – principal and interest portion[1]	**3,578**	6,660
Total foreign currency loss on U.S. debt	**(2,442)**	(29,668)

Note:

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

24. 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, 2016, 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 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. Keyera is required to maintain a consolidated net debt to adjusted EBITDA ratio of less than 4.0 under these agreements.

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 IFRS, and cannot be directly derived from the financial statements. Keyera was in compliance with all financial covenants as at December 31, 2016.

25. GENERAL AND ADMINISTRATIVE EXPENSES

The components of general and administrative expenses were as follows:

	2016	2015
	$	$
Salaries and benefits	**68,751**	69,727
Professional fees and consulting	**12,621**	12,378
Bad debt expense	**—**	1,460
Other	**22,259**	14,687
Loss on disposal of property, plant and equipment	**890**	402
Overhead recoveries on operated facilities	**(41,674)**	(47,644)
Total general and administrative expenses	**62,847**	51,010

Other expenses include operating lease charges, insurance and advertising and promotional expenditures. 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.

Included in Other General and Administrative expenses was a $6,097 charge recorded in the first quarter of 2016 that related to previously capitalized front-end engineering costs for various small projects which had a reduced probability of proceeding further (for the year ended December 31, 2015 – $nil).

26. FINANCE COSTS

The components of finance costs were as follows:

	2016	2015
	$	$
Interest on bank overdrafts and credit facilities	**11,835**	8,628
Interest on long-term debt	**62,814**	65,127
Interest capitalized	**(14,161)**	(21,577)
Other interest expense	**294**	60
Total interest expense on current and long-term debt	**60,782**	52,238
Unwinding of discount on decommissioning liability	**10,752**	9,857
Unwinding of discount on long-term debt	**1,296**	1,073
Non-cash expenses in finance costs	**12,048**	10,930
Total finance costs	**72,830**	63,168

For the year ended December 31, 2016, $14,161 of borrowing (interest) costs were capitalized (2015 – $21,577) at a weighted average capitalization rate of 4.34% on funds borrowed (2015 – 5.23%).

27. DEPRECIATION, DEPLETION AND AMORTIZATION

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

	2016	2015
	$	$
Depreciation and depletion on property, plant and equipment and other properties	**171,030**	168,845
Amortization of intangible assets	**585**	473
Total depreciation, depletion and amortization expenses	**171,615**	169,318

Change in accounting estimate

As required by IFRS, Keyera reviewed the residual values and useful lives of its assets during the year. As a result of this review, Keyera has extended the estimated useful lives of certain assets. The revision was accounted for prospectively as a change in accounting estimate, effective October 1, 2016. As a result of the change, Keyera's depreciation, depletion and amortization expense for the year ended December 31, 2016 has been decreased by approximately $9,800. On a prospective annual basis, depreciation expense decreases by $39,400. These assets continue to be depreciated using the straight-line method. Refer to note 3 for Keyera's updated estimated useful lives.

28. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel was as follows:

	2016	2015
	$	$
Salaries and other short term benefits	**8,354**	9,405
Post-employment benefits	**330**	328
Share-based payments	**15,705**	16,376
Total related party transactions	**24,389**	26,109

29. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2016	2015
	$	$
Inventory	**(30,887)**	43,915
Trade and other receivables	**(49,548)**	63,112
Other assets	**(54,640)**	(5,231)
Trade and other payables	**5,851**	(36,124)
Changes in non-cash working capital from operating activities	**(129,224)**	65,672

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

	2016	2015
	$	$
Trade and other payables	**(3,642)**	(29,992)
Changes in non-cash working capital from investing activities	**(3,642)**	(29,992)

