KEYERA

DELIVERING MIDSTREAM SOLUTIONS

keyera.com

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2017 Second Quarter Report

For the period ended June 30, 2017

HIGHLIGHTS

- Keyera delivered solid financial results in the second quarter of 2017 with net earnings of $67 million ($0.36 per share) compared to $60 million ($0.34 per share) reported in the second quarter of 2016.
- The Gathering and Processing segment recorded operating margin of $67 million (Q2 2016 – $70 million) in the second quarter. Quarterly gross processing throughput volumes were 1,441 million cubic feet per day slightly higher than both the same period last year and the first quarter of 2017.
- The Liquids Infrastructure segment reported record operating margin of $67 million (Q2 2016 – $59 million) for the quarter, as the Norlite diluent pipeline came into service and condensate deliveries increased.
- The Marketing segment's operating margin was $21 million (Q2 2016 – $25 million). Marketing's results were mainly affected by an unplanned outage at Alberta EnviroFuels ("AEF") that reduced iso-octane sales, as well as lower propane margins. AEF has operated at full capacity since the repairs were completed.
- Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1] was $133 million, compared to the $158 million reported in the second quarter of the previous year.
- Distributable cash flow[1] was $108 million or $0.57 per share (Q2 2016 – $138 million or $0.78 per share), resulting in a payout ratio of 72%[1] for the second quarter of 2017 and 66%[1] year to date.
- On May 31st, Keyera announced the sanctioning of the first phase of the Wapiti natural gas gathering and processing complex, which is expected to be operational in mid 2019 based on the current construction schedule[2]. Phase one includes 150 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities and is supported by a long-term, fee-for-service gas handling agreement that includes an area dedication and take-or-pay commitments.
- During the quarter, the Norlite diluent pipeline, a joint-venture project with Enbridge, was completed and commercial operations began prior to the end of the quarter. A portion of the associated take-or-pay fees were effective May 1st, 2017.
- Keyera advanced work on its Keylink NGL pipeline system and the Simonette gas plant expansion. Keylink will connect eight of Keyera's gas plants providing producers with a safe, reliable and cost effective transportation alternative. The expansion at the Simonette gas plant will increase the plant's liquids handling capacity to 27,000 barrels per day. Keyera is targeting mid 2018 to complete both projects[2].
- With the sanctioning of the Wapiti complex, Keyera now expects to invest growth capital of between $800 million and $900 million in 2017 to further enhance and expand its network of integrated assets[2]. This growth capital range includes the acquisition cost of Keyera's 50% interest in South Grand Rapids diluent pipeline, which is currently under construction.

[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 June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net earnings	**67,062**	59,679	**163,404**	129,810
Per share ($/share) – basic	**0.36**	0.34	**0.87**	0.74
Cash flow from operating activities	**1,769**	57,867	**220,390**	235,558
Distributable cash flow[1]	**107,569**	137,677	**228,251**	254,126
Per share ($/share)[1]	**0.57**	0.78	**1.22**	1.45
Dividends declared	**77,400**	67,440	**151,525**	132,102
Per share ($/share)	**0.41**	0.38	**0.81**	0.75
Payout ratio %[1]	**72%**	49%	**66%**	52%
Adjusted EBITDA[2]	**133,234**	158,106	**281,439**	303,168
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,441**	1,425	**1,426**	1,500
Net processing throughput (MMcf/d)	**1,130**	1,089	**1,119**	1,150
Liquids Infrastructure:				
Gross processing throughput[3] (Mbbl/d)	**175**	137	**168**	141
Net processing throughput[3] (Mbbl/d)	**62**	53	**59**	52
AEF iso-octane production volumes (Mbbl/d)	**11**	13	**10**	12
Marketing:				
Inventory value	**158,004**	81,165	**158,004**	81,165
Sales volumes (Bbl/d)	**127,900**	117,900	**134,200**	132,700
Acquisitions	**2,770**	19,882	**57,857**	52,042
Growth capital expenditures	**151,311**	141,210	**326,036**	252,056
Maintenance capital expenditures	**10,316**	1,899	**17,038**	8,046
Total capital expenditures	**164,397**	162,991	**400,931**	312,144

	Three months ended June 30, 2017	Three months ended June 30, 2016	As at June 30, 2017	As at June 30, 2016
Long-term debt	**—**	—	**1,417,537**	1,180,593
Credit facility	**—**	—	**375,000**	230,000
Working capital surplus[4]	**—**	—	**(19,907)**	(61,854)
Net debt			**1,772,630**	1,348,739
Weighted average number of shares outstanding – basic	**187,445**	177,309	**186,869**	174,783
Weighted average number of shares outstanding – diluted	**187,445**	177,309	**186,869**	174,783
Common shares outstanding – end of period			**188,041**	183,381

Notes:

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

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

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

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

Message to Shareholders

Keyera's business performed well in the second quarter of 2017, generating solid financial results that reiterate the strength of our growing integrated, fee-for-service offering. Gross processing throughput volumes in the Gathering and Processing segment increased over the prior quarter while our Liquids Infrastructure segment delivered record financial results once again. These positive contributions were, however, offset by a nine-week unscheduled outage at AEF from February to April and lower propane margins. As a result, Adjusted EBITDA was $133 million in the second quarter compared to $158 million in the same period of 2016 and distributable cash flow was $108 million versus $138 million in same period last year. Net earnings were $67 million or $0.36 per share, increasing from the $60 million or $0.34 per share recorded in the second quarter of 2016.

We are very pleased with the progress we are making on our growth projects as we continue to expand and enhance our integrated network of assets and deliver midstream solutions to our customers. With the approval of the Wapiti gathering and processing complex, we increased our expected capital investment to between $800 and $900 million for the current year. Currently, most of our projects are coming in on schedule and under budget. A number of these projects are expected to be in service and generating incremental cash flow within the next year. With our strong balance sheet, we are well positioned to pursue business development opportunities that will add to our growth profile.

Gathering and Processing Business Unit

In the Gathering and Processing business unit, operating margin for the second quarter of 2017 was $67 million, just below the $70 million reported in same period of 2016. Overall, our quarterly gross processing throughput volumes were 1,441 million cubic feet per day, 2% higher than the prior quarter and 1% higher than the same period last year, as producers continue to be active in areas rich in natural gas liquids. At our Simonette gas plant in particular, we have seen a surge in throughput, setting a new record in June as producers continue to develop the liquids-rich Montney geological zone. However, throughput volumes were lower at our Strachan and Rimbey gas plants.

We are very excited to be proceeding with construction of the first phase of the Wapiti gathering and processing complex. Work at the site is already well underway, with phase one including 150 million cubic feet per day of sour gas processing capacity and 25,000 barrels per day of condensate handling facilities. The project is expected to be completed by mid 2019 and will complement our existing Wapiti pipeline and Simonette gas plant and increase our presence in one of the most exciting geological developments in the Western Canada Sedimentary Basin. Phase one is underpinned by a long-term fee-for-service gas handling agreement, which subject to the closing of a third-party transaction, will be assumed by Paramount Resources Ltd. We have developed other projects with Paramount and are looking forward to having them as our primary customer for phase one. We are also actively negotiating with several other producers in the area to nominate additional volumes to support the sanctioning of the second phase of the project. Phase two would add an additional 150 million cubic feet per day of sour gas processing capacity. The estimated capital cost of phase one is $470 million while the total estimated cost of both phases is expected to be approximately $625 million.

Looking ahead to the third quarter, throughput volumes at several Keyera gas plants will likely be intermittently affected by maintenance-related curtailments across the TransCanada sales gas pipeline system. Volumes will also be affected by a scheduled maintenance turnaround at our Simonette gas plant. To minimize the impact on our customers, we have planned this 19 day turnaround in August to coincide with the TransCanada forecasted curtailments.

Liquids Business Unit – Liquids Infrastructure Segment

For the fourth consecutive quarter, the Liquids Infrastructure segment posted record quarterly financial results. Operating margin was $67 million in the second quarter of 2017, an increase of 4% over the previous quarter and 14% higher than the same period last year. This achievement was primarily due to the growing utilization of Keyera's condensate network, the completion of the Norlite diluent pipeline and increased fractionation volumes at our Keyera Fort Saskatchewan energy complex.

The Norlite pipeline became operational prior to the end of the quarter, further enhancing our industry-leading condensate network. Norlite is backed by take-or-pay agreements with the owners of the Fort Hills oil sands project and has the capacity to transport more diluent volumes for other oil sands customers. In addition, the Norlite pipeline is connected to our Fort Saskatchewan condensate system, which provides customers with multiple sources of diluent supply and storage and transportation options. A portion of the take-or-pay fees associated with the Norlite pipeline as well as associated condensate services began May 1st, with the remainder of the fees beginning August 1st.

Within the next six months, we expect to place our next two major joint venture projects into service—the South Grand Rapids diluent pipeline, a joint venture with TransCanada and Brion Energy, as well as the first set of tanks at the Base Line Terminal crude oil storage facility, a joint venture with Kinder Morgan. Following these projects, the Keylink NGL gathering pipeline system and an additional storage cavern at Keyera Fort Saskatchewan are expected to be completed and operational by mid 2018. With the significant capital projects underway, the Liquids Infrastructure segment will continue serving our customers' needs while growing cash flows over time.

Liquids Business Unit – Marketing

The Marketing segment reported a quarterly operating margin of $21 million compared to $25 million in the same quarter of 2016. Excluding the effect of unrealized gains and losses from risk management contracts, the realized margin was $23 million compared to $46 million in the second quarter of last year. Marketing's results were affected by an unscheduled outage at AEF that reduced the contribution from iso-octane sales, as well as lower propane margins. Overall, we expect a lower contribution from the Marketing segment in 2017 compared to 2016.

During the quarter, our iso-octane business was affected by a nine week unplanned outage at AEF that extended into April, along with higher butane costs relative to the second quarter of 2016. Following the completion of the repair work, AEF produced iso-octane at capacity by the start of May and has continued to perform well since that time. I would like to thank the AEF team for their continued dedication and attention to safety, which was evident even during the challenges of the unplanned outage.

Outlook

With the startup of the Norlite diluent pipeline, Keyera begins its next wave of growth projects that will add incremental cash flows over the next 12 to 24 months. Looking beyond this time horizon, we continue to pursue a number of attractive business development opportunities. With a strong balance sheet and access to capital, Keyera is well positioned to execute the right opportunities that improve and complement our existing infrastructure assets. We remain focused on growing our business to deliver long-term shareholder value.

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

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

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of August 9, 2017, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera Corp. for the three and six months ended June 30, 2017, and the notes thereto as well as the audited consolidated financial statements of Keyera Corp. for the year ended December 31, 2016, and the related MD&A. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

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

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

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

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

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

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the three and six months ended June 30, 2017 and 2016:

(Thousands of Canadian dollars, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Net earnings	**67,062**	59,679	**163,404**	129,810
Net earnings per share (basic)	**0.36**	0.34	**0.87**	0.74
Operating margin	**159,796**	153,990	**364,218**	329,776
Realized margin[1]	**161,398**	175,143	**330,849**	344,207
Adjusted EBITDA[2]	**133,234**	158,106	**281,439**	303,168
Cash flow from operating activities	**1,769**	57,867	**220,390**	235,558
Distributable cash flow[3]	**107,569**	137,677	**228,251**	254,126
Distributable cash flow per share[3] (basic)	**0.57**	0.78	**1.22**	1.45
Dividends declared	**77,400**	67,440	**151,525**	132,102
Dividends declared per share	**0.41**	0.38	**0.81**	0.75
Payout ratio[4]	**72%**	49%	**66%**	52%

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

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

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

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

Keyera recorded solid financial results in the second quarter of 2017 as the Liquids Infrastructure segment continued to deliver record operating margin. Keyera's financial results were achieved despite a nine-week unscheduled outage at AEF that commenced in mid-February as well as lower propane margins recorded in the second quarter of 2017.

Net Earnings

For the three and six months ended June 30, 2017, net earnings were $67 million and $163 million, $7 million and $34 million higher than the same periods in 2016 largely due to higher overall operating margin discussed in further detail below.

Included in net earnings for the second quarter of 2017 was a $22 million gain associated with the disposition of non-core assets, including the previously shut down Paddle River gas plant. This gain was partly offset by an impairment charge of $18 million to reduce the carrying value of the Caribou gas plant that ceased operation effective December 2015. See the section of this MD&A titled, "Corporate and Other", for more information related to these charges.

Operating Margin

For the quarter ended June 30, 2017, operating margin was $160 million, $6 million higher than the same period last year as the 2016 results included an unrealized non-cash loss of $21 million related to risk management contracts. Realized margin (excluding the effect of unrealized gains and losses from risk management contracts in the Marketing business) was $161 million, $14 million lower than the second quarter of 2016. The lower realized margin was largely due to weaker Marketing results in 2017 that stemmed from the following factors:

- lower iso-octane sales volumes and margins resulting from the nine-week unplanned outage at AEF that commenced in mid-February and extended into April and higher butane feedstock costs relative to the second quarter of 2016; and

- lower propane margins due to the combination of seasonally low summer propane prices and higher average supply costs for contracted propane volumes starting April 1st. Refer to the section of this MD&A titled, "Results of Operation: Marketing" for more detail related to Keyera's propane marketing strategy in 2017.

