KEYERA

DELIVERING MIDSTREAM SOLUTIONS

November 6, 2018

2018 Third Quarter Report

For the period ended September 30, 2018

HIGHLIGHTS

- Keyera delivered strong financial results in the third quarter of 2018 with adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")[1] of $160 million, compared to $138 million reported in the third quarter of the previous year.
- Distributable cash flow[1] was $127 million or $0.61 per share (Q3 2017 – $108 million or $0.57 per share), resulting in a payout ratio of 72%[1] for the third quarter and 61%[1] year to date.
- Net earnings for the period were $35 million or $0.17 per share (Q3 2017 – $38 million or $0.20 per share) and included $63 million in impairment expenses.
- The Gathering and Processing segment recorded operating margin of $64 million (Q3 2017 – $69 million) in the third quarter. Even though processing volumes were comparable to the same period last year, operating margin was lower due to reduced producer activity and higher operating expenses at certain facilities.
- The Liquids Infrastructure segment reported a record operating margin of $82 million (Q3 2017 – $72 million) for the quarter. These results were driven by increased demand for condensate services and incremental operating margin from new assets, including the Base Line Terminal and the Norlite pipeline.
- The Marketing segment's operating margin was $70 million (Q3 2017 – loss of $15 million), while realized margin[1,2] was $43 million (Q3 2017 – $10 million). The continued strong Marketing results were largely due to higher contributions from iso-octane and Keyera's liquids blending and condensate businesses.
- During the quarter, Keyera continued to advance its capital projects at the Simonette, Wapiti and Pipestone gas plants, which support liquids-rich Montney and Duvernay production. Once completed, these three plants will provide Keyera with 950 million cubic feet of gross sour gas processing capacity and 90,000 barrels per day of condensate handling capacity.
- At the Base Line Terminal, five tanks were completed during the quarter and in October the final tank was placed into service. The South Grand Rapids diluent pipeline was also completed to support future demand.
- Keyera has entered into a 50/50 joint venture agreement with Wolf Midstream to develop a pipeline system that would bring condensate and natural gas liquids from the prolific Montney and Duvernay developments in northwestern Alberta to Fort Saskatchewan. A final investment decision is expected in 2019.
- Including $328 million of acquisitions completed during the first nine months of the year, Keyera expects to invest between $1.2 billion and $1.3 billion in growth capital in 2018.
- In 2019, Keyera plans to invest growth capital between $800 million and $900 million, excluding acquisitions. Keyera continues to maintain a strong balance sheet and is well positioned to fund its capital programs.

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

2 Realized margin is a "Non-GAAP Measure" and excludes the effect of non-cash gains and losses from risk management contracts.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Net earnings	**34,684**	38,464	**229,172**	201,868
Per share ($/share) – basic	**0.17**	0.20	**1.11**	1.08
Cash flow from operating activities	**69,382**	80,698	**358,697**	301,088
Distributable cash flow[1]	**127,044**	108,293	**437,727**	336,544
Per share ($/share)[1]	**0.61**	0.57	**2.12**	1.80
Dividends declared	**91,645**	79,317	**264,832**	230,842
Per share ($/share)	**0.44**	0.42	**1.28**	1.23
Payout ratio %[1]	**72%**	73%	**61%**	69%
Adjusted EBITDA[2]	**159,816**	138,177	**559,085**	419,616
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,478**	1,477	**1,531**	1,444
Net processing throughput (MMcf/d)	**1,149**	1,147	**1,186**	1,130
Liquids Infrastructure:				
Gross processing throughput[3] (Mbbl/d)	**183**	186	**175**	175
Net processing throughput[3] (Mbbl/d)	**79**	72	**79**	63
AEF iso-octane production volumes (Mbbl/d)	**14**	15	**14**	12
Marketing:				
Inventory value	**305,673**	170,419	**305,673**	170,419
Sales volumes (Bbl/d)	**147,800**	138,500	**147,700**	135,700
Acquisitions	**105,240**	3,265	**327,595**	61,122
Growth capital expenditures	**213,797**	142,202	**706,890**	468,238
Maintenance capital expenditures	**8,374**	16,891	**37,463**	33,929
Total capital expenditures	**327,411**	162,358	**1,071,948**	563,289
Weighted average number of shares outstanding – basic and diluted	**208,037**	188,650	**206,660**	187,469

	As at September 30,	
	2018	2017
Long-term debt	**2,086,460**	1,795,708
Credit facility	**40,000**	95,000
Working capital deficit (surplus)[4]	**24,164**	(21,193)
Net debt	**2,150,624**	1,869,515
Common shares outstanding – end of period	**208,757**	189,263

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 continued to generate strong results in the third quarter of 2018, with both adjusted EBITDA and distributable cash flow increasing over the same quarter last year. Overall, our adjusted EBITDA was $160 million, distributable cash flow was $127 million, or $0.61 per share, and net earnings were $35 million for the three months ended September 30, 2018.

Our results reflect the strength of our integrated value chain and contributions from our growth capital program. Since the beginning of the year, we have completed a number of projects including the Base Line Terminal, the Keylink and Hull NGL pipeline systems, liquids enhancements at our Simonette gas plant, and the acquisition of the Oklahoma Liquids Terminal. In 2019, we are planning to invest growth capital of between $800 million and $900 million, primarily focused on projects underway that support our strategies. Projects at the Simonette, Wapiti and Pipestone gas plants will increase our presence in the liquids-rich Montney and Duvernay resource developments, while the Wildhorse crude oil storage and blending terminal in Cushing, Oklahoma supports our U.S. strategy. Keyera has a history of disciplined capital allocation, which we believe will continue to generate cash flow growth and long-term shareholder value.

Gathering and Processing Business Unit

In the Gathering and Processing business unit, operating margin for the third quarter of 2018 was $64 million, $5 million below the $69 million reported in the same period of 2017. Reduced producer activity in certain areas combined with higher operating costs lowered our operating margin at some facilities.

Overall, our gross processing throughput volumes were relatively stable compared to the previous quarter and the third quarter of last year as producers remain active in areas rich in natural gas liquids. Throughput volumes at our Simonette gas plant increased 19% compared to the same period last year, even with a scheduled outage for seven days.

To meet the growing needs of producers in the liquids-rich Montney regions of northwestern Alberta, Keyera is planning to complete approximately $1.9 billion in capital projects over the next three years and have 950 million cubic feet per day of sour gas processing capacity and 90,000 barrels per day of condensate handling facilities. In 2019, we expect to complete the first phase of the Wapiti gas plant, the North Wapiti Pipeline System and the expansion at the Simonette gas plant. These projects will double our existing gas processing capacity in the area from 300 million cubic feet per day to 600 million cubic feet per day, and provide 52,000 barrels per day of condensate handling facilities. In 2020 and 2021, we expect to add another 350 million cubic feet per day of gas processing capacity and 24,000 barrels per day of condensate handling facilities with the completion of the second phase of the Wapiti gas plant and the first phase of the Pipestone gas plant. These three plants support some of the most attractive geological developments in the Western Canada Sedimentary Basin, where producer economics are driven by the strong value of condensate. We continue to work with producers in the area for additional volume commitments to fill uncontracted capacity and support a potential second phase of the Pipestone gas plant.

Liquids Business Unit – Liquids Infrastructure Segment

The Liquids Infrastructure segment generated a record operating margin of $82 million in the third quarter of 2018, which represents a 15% increase over the same period in the prior year. This was primarily due to incremental margin from the startup of the Norlite diluent pipeline in mid-2017 and the Base Line Terminal earlier this year. During the quarter, five tanks were completed at the Base Line Terminal and in October the final tank was placed into service. The Terminal provides 4.8 million barrels of crude oil storage capacity and can be expanded for total storage of up to 6.6 million barrels.

During the quarter, we had strong demand for many of our liquids infrastructure assets and services. Our fractionators at Fort Saskatchewan operated near capacity, utilization of our storage caverns was very high and we handled record volumes through our condensate system. To position Keyera for future growth we are pleased to have completed the South Grand Rapids diluent pipeline. This new pipeline provides additional capacity, flexibility and reliability between Edmonton and Fort Saskatchewan for our oil sands customers and

positions Keyera for future growth. We continue to expand our underground storage capacity and expect two new caverns to be available in 2020 and 2021.