30. SEGMENT INFORMATION

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

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

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

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

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

Inter-segment sales and expenses are recorded at current market prices at the date of the transaction. These transactions are eliminated on consolidation in order to arrive at net earnings in accordance with 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, 2016	Marketing $	Gathering & Processing $	Liquids Infrastructure $	Corporate and Other $	Total $
Revenue before inter-segment eliminations	1,924,614	471,463	369,393	22,625	2,788,095
Operating expenses before inter-segment eliminations	(1,823,505)	(181,238)	(123,289)	(13,890)	(2,141,922)
Operating margin	101,109	290,225	246,104	8,735	646,173
Inter-segment revenue eliminations	—	(29,363)	(223,357)	(26,402)	(279,122)
Inter-segment expense eliminations	255,562	6,907	7,577	9,076	279,122
	356,671	267,769	30,324	(8,591)	646,173
General and administrative expenses	—	—	—	(62,847)	(62,847)
Finance costs	—	—	—	(72,830)	(72,830)
Depreciation, depletion and amortization expenses	—	—	—	(171,615)	(171,615)
Net foreign currency loss on U.S. debt	—	—	—	(2,442)	(2,442)
Long-term incentive plan expense	—	—	—	(16,840)	(16,840)
Net impairment expense	—	(12,270)	—	—	(12,270)
Earnings (loss) before income tax	356,671	255,499	30,324	(335,165)	307,329
Income tax expense	—	—	—	(90,478)	(90,478)
Net earnings (loss)	**356,671**	**255,499**	**30,324**	**(425,643)**	**216,851**
Revenue from external customers	1,924,614	442,100	146,036	(3,777)	2,508,973

Year ended December 31, 2015	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	1,967,726	466,733	347,191	40,188	2,821,838
Operating expenses before inter-segment eliminations	(1,723,945)	(207,639)	(127,333)	(20,583)	(2,079,500)
Operating margin	243,781	259,094	219,858	19,605	742,338
Inter-segment revenue eliminations	—	(32,678)	(222,041)	(46,039)	(300,758)
Inter-segment expense eliminations	286,117	—	—	14,641	300,758
	529,898	226,416	(2,183)	(11,793)	742,338
General and administrative expenses	—	—	—	(51,010)	(51,010)
Finance costs	—	—	—	(63,168)	(63,168)
Depreciation, depletion and amortization expenses	—	—	—	(169,318)	(169,318)
Net foreign currency loss on U.S. debt	—	—	—	(29,668)	(29,668)
Long-term incentive plan expense	—	—	—	(32,146)	(32,146)
Impairment expense	—	(58,964)	(19,908)	(16,433)	(95,305)
Earnings (loss) before income tax	529,898	167,452	(22,091)	(373,536)	301,723
Income tax expense	—	—	—	(99,803)	(99,803)
Net earnings (loss)	**529,898**	**167,452**	**(22,091)**	**(473,339)**	**201,920**
Revenue from external customers	1,967,726	434,055	125,150	(5,851)	2,521,080

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:	Canada $	US $
For the year ended December 31, 2016	**2,141,017**	**367,956**
For the year ended December 31, 2015	1,998,805	522,275

	Canada $	US $
Non-current assets[1] at December 31, 2016	**4,172,058**	**82,050**
Non-current assets[1] at December 31, 2015	3,617,162	47,473

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

Information about major customers

Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue for the years ended December 31, 2016 and 2015.

31. 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 and expire in 2018. 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.

There are operating lease commitments relating to railway tank cars, vehicles, computer hardware, office space, terminal space, natural gas transportation and pipeline construction contracted with third parties. The estimated annual minimum operating lease rental payments for these commitments are as follows:

	$
2017	494,467
2018	175,990
2019	60,356
2020	43,052
2021	35,463
Thereafter	129,654
	938,982

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

32. SUBSEQUENT EVENTS

On January 12, 2017, Keyera declared a dividend of $0.1325 per share, payable on February 15, 2017 to shareholders of record as of January 23, 2017.

On January 1, 2017, Keyera Energy Ltd. and Keyera Midstream Ltd., both subsidiaries of Keyera Corp., amalgamated under the Keyera Energy Ltd. name. As a result of the amalgamation, Keyera Energy Ltd. owns the 2.5391% general partnership interest in Keyera Partnership formerly owned by Keyera Midstream Ltd.

On January 19, 2017, Keyera met all the closing conditions related to the acquisition of 1,290 acres of undeveloped land in the Fort Saskatchewan area and as such, $55,054 was reclassified from other assets to land in property, plant and equipment in the January 2017 fiscal month.

On February 14, 2017, Keyera declared a dividend of $0.1325 per share, payable on March 15, 2017 to shareholders of record as of February 23, 2017.