Despite lower results from the Marketing segment, Keyera's fee-for-service operating segments delivered strong results in the second quarter of 2017. The Liquids Infrastructure segment posted another record quarter of financial results stemming from continued demand for its diluent handling services, including storage and transportation services and incremental take-or-pay revenue associated with the newly operational Norlite pipeline. The volume of condensate delivered through Keyera's condensate system to the oil sands grew by 15% in the second quarter of 2017 compared to the same period last year. Also contributing to the strong results from the Liquids Infrastructure segment was a 19% increase in utilization at Keyera's fractionation facility in Fort Saskatchewan compared to the first quarter of 2017, albeit at lower average fees.

The Gathering and Processing segment delivered stable financial results in the second quarter. Overall gross average throughput was slightly higher in the quarter compared to the second quarter of 2016 as throughput declines in certain areas, such as Strachan and Rimbey, were more than offset by a 22% increase in volumes at the Simonette gas plant with producers ramping up their drilling programs in the Montney and Duvernay geological zones.

On a year-to-date basis, operating margin for the six months ended June 30, 2017 was $364 million, $34 million higher than the same period in 2016. However, realized margin (excluding the effect of unrealized gains and losses from risk management contracts in the Marketing business) was $331 million in the second quarter of 2017 or $13 million lower than the same period in 2016 due to lower realized margin from the Marketing business that resulted from the same factors as discussed for the second quarter above. The effect of weaker Marketing results in 2017 was partly offset by:

- incremental cash flow generated from new investments including the Norlite pipeline for which a portion of take-or-pay fees commenced effective May 1, 2017, the additional 35% ownership interest in the Alder Flats gas plant and gathering pipeline acquired in August 2016 and the fractionation expansion at Fort Saskatchewan that came on stream in May 2016; and

- growth in Keyera's diluent handling services, including storage and transportation services. The volume of condensate delivered from Keyera's condensate system to the oil sands grew by 21% in the first half of 2017 compared to the same period last year.

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

Cash Flow Metrics

Cash flow from operating activities for the three and six months ended June 30, 2017 was $2 million and $220 million, $56 million and $15 million lower than the same periods in 2016. Distributable cash flow for the three and six months ended June 30, 2017 was $108 million and $228 million, $30 million and $26 million lower than the same periods in 2016. The lower cash flow metrics in 2017 were largely due to the weaker Marketing results partly offset by the record financial results posted by the Liquids Infrastructure segment. Refer to the section of this MD&A titled, “Results of Operation: Marketing and Liquids Infrastructure” for more detail.

SEGMENTED RESULTS OF OPERATIONS

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

The discussion of the results of operations for each of the operating segments focuses on operating margin. Operating margin refers to operating revenues less operating expenses and does not include the elimination of inter-segment transactions. Management believes operating margin provides an accurate portrayal of operating profitability by segment. Keyera’s Gathering and Processing and Liquids Infrastructure segments charge Keyera’s Marketing segment for the use of facilities at market rates. These segment measures of profitability for the three and six months ended June 30, 2017 and 2016 are reported in note 13, Segment Information, of the accompanying financial statements.

Gathering and Processing

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

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

Operating Margin and Throughput Information	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016[1]	**2017**	2016[1]
Revenue including inter-segment transactions	**116,689**	104,182	**229,416**	217,905
Operating expenses	**(49,943)**	(33,766)	**(96,271)**	(79,250)
Unrealized gain on electricity financial contracts	**76**	41	**14**	—
Total operating expenses	**(49,867)**	(33,725)	**(96,257)**	(79,250)
Operating margin	**66,822**	70,457	**133,159**	138,655
Gross processing throughput – (MMcf/d)	**1,441**	1,425	**1,426**	1,500
Net processing throughput[2] – (MMcf/d)	**1,130**	1,089	**1,119**	1,150

Notes:
1 Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2017.
2 Net processing throughput refers to Keyera’s share of raw gas processed at its processing facilities.

Operating Margin and Revenues

Operating margin for the three and six months ended June 30, 2017 was $67 million and $133 million, $4 million and $5 million lower than the same periods in 2016 due to the following factors:

- $3 million in lower ethane margins resulting from lower sales volumes and a one-time downward ethane sales price adjustment. The Gathering and Processing segment purchases the ethane that is extracted from the turbo expander from producers at the Rimbey facility and sells the product to a petro-chemical producer under a long-term commercial arrangement; and

- a $2 million prior period upward adjustment that was related to the Brazeau River gas plant included in the second quarter 2016 financial results.

The Gathering and Processing segment recorded stable financial results for the first half of 2017 as drilling activity in Alberta continued to make a modest recovery, particularly at the Simonette gas plant where producers are actively drilling in the Montney and Duvernay geological zones. This combined with the incremental cash flow generated from the acquisition of an additional 35% ownership interest in the Alder Flats gas plant and gathering pipeline in August 2016 helped to offset the effect of lower throughput volumes at the Strachan, Rimbey and Nevis gas plants.

Gathering and Processing revenues for the three and six months ended June 30, 2017 were $117 million and $229 million, $13 million higher than the second quarter of 2016 and $12 million higher than the first six months of 2016. The higher revenues in 2017 were largely the result of: i) incremental revenues from the acquisition of the 35% incremental ownership interest in the Alder Flats gas plant and gathering pipeline; and ii) equalization adjustments recorded in 2017 that had minimal impact on operating margin due to the cost recovery flow-through model followed by most of Keyera's gas processing facilities. Equalization adjustments are required from time to time to ensure revenue collected reflects the actual operating costs for the facility.

Gathering and Processing Activity

During the second quarter of 2017, gross processing throughput averaged 1,441 million cubic feet per day, slightly higher than the first quarter of 2017 and the second quarter of 2016. Producer drilling activity continued to be strong in areas rich in natural gas liquids, particularly in the Montney geological zone. As a result, the Simonette gas plant, which serves many producers who are developing Montney gas, continued to show a significant increase in throughput volumes. The increased throughput at the Simonette facility more than offset the year over year volume declines at the Strachan, Rimbey and Nevis facilities where producer activity has decreased. Compared to the prior quarter, throughput at Simonette increased by 16% as new well tie-ins brought in incremental volumes utilizing the Wapiti gathering system and liquids handling infrastructure that was put into service in 2015. Record high volumes were achieved at Simonette in June while average quarterly volumes were somewhat affected by an unplanned outage of the sulfur recovery unit in April that reduced throughput for approximately two weeks.

On May 31, 2017, Keyera announced the sanctioning of the first phase of the Wapiti gas plant project, a natural gas gathering and processing complex being constructed in the Wapiti area south of Grande Prairie, Alberta (the "Wapiti gas plant"). The first phase of the project includes a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system and field compressor stations. Subject to the closing of a third-party transaction, the primary customer for phase one will be Paramount Resources Ltd.

Based on the proposed construction schedule of the first phase of the project, operations are targeted to start up in mid-2019. Phase one is estimated at $470 million and includes the build-out of certain infrastructure sufficient to support a potential second phase which would add an incremental 150 million cubic feet per day of processing capacity and include an extension to the initial gathering system. Keyera is actively negotiating with several other producers in the area to nominate additional volumes and permit sanctioning of the second phase of the project. Phase two of the project is estimated to cost approximately $155 million. The total estimated cost for both phases is approximately $625 million, excluding incremental gathering systems that may be required to connect additional third parties.

In the second quarter of 2017, Keyera completed its scheduled two week maintenance turnaround of the Gilby gas plant. The total cost of the turnaround amounted to $4 million, with Keyera's net share being $3 million. The remaining turnaround scheduled for 2017 will occur at the Simonette gas plant in August. The timing of the turnaround has been aligned with expected restrictions on the TransCanada sales gas pipeline system and is expected to be approximately 19 days in duration with a forecasted cost of $13 million.

The costs associated with maintenance turnarounds are capitalized for accounting purposes and do not have an effect on operating expenses in the Gathering and Processing segment. However, as many of Keyera's facilities follow a flow-through operating cost structure, the cost of turnarounds will generally be recovered through higher operating fee revenue. Keyera expects to recover the majority of turnaround costs over varying periods depending on the fee arrangements at each plant. Distributable cash flow is reduced by Keyera's share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

Keyera is anticipating that restrictions on the TransCanada sales gas pipeline system will occur intermittently throughout the third quarter and will likely affect multiple Keyera gas processing facilities. At this time, the overall potential impact of the curtailments on the gross processing throughput of Keyera's gas processing facilities is unknown.

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

Capital Projects – Gathering and Processing		
Facility/Area	**Project Description**	**Project Status Update**
Simonette	***Simonette Liquids Handling Expansion Project:*** The project consists of construction of NGL mix and condensate above ground storage facilities, addition of a truck loading facility, redesign of the existing condensate stabilization facilities and the addition of new facilities to handle growing volumes of condensate and improve overall liquids recoveries. Upon completion of this project, the condensate operational capacity at Simonette is expected to be approximately 27,000 barrels per day. The project also includes a new 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. The new connection to the Peace pipeline system is expected to be complete in the third quarter of 2017. *Estimated total cost to complete:* • approximately $100 million including associated processing equipment, pumps and pipeline connections. *Total net costs to June 30, 2017:* • $17 million and $25 million for the three and six months ended June 30, 2017 • $27 million since inception
Wapiti	***Wapiti Gas Plant (Phase One):*** The first phase of the project is for the construction of a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system and field compressor stations.	Site clearing and grading activities occurred throughout the quarter, as well as procurement activities associated with long lead items. Fabrication of major equipment also commenced in the second quarter of 2017. *Estimated total cost to complete:* • Cost of phase one of the project is approximately $470 million. *Total net costs incurred to June 30, 2017:* • $30 million and $44 million for the three and six months ended June 30, 2017 • $79 million since inception (including $19 million spent in 2016 to acquire the project and acid gas injection well)

Facility/Area	Project Description	Project Status Update
Alder Flats	***Alder Flats Phase Two Expansion Project:*** The expansion project will increase the licensed capacity of the facility by 120 million cubic feet per day. Bellatrix is an owner and the operator of the facility and they are responsible for the construction of the project.	Construction continues to progress with the ongoing fabrication of major equipment. The project is targeted to come on stream in the second quarter of 2018. With the acquisition of the additional 35% ownership interest in the Alder Flats gas plant last August, Keyera prepaid a portion of its share of future construction costs for phase two of the gas plant ($27 million). Accordingly, a portion of these costs are moved from Other Assets to Property, Plant & Equipment ("PP&E") as construction is completed. Keyera continues to pay construction costs associated with its original 35% ownership interest in the facility. *Estimated total cost to complete:* • Bellatrix estimates the gross cost to be $112 million. Keyera's net share is approximately $80 million *Total net costs incurred to June 30, 2017:* • $2 million and $5 million for the three and six months ended June 30, 2017 • $60 million since inception (including the $27 million prepaid amount)

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.

Liquids Infrastructure

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

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

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Revenue including inter-segment transactions	**99,398**	90,402	**200,425**	184,503
Operating expenses	**(33,381)**	(32,039)	**(69,833)**	(64,039)
Unrealized gain on electricity financial contracts	**1,056**	655	**1,056**	78
Total operating expenses	**(32,325)**	(31,384)	**(68,777)**	(63,961)
Operating margin	**67,073**	59,018	**131,648**	120,542

Operating Margin and Revenues

For the second quarter of 2017, the Liquids Infrastructure segment posted record financial results once again. For the three and six months ended June 30, 2017, operating margin was $67 million, an increase of $8 million or 14% over the same period in 2016. The higher financial results were largely due to the following factors:

- $6 million in higher revenue associated with: i) overall growth in demand for Keyera's condensate network, including transportation and storage revenue from long-term, fee-for-service arrangements with oil sands producers; and ii) incremental revenue associated with the start-up of the Norlite pipeline, including fees charged on Keyera's proprietary condensate system that serves as the pipeline connection for the Norlite shippers between Edmonton and Fort Saskatchewan; and

- $4 million in higher revenue associated with incremental volumes from the fractionation expansion at Fort Saskatchewan that came on stream in May 2016 as well as higher storage revenue resulting from fees charged to the Marketing segment for additional butane storage required while the AEF facility was off-line for nine weeks in 2017.

These positive variances were partly offset by $3 million in lower operating margin resulting from: i) lower processing fees charged to the Marketing segment for the production of iso-octane as the facility was off-line for unscheduled repair work earlier this year; and ii) a reduction in the fee charged to Irving Oil for crude oil loading services at the Alberta Crude Terminal (50/50 joint venture with Kinder Morgan) as per the original agreement. The fee reduction was effective November 2016.