As producers continue to focus on liquids-rich Montney and Duvernay developments in northwestern Alberta, we recognize the industry's need for a competitive natural gas liquids transportation solution from the area to Fort Saskatchewan, Alberta's NGL hub. In the fourth quarter of 2018, we entered into a 50/50 joint venture agreement with Wolf Midstream to develop the Key Access Pipeline System ("KAPS"), a proposed liquids gathering system that would include a pipeline dedicated to transporting natural gas liquids and a second pipeline dedicated to condensate service. We continue to work with producers in the area on this egress solution and expect a final investment decision in 2019, subject to obtaining sufficient customer support and final cost estimates.

Liquids Business Unit – Marketing Segment

The Marketing segment continued to report impressive quarterly results with an operating margin of $70 million in the quarter compared to a loss of $15 million in the same quarter of 2017. Excluding the effect of unrealized gains and losses from risk management contracts, the realized margin was $43 million compared to $10 million in the third quarter of last year.

During the quarter, our marketing business continued to benefit from a higher contribution from iso-octane sales, as well as new contributions from our Oklahoma Liquids Terminal that we acquired in June. Our condensate business was also a strong contributor to the quarter as we moved more volumes through our condensate system to meet the growing needs of oil sands producers.

Our AEF facility has operated very well in 2018 and continues to maintain high utilization rates. To help ensure continued reliability and high utilization of the facility, we recently shut down AEF for preventative maintenance. The outage is not expected to have a material financial impact as demand for iso-octane is typically lower in the fourth quarter. We expect AEF to resume full operations by mid-November.

Outlook

Keyera continues to serve our customers' needs while adhering to our disciplined strategy. I am pleased with the performance of our base business, the execution of our capital programs and the long-term fee-for-service cash flows these projects will generate. Although natural gas prices continue to be challenged, producers remain active in liquids-rich plays such as the Cardium, Viking, Spirit River, Montney and Duvernay. Keyera is well positioned for the future given our existing integrated network of assets and our development plans at our Simonette, Wapiti and Pipestone gas plants. With increased production from liquids-rich areas in Alberta, demand for our fractionation, storage and condensate assets is very strong and we are transporting more volumes than ever before to end user markets. While we continue to increase our capacity to support demand, we are also pursuing opportunities that expand our service offering, such as the proposed KAPS natural gas liquids and condensate gathering pipeline system. Keyera's strong balance sheet, distributable cash flow and DRIP programs allow us to be well positioned to fund our current capital programs. Our team looks forward to a strong finish in 2018 and continued operational excellence and project execution in 2019.

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 November 6, 2018, and is a review of the results of operations and the liquidity and capital resources of Keyera Corp. and its subsidiaries (collectively "Keyera"). The MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements ("accompanying financial statements") of Keyera for the three and nine months ended September 30, 2018, and the notes thereto as well as the audited consolidated financial statements of Keyera for the year ended December 31, 2017, and the related MD&A. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") also referred to as GAAP, and are stated in Canadian dollars. Additional information related to Keyera, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Keyera's website at www.keyera.com.

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

Keyera's Business

Keyera operates an integrated Canadian-based midstream business with extensive interconnected assets and depth of expertise in delivering midstream energy solutions. Midstream entities operate in the oil and gas industry between the upstream sector, which includes oil and gas exploration and production, and the downstream sector, which includes the refining and marketing of finished products. Keyera is organized into two integrated business units:

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

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

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

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

CONSOLIDATED FINANCIAL RESULTS

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

(Thousands of Canadian dollars, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Net earnings	**34,684**	38,464	**229,172**	201,868
Net earnings per share (basic)	**0.17**	0.20	**1.11**	1.08
Operating margin	**219,468**	128,234	**659,376**	492,452
Realized margin[1]	**192,554**	153,678	**640,191**	484,527
Adjusted EBITDA[2]	**159,816**	138,177	**559,085**	419,616
Cash flow from operating activities	**69,382**	80,698	**358,697**	301,088
Distributable cash flow[3]	**127,044**	108,293	**437,727**	336,544
Distributable cash flow per share[3] (basic)	**0.61**	0.57	**2.12**	1.80
Dividends declared	**91,645**	79,317	**264,832**	230,842
Dividends declared per share	**0.44**	0.42	**1.28**	1.23
Payout ratio[4]	**72%**	73%	**61%**	69%

Notes:

1 Realized margin is defined as operating margin excluding unrealized gains and losses from risk management contracts from the Marketing segment. Realized margin is not a standard measure under GAAP. See the section titled, "Results of Operations: Marketing", for a reconciliation of Operating margin to Realized margin as it relates to the Marketing segment only. Realized margin is the same as operating margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure).

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

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

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

Keyera recorded strong overall financial results in the third quarter of 2018 as the Liquids Infrastructure segment delivered record operating margin combined with the robust contribution from the Marketing segment. These financial results were achieved despite continued weak natural gas prices and lower throughput at certain facilities in the Gathering and Processing segment.

Net Earnings

For the three months ended September 30, 2018, net earnings were $35 million, $4 million lower than the same period in 2017. The effect of $91 million in higher operating margin in the third quarter of 2018 was more than offset by the following:

- $63 million impairment charge to reduce the carrying values of the Minnehik Buck Lake and Zeta Creek gas plants resulting from low producer activity in the areas surrounding these facilities;
- $13 million in higher depreciation charges in 2018 due to the increase in Keyera's asset base, including the Alder Flats gas plant expansion, the Keylink pipeline and the Base Line Terminal; and

- $13 million in higher general and administrative costs which includes a $6 million expense for costs and interest charges related to a construction dispute settled in September 2018.

On a year-to-date basis, net earnings were $229 million, $27 million higher than the same period in 2017 primarily due to $167 million in higher operating margin. The effect of higher operating margin in 2018 was partly offset by the same factors discussed for the third quarter results as well as recording a net foreign currency non-cash loss of $7 million in 2018 compared to a gain of $15 million in the same period of 2017.

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

Operating Margin and Realized Margin

For the three and nine months ended September 30, 2018, operating margin was $219 million and $659 million, $91 million and $167 million higher than the same periods in 2017 due to the stronger financial results from the Marketing and Liquids Infrastructure segments. For the three and nine months ended September 30, 2018, operating margin included unrealized non-cash gains of $27 million and $19 million associated with risk management contracts from the Marketing segment. This is compared to a non-cash loss of $25 million and a gain of $8 million recorded in the same periods of 2017.

Realized margin (excluding the effect of unrealized gains and losses from risk management contracts in the Marketing business) was $193 million for the three months ended September 30, 2018, $39 million higher than the same period in 2017 due to:

- $32 million in higher realized margin from the Marketing segment that stemmed from the following factors:

  i) higher margins from Keyera's liquids blending business because of higher prices for crude oil and condensate relative to other NGLs, as well as the recent acquisition of the Oklahoma Liquids Terminal and;

  ii) $10 million in higher iso-octane margins partly because of sales volumes in July that attracted significantly higher premiums to meet short-term customer demand that carried over from the second quarter of 2018; and

  iii) higher condensate margins associated with increased volumes moving through Keyera's condensate system to meet the growing needs of oil sands producers; and

- approximately $12 million in higher margin in the Liquids Infrastructure segment associated with the overall growth in demand for Keyera's condensate network, including incremental margin from the Norlite pipeline that commenced operation in mid-2017, and the Base Line Terminal that has been brought on-line in phases through the year, starting in January 2018.

Third quarter 2018 Marketing results included approximately $18 million in realized cash losses related to the settlement of risk management contracts that were put in place to protect the value of propane and butane inventory existing at September 30, 2018. As these products are sold or consumed as feedstock in future periods, higher operating margin is expected to be realized. Refer to the section of this MD&A, "Results of Operations: Marketing, Risk Management" for more information related to Keyera's risk management strategies.

On a year-to-date basis, realized margin was $640 million, $156 million higher than the same period in 2017 due to:

- $124 million in higher realized margin from the Marketing segment that stemmed from the following factors:

  i) $73 million in higher iso-octane margins because of increased sales volumes as AEF operated on average above its nameplate capacity in 2018. This is compared to the facility being off-line for nine-weeks in the first half of 2017. In addition, iso-octane margins were especially strong in the second quarter of 2018 due to a higher proportion of sales volumes that attracted significantly higher premiums for iso-octane to meet short-term demand; and

  ii) higher condensate and liquids blending margins as described for the third quarter results.

- approximately $39 million in higher margin associated with recent investments in the Liquids Infrastructure segment and the overall growth in demand for Keyera's condensate services.