Additional Information

Fourth Quarter Results

Statements of Net Earnings (Thousands of Canadian dollars)	**(Unaudited) Three months ended December 31, 2016 $**	2015 $
Revenues	**695,438**	622,463
Expenses	**(539,999)**	(433,841)
Operating margin	**155,439**	188,622
General and administrative expenses	**(13,878)**	(15,854)
Finance costs	**(19,916)**	(19,881)
Depreciation, depletion and amortization expenses	**(37,046)**	(44,686)
Net foreign currency loss on U.S. debt	**(12,202)**	(5,479)
Long-term incentive plan recovery (expense)	**273**	(10,058)
Impairment expense	**(12,270)**	(58,964)
Earnings before income tax	**60,400**	33,700
Income tax expense	**(25,779)**	(13,485)
Net earnings	**34,621**	20,215
Weighted average number of shares (in thousands)		
- basic	**185,116**	171,199
- diluted	**185,116**	171,199
Net earnings per share	**$**	**$**
- basic	**0.19**	0.12
- diluted	**0.19**	0.12

Statements of Cash Flows (Thousands of Canadian dollars)	**(Unaudited) Three months ended December 31,**	
	2016	2015
Net inflow (outflow) of cash:	**$**	$
OPERATING ACTIVITIES		
Net earnings	**34,621**	20,215
Adjustments for items not affecting cash:		
Finance costs	**3,437**	2,532
Depreciation, depletion and amortization expenses	**37,046**	44,686
Long-term incentive plan (recovery) expense	**(273)**	10,058
Unrealized loss (gain) on derivative financial instruments	**11,520**	(3,043)
Unrealized loss on foreign exchange	**12,651**	19,149
Deferred income tax expense (recovery)	**24,197**	(9,572)
Inventory write-down	**—**	863
Impairment expense	**12,270**	58,964
Loss on disposal of property, plant and equipment	**—**	823
Decommissioning liability expenditures	**(2,243)**	(4,475)
Changes in non-cash working capital	**(93,003)**	(13,756)
Net cash provided by operating activities	**40,223**	126,444
INVESTING ACTIVITIES		
Acquisitions	**(8,033)**	(6,949)
Capital expenditures	**(148,323)**	(135,192)
Proceeds on sale of assets	**—**	(1,587)
Changes in non-cash working capital	**(34,224)**	6,032
Net cash used in investing activities	**(190,580)**	(137,696)
FINANCING ACTIVITIES		
Borrowings under credit facilities	**185,000**	510,000
Repayments under credit facilities	**(315,000)**	(465,000)
Proceeds from issuance of long term debt	**300,000**	—
Financing costs related to credit facilities/long-term debt	**(2,098)**	(1,950)
Issuance costs related to equity offering	**(341)**	—
Proceeds from issuance of shares related to DRIP	**45,017**	39,314
Repayment of finance lease liabilities	**(188)**	—
Dividends paid to shareholders	**(73,504)**	(64,131)
Net cash provided by financing activities	**138,886**	18,233
Effect of exchange rate fluctuations on foreign cash held	**476**	356
Net (decrease) increase in cash	**(10,995)**	7,337
Cash, start of period	**27,472**	6,110
Cash, end of period	**16,477**	13,447

SUPPLEMENTAL CASH FLOW INFORMATION

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

	(Unaudited) Three months ended December 31,	
	2016	2015
	$	$
Inventory	**13,042**	15,886
Trade and other receivables	**(79,889)**	(36,932)
Other assets	**(51,039)**	6,179
Trade and other payables	**24,883**	1,111
Changes in non-cash working capital from operating activities	**(93,003)**	(13,756)

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

	(Unaudited) Three months ended December 31,	
	2016	2015
	$	$
Trade and other payables	**(34,224)**	6,032
Changes in non-cash working capital from investing activities	**(34,224)**	6,032

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

	(Unaudited) Three months ended December 31,	
	2016	2015
	$	$
Income taxes paid in cash	**4,855**	8,103
Interest paid in cash	**29,627**	30,067

The following table is a reconciliation of Distributable Cash Flow to its most closely related GAAP measure, Cash Flows from Operating Activities:

	(Unaudited) Three months ended December 31,	
Distributable Cash Flow	**2016** **$**	2015 $
Cash flow from operating activities	**40,223**	126,444
Add (deduct):		
Changes in non-cash working capital deficit	**93,003**	13,756
Long-term incentive plan recovery (expense)	**273**	(10,058)
Maintenance capital	**(29,305)**	(6,103)
Finance lease liabilities	**(188)**	—
Inventory write-down	—	(863)
Distributable cash flow	**104,006**	123,176
Dividends declared to shareholders	**73,657**	64,259