On a year to date basis, operating margin was $132 million, $11 million or 9% higher than the same period in 2016. The higher financial results in 2017 were due to the following factors:

- $8 million in higher revenue associated with overall growth in demand for Keyera's condensate network as well as incremental revenue from the start-up of the Norlite pipeline as described above; and

- $8 million in higher revenue associated with incremental volumes from the fractionation expansion at Fort Saskatchewan that became operational in May 2016. The financial impact of higher fractionation volumes was partly offset by lower average fractionation fees as of April 1st, 2017 due to competitive market dynamics and incremental industry fractionation capacity in Alberta.

These positive variances were partly offset by $7 million in lower operating margin from: i) reduced processing fees charged to the Marketing segment for the production of iso-octane as the facility was off-line for unscheduled repair work earlier this year: and ii) the reduction in the fee charged to Irving Oil for crude oil loading services at the Alberta Crude Terminal as described above.

Liquids Infrastructure revenues for the three and six months ended June 30, 2017, were $9 million and $16 million higher than the same periods in 2016 due to the same factors that contributed to higher operating margin, as well as higher flow-through operating revenue charged to the Marketing segment to recover the unscheduled repair costs necessary to resume the production of iso-octane at AEF. As these repair costs were recovered from the Marketing segment on a flow-through basis, there was minimal impact on operating margin for the Liquid's Infrastructure segment.

Liquids Infrastructure Activity

The demand for condensate, which is used as a diluent by bitumen producers, has continued to grow in Alberta as new oil sands projects and phased expansions of existing projects commence operation. The demand for condensate in Alberta exceeds the supply available locally, resulting in the requirement to import condensate by pipeline or rail from the United States to meet this demand. Keyera owns the most connected condensate hub in Western Canada, with multiple receipt points including the Cochin pipeline and Enbridge's Southern Lights pipeline and CRW pool. Consequently, demand for Keyera's diluent handling services has been strong and continues to grow. Keyera has long-term, take-or-pay arrangements in place with several major oil sands producers, including Imperial Oil, Husky, Suncor, Cenovus and CNRL. Under these agreements, Keyera provides a variety of services including diluent transportation, storage and rail offload services in the Edmonton/Fort Saskatchewan area. With condensate demand forecast to grow in Alberta over the next few years, Keyera continues to invest in its diluent handling network to provide its oil sands customers with comprehensive and reliable service solutions.

During the second quarter of 2017, construction of the Norlite pipeline (Keyera has a 30% non-operating ownership interest) and the necessary line-fill activities were completed, allowing the pipeline to become operational at the end of June. Keyera's Fort Saskatchewan condensate system expansion, a 24-inch pipeline and manifold that connects the Norlite Pipeline to its existing condensate transportation infrastructure in Fort Saskatchewan was also put into service in the second quarter. Keyera's condensate network of assets provide the Norlite shippers with the transportation required between Edmonton and Fort Saskatchewan, providing these customers with access to multiple sources of diluent supply.

The Norlite pipeline's anchor tenants are the owners of the Fort Hills oil sands project. Long-term, take-or-pay arrangements are in place with these shippers for the Norlite pipeline as well as Keyera's proprietary condensate transportation network in Fort Saskatchewan. A portion of the take-or-pay fees associated with the Norlite pipeline and Keyera's condensate system commenced May 1st, with the remainder of fees effective August 1st. Norlite shippers have elected a fee structure under which the tariffs are highest in the first year and decline annually thereafter. As there is significant uncontracted capacity available on the Norlite pipeline, volumes are expected to grow.

Other investments that are nearing completion include the condensate storage tanks in Edmonton and the South Grand Rapids pipeline and associated pump station (50/50 joint venture), both of which will enhance Keyera's ability to deliver diluent to the oil sands. In addition, a pipeline segment that Keyera acquired in 2016, referred to as the North Condensate Connector, has been converted into condensate service in order to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement. Service on the North Condensate Connector pipeline will coincide with the startup of the refinery. Refer to the table below, "Capital Projects Status Update – Liquids Infrastructure", for more information related to these projects and other oil sands related projects.

Early in 2016, Keyera completed the fractionation expansion at its Fort Saskatchewan facility that provided 35,000 barrels per day of incremental fractionation capacity. A portion of this additional capacity is supported by long-term agreements. With the new contract season that began on April 1st 2017, overall average utilization of the fractionation facility in Fort Saskatchewan increased by 19% in the second quarter compared to the prior quarter. Keyera anticipates overall fractionation revenue to increase in 2017 relative to the prior year due to an increase in contracted volumes, assuming these volumes continue to be delivered according to the estimates provided by customers. However, fractionation fees, on average, are lower compared to the past year due to the availability of excess fractionation capacity in Alberta and the competitive market for these services.

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

The AEF facility is operated by the Liquids Infrastructure operating segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. AEF was off-line for approximately nine weeks beginning in mid-February to repair one of the process reactors. As a result of this outage, AEF operated at an average of 57% and 82% of its capacity during the first and second quarters respectively. The total cost of the repair work was approximately $8 million, of which $7 million was incurred in the first quarter of 2017. These costs are flowed through to the Marketing segment in the period as operating expenses and therefore do not have a significant impact on the financial results of the Liquids Infrastructure segment.

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

Capital Projects Status Update – Liquids Infrastructure		
Facility/Area	**Project Description**	**Project Status Update**
Keyera Fort Saskatchewan	***Underground Storage Development:*** Development of four additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	***Completed Assets:*** The 14th cavern became operational in April 2017. The cavern was completed at a total gross cost of approximately $18 million (Keyera's net share was approximately $14 million). ***Construction-In-Progress Assets:*** Washing of the 15th cavern continued in the second quarter of 2017 and the cavern is expected to be in service in the first half of 2018. Washing of the 16th and 17th caverns commenced in the first and second quarters of 2017, respectively. *Estimated total cost to complete:* • Gross cost is approximately $115 million (Keyera's net share is approximately $88 million). *Total net costs to June 30, 2017:* • $2 million and $4 million for the three and six months ended June 30, 2017 • $42 million since inception
Edmonton	***Condensate Tanks:*** Construction of four condensate storage tanks, each with operating capacity of approximately 60,000 barrels.	Construction is progressing and the tanks are expected to be operational in the third quarter of 2017. *Estimated total cost to complete:* • Cost to Keyera is approximately $50 million, approximately $40 million lower than originally forecasted. *Total net costs to June 30, 2017:* • $8 million and $22 million for the three and six months ended June 30, 2017 • $49 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton/Fort Saskatchewan	***North Condensate Connector:*** Repurposing of the northern segment of a 49-kilometre, 8-inch pipeline acquired in 2016 for approximately $18 million to be used to receive diluent from the North West Sturgeon Refinery under a long-term diluent handling agreement.	Construction of connections and completion of conversion work was substantially completed in the second quarter. Line-fill activities commenced in July 2017. The in-service date of the North Condensate Connector will coincide with the startup of the North West Sturgeon Refinery. *Estimated total cost to complete:* • Approximately $19 million for connections and other conversion work required for the pipeline to be put in service *Total net costs to June 30, 2017 for connections and conversion work:* • $nil and $1 million for the three and six months ended June 30, 2017 • $18 million since inception
Edmonton/Fort Saskatchewan	***South NGL Connector:*** The southern segment of a 49-kilometre, 8-inch pipeline between Edmonton and Fort Saskatchewan leased in December 2016 to provide Keyera with increased flexibility and capacity (up to 60,000 barrels per day) for NGL transportation services in the area.	This pipeline is expected to be operational in the second half of 2017, once all necessary steps have been taken to convert it to NGL service. *Estimated total cost to complete:* • Approximately $30 million *Total net costs to June 30, 2017 for connections and conversion work:* • $2 million and $5 million for the three and six months ended June 30, 2017 • $24 million since inception

Facility/Area	Project Description	Project Status Update
Norlite Pipeline (30/70 joint venture with Enbridge Pipelines (Athabasca) Inc. ("Enbridge"))	***Norlite Pipeline:*** Keyera is a 30% non-operating owner in the Norlite Pipeline, a 24-inch pipeline, which delivers diluent from the Fort Saskatchewan area to certain oil sands projects. Enbridge constructed the pipeline and is the operator. The capacity of the pipeline is approximately 224,000 barrels per day of diluent with 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 delivers product into the Norlite Pipeline, providing the Norlite shippers with access to multiple sources of diluent supply.	Construction of the pipeline and the required line-fill activities were completed in the second quarter, allowing the pipeline to become operational near the end of June. Costs will continue to be incurred until late 2018 for environmental monitoring, cleanup and project close out activities. Keyera is waiting for confirmation from Enbridge on any changes to the final cost estimate. *Estimated total cost to complete:* • Gross cost as estimated by Enbridge is approximately $1.3 billion (Keyera's net share is approximately $390 million). *Total net costs to June 30, 2017:* • $12 million and $76 million for the three and six months ended June 30, 2017 • $307 million since inception
Edmonton	***Fort Saskatchewan Condensate System Expansion:*** Construction of a 24-inch pipeline and manifold that connects the Norlite Pipeline to Keyera's existing condensate transportation infrastructure. The pipeline and manifold will also connect the South Grand Rapids Pipeline when it becomes operational.	The pipeline and manifold were put into service at the end of June, coinciding with the startup of the Norlite Pipeline. *Estimated total cost to complete:* • Completed at a total cost of $29 million, approximately $16 million lower than the original estimate. *Total net costs to June 30, 2017:* • $1 million and $3 million for the three and six months ended June 30, 2017 • $29 million since inception

Facility/Area	Project Description	Project Status Update
Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)	***South Grand Rapids Pipeline:*** Keyera has committed to acquire a 50% interest in the southern portion of the 20-inch, 45-kilometre diluent Grand Rapids Pipeline when it is completed. The pipeline is being constructed by Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and Brion Energy Corporation. The pipeline will extend from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal near Fort Saskatchewan. Keyera will be the operator of the pipeline. As part of this project, Keyera is constructing a pump station at its Edmonton Terminal where the pipeline will connect. Keyera will sell a 50% ownership interest in the pump station to GRPLP once the pipeline is complete.	Construction of the pump station continued in the second quarter of 2017. The pipeline and associated pump station are expected to be in service in late 2017. *Estimated total cost to complete:* • Keyera's 50% share is $120 million for acquisition of the pipeline and $25 million for construction of the pump station for a total combined cost of approximately $145 million. The costs below represent 100% of the cost of construction incurred to date for the pumps. *Total costs incurred to June 30, 2017:* • $8 million and $20 million for the three and six months ended June 30, 2017 • $33 million since inception
Edmonton (50/50 joint venture with Kinder Morgan)	***Base Line Terminal:*** Construction of 12 above ground crude oil storage tanks with the ability to provide customers with 4.8 million barrels of storage capacity. Kinder Morgan is constructing the project and will be the operator once the terminal is in service.	Construction of the tanks and associated infrastructure continues to progress. The project is expected to be commissioned in phases, with the first tanks scheduled to be commissioned in early 2018, and the remaining tanks scheduled for commissioning throughout the remainder of 2018, based on the most recent construction schedule. *Estimated total cost to complete:* • Keyera's net share of costs is approximately $330 million. *Total net costs incurred to June 30, 2017:* • $52 million and $84 million for the three and six months ended June 30, 2017 • $174 million since inception

Facility/Area	Project Description	Project Status Update
West Central Alberta	***Keylink Pipeline:*** The project consists of over 240 kilometres of newly constructed and repurposed existing pipelines that will transport NGL mix to the Rimbey gas plant for fractionation into specification products. Keylink will connect several Keyera gas plants, including Brazeau River, West Pembina and Minnehik Buck Lake.	The Keylink pipeline system is expected to be operational in mid-2018. *Estimated total cost to complete:* • Cost is expected to be approximately $147 million *Total net costs incurred by Keyera to June 30, 2017:* • $5 million and $7 million for the three and six months ended June 30, 2017 • $11 million since inception
Hull Terminal	***Hull Terminal Pipeline System:*** In 2016 Keyera acquired the Hull Terminal Pipeline System and subsequently entered into an agreement with a major U.S. midstream energy company to construct pipeline connections to its infrastructure in Mont Belvieu, North America's largest NGL hub. This project consists of third party pipeline connections and work undertaken to prepare the Hull Terminal Pipeline System for operation (including the connection facilities at the Hull Terminal, installation of pumps and metering systems and completion of pipeline repairs and integrity work).	The Hull Terminal Pipeline System is anticipated to be in service in the first half of 2018. *Estimated total cost to complete:* • Cost is expected to range between US$20 and US$25 million *Total net costs incurred to June 30, 2017:* • $1 million and $3 million for the three and six months ended June 30, 2017 • $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 pricing differentials between different geographic markets. These risks are managed by purchasing and selling product at prices based on the same or similar indices or benchmarks, and through physical and financial contracts that include energy-related forward contracts, price swaps, forward currency contracts and other hedging instruments. A more detailed description of the risks associated with the Marketing segment is available in Keyera's Annual Information Form, which is available at www.sedar.com.