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

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

Cash Flow Metrics

Cash flow metrics were also strong in the third quarter of 2018 as a direct result of the robust financial results in the quarter, particularly in the Marketing and Liquids Infrastructure operating segments as described above. Cash flow from operating activities for the three and nine months ended September 30, 2018 was $69 million and $359 million, $11 million lower and $58 million higher than the same periods in 2017. The lower cash flow from operating activities in the third quarter of 2018 was largely due to an increase in cash required to fund higher volumes of butane and propane inventory at September 30, 2018. Distributable cash flow for the three and nine months ended September 30, 2018 was $127 million and $438 million, $19 million and $101 million higher compared to the same periods in 2017.

Refer to the sections of this MD&A titled, "Dividends: Distributable Cash Flow", for a reconciliation of cash flow from operating activities to distributable cash flow and "Results of Operations: Marketing", for a reconciliation of Operating margin to Realized margin as it relates to the Marketing segment only.

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 nine months ended September 30, 2018 and 2017 are reported in note 17, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 18 active gas plants in western Canada and is operator of 16 of these facilities, making it one of the largest natural gas processors in Alberta. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin ("WCSB"). Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

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

Operating Margin and Throughput Information	**Three months ended September 30,**		**Nine months ended September 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Revenue[1]	**117,588**	116,635	**332,930**	346,051
Operating expenses[1]	**(53,483)**	(47,240)	**(134,015)**	(143,511)
Unrealized loss on electricity and other financial contracts	**(250)**	(14)	**(612)**	—
Total operating expenses	**(53,733)**	(47,254)	**(134,627)**	(143,511)
Operating margin	**63,855**	69,381	**198,303**	202,540
Gross processing throughput – (MMcf/d)	**1,478**	1,477	**1,531**	1,444
Net processing throughput[2] – (MMcf/d)	**1,149**	1,147	**1,186**	1,130

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

Operating Margin and Revenues

The Gathering and Processing segment recorded total operating margin of $64 million in the third quarter of 2018, $5 million lower than the same period in 2017 due to the following:

- lower processing throughput at certain facilities, including the Rimbey, Minnehik Buck Lake and Nevis gas plants resulting from continued weak natural gas prices and reduced producer activity;
- approximately $3 million in higher operating expenses at the Rimbey and Strachan gas plants that included a one-time cost of $1 million associated with the shutdown of sour gas processing equipment at the Strachan gas plant; and
- a reduction in take-or-pay fees provided to a customer in exchange for a longer-term commitment of volumes that will be processed at Keyera's facilities in the west central Alberta area.

Partly offsetting these factors was approximately $5 million in higher operating margin from the Simonette gas plant, as average processing throughput was 19% higher despite completing a scheduled 7 day outage in the third quarter of 2018. The outage was partly required to complete tie-in work for the capital projects at the Simonette gas plant that are described in the Capital Projects Status Update table below. Incremental revenue was also generated from the new liquids handling expansion at Simonette that became operational in early May.

Operating margin for the nine months ended September 30, 2018 totaled $198 million, $4 million lower than the same period in 2017 primarily due to the same factors described above for the third quarter results as well as:

- reduced ethane sales volumes and associated fees at the Rimbey gas plant in the first quarter of 2018 compared to the first quarter of 2017.

These negative factors were partly offset by $15 million in higher operating margin from the Simonette gas plant in 2018 resulting from significantly higher processing throughput and incremental liquids handling revenue compared to the prior year.

Gathering and Processing revenue for the three months ended September 30, 2018 was $118 million, $1 million higher than the same period in 2017. On a year-to-date basis, revenue was $333 million, $13 million lower than the same period in 2017 primarily due to the same factors that affected operating margin, but further reduced by lower ethane prices at the Rimbey facility. Ethane sales are generally based on index pricing and can significantly influence revenue; however, the impact to operating margin is negligible as ethane purchases from producers are also based on index pricing.

Gathering and Processing Activity

In the third quarter of 2018, gross processing throughput averaged 1,478 million cubic feet per day, virtually unchanged compared to the same period in 2017. Certain facilities, particularly the Rimbey and Minnehik Buck Lake gas plants, have experienced a decline in gross processing throughput in 2018 as a result of weak natural gas prices and low producer activity in these areas. The decrease in volumes at these facilities was offset by growth in volumes at both the Simonette gas plant, which continues to benefit from high producer activity levels from the liquids-rich Montney geological zone, and the Alder Flats gas plant. Although throughput at the Alder Flats gas plant increased as a result of completing the phase two expansion in early May, the impact on operating margin was minimal in 2018. This is because Keyera began recording take-or-pay revenue associated with this incremental capacity upon acquiring the additional 35% ownership interest in the gas plant in 2016.

As the liquids-rich Montney and Duvernay geological zones in northwestern Alberta continue to be areas of focus for producers, Keyera has committed to invest in these areas to support the needs of its customers. Over the past two years, Keyera has announced over $1.9 billion in capital projects related to the Wapiti, Pipestone and Simonette gas plants to support the development of this prolific area. Refer to the table below, "Gathering and Processing – Capital Projects Status Update", for more information related to these projects.

In September, the Pipestone liquids hub became operational and is now generating incremental margin, and the development of the Pipestone plant continued in the third quarter of 2018. The Pipestone plant and liquids hub project was acquired by Keyera as part of a 20-year infrastructure development and midstream service agreement with Encana Corporation ("Encana") in April. This project will support Encana's condensate focused Montney development in the Pipestone area near Grande Prairie, Alberta. Under the terms of the agreement, Keyera owns the Pipestone project and will receive processing fees from Encana under a long-term fee-for-service arrangement with a modest revenue guarantee. The agreement also includes an area dedication that allows Encana to use its existing processing facilities in the area up to a defined limit.

The Pipestone plant could be expanded up to an additional 200 million cubic feet per day of sour gas processing and associated condensate stabilization. This second phase would allow Keyera to process gas from other producers in the area and support future growth from Encana. Keyera has continued to pursue discussions with producers in the area for additional volume commitments that would fill third party capacity available in the first phase and support a future second phase.

Maintenance turnarounds at the Strachan, Nevis, and Brazeau North gas plants were all completed in the second quarter of 2018 at a combined cost of $19 million. For 2019, maintenance turnarounds are scheduled to occur at the Rimbey, Cynthia, Ricinus and Pembina North facilities at an estimated combined cost of approximately $50 million.

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

share of the cost of the turnarounds, as these costs are included in its financial results as maintenance capital expenditures.

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

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Simonette	***Simonette Acid Gas Injection and Inlet Liquids Separation Facilities:*** The following major assets will be constructed with this project: i) Acid gas injection facilities including surface facilities at the plant and well site, and a pipeline connecting the facilities to a disposal well. ii) Inlet liquids separation facilities consisting of multiple pressure vessels to accommodate the high volumes of liquids-rich gas coming into the Simonette gas plant. iii) Flare system to accommodate the various growth projects at the Simonette gas plant.	Detailed engineering work and procurement of long-lead equipment and materials continued throughout the third quarter. The project is expected to be operational in the third quarter of 2019. *Estimated total cost to complete:* • approximately $100 million *Total net costs to September 30, 2018:* • $9 million and $15 million for the three and nine months ended September 30, 2018 • $18 million since inception
Simonette	***Simonette Expansion Project:*** The expansion project will create an additional 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day.	Detailed design and engineering work as well as procurement activities on long-lead equipment continued throughout the third quarter. Civil work also commenced in the third quarter. The project is expected to be complete by the fourth quarter of 2019. *Estimated total cost to complete:* • approximately $85 million *Total net costs to September 30, 2018:* • $13 million and $15 million for the three and nine months ended September 30, 2018 • $15 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Wapiti	***Wapiti Gas Plant (Phase One):*** Phase one includes the construction of a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system and field compressor stations.	Detailed engineering work was completed in the third quarter and major equipment continues to be placed at site. Mechanical and electrical work continue to progress. Phase one is expected to be complete by mid-2019. *Estimated total cost to complete:* • approximately $470 million *Total net costs to September 30, 2018:* • $74 million and $249 million for the three and nine months ended September 30, 2018 • $423 million since inception (including $19 million in 2016 to acquire the project and acid gas injection well)
Wapiti	***Wapiti Gas Plant (Phase Two) and North Wapiti Pipeline System:*** Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant, additional compression, and an expansion of the Wapiti gathering system. The North Wapiti Pipeline System extends the capture area of Keyera's Wapiti gas plant and includes a 12-inch sour gas gathering pipeline, an 8-inch condensate and water pipeline, and a compressor station.	Engineering work on the gas plant continued in the third quarter of 2018. Phase two of the Wapiti gas plant is expected to be complete by mid-2020. Pipeline route selection work and related pipeline engineering work was completed in the second quarter of 2018. Procurement activities for long-lead equipment continued in the third quarter. The North Wapiti Pipeline System is expected to be in service in the second half of 2019. *Estimated total cost to complete:* • approximately $415 million *Total net costs to September 30, 2018:* • $12 million and $29 million for the three and nine months ended September 30, 2018 • $29 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Wapiti	***Water Disposal System:*** This project includes installation of high pressure injection pumps and pipeline connectivity for up to three water disposal wells that are capable of disposing up to 30,000 barrels per day of water from the Wapiti gas plant.	The first disposal well was drilled and successfully tested in the second quarter of 2018. Drilling of the second well is expected to commence in the fourth quarter of 2018. *Estimated total cost to complete:* • approximately $100 million *Total net costs to September 30, 2018:* • $5 million and $32 million for the three and nine months ended September 30, 2018 • $32 million since inception (includes $10 million for acquired land)
Pipestone	***Pipestone Liquids Hub:*** The Pipestone liquids hub has condensate processing capacity of 14,000 barrels per day.	Construction of the Pipestone liquids hub was completed in the third quarter and commenced operations at the end of September. *Estimated total cost to complete:* • approximately $96 million, $9 million lower than the original estimate *Total net costs to September 30, 2018:* • $25 million and $91 million for the three and nine months ended September 30, 2018 (including $34 million to acquire the project) • $91 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Pipestone	***Pipestone Plant:*** The Pipestone plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, 24,000 barrels per day of condensate processing capacity, and associated water disposal facilities.	Engineering work continued and regulatory approvals were received in the third quarter of 2018 for the gas plant. Regulatory review of the acid gas injection wells remains in-progress. The Pipestone plant is expected to be operational in 2021. *Estimated total cost to complete:* • preliminary estimates are between $500 million to $600 million *Total net costs to September 30, 2018:* • $10 million and $18 million for the three and nine months ended September 30, 2018 (including $5 million to acquire the project) • $18 million since inception