The following tables show the operating margin from each of Keyera's operating segments and includes inter-segment transactions:

(Unaudited) Three months ended December 31, 2016	**Marketing** **$**	**Gathering & Processing** **$**	**Liquids Infrastructure** **$**	**Corporate and Other** **$**	**Total** **$**
Revenue before inter-segment eliminations	535,708	129,035	94,712	7,512	766,967
Operating expenses before inter-segment eliminations	(527,127)	(49,154)	(31,931)	(3,316)	(611,528)
Operating margin	8,581	79,881	62,781	4,196	155,439
Inter-segment revenue eliminations	—	(7,461)	(55,048)	(9,020)	(71,529)
Inter-segment expenses eliminations	64,031	2,296	2,916	2,286	71,529
	72,612	74,716	10,649	(2,538)	155,439
General and administrative expenses	—	—	—	(13,878)	(13,878)
Finance costs	—	—	—	(19,916)	(19,916)
Depreciation, depletion and amortization expenses	—	—	—	(37,046)	(37,046)
Net foreign currency loss on U.S. debt	—	—	—	(12,202)	(12,202)
Long-term incentive plan recovery	—	—	—	273	273
Net impairment expense	—	(12,270)	—	—	(12,270)
Earnings (loss) before income tax	72,612	62,446	10,649	(85,307)	60,400
Income tax expense	—	—	—	(25,779)	(25,779)
Net earnings (loss)	**72,612**	**62,446**	**10,649**	**(111,086)**	**34,621**
Revenue from external customers	535,708	121,574	39,664	(1,508)	695,438

(Unaudited) **Three months ended** **December 31, 2015**	**Marketing** **$**	**Gathering & Processing** **$**	**Liquids Infrastructure** **$**	**Corporate and Other** **$**	**Total** **$**
Revenue before inter-segment eliminations	472,114	129,074	90,958	9,141	701,287
Operating expenses before inter-segment eliminations	(417,383)	(55,510)	(35,072)	(4,700)	(512,665)
Operating margin	54,731	73,564	55,886	4,441	188,622
Inter-segment revenue eliminations	—	(9,999)	(56,964)	(11,861)	(78,824)
Inter-segment expenses eliminations	75,921	—	—	2,903	78,824
	130,652	63,565	(1,078)	(4,517)	188,622
General and administrative expenses	—	—	—	(15,854)	(15,854)
Finance costs	—	—	—	(19,881)	(19,881)
Depreciation, depletion and amortization expenses	—	—	—	(44,686)	(44,686)
Net foreign currency loss on U.S. debt	—	—	—	(5,479)	(5,479)
Long-term incentive plan expense	—	—	—	(10,058)	(10,058)
Impairment expense	—	(58,964)	—	—	(58,964)
Earnings (loss) before income tax	130,652	4,601	(1,078)	(100,475)	33,700
Income tax expense	—	—	—	(13,485)	(13,485)
Net earnings (loss)	**130,652**	**4,601**	**(1,078)**	**(113,960)**	**20,215**
Revenue from external customers	472,114	119,075	33,994	(2,720)	622,463

Corporate Information

Board of Directors

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

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

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

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

Michael Norris (3)
Corporate Director
Toronto, Ontario

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

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

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

Janet Woodruff (5)
Corporate Director
Vancouver, British Columbia

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

Officers

David G. Smith
President and Chief Executive Officer

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President Operations, Liquids Business Unit

Michael Freeman
Vice President, Commercial

Suzanne Hathaway
Vice President, General Counsel and Corporate Secretary

Rick Koshman
Vice President, Engineering

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

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

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

Eileen Marikar
Vice President, Controller

Brian Martin
Vice President, Business Development, Liquids Facilities

C. Dean Setoguchi
Senior Vice President, Liquids Business Unit

Jamie Urquhart
Vice President Operations, Gathering and Processing Business Unit

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbols KEY

Trading Summary Q4 2016:

TSX:KEY – Cdn $	
High	$42.09
Low	$37.29
Close December 30, 2016	$40.46
Volume	40,713,880
Average Daily Volume	656,675

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 Nick Kuzyk
Toll Free: 1-888-699-4853
Direct: 403-205-7670
Email: ir@keyera.comw