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

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

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

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

Operating and Realized Margin	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars, except for sales volume information)	**2017**	2016	**2017**	2016
Revenue	**627,651**	457,447	**1,326,694**	916,464
Operating expenses including inter-segment transactions	**(606,618)**	(432,865)	**(1,237,226)**	(847,761)
Operating margin	**21,033**	24,582	**89,468**	68,703
Unrealized loss/(gain) on risk management contracts	**1,602**	21,153	**(33,369)**	14,431
Realized margin	**22,635**	45,735	**56,099**	83,134
Sales volumes (Bbl/d)	**127,900**	117,900	**134,200**	132,700

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

Composition of Marketing Revenue	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Physical sales	**617,722**	479,768	**1,290,922**	918,287
Realized cash gain (loss) on financial contracts[1]	**11,531**	(1,168)	**2,403**	12,608
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	**(7,030)**	(14,210)	**27,902**	(6,178)
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	**5,453**	(6,969)	**5,453**	(6,969)
Unrealized (loss) gain from change in fair value of fixed price physical contract[2]	**(25)**	26	**14**	(1,284)
Total unrealized (loss) gain on risk management contracts	**(1,602)**	(21,153)	**33,369**	(14,431)
Total gain (loss) on risk management contracts	**9,929**	(22,321)	**35,772**	(1,823)
Total Marketing revenue	**627,651**	457,447	**1,326,694**	916,464

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

Revenue, Operating and Realized Margin

Operating margin for the quarter ended June 30, 2017 was $21 million, $4 million lower than the same period in 2016. Realized margin (excluding the effect of non-cash gains and losses from risk management contracts) was $23 million, $23 million lower than the second quarter of 2016. The lower realized margin in the second quarter of 2017 was primarily due to the following factors:

- $15 million in lower iso-octane margins resulting primarily from: i) reduced sales volumes associated with the unscheduled outage at AEF that extended into the third week in April. The facility operated on average at 82% of capacity in the second quarter of 2017, compared to 97% in the same period in 2016; and ii) higher butane costs relative to the second quarter of 2016.

- lower propane margins due to the combination of seasonally low summer propane prices and higher average supply costs for contracted propane volumes starting April 1st. Refer to the Market Overview section below for more information related to Keyera's propane strategy.

Overall, Keyera expects a lower contribution from the Marketing segment in 2017 compared to 2016.

For the six months ended June 30, 2017, operating margin was $89 million or $21 million higher than the same period last year due to the inclusion of a $33 million non-cash unrealized gain related to risk management contracts in the 2017 results. Realized margin (excluding the effect of unrealized gains and losses from risk management contracts) for the six months ended June 30, 2017 was $56 million, $27 million lower than the same period last year due to the same factors discussed for the second quarter financial results. The 2017 year-to-date results include approximately $8 million of expenses associated with the repair work at AEF which were flowed through from the Liquids Infrastructure segment.

Keyera's crude oil midstream business contributed similar operating margin to the 2017 financial results as in the first half of 2016.

In general, gross revenue in the Marketing segment is influenced by sales volumes as well as commodity prices, in particular for NGLs and iso-octane. For the three and six months ended June 30, 2017, revenue from physical sales was $138 million and $373 million higher than the same periods in 2016 due to higher average sales prices and higher sales volumes of propane and butane.

Market Overview

Demand for iso-octane typically increases in the summer months as driving activity and gasoline demand increase. According to the U.S. Energy Information Administration's July report, gasoline demand is forecast to remain relatively flat compared to last summer, which was a record high. As of April 1st, which is typically considered the beginning of the summer driving season, overall gasoline inventories were lower than the prior year but remained above the five year average. Based on these market fundamentals, gasoline prices and premiums in the second quarter were similar to the same period in 2016 and this trend is expected to continue into the third quarter of this year.

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. Because butane is the feedstock for AEF, butane costs directly affect iso-octane margins. As butane prices seasonally decline in the spring and summer months, Keyera will utilize its storage capabilities to build inventory to supply the needs of AEF during the winter months when butane prices seasonally increase. Keyera has the ability to utilize its logistics and storage capabilities to import butane from the U.S. during low demand periods. For 2017, market fundamentals have resulted in butane prices being weaker in Alberta relative to markets in the U.S.

Propane margins were lower in the second quarter compared to the same period in 2016. Effective with the new contract year beginning April 1, 2017, most of Keyera's contracted propane supply cost is based on market index prices, in response to more competitive dynamics. This has allowed Keyera to attract incremental volumes through its fractionation and storage facilities in the Liquids Infrastructure segment, but it has resulted in lower propane margins in the second quarter. This trend is expected to continue in the third quarter when demand and pricing are lower. Keyera plans to utilize its storage capabilities to build somewhat higher propane inventory levels through the third quarter with a view to capturing seasonally higher pricing and margins during the winter months. Keyera will continue to utilize its Josephburg Rail Terminal to export propane by rail to meet demand in markets across North America.

As oil sands projects have come on stream over the past two years, bitumen production has increased along with demand for condensate that is used as a diluent. This demand for condensate is being met primarily by increased condensate production from the Western Canada Sedimentary Basin and pipeline deliveries. Keyera imports condensate into Alberta when demand fundamentals support positive operating margins. Contribution from the sale of condensate in the first six months of 2017 was similar to that earned in the same period of 2016.

Risk Management

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

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

general, the increase or decrease in the fair value of the contracts is intended to mitigate fluctuations in the value of the inventories and protect operating margin. Keyera typically uses propane physical and financial forward contracts to hedge its propane inventory.

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

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

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

For the quarter ended June 30, 2017, the total unrealized loss on risk management contracts was $2 million. Further details are provided in the “Composition of Marketing Revenue” table above.

The fair value of outstanding financial contracts as at June 30, 2017 resulted in an unrealized (non-cash) gain of $5 million that includes the following significant items:

- a $2 million non-cash gain relating to propane, butane, condensate and iso-octane risk management contracts; and
- a $3 million non-cash gain 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 June 30, 2017 was $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 June 30, 2017, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 9, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income	Three months ended June 30,		Six months ended June 30,	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Other income (loss) (operating margin)	**4,868**	(67)	**9,943**	1,876
General and administrative (net of overhead recoveries on operated facilities)	**(16,533)**	(13,681)	**(33,868)**	(35,288)
Finance costs	**(16,933)**	(16,847)	**(34,673)**	(36,195)
Depreciation, depletion and amortization expenses	**(39,986)**	(44,641)	**(79,566)**	(89,365)
Net foreign currency gain on U.S. debt	**8,549**	10,363	**9,028**	15,871
Long-term incentive plan expense	**(10,171)**	(3,974)	**(12,918)**	(8,703)
Impairment expense	**(17,890)**	—	**(17,890)**	—
Gain (loss) on sale of property, plant and equipment	**22,151**	(976)	**22,166**	(976)
Income tax expense	**(21,921)**	(24,555)	**(53,093)**	(45,310)

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

Other income for the three and six months ended June 30, 2017 was $5 million and $10 million, $5 million and $8 million higher than the same periods last year primarily due to higher commodity prices in 2017. Production for the three and six months ended June 30, 2017 averaged 4,394 and 4,412 barrels of oil equivalent per day compared to 4,302 and 4,825 barrels of oil equivalent per day for the same periods in 2016.

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

General and Administrative Expenses
General and administrative ("G&A") expenses for the three months ended June 30, 2017 was $17 million, $3 million higher than the same period in 2016 primarily due to higher consulting and front-end engineering costs incurred in 2017.

On a year to date basis, G&A expenses were $34 million, $1 million lower than the same period in 2016. In 2016, a $6 million charge was recorded to write-off previously capitalized front-end engineering costs related to various small projects.

Finance Costs (including accretion)
Finance costs for the three and six months ended June 30, 2017 were $17 million and $35 million, virtually unchanged from the same periods in 2016. The effect of higher interest expense associated with $300 million of long-term debt issued in the fourth quarter of 2016 was offset by higher interest capitalized on qualifying projects in 2017. Interest capitalized on qualifying projects was $7 million and $13 million for the three and six months ended June 30, 2017, $3 million and $6 million higher than the same periods of 2016.

Depreciation, Depletion and Amortization Expenses
Depreciation, depletion and amortization ("DD&A") expenses for the three and six months ended June 30, 2017 were $40 million and $80 million, $5 million and $10 million lower than the same periods in 2016 despite adding the fractionation expansion and other depreciable assets in 2016. In the fourth quarter of 2016, Keyera conducted a review of the useful life 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.

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

Net Foreign Currency Gain on U.S. Debt	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Translation of long-term debt and interest payable	**14,958**	484	**19,511**	43,592
Change in fair value of cross currency swaps – principal and interest portion	**(7,728)**	8,119	**(12,162)**	(29,799)
Gain on cross currency swaps – principal and interest portion[1]	**1,319**	1,760	**1,679**	2,078
Net foreign currency gain on U.S. debt	**8,549**	10,363	**9,028**	15,871

Note:
[1] Foreign currency gains (losses) resulted from the exchange of currencies related to the settlement of 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 banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Additional information on the swap agreements can be found in note 9, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of $9 million was recorded for the three and six months ended June 30, 2017 that largely related to the translation of U.S. dollar denominated debt into Canadian dollars. This translation resulted in a $15 million and $20 million non-cash gain for the respective periods as the Canadian dollar strengthened relative to the U.S. dollar as at June 30, 2017 compared to March 31, 2017 and December 31, 2016.

Long-Term Incentive Plan Expense
The Long-Term Incentive Plan ("LTIP") expense was $10 million and $13 million for the three and six months ended June 30, 2017, $6 million and $4 million higher than the same periods in 2016. The increase in the LTIP expense was primarily due to an increase in the estimated payout multiplier associated with all outstanding LTIP grants compared to the prior year.

Net Impairment Expense
Keyera reviews its assets for indicators of impairment on a quarterly basis. As well, if an asset has been impaired and subsequently recovers in value, GAAP requires the asset to be written up (i.e. reversal of previous impairments). In the second quarter of 2017, an impairment expense of $18 million was recorded to reduce the carrying value of the Caribou gas plant that ceased operation effective December 2015. There were no impairment charges recorded in the first six months of 2016.

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

Gain on Sale of Property, Plant, and Equipment
In the second quarter of 2017, Keyera sold the Paddle River gas plant and Judy Creek pipeline for proceeds of approximately $6 million. The sale of these non-core assets resulted in a gain of $22 million in the second quarter of 2017. The Paddle River gas plant was shut down in early 2015.

Taxes

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

Current Income Taxes

Current income tax expense for the three and six months ended June 30, 2017 was $3 million and $4 million, compared to an expense of $6 million and $10 million in the same periods of 2016. For 2017, current income tax expense is expected to range between $5 million and $10 million which is largely based on 2016 taxable income from the Partnership that is allocated to Keyera Corp. in 2017. This income deferral is available to Keyera as its corporate structure includes a deferral partnership. The largest single undepreciated capital cost ("UCC") balance relates to Class 41, which are generally depreciated at a rate of 25%. Keyera estimates its total tax pools at June 30, 2017 were approximately $2.1 billion.

Deferred Income Taxes

For the three and six months ended June 30, 2017, deferred income tax expense was $19 million and $49 million, $1 million and $14 million higher than the same periods of 2016 primarily due to an increase in earnings before income taxes in 2017.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's accompanying financial statements in accordance with GAAP, management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The methodologies and assumptions used in developing these estimates have not significantly changed since December 31, 2016. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2016 year end MD&A available at www.sedar.com. The most significant estimates include the following:

Operating Revenues

Gathering and Processing and Liquids Infrastructure:

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

At June 30, 2017, operating revenues and accounts receivable for the Gathering and Processing and Liquids Infrastructure segments contained an estimate of approximately $62 million primarily for June 2017 operations.

Marketing:

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

At June 30, 2017, the Marketing sales and accounts receivable contained an estimate for June 2017 revenues of approximately $108 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 June 30, 2017, operating expenses and accounts payable contained an estimate of approximately $33 million primarily for June 2017 operations.

Marketing:

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

Marketing cost of goods sold, inventory and accounts payable contained an estimate of NGL product purchases of approximately $124 million at June 30, 2017.

Equalization Adjustments

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

For the Gathering and Processing segment, an equalization adjustment of $6 million was included in revenue and accounts receivable at June 30, 2017. Operating expenses and accounts payable contained an equalization adjustment of $9 million.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on the number of days outstanding and the likelihood of collection from the counter-party. The allowance for doubtful accounts was $4.0 million as at June 30, 2017, unchanged from December 31, 2016.

Derivative Financial Instruments

Keyera utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices or foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spreads. Refer to note 9, Financial Instruments and Risk Management, of the accompanying financial statements for a summary of the fair value of derivative financial instruments existing at June 30, 2017.

Decommissioning Liability

Keyera will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of its facilities at the end of their economic life. The decommissioning obligations are generally expected to be incurred over the next 25 to 45 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines,

there is uncertainty regarding the amount and timing of these costs. No assets have been legally restricted for settlement of the liability.

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

Keyera has estimated the net present value of its total decommissioning liability to be approximately $458 million at June 30, 2017, compared to $476 million at December 31, 2016.