Estimated costs and completion times for the projects currently under development that are discussed above assume that construction proceeds as planned, that actual costs are in line with estimates and, where required, that regulatory approvals and any other third-party approvals or consents are received on a timely basis. Outstanding regulatory approvals for the projects discussed above include: acid gas injection well and associated pipeline at the Simonette gas plant; transfers associated with the Wapiti water disposal system; and additional pipeline compression and certain amendments associated with the Wapiti plant and related pipeline systems. A delay in receipt of these approvals would cause a delay in on stream dates. The Simonette projects fall under Keyera's play-based regulatory approval framework and therefore no delays are anticipated with the approvals. The other projects will follow regular regulatory processes with the primary approvals to come through the AER. A portion of the costs incurred for completed and ongoing projects are based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e. capitalized interest). The section of this MD&A titled, "Forward-Looking Statements", provides more information on factors that could affect the development of these projects.

Liquids Infrastructure

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

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

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**Three months ended September 30,** **2018**	2017	**Nine months ended September 30,** **2018**	2017
Revenue[1]	**123,701**	103,872	**349,057**	304,297
Operating expenses[1]	**(40,294)**	(32,258)	**(107,466)**	(102,091)
Unrealized (loss) gain on electricity financial contracts	**(1,093)**	104	**(903)**	1,160
Total operating expenses	**(41,387)**	(32,154)	**(108,369)**	(100,931)
Operating margin	**82,314**	71,718	**240,688**	203,366

Note:
[1] Includes inter-segment transactions.

Operating Margin and Revenue

For the third quarter of 2018, the Liquids Infrastructure segment posted record financial results. For the three and nine months ended September 30, 2018, operating margin was $82 million and $241 million, an increase of $11 million or 15% and $37 million or 18% compared to the same periods in 2017, due to the following:

- approximately $12 million and $39 million in higher operating margin for the respective periods associated with: i) the overall growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental revenue from the Norlite pipeline that commenced operation in mid-2017; and ii) incremental operating margin from the Base Line Terminal that has been brought into service in phases starting in January 2018. All twelve tanks were operational in early October.

These positive factors were partly offset by lower fractionation revenue in the third quarter due to lower fractionation volumes and fees compared to the same period in 2017. Fractionation fees, on average, were lower beginning with the 2018 contract year (April 1, 2018 to March 31, 2019) due to the excess fractionation capacity currently existing in Alberta.

Liquids Infrastructure revenues for the three and nine months ended September 30, 2018 were $20 million and $45 million higher than the same periods in 2017 due to the same factors that contributed to higher operating margin as described above.

Liquids Infrastructure Activity

The demand for condensate, which is used as a diluent by bitumen producers, has continued to grow in Alberta. Accordingly, demand for Keyera's diluent handling services continues to grow and also provides for increased commercial opportunities within the Marketing segment. The volume of condensate delivered through Keyera's condensate system to the oil sands grew by 48% in the first nine months of 2018 compared to the same period last year.

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

In September, the South Grand Rapids pipeline was completed and Keyera acquired a 50% interest in the pipeline, enabling Keyera to meet its growing diluent transportation commitments with oil sands customers. Refer to the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information.

In the fourth quarter of 2018, Keyera entered into a 50/50 joint venture agreement with Wolf Midstream for the proposed development of an NGL and condensate gathering system, called the Key Access Pipeline System ("KAPS"). The proposed pipeline system would include the construction of two parallel pipelines to bring condensate and NGLs from the prolific Montney and Duvernay geological zones to Alberta's NGL hub in Fort Saskatchewan. A final investment decision is expected to be made in 2019, subject to obtaining sufficient customer support and final cost estimates.

In the second quarter of 2018, Keyera announced two new investments in the United States, the Wildhorse Terminal and the Oklahoma Liquids Terminal. These investments expand Keyera's presence and midstream infrastructure into a key U.S. liquids hub, and also provide significant commercial opportunities for Keyera's Marketing segment. See the table below, "Liquids Infrastructure – Capital Projects Status Update", for more information related to the Wildhorse project.

The Oklahoma Liquids Terminal, which is a logistics and liquids blending terminal, was acquired by Keyera in mid-June, for US$83 million (including inventory and purchase price adjustments) plus up to US$10 million in additional consideration over the next five years. The terminal receives, blends and delivers diluent, the

majority of which is transported by pipeline from the Mont Belvieu area to the Chicago area and ultimately into the Alberta market. The Oklahoma Liquids Terminal is operated by the Liquids Infrastructure segment and provides the logistical and blending services to Keyera's Marketing segment for a fee. The majority of the cash flows generated from this investment are recorded in the Marketing segment.

The AEF facility is operated by the Liquids Infrastructure segment and provides iso-octane processing services to the Marketing segment on a fee-for-service basis. Iso-octane production averaged approximately 97% of AEF's capacity in the first quarter of 2018 and above its nameplate capacity in the second and third quarters of 2018. On November 1st, the AEF facility was taken off-line to complete a catalyst replacement and other preventative maintenance work that is expected to cost approximately $3 million. This maintenance was scheduled for the fourth quarter when demand is typically lower to help mitigate the financial impact on iso-octane margins. Assuming the work is completed on schedule, the facility is expected to be back in full operation in mid-November.

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

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Edmonton (50/50 joint venture with Kinder Morgan)	***Base Line Terminal:*** Construction of 12 above ground crude oil storage tanks with the ability to provide customers with 4.8 million barrels of storage capacity. Kinder Morgan constructed the project and is the operator.	The first six storage tanks were put into service in the first quarter of 2018. The remaining six storage tanks were operational by early October. *Estimated total cost to complete:* • gross cost is approximately $660 million • Keyera's net share of costs is approximately $330 million *Total net costs to September 30, 2018:* • $9 million and $50 million for the three and nine months ended September 30, 2018 • $297 million since inception
Fort Saskatchewan	***Underground Storage Development:*** Development of three additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity.	The 15th cavern was put into service in early May 2018. Washing of the 16th and 17th caverns continued in the third quarter of 2018. The caverns are expected to be in service in the first half of 2020 and first half of 2021, respectively. *Estimated total cost to complete:* • gross cost is approximately $125 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment • Keyera's net share is approximately $95 million *Total net costs to September 30, 2018:* • $6 million and $21 million for the three and nine months ended September 30, 2018 • $78 million since inception

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Edmonton (50/50 joint venture with Grand Rapids Pipeline Limited Partnership)	***South Grand Rapids Pipeline:*** Keyera acquired a 50% interest in the southern portion of the 20-inch, 45-kilometre diluent Grand Rapids Pipeline. The pipeline was constructed by Grand Rapids Pipeline Limited Partnership ("GRPLP"), an affiliate of TransCanada and PetroChina Canada. The pipeline extends from Keyera's Edmonton Terminal to TransCanada's Heartland Terminal near Fort Saskatchewan. Keyera is the operator of the pipeline. As part of this project, Keyera constructed a pump station at its Edmonton Terminal where the pipeline now connects. Keyera sold a 50% ownership interest in the pump station to GRPLP.	The South Grand Rapids Pipeline was completed in September and Keyera acquired a 50% interest in the pipeline for a purchase price of $105 million. Concurrently, Keyera sold a 50% interest in the pump station for proceeds of approximately $20 million. The final net costs to Keyera for this project were: • $105 million for acquisition of the 50% ownership interest in the pipeline and $20 million for the remaining 50% interest in the pump station. The total cost to Keyera was $125 million.
Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)	***Wildhorse Terminal ("Wildhorse"):*** Development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. Wildhorse will initially be pipeline connected to two existing storage terminals in Cushing. An affiliate of Lama Energy Group will own 10% of the project with an option to increase its ownership up to 30% by the end of 2018.	During the third quarter, civil work and the procurement of long lead items commenced. The terminal is expected to be operational by mid-2020. *Estimated total cost to complete:* • gross cost is approximately US$205 million • Keyera's net share of costs is approximately US$185 million *Total net costs to September 30, 2018:* • $4 million and $47 million for the three and nine months ended September 30, 2018 • $52 million since inception

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

Marketing

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

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

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

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

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

Keyera also engages in liquids blending (previously referred to as crude oil midstream activities), where it operates facilities at various locations, including the newly acquired Oklahoma Liquids Terminal, allowing it to transport, process and blend various product streams. Margins are earned by blending products of lower value into higher value products. As a result, these transactions are exposed to variability in price and quality differentials between various product streams. Keyera manages this risk by balancing its purchases and sales and locking in margins through its risk management strategies.

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

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

Operating and Realized Margin (Thousands of Canadian dollars, except for sales volume information)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Revenue[1]	**991,777**	612,526	**2,850,425**	1,939,220
Operating expenses[1]	**(922,159)**	(627,656)	**(2,640,818)**	(1,864,882)
Operating margin (loss)	**69,618**	(15,130)	**209,607**	74,338
Unrealized (gain) loss on risk management contracts	**(26,914)**	25,444	**(19,185)**	(7,925)
Realized margin	**42,704**	10,314	**190,422**	66,413
Sales volumes (Bbl/d)	**147,800**	138,500	**147,700**	135,700

Note:
1 Includes inter-segment transactions.

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

Composition of Marketing Revenue (Thousands of Canadian dollars)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Physical sales	**991,124**	665,819	**2,886,498**	1,956,741
Realized cash loss on financial contracts[1]	**(26,261)**	(27,849)	**(55,258)**	(25,446)
Unrealized gain (loss) due to reversal of financial contracts existing at end of prior period	**35,786**	(5,453)	**27,599**	27,902
Unrealized loss due to fair value of financial contracts existing at end of current period	**(9,007)**	(20,102)	**(9,007)**	(20,102)
Unrealized gain from fixed price physical contracts[2]	**135**	111	**593**	125
Total unrealized gain (loss) on risk management contracts	**26,914**	(25,444)	**19,185**	7,925
Total gain (loss) on risk management contracts	**653**	(53,293)	**(36,073)**	(17,521)
Total Marketing revenue	**991,777**	612,526	**2,850,425**	1,939,220

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

Revenue, Operating and Realized Margin

For the quarter ended September 30, 2018, the Marketing segment posted strong financial results despite seasonally lower propane margins. Operating margin was $70 million for the quarter or $85 million higher than the same period in 2017 due to: i) the inclusion of a $27 million non-cash unrealized gain from risk

management contracts compared to a non-cash loss of $25 million in the same period of 2017; and ii) higher realized margin as described below.

Realized margin (excluding the effect of non-cash unrealized gains and losses from risk management contracts) was $43 million in the third quarter of 2018, $32 million higher than the same period in 2017 primarily due to:

- higher margins from Keyera's liquids blending business because of higher volumes associated with the Oklahoma Liquids Terminal that was acquired in June 2018, combined with higher prices for crude oil and condensate relative to other NGLs;

- $10 million in higher iso-octane margins largely due to sales volumes in July that attracted significantly higher premiums to meet short-term demand that carried forward from the second quarter of 2018; and

- higher condensate margins associated with increased volumes moving through Keyera's condensate system to meet the growing needs of oil sands producers.

Propane margins in the third quarter of 2018 were as expected, seasonally low and comparable to the same quarter in 2017. Of the $26 million of realized cash losses that were recorded in the third quarter of 2018, approximately $18 million related to the settlement of risk management contracts that were put in place to protect the value of propane and butane inventory existing at September 30, 2018. As these products are sold or consumed as feedstock in future periods, higher operating margin is expected to be realized.

On a year-to-date basis, realized margin was $190 million in 2018, $124 million higher than the same period in 2017 primarily due to:

- $58 million in higher iso-octane margins that resulted from:

    i) higher sales volumes as AEF operated on average above its nameplate capacity in the first nine months of 2018. Comparatively, AEF operated at an average of 57% and 82% of its capacity during the first and second quarters of 2017 due to a nine-week unscheduled outage; and

    ii) significantly higher premiums for iso-octane to meet short-term demand in the second quarter of 2018 that continued into July; and

    iii) the receipt of initial insurance proceeds of $5 million in 2018 that related to the recovery of a portion of the repair costs at AEF in 2017. By comparison, the 2017 financial results included an $8 million charge related to this unplanned repair work; and

- higher liquids blending and condensate margins as described for the third quarter results.

For the nine months ended September 30, 2018, operating margin was $210 million in 2018, $135 million higher than the same period of 2017 largely due to higher realized margin as described above.

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the three and nine months ended September 30, 2018, revenue from physical sales was $325 million and $930 million higher than the same periods in 2017 primarily due to higher average sales prices for substantially all products.

Market Overview

The demand for iso-octane typically increases in the spring and summer months as driving activity and gasoline demand increase, which generally translates into premium pricing for gasoline and iso-octane. Iso-octane margins for the third quarter of 2018 were robust as high-premium sales were made in July that continued from the second quarter to meet short-term demand. Iso-octane margins for the remainder of the quarter returned to more typical levels for the end of summer driving season.

On November 1st, the AEF facility was taken off-line for preventative maintenance that is expected to be completed in mid-November. The financial effect of the outage on the Marketing results is not expected to be significant as iso-octane margins are seasonally lower in the fourth quarter. Refer to the section of this MD&A, “Liquids Infrastructure: Liquids Infrastructure Activity”, for more information related to this scheduled outage.

Because butane is the primary feedstock for the production of iso-octane, butane costs directly affect iso-octane margins. In recent months, butane prices in Alberta have weakened significantly due to increased supply. However, the majority of Keyera’s butane supply is purchased on a term basis and for the contract year that began on April 1, 2018, the price for butane is comparable to the prior year.

As expected, propane margins returned to seasonally lower levels in the second and third quarters of 2018 as contracted propane supply continues to be based on market index prices. This contracting strategy for propane results in lower margins during the spring and summer months when demand is seasonally low and costs such as storage and rail car lease charges continue to be expensed. On an annual basis, propane margins are expected to remain a relatively small contributor to Keyera’s overall Marketing operating margin.

Keyera continued to build its propane inventory throughout the third quarter and expects to utilize its Josephburg Rail Terminal to export significantly higher volumes of propane by rail to meet winter heating demand in markets across North America over the next two quarters. As Keyera relies on rail transportation to deliver both propane and iso-octane to its primary markets outside of Alberta, rail service levels are an important factor in managing deliveries to meet demand. Keyera is working with the railways to try to manage service levels during the peak demand winter season.

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

Margins from Keyera’s liquids blending business also contributed to the strong year-to-date financial results this year, largely due to higher volumes and prices for crude oil and condensate relative to other NGLs. Volumes and margins were also higher as a result of acquiring the Oklahoma Liquids Terminal in June 2018. Refer to the section of this MD&A, “Liquids Infrastructure: Liquids Infrastructure Activity”, for more information related to the acquisition of this terminal in the U.S.

Risk Management

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

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

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

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

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

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

For the quarter ended September 30, 2018, the total unrealized gain on risk management contracts was $27 million. Further details are provided in the "Composition of Marketing Revenue" table above.