For an investor to compare Keyera's decommissioning liability with that of midstream peers who use a credit adjusted discount rate, the net present value of Keyera's decommissioning liability would have been $212 million as of June 30, 2017 (December 31, 2016 – $215 million), assuming an estimated credit adjusted interest rate of 5.65%.

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

LIQUIDITY AND CAPITAL RESOURCES

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the three months ended June 30, 2017 and 2016:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended June 30, 2017	2016	Increase (decrease)	Explanation
Operating	**1,769**	57,867	(56,098)	Lower cash from operating activities in 2017 primarily related to: i) $23 million in lower realized margin from the Marketing segment in 2017; and ii) a higher cash requirement to fund inventory due to greater volume of butane and propane inventory at June 30, 2017 relative to June 30, 2016. Details of changes in non-cash working capital from operating activities can be found in note 12, Supplemental Cash Flow Information, of the accompanying financial statements.
Investing	**(145,555)**	(169,130)	23,575	Capital spending in the second quarter of 2017 related to several growth capital projects, including completion of the Norlite pipeline, ongoing construction of the Base Line Terminal, the Simonette liquids handling expansion and Wapiti gas plant project. Capital spending in the second quarter of 2016 primarily related to growth capital projects in the Liquids Infrastructure segment, including completion of the fractionation expansion at Fort Saskatchewan.
Financing	**163,393**	128,986	34,407	In the second quarter of 2017, Keyera drew $195 million from its credit facility and generated $45 million from its dividend reinvestment plan to fund its capital program. In the second quarter of 2016, Keyera issued 9,487,500 common shares for net proceeds of $331 million and also placed $60 million of long-term notes to support its capital program, with the net proceeds initially being used to reduce its credit facility. Keyera also repaid approximately $98 million of long-term private notes.

The following is a comparison of cash inflows (outflows) from operating, investing and financing activities for the six months ended June 30, 2017 and 2016:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Six months ended June 30, **2017**	2016	**Increase (decrease)**	**Explanation**
Operating	**220,390**	235,558	(15,168)	The decrease in cash in 2017 was largely due to $27 million in lower realized margin from the Marketing segment that was partly offset by an $11 million increase in operating margin from the Liquids Infrastructure segment. The overall variance from changes in non-cash working capital was not significant between the two comparative periods. The cash requirement to fund higher inventory at June 30, 2017 relative to the same time in 2016 was primarily offset by cash generated from the collection of accounts receivable since year-end. Changes in operating working capital are due to timing differences associated with the collection and settlement of Keyera's accounts receivable and payable balances since the end of the last reporting period. Details of changes in non-cash working capital from operating activities can be found in note 12, Supplemental Cash Flow Information, of the accompanying financial statements.
Investing	**(278,819)**	(321,592)	42,773	Capital spending in 2017 and 2016 primarily related to growth capital projects as described in the "Segmented Results of Operations" section of this MD&A. In 2017, Keyera closed the acquisition of land in the Industrial Heartland for $55 million. The cash outlay to fund the purchase of the land occurred in the fourth quarter of 2016. As a result, this acquisition did not have an effect on cash flow from investing activities in 2017. Capital spending in 2016 also included the acquisition of the Hull Terminal pipeline system for US$24 million.
Financing	**78,771**	103,674	(24,903)	In the first six months of 2017, Keyera drew $140 million from its credit facility and generated $91 million from its dividend reinvestment plan to fund its capital program. Financing activities for the first half of 2016 were as described for the second quarter results.

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 $20 million existed at June 30, 2017. This is compared to a surplus of $46 million at December 31, 2016. Keyera has access to a credit facility in the amount of $1.5 billion, of which $375 million was drawn as at June 30, 2017, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility ("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 Facility.

Dividend Reinvestment Plan

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

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

The DRIP and Premium DRIP™ generated cash of $45 million and $91 for the three and six months ended June 30, 2017. In the same periods in 2016, the plan generated cash of $41 million and $81 million.

Long-term Debt (including Credit Facility)

Below is a summary of Keyera's long-term debt obligations as at June 30, 2017:

As at June 30, 2017 (Thousands of Canadian dollars)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
Credit Facility							
Bank credit facility	375,000	—	—	—	—	375,000	—
	375,000	—	—	—	—	375,000	—
Canadian dollar denominated debt							
5.89% due December 3, 2017	60,000	60,000	—	—	—	—	—
5.01% due January 4, 2019	70,000	—	—	70,000	—	—	—
4.35% due June 19, 2019	52,000	—	—	52,000	—	—	—
5.68% due September 8, 2020	2,000	—	—	—	2,000	—	—
6.14% due December 3, 2022	60,000	—	—	—	—	—	60,000
3.50% due June 16, 2023	30,000	—	—	—	—	—	30,000
4.91% due June 19, 2024	17,000	—	—	—	—	—	17,000
4.92% due October 10, 2025	100,000	—	—	—	—	—	100,000
5.05% due November 20, 2025	20,000	—	—	—	—	—	20,000
4.15% due June 16, 2026	30,000	—	—	—	—	—	30,000
3.96% due October 13, 2026	200,000	—	—	—	—	—	200,000
5.09% due October 10, 2028	100,000	—	—	—	—	—	100,000
4.11% due October 13, 2028	100,000	—	—	—	—	—	100,000
5.34% due April 8, 2029	75,000	—	—	—	—	—	75,000
	916,000	60,000	—	122,000	2,000	—	732,000
US dollar denominated debt							
3.42% due June 19, 2019 (US$3,000)	3,895	—	—	3,895	—	—	—
5.14% due September 8, 2020 (US$103,000)	133,725	—	—	—	133,725	—	—
4.19% due June 19, 2024 (US$128,000)	166,182	—	—	—	—	—	166,182
4.75% due November 20, 2025 (US$140,000)	181,762	—	—	—	—	—	181,762
4.95% due November 20, 2028 (US$65,000)	84,390	—	—	—	—	—	84,390
	569,954	—	—	3,895	133,725	—	432,334
Less: current portion of long-term debt	(60,000)	(60,000)	—	—	—	—	—
Total long-term debt	**1,425,954**	—	—	**125,895**	**135,725**	—	**1,164,334**

In June, Keyera agreed to a private placement of 10-year senior unsecured notes totaling $400 million with a group of institutional investors in Canada and the United States. Upon issuance, the long-term notes will bear interest at 3.68% and will mature on September 20, 2027. Subject to satisfying closing conditions, the transaction is expected to close on September 20, 2017. Proceeds from the long-term notes will be used to repay short-term debt incurred to execute Keyera's capital program and for general corporate purposes.

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 Facility and for general corporate purposes. These notes were issued as follows:

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

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

As at June 30, 2017, Keyera had $916 million and US$439 million of unsecured senior notes including amounts drawn under the Prudential uncommitted notes facility. To manage the foreign currency exposure on the U.S. dollar denominated debt existing at June 30, 2017, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled "Net Foreign Currency Gain (Loss) on U.S. Debt" provides more information.

Keyera's Credit Facility is with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at June 30, 2017, $375 million was drawn under this facility (December 31, 2016 – $235 million). The term of the Credit Facility is 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 June 30, 2017. The agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera's ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for all of Keyera's long-term debt, including its Credit Facility, is the Net Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to deduct working capital surpluses or add working capital deficits.

During the first quarter of 2017, Keyera amended its senior note agreements and the Credit Facility to provide more flexibility with respect to the funding of growth capital projects by introducing two changes in the covenant calculations. The first change will allow Keyera to increase its Net Debt to EBITDA ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters. The second change allows Keyera to utilize the cross currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date. As at June 30, 2017, Keyera's Net Debt to EBITDA ratio was 2.92 for covenant test purposes (June 30, 2016 – 2.04).

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

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three and six months ended June 30, 2017 and 2016:

Capital Expenditures and Acquisitions	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Acquisitions	**2,770**	19,882	**57,857**	52,042
Growth capital expenditures	**151,311**	141,210	**326,036**	252,056
Maintenance capital expenditures	**10,316**	1,899	**17,038**	8,046
Total capital expenditures	**164,397**	162,991	**400,931**	312,144

Growth capital expenditures for the three and six months ended June 30, 2017 amounted to $151 million and $326 million. Refer to the section of this MD&A, "Segmented Results of Operations", for information related to the various growth capital projects in the Gathering and Processing and Liquids Infrastructure segments, including estimated costs to complete, costs incurred in 2017 and since inception of the project, and estimated completion timeframes.

Acquisitions in the first half of 2017 largely related to the purchase of 1,290 acres of undeveloped land in the Industrial Heartland area near Fort Saskatchewan for approximately $55 million. Acquisitions in the first half of 2016 included: i) the purchase of an acid gas injection well for $19 million as part of the Wapiti gas plant project; and ii) purchase of the Hull Terminal Pipeline System from Williams for approximately $32 million.

Keyera has comprehensive inspection, monitoring and maintenance programs in place. The objectives of these programs are to keep Keyera's facilities in good working order and to maintain their ability to operate reliably for many years. In addition to the maintenance capital expenditures, Keyera incurred maintenance and repair expenses of $10 million and $19 million for the three and six months ended June 30, 2017, compared to $7 million and $11 million in the same periods in 2016. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

Keyera's ongoing operations are not heavily dependent on capital expenditures to maintain current levels of cash flow. However, to grow future cash flow, Keyera is investing growth capital to expand its current asset base and capture new opportunities. Based on current plans, Keyera anticipates that its growth capital investment in 2017 will be between $800 million and $900 million, including the acquisition of 50% of the South Grand Rapids pipeline. Maintenance capital for 2017 is expected to be between $30 million and $35 million, including the turnaround that was completed in the second quarter at the Gilby gas plant and the scheduled turnaround to be completed at Simonette in the third quarter. The capital program is expected to be funded by cash flow from operating activities, the DRIP and Premium DRIP™ program and the existing Credit Facility, augmented if necessary by incremental debt and equity financing. Access to debt and equity financing is dependent on Keyera's ongoing financial performance and general market conditions. Readers are referred to the section of the MD&A titled, "Forward-Looking Information" for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

Distributable Cash Flow

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

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

Distributable Cash Flow	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Cash flow from operating activities	**1,769**	57,867	**220,390**	235,558
Add (deduct):				
Changes in non-cash working capital	**126,848**	85,683	**38,941**	35,317
Long-term incentive plan expense	**(10,171)**	(3,974)	**(12,918)**	(8,703)
Maintenance capital	**(10,316)**	(1,899)	**(17,038)**	(8,046)
Other	**(561)**	—	**(1,124)**	—
Distributable cash flow	**107,569**	137,677	**228,251**	254,126
Dividends declared to shareholders	**77,400**	67,440	**151,525**	132,102

For the three and six months ended June 30, 2017, dividends declared were $77 million and $152 million, or 72% and 66% of distributable cash flow, compared to dividends declared of $67 million and $132 million, or 49% and 52% of distributable cash flow in the same periods of 2016.

Distributable cash flow for the three and six months ended June 30, 2017 was $108 million and $228 million, $30 million and $26 million lower than the same periods in 2016 primarily due to: i) lower iso-octane margins that resulted from the unplanned nine week outage at AEF; ii) lower propane margins recorded in the second quarter due to higher supply costs combined with seasonally low sales prices; and iii) the timing of maintenance capital expenditures. Overall maintenance capital expenditures are estimated to be approximately $30 million lower in 2017 compared to the prior year that included the scheduled turnaround at AEF. The effect of lower Marketing segment results was partly offset by the record financial results posted by the Liquids Infrastructure segment in the first six months of 2017. Refer to the section of this MD&A, “Segmented Results of Operations”, for more information on the financial results of Keyera’s operating segments for the three and six months ended June 30, 2017.

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

Dividend Policy

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

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

EBITDA

EBITDA and Adjusted EBITDA are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure showing earnings before finance costs, taxes, depreciation, and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses, impairment expenses and any other non-

cash items such as gains/losses on the disposal of property, plant and equipment. Management believes that these supplemental measures facilitate the understanding of Keyera's results from operations.

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

EBITDA	**Three months ended June 30,**		**Six months ended June 30,**	
(Thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Net earnings	**67,062**	59,679	**163,404**	129,810
Add (deduct):				
Finance costs	**16,933**	16,847	**34,673**	36,195
Depreciation, depletion and amortization expenses	**39,986**	44,641	**79,566**	89,365
Income tax expense	**21,921**	24,555	**53,093**	45,310
EBITDA	**145,902**	145,722	**330,736**	300,680
Unrealized loss (gain) on commodity contracts	**142**	21,771	**(35,993)**	17,383
Net foreign currency gain on U.S. debt	**(8,549)**	(10,363)	**(9,028)**	(15,871)
Gain on disposal of property, plant and equipment	**(22,151)**	976	**(22,166)**	976
Impairment expense	**17,890**	—	**17,890**	—
Adjusted EBITDA	**133,234**	158,106	**281,439**	303,168

CONTRACTUAL OBLIGATIONS

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

With the sanctioning of the first phase of the Wapiti gas plant in May 2017, Keyera continues to issue purchase commitments associated with long-lead items related to the project.