The fair value of outstanding risk management contracts as at September 30, 2018 resulted in an unrealized (non-cash) loss of $9 million that includes the following significant items:

- a $10 million non-cash loss relating to iso-octane risk management contracts;
- a $1 million non-cash gain relating to propane, butane, condensate and other risk management contracts.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at September 30, 2018, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 13, Financial Instruments and Risk Management, of the accompanying financial statements.

CORPORATE AND OTHER

Non-Operating Expenses and Other Income (Thousands of Canadian dollars)	Three months ended September 30, **2018**	2017	Nine months ended September 30, **2018**	2017
Other income (operating margin)	**3,681**	2,265	**10,778**	12,208
General and administrative (net of overhead recoveries on operated facilities)	**(27,293)**	(14,737)	**(64,455)**	(48,605)
Finance costs	**(19,273)**	(20,087)	**(55,644)**	(54,760)
Depreciation, depletion and amortization expenses	**(55,349)**	(42,495)	**(152,340)**	(122,061)
Net foreign currency gain (loss) on U.S. debt	**828**	6,200	**(7,311)**	15,228
Long-term incentive plan expense	**(6,278)**	(1,020)	**(18,182)**	(13,938)
Impairment expense	**(63,350)**	—	**(63,350)**	(17,890)
Gain on disposal of property, plant and equipment	**—**	—	**—**	22,166
Income tax expense	**(14,069)**	(17,631)	**(68,636)**	(70,724)

Other Income

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

Other income for the three months ended September 30, 2018 was $4 million, $1 million higher than the same period in 2017. On a year-to-date basis, other income was $11 million, $1 million lower than the prior year. Production for the three and nine months ended September 30, 2018 averaged 3,427 and 3,717 barrels of oil equivalent per day compared to 3,717 and 4,240 barrels of oil equivalent per day for the same periods in 2017.

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

General and Administrative Expenses

General and administrative ("G&A") expenses for the three and nine months ended September 30, 2018 were $27 million and $64 million, $13 million and $16 million higher than the same periods in 2017 primarily due to:

- higher salary and short-term incentive plan costs; and
- approximately $6 million recorded in the third quarter of 2018 for costs and interest charges related to the settlement of a construction dispute in September. Refer to note 18, of the accompanying financial statements for more information related to this dispute.

Finance Costs (including accretion)

Finance costs for the three and nine months ended September 30, 2018 were $19 million and $56 million, $1 million lower and $1 million higher than the same periods in 2017. On a year-to-date basis, interest capitalized on qualifying projects that is a reduction to finance costs was $3 million higher in 2018 compared to the first nine months of 2017.

Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization ("DD&A") expenses for the three and nine months ended September 30, 2018 were $55 million and $152 million, $13 million and $30 million higher than the same periods in 2017 due to an increase in Keyera's overall asset base, including the Alder Flats gas plant expansion, the Keylink pipeline and the Base Line Terminal.

Net Foreign Currency Gain (Loss) on U.S. Debt

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

Net Foreign Currency Gain (Loss) on U.S. Debt (Thousands of Canadian dollars)	**Three months ended September 30,** 2018	2017	**Nine months ended September 30,** 2018	2017
Translation of long-term debt and interest Payable	**9,706**	20,912	**(18,129)**	40,423
Change in fair value of cross-currency swaps – principal and interest portion	**(9,077)**	(14,664)	**9,364**	(26,826)
Gain (loss) on cross-currency swaps – interest portion[1]	**199**	(48)	**1,454**	1,631
Net foreign currency gain (loss) on U.S. debt	**828**	6,200	**(7,311)**	15,228

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

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross-currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross-currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Additional information on the swap agreements can be found in note 13, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of $1 million and a loss of $7 million was recorded for the three and nine months ended September 30, 2018. On a year-to-date basis, the non-cash loss of $7 million was largely related to the translation of U.S. dollar denominated debt into Canadian dollars as the Canadian dollar weakened relative to the U.S. dollar since the end of 2017.

Long-Term Incentive Plan Expense

The Long-Term Incentive Plan (“LTIP”) expense was $6 million and $18 million for the three and nine months ended September 30, 2018, $5 million and $4 million higher than the same periods in 2017. The third quarter 2017 LTIP expense was unusually low as the shares paid out to employees were settled at a share price that was $4.27 lower than the closing share price at June 30, 2017.

Net Impairment Expense

Keyera reviews its assets for indicators of impairment on a quarterly basis. As well, if an asset has been impaired and subsequently recovers in value, GAAP requires the asset to be written-up (i.e. reversal of previous impairments). In the third quarter of 2018, an impairment charge of $63 million was recorded to reduce the carrying value of the Minnehik Buck Lake and Zeta Creek gas plants to their recoverable amounts as a result of reduced drilling activity and corresponding throughput at these facilities.

In the second quarter of 2017, an impairment expense of $18 million was recorded to reduce the carrying value of the Caribou gas plant that ceased operation effective December 2015.

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

Gain on Disposal of Property, Plant and Equipment

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

Taxes

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

Current Income Taxes

Current income tax expense for the three and nine months ended September 30, 2018 was $9 million and $25 million, compared to an expense of $1 million and $5 million in the same periods of 2017. For 2018, current income tax expense is expected to be approximately $35 million, which is primarily based on the 2017 taxable income from Keyera Partnership. This income deferral is available to Keyera as its corporate structure includes a deferral partnership.

For 2019, current income tax expense is expected to range between $100 million and $110 million. As approximately $950 million of announced capital projects from the Gathering and Processing segment become available for use in 2019, current income tax expense for 2020 is expected to be less than $20 million. This assumes Keyera's business performs as planned and its capital projects are completed as expected. Tax pools associated with gas plants and their accompanying gathering systems are generally included in class 41 that attract a 25% tax depreciation rate ("capital cost allowance or CCA"). This is compared to projects such as the Norlite pipeline, South Grand Rapids pipeline and Base Line Terminal that became operational in 2017 and 2018 and attract significantly lower CCA rates. Over 2020 and 2021, a further $750 million of announced capital projects in the Gathering and Processing segment are expected to be available for use, assuming the projects are completed according to plan. In addition, the cost of turnarounds are fully deductible in the year they are incurred for income tax purposes.

Keyera estimates its total tax pools at September 30, 2018 were approximately $3.0 billion.

Deferred Income Taxes

For the three and nine months ended September 30, 2018, deferred income tax expense was $5 million and $44 million, compared to an expense of $17 million and $66 million in the same periods in 2017. On a year-to date basis, deferred income taxes are lower partly due to the recognition of a $17 million deferred tax recovery related to Keyera's U.S. subsidiary. With the acquisition of the Oklahoma Liquids Terminal in June 2018, Keyera considers it probable that there will be sufficient future taxable profits in its U.S. subsidiary to utilize tax losses that had not been recognized prior to June 30, 2018 for deferred income tax purposes.

CRITICAL ACCOUNTING ESTIMATES

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

LIQUIDITY AND CAPITAL RESOURCES

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

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended September 30, 2018	2017	Increase (decrease)	Explanation
Operating	**69,382**	80,698	(11,316)	Lower cash generated from operating activities in the third quarter of 2018 was due to an increase in cash required to fund inventory, in particular significantly higher volumes of butane. The cash outflow required to fund inventory was partly offset by $43 million in higher realized margin recorded by the Marketing and Liquids Infrastructure segments.
Investing	**(326,158)**	(170,055)	(156,103)	Higher capital spending in the third quarter of 2018 was primarily associated with construction activities related to the Pipestone liquids hub, Wapiti gas plant and Wildhorse Terminal projects. Capital spending in the third quarter of 2018 also included a net cash outflow of $85 million to acquire a 50% interest in the South Grand Rapids Pipeline and the related sale of a 50% interest in the associated pump station.
Financing	**930**	84,227	(83,297)	The decrease in cash from financing activities in the third quarter of 2018 was due to sufficient cash available from the issuance of medium term notes in the second quarter of 2018 to fund capital expenditures in the third quarter.

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

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

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Nine months ended September 30, 2018	2017	Increase (decrease)	Explanation
Operating	**358,697**	301,088	57,609	Higher cash generated from operating activities in 2018 was largely because of higher realized margin recorded by the Marketing and Liquids Infrastructure segments compared to the first half of 2017.
Investing	**(991,500)**	(448,874)	(542,626)	Higher capital spending in the first nine months of 2018 was primarily associated with the Keylink pipeline system, Simonette liquids handling expansion, Pipestone liquids hub, Wapiti gas plant and Wildhorse Terminal projects. Capital spending in 2018 included $304 million in acquisitions (net of disposals) associated with the South Grand Rapids Pipeline, Oklahoma Liquids Terminal, Keyera Butane System, which was previously leased, and the Pipestone project purchased from Encana.
Financing	**317,859**	162,998	154,861	Increase in cash generated from financing activities in the first nine months of 2018 was due to borrowing $40 million from Keyera's credit facility. This is compared to repaying $140 million under its credit facility in the same period of 2017.

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

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

A working capital deficit (current assets less current liabilities) of $24 million existed at September 30, 2018. This is compared to a surplus of $337 million at December 31, 2017. Keyera has access to a credit facility in the amount of $1.5 billion, of which $40 million was drawn as at September 30, 2018, to meet its current obligations and growth capital program. Refer to the section below of this MD&A, "Long-term Debt", for more information related to Keyera's unsecured revolving credit facility ("Credit Facility").

Equity Financing

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

Dividend Reinvestment Plan

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

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

The DRIP and Premium DRIP generated cash of $50 million and $144 million for the three and nine months ended September 30, 2018. In the same periods in 2017, the plan generated cash of $45 million and $136 million.

Corporate Credit Ratings

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

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

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

Long-term Debt (including Credit Facilities)
Below is a summary of Keyera's long-term debt obligations as at September 30, 2018:

As at September 30, 2018 (Thousands of Canadian dollars)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**After 2022**
Credit facilities	40,000	—	—	—	—	40,000	—
Canadian dollar denominated debt	1,656,000	—	122,000	2,000	—	60,000	1,472,000
U.S. dollar denominated debt	567,342	—	3,877	133,112	—	—	430,353
Total debt	**2,263,342**	**—**	**125,877**	**135,112**	**—**	**100,000**	**1,902,353**
Less: current portion of long-term debt	(125,877)	—	(125,877)	—	—	—	—
Total long-term debt	**2,137,465**	**—**	**—**	**135,112**	**—**	**100,000**	**1,902,353**

Credit Facilities
Keyera's Credit Facility is with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at September 30, 2018, $40 million was drawn under this facility (December 31, 2017 – $nil).

In 2017, Keyera amended its senior note agreements (discussed below) and the Credit Facility to provide more flexibility with respect to the funding of growth capital projects by introducing two changes in the covenant calculations. The first change allows Keyera to increase its Net Debt to EBITDA ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters. The second change allows Keyera to utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date.

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

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

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

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

capital deficits. As at September 30, 2018, Keyera's Net Debt to EBITDA ratio was 2.7 for covenant test purposes (December 31, 2017 – 2.3 based on the amended covenant calculation).

Capital Expenditures and Acquisitions
The following table is a breakdown of capital expenditures and acquisitions for the three and nine months ended September 30, 2018 and 2017:

Capital Expenditures and Acquisitions	**Three months ended September 30,**		**Nine months ended September 30,**	
(Thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Acquisitions	**105,240**	3,265	**327,595**	61,122
Growth capital expenditures	**213,797**	142,202	**706,890**	468,238
Maintenance capital expenditures	**8,374**	16,891	**37,463**	33,929
Total capital expenditures	**327,411**	162,358	**1,071,948**	563,289

Growth capital expenditures for the three and nine months ended September 30, 2018 amounted to $214 million and $707 million. Refer to the section of this MD&A, "Segmented Results of Operations", for information related to the various growth capital projects in the Gathering and Processing and Liquids Infrastructure segments, including estimated costs to complete, costs incurred in 2018 and since inception of the project, and estimated completion timeframes.

Acquisitions in the first nine months of 2018 were $328 million and related to the following significant items:

- $105 million for a 50% ownership interest in the South Grand Rapids pipeline;
- $110 million (US$83 million including inventory and purchase price adjustments) for the Oklahoma Liquids Terminal that closed in mid-June;
- $41 million for the purchase of the Keyera Butane System that had previously been leased since December 2016;
- $39 million for the Pipestone project purchased from Encana that closed in April;
- $11 million for a newly constructed 10-inch gathering pipeline that connects Keyera's Strachan and Ricinus gas plants; and
- $10 million for the purchase of the Willesden Green gas plant.

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

Keyera has comprehensive inspection, monitoring and maintenance programs in place. The objectives of these programs are to keep Keyera's facilities in good working order and to maintain their ability to operate reliably for many years. In addition to the maintenance capital expenditures, Keyera incurred maintenance and repair expenses of $13 million and $32 million for the three and nine months ended September 30, 2018, compared to $11 million and $37 million in the same periods in 2017.

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. Keyera anticipates that its growth capital investment in 2018 will be between $1.2 billion and $1.3 billion, including $328 million of acquisitions completed during the first nine months of the year. Based on current plans, Keyera anticipates that its growth capital investment in 2019 will be between $800 million and $900 million, excluding acquisitions. Maintenance capital for 2019 is expected to be between $100 million and $110 million, including approximately $50 million for the scheduled turnarounds at the Rimbey, Cynthia, Ricinus and Pembina North gas plants. Also included in maintenance capital for 2019 is approximately $25 million for the replacement of a catalyst plus costs for additional work at AEF.

Keyera's overall capital program is expected to be funded by cash flow from operating activities, the DRIP and Premium DRIP program, cash and the existing Credit Facility, augmented if necessary by incremental debt

and equity financing. Access to debt and equity financing is dependent on Keyera's ongoing financial performance and general market conditions. Readers are referred to the section of the MD&A titled, "Forward-Looking Statements" for a further discussion of the assumptions and risks that could affect future performance and plans.

Dividends

Distributable Cash Flow

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

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

Distributable Cash Flow (Thousands of Canadian dollars)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Cash flow from operating activities	**69,382**	80,698	**358,697**	301,088
Add (deduct):				
Changes in non-cash working capital	**72,314**	46,069	**136,114**	85,010
Long-term incentive plan expense	**(6,278)**	(1,020)	**(18,182)**	(13,938)
Maintenance capital	**(8,374)**	(16,891)	**(37,463)**	(33,929)
Other	**-**	(563)	**(1,439)**	(1,687)
Distributable cash flow	**127,044**	108,293	**437,727**	336,544
Dividends declared to shareholders	**91,645**	79,317	**264,832**	230,842
Payout ratio	**72%**	73%	**61%**	69%

Distributable cash flow for the three and nine months ended September 30, 2018 was $127 million and $438 million, $19 million and $101 million higher than the same periods in 2017 primarily due to: i) incremental revenue from recent investments including the Norlite pipeline and the Base Line Terminal, as well as strong demand for Keyera's diluent handling services in the Liquids Infrastructure segment; and ii) strong realized margin from iso-octane, liquids blending and condensate in the Marketing segment. Distributable cash flow in the first half of 2017 was negatively affected by lower iso-octane margins in the Marketing segment stemming from a nine-week outage at AEF that commenced in February.

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

Dividend Policy

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

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

EBITDA

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

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

EBITDA (Thousands of Canadian dollars)	**Three months ended September 30,** **2018**	 2017	**Nine months ended September 30,** **2018**	 2017
Net earnings	**34,684**	38,464	**229,172**	201,868
Add (deduct):				
Finance costs	**19,273**	20,087	**55,644**	54,760
Depreciation, depletion and amortization expenses	**55,349**	42,495	**152,340**	122,061
Income tax expense	**14,069**	17,631	**68,636**	70,724
EBITDA	**123,375**	118,677	**505,792**	449,413
Unrealized (gain) loss on commodity contracts	**(26,081)**	25,700	**(17,654)**	(10,293)
Net foreign currency (gain) loss on U.S. debt	**(828)**	(6,200)	**7,311**	(15,228)
Impairment expense	**63,350**	—	**63,350**	17,890
Gain on disposal of property, plant and equipment	**—**	—	**—**	(22,166)
Loss on settlement of finance lease	**—**	—	**286**	—
Adjusted EBITDA	**159,816**	138,177	**559,085**	419,616

CONTRACTUAL OBLIGATIONS

Keyera has assumed various contractual obligations in the normal course of its operations. Since December 31, 2017, Keyera has committed to approximately $347 million in purchase obligations associated with orders on long-lead items related to the construction of the Wildhorse Terminal and Wapiti gas plant as well as expansion of the Simonette gas plant. In addition, Keyera has committed between $500 and $600 million in purchase obligations related to the Pipestone plant which is being constructed by Encana. These expenditures are expected to occur between 2018 and 2021. This commitment is based on the capital estimates provided by Encana and may vary as construction proceeds.