RELATED PARTY TRANSACTIONS

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

RISK FACTORS

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

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

The midstream industry is subject to provincial and federal environmental legislation and regulations. Among other things, the environmental regulatory regime provides for restrictions and prohibitions on releases or

emissions of various substances produced in association with certain oil and natural gas industry operations. Environmental regulation affects the operation of facilities and limits the extent to which facility expansion is permitted. In addition, legislation requires that facility sites and pipelines be abandoned and reclaimed to the satisfaction of provincial authorities and local landowners. A breach of such legislation may result in the imposition of fines, the issuance of clean-up orders or the shutting down of facilities and pipelines.

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

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

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

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

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Revenue before inter-segment eliminations [1]								
Gathering and Processing[2]	**116,689**	112,727	127,103	117,542	104,182	113,723	129,074	123,752
Liquids Infrastructure	**99,398**	101,027	94,712	90,178	90,402	94,101	90,958	87,310
Marketing	**627,651**	699,043	535,708	472,442	457,447	459,017	472,114	497,951
Other	**7,918**	8,381	7,512	5,643	3,044	6,426	9,141	10,600
Operating Margin								
Gathering and Processing	**66,822**	66,337	79,881	71,689	70,457	68,198	73,564	69,237
Liquids Infrastructure	**67,073**	64,575	62,782	62,781	59,018	61,524	55,886	55,531
Marketing	**21,033**	68,435	8,581	23,825	24,582	44,121	54,731	99,307
Other	**4,868**	5,075	4,196	2,663	(67)	1,943	4,441	4,400
Net earnings	**67,062**	96,342	34,621	52,420	59,679	70,131	20,215	109,538
Net earnings per share ($/share)								
Basic	**0.36**	0.52	0.19	0.28	0.34	0.41	0.12	0.64
Diluted	**0.36**	0.52	0.19	0.28	0.34	0.41	0.12	0.64
Weighted average common shares (basic)	**187,445**	186,286	185,116	183,962	177,309	172,258	171,199	170,191
Weighted average common shares (diluted)	**187,445**	186,286	185,116	183,962	177,309	172,258	171,199	170,191
Dividends declared to shareholders	**77,400**	74,125	73,657	71,819	67,440	64,662	64,259	62,178

Notes:

1. Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. Revenue before inter-segment eliminations reflects these transactions. Inter-segment transactions are eliminated on consolidation in order to arrive at Operating Revenues in accordance with GAAP.
2. Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2017.

In the Gathering and Processing segment, Keyera has continued to focus on delivering cost-effective and value-added services intended to enhance its customers' economics, while at the same time maximizing throughput and efficiencies at its facilities. Operating margin in the Gathering and Processing segment is largely influenced by volumes processed through its facilities and the associated fees charged for these services. These fees are intended to be competitive in nature and are generally influenced by the prevailing commodity price and economic environment that its producer customers are facing. Operating margin in the fourth quarter of 2016 was unusually high due to the inclusion of a non-recurring adjustment of approximately $9 million related to the recovery of turnaround costs at the Strachan, Gilby and Nevis gas plants that are scheduled to occur in 2017 and 2018.

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

Operating margin from the Marketing segment can be affected by seasonal factors. The demand for iso-octane is typically highest in the second and third quarters as the demand for gasoline tends to be higher in the summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. 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.

Compared to the 2016 year-end results, the facilities segments (Gathering and Processing and Liquids Infrastructure) are performing well. In the Gathering and Processing segment, an increase in drilling activity in certain areas by producers targeting zones that are rich in NGLs has resulted in throughput growth in 2017 at several Keyera facilities including the Simonette, Brazeau River, West Pembina, and Alder Flats gas plants. In the Liquids Infrastructure segment, demand for Keyera's diluent handling services continues to be strong and several new assets were put into service in the second quarter, including the Norlite pipeline and the Fort Saskatchewan condensate system pipeline expansion and manifold. Overall fractionation revenue is expected to be higher in 2017 due to higher contracted volumes, albeit at lower average fractionation fees effective April 1, 2017. The increase in overall fractionation revenue assumes volumes are delivered in accordance with producer forecasts.

In the Marketing segment, operating margin in 2017 may be lower compared to the prior year due to lower propane margins, as well as the nine-week unscheduled outage at AEF earlier this year which has affected the contribution from iso-octane sales. Comparatively, the AEF facility was down for its scheduled turnaround in the second half of 2016 for approximately two months, which reduced iso-octane margins during that period.

See the section of this MD&A, "Segmented Results of Operations", for more information on the financial results of Keyera's operating segments for the three and six months ended June 30, 2017.

ADOPTION OF NEW AND AMENDED IFRS STANDARDS

Keyera has applied the following new IFRS amendment in 2017:

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

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

FUTURE ACCOUNTING PRONOUNCEMENTS UPDATE

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

Expected Impact

Keyera has developed an implementation plan, identifying the contracts and arrangements which will fall within the scope of IFRS 15. Major contract types and revenue streams have been determined, and Keyera is currently evaluating the impact that the new standard will have on its contracts. These include, but are not limited to (i) recognition and measurement of revenue on Keyera's consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required. In addition, once all applicable contracts and arrangements have been assessed, Keyera will make a decision regarding its adoption approach for IFRS 15.

Keyera currently anticipates that the adoption of this new accounting standard will mostly affect its Liquids Infrastructure reportable segment and, to date, Keyera has reviewed the significant agreements within this segment. The majority of these agreements are long-term contracts and performance obligations have been identified based on the distinct services or series of services performed under the agreements.

As Keyera is still completing its detailed assessments of this standard, the estimated changes to its consolidated financial statements upon the adoption of IFRS 15 cannot be provided at this time. However, Keyera is on target with its implementation plan for IFRS 15 as Keyera's management believes that it has sufficient resources allocated to the project to ensure timely completion. IFRS 15 will be adopted by Keyera on January 1, 2018.

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

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of June 30, 2017, Keyera's disclosure controls and procedures have provided reasonable assurance that material information relating to Keyera and its consolidated subsidiaries has been brought to their attention and that information required to be disclosed pursuant to applicable securities legislation has been recorded, processed, summarized and reported in an appropriate and timely manner.

Internal Controls Over Financial Reporting

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

No changes were made for the period beginning January 1, 2017 and ending June 30, 2017 that have materially affected, or are reasonably likely to materially affect Keyera's internal controls over financial reporting.

COMMON SHARES

During the three months ended June 30, 2017, there were 1,157,260 common shares issued under the DRIP and the Premium DRIP™ for consideration of $45 million, bringing the total common shares outstanding at June 30, 2017 to 188,041,320.

Subsequent to June 30, 2017, 398,463 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP™ for consideration of $16 million, bringing the total common shares outstanding at August 9, 2017 to 188,439,783.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis refers to certain financial measures that are not determined in accordance with GAAP. Measures such as distributable cash flow (cash flow from operating activities adjusted for changes in non-cash working capital, long-term incentive plan costs, inventory write-down, maintenance capital

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

FORWARD-LOOKING STATEMENTS

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

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

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

Proposed construction and completion schedules and budgets for capital projects are subject to many variables, including weather; availability and prices of materials; labour; customer project schedules and expected in service dates; contractor productivity; contractor disputes; quality of cost estimating; decision processes and approvals by joint venture partners; changes in project scope at the time of project

sanctioning; regulatory approvals, conditions or delays (including possible intervention by third parties); and macro socio-economic trends. Pipeline projects are also subject to Keyera's ability to secure the necessary rights of way; and underground cavern development is dependent on sufficient water supply. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions in this MD&A. Further, some of the projects discussed in this MD&A are subject to securing sufficient producer/customer interest and may not proceed if sufficient commitments are not obtained. Typically, the earlier in the engineering process that projects are sanctioned, the greater the likelihood that the schedule and budget may change. Expected closing of acquisitions and financings are subject to satisfaction of closing conditions which may vary depending on the nature of the transactions. Acquisitions may be subject to rights of first refusal and other third party consents.

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

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

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

Investor Information

DIVIDENDS TO SHAREHOLDERS

Dividends declared to shareholders of Keyera were $0.4125 per share in the second quarter of 2017. Effective with the May 2017 dividend and payable to shareholders on June 15, 2017, Keyera's dividend increased by approximately 6% to $0.14 per share per month, or $1.68 per share annually. Keyera is focused on providing stable long-term dividends per share that grow over time.

TAXABILITY OF DIVIDENDS

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

SUPPLEMENTARY INFORMATION

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

SECOND QUARTER 2017 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the financial results for the second quarter of 2017 at 8:00 am Mountain Time (10:00 am Eastern Time) on August 10, 2017. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 11:59 pm Mountain Time on August 24, 2017 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 51023056.

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

QUESTIONS

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

Keyera Corp.

Condensed Interim Consolidated Statements of Financial Position

(Thousands of Canadian dollars)
(Unaudited)

As at	Note	June 30, 2017 $	December 31, 2016 $
ASSETS			
Cash		**35,866**	16,477
Trade and other receivables		**315,896**	364,081
Derivative financial instruments	9	**25,338**	9,021
Inventory	3	**158,004**	107,876
Other assets	14	**47,532**	81,592
Total current assets		**582,636**	579,047
Long-term portion of other assets		**—**	4,200
Derivative financial instruments	9	**108,590**	119,606
Property, plant and equipment	5	**4,507,852**	4,200,484
Goodwill		**53,624**	53,624
Total assets		**5,252,702**	4,956,961
LIABILITIES AND EQUITY			
Trade and other payables		**454,287**	400,076
Derivative financial instruments	9	**17,318**	36,086
Dividends payable		**26,326**	24,603
Current portion of long-term debt		**60,000**	60,000
Current portion of decommissioning liability		**4,798**	11,960
Total current liabilities		**562,729**	532,725
Derivative financial instruments	9	**738**	500
Credit facility		**375,000**	235,000
Long-term debt		**1,417,537**	1,437,413
Decommissioning liability		**453,381**	464,239
Other long-term liabilities		**61,748**	57,463
Deferred tax liabilities		**437,385**	388,113
Total liabilities		**3,308,518**	3,115,453
Equity			
Share capital	4	**2,078,138**	1,987,341
Accumulated deficit		**(133,954)**	(145,833)
Total equity		**1,944,184**	1,841,508
Total liabilities and equity		**5,252,702**	4,956,961

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

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

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

Keyera Corp.

Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income
(Thousands of Canadian dollars, except share information)
(Unaudited)

		Three months ended June 30,		Six months ended June 30,	
		2017	2016	**2017**	2016
	Note	**$**	$	**$**	$
Revenues	13	**777,923**	587,014	**1,621,543**	1,187,622
Expenses	13	**(618,127)**	(433,024)	**(1,257,325)**	(857,846)
Operating margin		**159,796**	153,990	**364,218**	329,776
General and administrative expenses		**(16,533)**	(13,681)	**(33,868)**	(35,288)
Finance costs	11	**(16,933)**	(16,847)	**(34,673)**	(36,195)
Depreciation, depletion and amortization expenses		**(39,986)**	(44,641)	**(79,566)**	(89,365)
Net foreign currency gain on U.S. debt	10	**8,549**	10,363	**9,028**	15,871
Long-term incentive plan expense	7	**(10,171)**	(3,974)	**(12,918)**	(8,703)
Impairment expense		**(17,890)**	—	**(17,890)**	—
Gain (loss) on disposal of property, plant and equipment		**22,151**	(976)	**22,166**	(976)
Earnings before income tax		**88,983**	84,234	**216,497**	175,120
Income tax expense	8	**(21,921)**	(24,555)	**(53,093)**	(45,310)
Net earnings		**67,062**	59,679	**163,404**	129,810
Other comprehensive income		**—**	—	**—**	—
Net earnings and comprehensive income		**67,062**	59,679	**163,404**	129,810
Earnings per share					
Basic earnings per share	6	**0.36**	0.34	**0.87**	0.74
Diluted earnings per share	6	**0.36**	0.34	**0.87**	0.74

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

Keyera Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Cash provided by (used in):					
OPERATING ACTIVITIES					
Net earnings:		**67,062**	59,679	**163,404**	129,810
Adjustments for items not affecting cash:					
Finance costs	11	**3,583**	2,928	**7,197**	5,863
Depreciation, depletion and amortization expenses		**39,986**	44,641	**79,566**	89,365
Long-term incentive plan expense	7	**10,171**	3,974	**12,918**	8,703
Unrealized loss (gain) on derivative financial instruments	9	**7,870**	4,429	**(23,831)**	47,182
Unrealized (gain) loss on foreign exchange		**(14,508)**	8,865	**(18,955)**	(45,187)
Deferred income tax expense	8	**19,235**	18,312	**49,272**	35,400
Impairment expense		**17,890**	—	**17,890**	—
(Gain) loss on disposal of property, plant and equipment		**(22,151)**	976	**(22,166)**	976
Decommissioning liability expenditures		**(521)**	(254)	**(5,964)**	(1,237)
Changes in non-cash working capital	12	**(126,848)**	(85,683)	**(38,941)**	(35,317)
Net cash provided by operating activities		**1,769**	57,867	**220,390**	235,558
INVESTING ACTIVITIES					
Acquisitions		**(2,770)**	(19,882)	**(57,857)**	(52,042)
Capital expenditures		**(161,627)**	(143,109)	**(343,074)**	(260,102)
Proceeds on disposal of property, plant and equipment		**6,015**	85	**6,015**	85
Changes in non-cash working capital	12	**12,827**	(6,224)	**116,097**	(9,533)
Net cash used in investing activities		**(145,555)**	(169,130)	**(278,819)**	(321,592)
FINANCING ACTIVITIES					
Borrowings under credit facility		**1,609,000**	643,529	**1,874,000**	1,022,406
Repayments under credit facility		**(1,414,000)**	(782,406)	**(1,734,000)**	(1,162,406)
Proceeds from issuance of long-term debt		**—**	60,000	**—**	60,000
Repayment of long-term debt		**—**	(97,740)	**—**	(97,740)
Financing costs related to credit facility/long-term debt		**(138)**	(43)	**(1,099)**	(62)
Proceeds from equity offering		**—**	344,871	**—**	344,871
Issuance costs related to equity offering		**—**	(14,243)	**250**	(14,243)
Proceeds from issuance of shares related to DRIP	4	**44,929**	41,134	**90,547**	81,490
Repayment of finance lease liabilities	12	**(561)**	—	**(1,124)**	—
Dividends paid to shareholders		**(75,837)**	(66,116)	**(149,803)**	(130,642)
Net cash provided by financing activities		**163,393**	128,986	**78,771**	103,674
Effect of exchange rate fluctuations on foreign cash held		**(704)**	109	**(953)**	(50)
Net increase in cash		**18,903**	17,832	**19,389**	17,590
Cash at the start of the period		**16,963**	13,205	**16,477**	13,447
Cash at the end of the period		**35,866**	31,037	**35,866**	31,037
Income taxes paid in cash		**1,516**	9,251	**2,154**	63,554
Interest paid in cash		**34,019**	29,888	**42,599**	38,361

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

Keyera Corp.

Condensed Interim Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)
(Unaudited)

	Share Capital $	Accumulated Deficit $	Total $
Balance at December 31, 2015	**1,483,376**	**(85,106)**	**1,398,270**
Common shares issued pursuant to dividend reinvestment plans	81,490	—	81,490
Common shares issued pursuant to equity offering	334,474	—	334,474
Net earnings and total comprehensive income	—	129,810	129,810
Dividends declared to shareholders	—	(132,102)	(132,102)
Balance at June 30, 2016	**1,899,340**	**(87,398)**	**1,811,942**

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

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

Keyera Corp.
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2017 and 2016
(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)
(Unaudited)

1. GENERAL BUSINESS DESCRIPTION

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

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

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

Keyera is approved to issue two classes of preferred shares (one class referred to as the "First Preferred Shares", a second class referred to as the "Second Preferred Shares"), and collectively both classes being referred to as the "Preferred Shares". Each are issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the board of directors may at any time and from time to time determine, subject to an aggregate maximum number of authorized Preferred Shares. No preferred shares had been issued as at June 30, 2017.

2. BASIS OF PREPARATION

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

These condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2017 and 2016 do not include all disclosures required for the preparation of annual consolidated financial statements and should be read in conjunction with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2016.

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

New and amended IFRS standards adopted by Keyera

Keyera has applied the following new IFRS amendment in 2017:

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

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

Future accounting pronouncements update

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

Expected Impact

Keyera has developed an implementation plan, identifying the contracts and arrangements which will fall within the scope of IFRS 15. Major contract types and revenue streams have been determined, and Keyera is currently evaluating the impact that the new standard will have on its contracts. These include, but are not limited to (i) recognition and measurement of revenue on Keyera's consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required. In addition, once all applicable contracts and arrangements have been assessed, Keyera will make a decision regarding its adoption approach for IFRS 15.

Keyera currently anticipates that the adoption of this new accounting standard will mostly affect its Liquids Infrastructure reportable segment and to date, Keyera has reviewed the significant agreements within this segment. The majority of these agreements are long-term contracts and performance obligations have been identified based on the distinct services or series of services performed under the agreements.

As Keyera is still completing its detailed assessments of this standard, the estimated changes to its consolidated financial statements upon the adoption of IFRS 15 cannot be provided at this time. However, Keyera is on target with its implementation plan for IFRS 15 as Keyera's management believes that it has sufficient resources allocated to the project to ensure timely completion. IFRS 15 will be adopted by Keyera on January 1, 2018.

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

3. INVENTORY

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

As at	**June 30, 2017 $**	December 31, 2016 $
NGLs and iso-octane	**152,600**	103,233
Other	**5,404**	4,643
Total inventory	**158,004**	107,876

For the period ended June 30, 2017, $158,004 of inventory was carried at cost (December 31, 2016 – $107,876) and $nil was carried at net realizable value (December 31, 2016 – $nil).

4. CAPITAL

Keyera Corp. Share Capital	**Number of Common Shares**	**Share Capital $**
Balance at December 31, 2016	**185,683,427**	**1,987,341**
Common shares issued pursuant to dividend reinvestment plans	2,357,893	90,547
Issuance costs related to 2016 equity offering	—	250
Balance at June 30, 2017	**188,041,320**	**2,078,138**

5. PROPERTY, PLANT AND EQUIPMENT

Gathering and processing impairment

Keyera identified through its impairment review that the Caribou facility, a cash generating unit (CGU) within the Gathering and Processing segment, was impaired as the carrying value of the facility was greater than its recoverable amount. The recoverable amount for the CGU was determined based on its fair value less costs of disposal. The impairment loss recognized in this segment was $17,890 for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – $nil).

Operations at the Caribou facility had been suspended since December 2015. The facility is located in Northeast British Columbia where producers receive NGX Spectra Station #2 pricing that has been affected by weak natural gas prices and regional sales gas pipeline constraints. Gas production in the area had become uneconomic and several producers had chosen to shut in production in recent years. There continues to be little drilling activity in the area and natural gas prices have only marginally improved. Based on these factors, Keyera impaired the CGU to the estimated fair value of the facility.

Disposal of property, plant and equipment
In May 2017, Keyera disposed of the Paddle River facility and the Judy Creek natural gas pipeline for total proceeds of $6,000, which resulted in a gain of $22,166 for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – a loss of $976). The Paddle River facility had been shut down since February 2015 along with the Judy Creek natural gas pipeline, which was non-operational and was considered a non-core asset within Keyera's Gathering and Processing segment.

6. EARNINGS PER SHARE

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

	Three months ended June 30,		**Six months ended June 30,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Basic and diluted earnings per share	**0.36**	0.34	**0.87**	0.74
Net earnings – basic & diluted	**67,062**	59,679	**163,404**	129,810

	Three months ended June 30,		**Six months ended June 30,**	
(in thousands)	**2017**	2016	**2017**	2016
Weighted average number of shares – basic and diluted	**187,445**	177,309	**186,869**	174,783

7. SHARE-BASED COMPENSATION AND PENSION PLANS

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

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

The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The fair value of the liability is measured by applying a fair value pricing model. At June 30, 2017 the fair value of shares granted was $40.82 per share (December 31, 2016 – $40.46 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Performance awards	**9,232**	3,324	**11,493**	7,446
Restricted awards	**939**	650	**1,425**	1,257
Total long-term incentive plan expense	**10,171**	3,974	**12,918**	8,703

The table below shows the number of share awards granted:

	Share awards granted as at	
Share Award Series	**June 30, 2017**	December 31, 2016
Issued July 1, 2014 – Performance Awards	**332,496**	335,398
Issued July 1, 2015 – Performance Awards	**330,379**	333,392
Issued July 1, 2016 – Performance Awards	**344,406**	345,081
Issued July 1, 2014 – Restricted Awards	**19,132**	19,634
Issued July 1, 2015 – Restricted Awards	**39,763**	40,859
Issued July 1, 2016 – Restricted Awards	**69,644**	69,645

Employee Stock Purchase Plan

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

Defined Contribution Pension Plan

For the three and six months ended June 30, 2017, Keyera made pension contributions of $2,258 and $4,505 (three and six months ended June 30, 2016 - $2,206 and $4,423) on behalf of its employees. The contributions were recorded in general and administrative expenses.

Deferred Share Unit Plan

Effective January 1, 2016, Keyera implemented a deferred share unit ("DSU") plan, for non-employee directors. Each DSU vests on the date the grant is awarded but cannot be redeemed until a director ceases to be a member of the board of directors. The grant value is determined based on a 20 day weighted average trading share price. DSUs are settled in cash (on an after-tax basis) based on the 20 day weighted average Keyera share price up to the date of settlement. For the three and six months ended June 30, 2017, Keyera recorded $302 and $479 (three and six months ended June 30, 2016 – $168 and $381) in general and administrative expenses related to the DSU plan.

The table below shows the number of DSUs granted:

	Deferred Shared Units granted as at	
Deferred Share Units	**June 30, 2017**	December 31, 2016
Balance at beginning of period	**19,827**	—
Granted	**10,759**	20,353
Redeemed	**—**	(526)
Forfeited	**—**	—
Balance at end of period	**30,586**	19,827

8. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Current	**2,686**	6,243	**3,821**	9,910
Deferred	**19,235**	18,312	**49,272**	35,400
Total income tax expense	**21,921**	24,555	**53,093**	45,310

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial Instruments

(a) Fair value

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

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

The fair value hierarchy has the following levels:

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

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

Financial instruments with fair value equal to carrying value

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

Fair value of senior fixed rate debt

The fair value of long-term debt is based on third party estimates for similar issues or current rates offered to Keyera for debt of the same maturity. The total fair value of Keyera's unsecured senior notes at June 30, 2017 was $1,568,892 (December 31, 2016 — $1,580,394) and this was determined by reference to

inputs other than quoted market prices in active markets for identical liabilities under Level 2 of the fair value hierarchy.

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

As at June 30, 2017	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing: NGLs and Iso-octane						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by August 31, 2018)	2,499,000 Bbls	61.66/Bbl	Level 2	3,741	7,152	(3,411)
Buyer of fixed price WTI swaps (maturing by March 31, 2018)	1,012,128 Bbls	68.30/Bbl	Level 2	(8,231)	133	(8,364)
Seller of fixed price NGL swaps (maturing by March 31, 2018)	3,123,657 Bbls	38.26/Bbl	Level 2	9,395	10,875	(1,480)
Buyer of fixed price NGL swaps (maturing by August 31, 2018)	740,000 Bbls	39.51/Bbl	Level 2	(481)	311	(792)
Seller of fixed price RBOB to WTI basis spreads (maturing by December 31, 2018)	3,180,000 Bbls	18.01/Bbl	Level 2	(1,645)	1,854	(3,499)
Currency:						
Seller of forward contracts (maturing by December 1, 2017)	US$90,000,000	1.33/USD	Level 2	2,673	2,673	—
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	180,048 MWhs	38.58/MWh	Level 2	363	868	(505)
Corporate and Other						
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2017)	42,000 Bbls	60.81/Bbls	Level 2	359	364	(5)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$585,598,350	0.98/USD - 1.22/USD	Level 2	109,698	109,698	—
				115,872	**133,928**	**(18,056)**

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

As at December 31, 2016	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	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 to WTI basis spreads (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)
Corporate and Other						
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing December 31, 2017)	129,000 Bbls	60.45/Bbl	Level 2	(930)	—	(930)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$557,289,410	0.98/USD - 1.22/USD	Level 2	121,860	121,860	—
				92,041	**128,627**	**(36,586)**

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Unrealized (loss) gain	**$**	$	**$**	$
Marketing revenue	**(1,602)**	(21,153)	**33,369**	(14,431)
Liquids Infrastructure operating expense	**1,056**	655	**1,056**	78
Gathering and processing expense	**76**	41	**14**	1
Corporate and other:				
Production revenue (expense)	**328**	(1,314)	**1,554**	(3,031)
Foreign currency (loss) gain on U.S. debt	**(7,728)**	17,342	**(12,162)**	(29,799)
Total unrealized (loss) gain	**(7,870)**	(4,429)	**23,831**	(47,182)

Risk Management

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

(b) Commodity price risk

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

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

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

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

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

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

	Three months ended June 30,		**Six months ended June 30,**	
	2017	2016	**2017**	2016
U.S. dollar sales and purchases	**$**	$	**$**	$
Sales priced in U.S. dollars	**174,648**	168,195	**399,520**	291,715
Purchases priced in U.S. dollars	**(121,781)**	(83,359)	**(211,553)**	(151,429)

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 facility. To manage this currency exposure, Keyera has entered into long-term cross-currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt as well as short-term cross-currency swaps relating to the LIBOR loans drawn under the credit facility. These cross-currency contracts are accounted for as derivative instruments. Refer to note 10 for a summary of the foreign currency gains (losses) associated with the U.S. dollar denominated long-term debt.

(d) Interest rate risk
The majority of Keyera's interest rate risk is attributed to its fixed and floating rate debt, which is used to finance capital investments and operations. Keyera's remaining financial instruments are not significantly exposed to interest rate risk. The floating rate debt creates exposure to interest rate cash flow risk, whereas the fixed rate debt creates exposure to interest rate price risk. At June 30, 2017, fixed rate borrowings comprised 80% of total debt outstanding (December 31, 2016 – 86%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

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

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is $315,896 at June 30, 2017 (December 31, 2016 – $364,081). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at June 30, 2017. With respect to counterparties for derivative financial instruments, the

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

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

(f) Liquidity risk

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

Risk Management Sensitivities

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

	Impact on income before tax June 30, 2017		Impact on income before tax June 30, 2016	
Risk sensitivities	**Increase $**	**Decrease $**	Increase $	Decrease $
Commodity price changes				
+ 10% in natural gas price	**—**	**—**	—	(67)
- 10% in natural gas price	**—**	**—**	67	—
+ 10% in electricity price	**731**	**—**	605	—
- 10% in electricity price	**—**	**(731)**	—	(605)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(23,195)**	—	(14,536)
- 10% in NGL, crude oil and iso-octane prices	**23,195**	**—**	14,536	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(38)**	1,495	—
- $0.01 in U.S./Canadian dollar exchange rate	**38**	**—**	—	(1,495)
Interest rate changes				
+ 1% in interest rate	**—**	**(1,319)**	—	(1,851)
- 1% in interest rate	**1,319**	**—**	1,851	—

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

The components of foreign currency gain were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Foreign currency gain resulting from:				
Translation of long-term debt and interest payable	**14,958**	484	**19,511**	43,592
Change in fair value of the cross currency swaps - principal and interest portion	**(7,728)**	8,119	**(12,162)**	(29,799)
Gain from cross currency swaps – principal and interest portion[1]	**1,319**	1,760	**1,679**	2,078
Total foreign currency gain on U.S. debt	**8,549**	10,363	**9,028**	15,871

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

11. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Interest on bank overdrafts and credit facility	**2,784**	3,275	**5,347**	6,396
Interest on long-term debt	**17,743**	14,512	**35,369**	30,875
Interest capitalized	**(7,199)**	(3,915)	**(13,272)**	(7,008)
Other interest expense	**536**	47	**1,061**	69
Total interest expense on current and long-term debt	**13,864**	13,919	**28,505**	30,332
Unwinding of discount on decommissioning liability	**2,682**	2,606	**5,431**	5,213
Unwinding of discount on long-term debt	**387**	322	**737**	650
Non-cash expenses in finance costs	**3,069**	2,928	**6,168**	5,863
Total finance costs	**16,933**	16,847	**34,673**	36,195

For the three and six months ended June 30, 2017, $7,199 and $13,272 of borrowing (interest) costs were capitalized (three and six months ended June 30, 2016 – $3,915 and 7,008) at a weighted average capitalization rate of 4.34% on funds borrowed (three and six months ended June 30, 2016 – 4.86%).

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Inventories	**(69,958)**	(26,825)	**(50,128)**	(4,176)
Trade and other receivables	**(7,354)**	(16,130)	**44,446**	15,306
Other assets	**(11,191)**	(20,324)	**(21,068)**	(18,796)
Trade and other payables	**(38,345)**	(22,404)	**(12,191)**	(27,651)
Changes in non-cash working capital from operating activities	**(126,848)**	(85,683)	**(38,941)**	(35,317)

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Trade and other payables	**12,827**	(6,224)	**61,043**	(9,533)
Other assets	**—**	—	**55,054**	—
Changes in non-cash working capital from investing activities	**12,827**	(6,224)	**116,097**	(9,533)

Reconciliation of Liabilities Arising from Financing Activities:

	Credit Facilities	Current and Long-term Debt	Derivative Financial Assets Related To U.S. Long-term Borrowings	Current and Long-term Finance Lease Liabilities
	$	$	$	$
As at December 31, 2016	**235,000**	**1,497,413**	**121,860**	**54,218**
Cash changes:				
Inflows from borrowings	1,874,000	—	—	—
Outflows related to repayments	(1,734,000)	—	—	(1,124)
Outflows related to financing costs	—	(1,099)	—	—
Non-cash changes:				
Finance costs[1]	—	—	—	1,029
Fair value changes	—	—	(12,162)	—
Unrealized foreign exchange	—	(19,514)	—	—
Unwinding of discount on long-term debt	—	737	—	—
As at June 30, 2017	**375,000**	**1,477,537**	**109,698**	**54,123**

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

13. SEGMENT INFORMATION

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

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

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

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

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

Inter-segment and intra-segment sales and expenses are recorded at current market prices at the date of the transaction. These transactions are eliminated on consolidation in order to arrive at net earnings in accordance with IFRS.

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

The following table shows the operating margin from each of Keyera's operating segments and includes inter-segment transactions. Operating margin is a key measure used by management to monitor profitability by segment.

Three months ended June 30, 2017	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	627,651	116,689	99,398	7,918	851,656
Operating expenses before inter-segment eliminations	(606,618)	(49,867)	(32,325)	(3,050)	(691,860)
Operating margin	21,033	66,822	67,073	4,868	159,796
Inter-segment revenue eliminations	(1,953)	(5,693)	(57,751)	(8,336)	(73,733)
Inter-segment expense eliminations	65,629	1,305	4,859	1,940	73,733
	84,709	62,434	14,181	(1,528)	159,796
General and administrative expenses	—	—	—	(16,533)	(16,533)
Finance costs	—	—	—	(16,933)	(16,933)
Depreciation, depletion and amortization expenses	—	—	—	(39,986)	(39,986)
Net foreign currency gain on U.S. debt	—	—	—	8,549	8,549
Long-term incentive plan expense	—	—	—	(10,171)	(10,171)
Impairment expense	—	(17,890)	—	—	(17,890)
Gain on disposal of property, plant and equipment	—	22,151	—	—	22,151
Earnings (loss) before income tax	84,709	66,695	14,181	(76,602)	88,983
Income tax expense	—	—	—	(21,921)	(21,921)
Net earnings (loss)	**84,709**	**66,695**	**14,181**	**(98,523)**	**67,062**
Revenue from external customers	625,698	110,996	41,647	(418)	777,923

Three months ended June 30, 2016	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	457,447	104,182	90,402	3,044	655,075
Operating expenses before inter-segment eliminations	(432,865)	(33,725)	(31,384)	(3,111)	(501,085)
Operating margin	24,582	70,457	59,018	(67)	153,990
Inter-segment revenue eliminations	—	(7,631)	(54,851)	(5,579)	(68,061)
Inter-segment expense eliminations	63,598	1,149	1,178	2,136	68,061
	88,180	63,975	5,345	(3,510)	153,990
General and administrative expenses	—	—	—	(13,681)	(13,681)
Finance costs	—	—	—	(16,847)	(16,847)
Depreciation, depletion and amortization expenses	—	—	—	(44,641)	(44,641)
Net foreign currency gain on U.S. debt	—	—	—	10,363	10,363
Long-term incentive plan expense	—	—	—	(3,974)	(3,974)
Loss on disposal of property, plant and equipment	—	—	(976)	—	(976)
Earnings (loss) before income tax	88,180	63,975	4,369	(72,290)	84,234
Income tax expense	—	—	—	(24,555)	(24,555)
Net earnings (loss)	**88,180**	**63,975**	**4,369**	**(96,845)**	**59,679**
Revenue from external customers	457,447	96,551	35,551	(2,535)	587,014

Six months ended June 30, 2017	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	1,326,694	229,416	200,425	16,299	1,772,834
Operating expenses before inter-segment eliminations	(1,237,226)	(96,257)	(68,777)	(6,356)	(1,408,616)
Operating margin	89,468	133,159	131,648	9,943	364,218
Inter-segment revenue eliminations	(1,953)	(12,357)	(119,685)	(17,296)	(151,291)
Inter-segment expense eliminations	136,900	2,405	7,679	4,307	151,291
	224,415	123,207	19,642	(3,046)	364,218
General and administrative expenses	—	—	—	(33,868)	(33,868)
Finance costs	—	—	—	(34,673)	(34,673)
Depreciation, depletion and amortization expenses	—	—	—	(79,566)	(79,566)
Net foreign currency gain on U.S. debt	—	—	—	9,028	9,028
Long-term incentive plan expense	—	—	—	(12,918)	(12,918)
Impairment expense	—	(17,890)	—	—	(17,890)
Gain on disposal of property, plant and equipment	—	22,166	—	—	22,166
Earnings (loss) before income tax	224,415	127,483	19,642	(155,043)	216,497
Income tax expense	—	—	—	(53,093)	(53,093)
Net earnings (loss)	**224,415**	**127,483**	**19,642**	**(208,136)**	**163,404**
Revenue from external customers	1,324,741	217,059	80,740	(997)	1,621,543

Six months ended June 30, 2016	**Marketing $**	**Gathering & Processing $**	**Liquids Infrastructure $**	**Corporate and Other $**	**Total $**
Revenue before inter-segment eliminations	916,464	217,905	184,503	9,470	1,328,342
Operating expenses before inter-segment eliminations	(847,761)	(79,250)	(63,961)	(7,594)	(998,566)
Operating margin	68,703	138,655	120,542	1,876	329,776
Inter-segment revenue eliminations	—	(14,337)	(115,358)	(11,025)	(140,720)
Inter-segment expense eliminations	130,319	2,295	3,309	4,797	140,720
	199,022	126,613	8,493	(4,352)	329,776
General and administrative expenses	—	—	—	(35,288)	(35,288)
Finance costs	—	—	—	(36,195)	(36,195)
Depreciation, depletion and amortization expenses	—	—	—	(89,365)	(89,365)
Net foreign currency gain on U.S. debt	—	—	—	15,871	15,871
Long-term incentive plan expense	—	—	—	(8,703)	(8,703)
Loss on disposal of property, plant and equipment	—	—	(976)	—	(976)
Earnings (loss) before income tax	199,022	126,613	7,517	(158,032)	175,120
Income tax expense	—	—	—	(45,310)	(45,310)
Net earnings (loss)	**199,022**	**126,613**	**7,517**	**(203,342)**	**129,810**
Revenue from external customers	916,464	203,568	69,145	(1,555)	1,187,622

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	Three months ended June 30, 2017 $	2016 $	Six months ended June 30, 2017 $	2016 $
Canada	**690,507**	493,233	**1,386,642**	982,622
U.S.	**87,416**	93,781	**234,901**	205,000
Total revenue	**777,923**	587,014	**1,621,543**	1,187,622

Non-current assets[1] as at	June 30, 2017 $	December 31, 2016 $
Canada	**4,477,482**	4,172,058
U.S.	**83,994**	82,050
Total non-current assets	**4,561,476**	4,254,108

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

Information about major customers

For the three months ended June 30, 2017 and 2016, Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue.

For the six months ended June 30, 2017, Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue (for the six months ended June 30, 2016 – $126,092 of revenue was earned from one external customer).

14. OTHER ASSETS

Other assets primarily consists of funds advanced to a joint venture partner for the future construction of the expansion phase on an existing gas plant jointly owned by Keyera and the joint venture partner. As at June 30, 2017, the prepaid balance was $17,627. At December 31, 2016, $55,054 of the other assets balance related to a prepayment made by Keyera for the acquisition of 1,290 acres of undeveloped land in the Fort Saskatchewan area. On January 19, 2017, Keyera met all the closing conditions related to the acquisition and as such, $55,054 was reclassified from other assets to land.

15. SUBSEQUENT EVENTS

On July 13, 2017, Keyera declared a dividend of $0.14 per share, payable on August 15, 2017, to shareholders of record as of July 24, 2017.

On August 9, 2017, Keyera declared a dividend of $0.14 per share, payable on September 15, 2017, to shareholders of record as of August 22, 2017.

On June 20, 2017, Keyera announced that it had entered into a private placement of 10-year senior unsecured notes (the "Notes") totaling $400,000 with a group of institutional investors in Canada and the United States. The Notes will bear interest at 3.68% and mature on September 20, 2027. Subject to satisfying closing conditions, the transaction is expected to close on September 20, 2017. Interest will be paid semi-annually.

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

Gianna Manes[(5)]
President and CEO
Enmax Corporation
Calgary, Alberta

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

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

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

Charlene Ripley[(5)]
EVP & General Counsel
GoldCorp Inc.
Vancouver, British Columbia

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

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

Janet Woodruff [(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

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David G. Smith
President and Chief Executive Officer

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President Operations, Liquids Business Unit

Michael Freeman
Vice President, Commercial

Suzanne Hathaway
Senior Vice President, General Counsel and Corporate Secretary

Rick Koshman
Vice President, Engineering

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

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

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

Eileen Marikar
Vice President, Controller

Brian Martin
Vice President, Business Development, NGL Facilities

C. Dean Setoguchi
Senior Vice President, Liquids Business Unit

Jamie Urquhart
Vice President Operations, Gathering and Processing Business Unit

Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q2 2017

TSX:KEY – Cdn $	
High	$42.19
Low	$37.76
Close June 30, 2017	$40.82
Volume	40,326,317
Average Daily Volume	640,100

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Chartered Professional Accountants
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