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

RELATED PARTY TRANSACTIONS

Keyera has provided compensation to key management personnel who are comprised of its directors and executive officers. There have been no other material related party transactions or significant changes to the annual compensation amounts disclosed in the December 31, 2017 annual audited financial statements.

RISK FACTORS

For a detailed discussion of the risks and trends that could affect the financial performance of Keyera and the steps that Keyera takes to mitigate these risks, see the December 31, 2017 MD&A and Keyera's Annual Information Form, which are available on SEDAR at www.sedar.com.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

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

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

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	June 30, 2017	Mar 31, 2017	Dec 31, 2016
Revenue[1]								
Gathering and Processing[2]	**117,588**	107,998	107,354	120,422	116,635	116,689	112,727	127,103
Liquids Infrastructure	**123,701**	115,880	109,476	114,525	103,872	99,398	101,027	94,712
Marketing	**991,777**	927,554	931,094	864,730	612,526	627,651	699,043	535,708
Other	**6,578**	5,921	7,241	5,303	5,065	7,918	8,381	7,512
Operating margin (loss)								
Gathering and Processing	**63,855**	63,901	70,547	72,744	69,381	66,822	66,337	79,881
Liquids Infrastructure	**82,314**	76,571	81,803	81,905	71,718	67,073	64,575	62,781
Marketing	**69,618**	74,137	65,852	54,032	(15,130)	21,033	68,435	8,581
Other	**3,681**	2,886	4,211	2,408	2,265	4,868	5,075	4,196
Net earnings	**34,684**	106,773	87,715	88,052	38,464	67,062	96,342	34,621
Net earnings per share ($/share)								
Basic	**0.17**	0.52	0.43	0.45	0.20	0.36	0.52	0.19
Diluted	**0.17**	0.52	0.43	0.45	0.20	0.36	0.52	0.19
Weighted average common shares (basic)	**208,037**	206,646	205,267	193,552	188,650	187,445	186,286	185,116
Weighted average common shares (diluted)	**208,037**	206,646	205,267	193,552	188,650	187,445	186,286	185,116
Dividends declared to shareholders	**91,645**	86,882	86,305	81,801	79,317	77,400	74,125	73,657

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. Drilling activity in the Montney and Duvernay geological zones has steadily increased and has resulted in throughput and operating margin growth at Keyera's Simonette gas plant over the past year. This has helped to offset some of the financial effect of lower throughput at certain other facilities where drilling activity is less robust. Operating margin in the fourth quarter of 2016 was unusually high due to the inclusion of a non-recurring upward adjustment to revenue of approximately $9 million, $6 million of which was associated with prior quarters in 2016. Refer to the 2016 year-end MD&A for more information related to this adjustment.

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

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

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

In the Marketing segment, the seasonality associated with the sale of iso-octane and propane has continued in 2018. On an annual basis, propane margins are estimated to remain a small part of Keyera's overall Marketing margin. For the first nine months of 2018, realized margin has already exceeded the 2017 annual Marketing results by approximately $60 million for the reasons described throughout this MD&A.

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

ADOPTION OF NEW STANDARDS

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

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 16, Leases

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

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

For lessors, the accounting treatment remains the same whereby a lessor continues to classify a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") on or before the initial application of IFRS 16.

Expected impact

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

IFRS 16 will be adopted by Keyera on January 1, 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard will be recognized at the date of initial application, including the election of allowable practical expedients. A reliable estimate of the transitional impact cannot

be made at this time; however, Keyera anticipates that the adoption of IFRS 16 will have a material impact on its consolidated statement of financial position at transition.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

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

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

COMMON SHARES

During the three and nine months ended September 30, 2018, there were 1,410,420 and 4,210,012 common shares issued under the DRIP and the Premium DRIP for consideration of $50 million and $144 million, bringing the total common shares outstanding at September 30, 2018 to 208,757,154.

Subsequent to September 30, 2018, 520,299 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of $18 million, bringing the total common shares outstanding at November 6, 2018 to 209,277,453.

NON-GAAP FINANCIAL MEASURES

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

FORWARD-LOOKING STATEMENTS

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

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

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events, levels of activity and achievements to differ materially from those anticipated in the forward-looking statements. Such factors include but are not limited to: general economic, market and business conditions; access to capital and debt markets; operational matters, including potential hazards inherent in our operations; risks arising from co-ownership of facilities; activities of other facility owners; access to third party facilities, competitive action by other companies; activities of producers and other customers and overall industry activity levels; changes in gas composition; pipeline product specification changes; fluctuations in commodity prices and supply/demand trends; processing and marketing margins; effects of weather conditions; availability of construction crews and materials; fluctuations in interest rates; ability to maintain current credit ratings; foreign currency exchange rates; changes in operating and capital costs, including fluctuations in input costs; actions by governmental authorities; compliance with regulatory requirements; decisions or approvals of administrative tribunals; changes in environmental and other regulations; reliance on key personnel; competition for, among other things, capital, acquisition opportunities and skilled personnel; changes in tax laws, including the effects that such changes may have on shareholders, and in particular any differential effects relating to shareholder's country of residence; and other factors, many of which are beyond the control of Keyera, some of which are discussed in this MD&A and in Keyera's Annual Information Form dated February 15, 2018, filed on SEDAR at www.sedar.com and available on the Keyera website at www.keyera.com.

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

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

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

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

Investor Information

DIVIDENDS TO SHAREHOLDERS

Dividends declared to shareholders of Keyera were $0.44 per share in the third quarter of 2018. Keyera increased its dividend by 7% from $0.14 per share to $0.15 per share per month, or $1.80 per share annually, beginning with its dividend payable on September 17, 2018. 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.

THIRD QUARTER 2018 RESULTS CONFERENCE CALL AND WEBCAST

Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the financial results for the third quarter of 2018 at 8:00 am Mountain Time (10:00 am Eastern Time) on November 7, 2018. Callers may participate by dialing either 1-888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 11:59 pm Mountain Time on August 23, 2018 by dialing 1-855-859-2056 or 416-849-0833 and entering pass code 7473459.

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	**September 30, 2018 $**	December 31, 2017 $
ASSETS			
Cash		**13,751**	326,381
Trade and other receivables		**533,364**	435,620
Derivative financial instruments	13	**28,275**	11,561
Inventory	5	**305,673**	147,831
Other assets		**15,020**	16,604
Total current assets		**896,083**	937,997
Derivative financial instruments	13	**99,670**	90,109
Property, plant and equipment		**5,497,757**	4,792,398
Intangible assets	4	**89,431**	—
Goodwill		**53,624**	53,624
Deferred tax assets	12	**16,295**	—
Total assets		**6,652,860**	5,874,128
LIABILITIES AND EQUITY			
Trade and other payables, and provisions		**716,305**	526,395
Derivative financial instruments	13	**33,705**	35,398
Dividends payable		**31,314**	28,637
Current portion of finance lease liability	7	**—**	1,474
Current portion of long-term debt		**125,877**	—
Current portion of decommissioning liability		**13,046**	9,584
Total current liabilities		**920,247**	601,488
Derivative financial instruments	13	**1,170**	220
Credit facilities		**40,000**	—
Long-term debt	8	**2,086,460**	1,795,530
Decommissioning liability		**458,181**	456,455
Other long-term liabilities	7	**16,609**	58,922
Deferred tax liabilities		**542,418**	482,233
Total liabilities		**4,065,085**	3,394,848
Equity			
Share capital	9	**2,794,195**	2,647,836
Accumulated deficit		**(206,873)**	(168,556)
Accumulated other comprehensive income		**453**	—
Total equity		**2,587,775**	2,479,280
Total liabilities and equity		**6,652,860**	5,874,128

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

These unaudited condensed interim consolidated financial statements were approved by the board of directors of Keyera Corp. on November 6, 2018.

(Signed) Michael Norris
Director

(Signed) David G. Smith
Director

Keyera Corp.

Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income

(Thousands of Canadian dollars)
(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
		2018	2017	**2018**	2017
	Note	**$**	$	**$**	$
Revenues	17	**1,161,071**	764,816	**3,322,869**	2,386,359
Expenses	17	**(941,603)**	(636,582)	**(2,663,493)**	(1,893,907)
Operating margin		**219,468**	128,234	**659,376**	492,452
General and administrative expenses		**(27,293)**	(14,737)	**(64,455)**	(48,605)
Finance costs	15	**(19,273)**	(20,087)	**(55,644)**	(54,760)
Depreciation, depletion and amortization expenses		**(55,349)**	(42,495)	**(152,340)**	(122,061)
Net foreign currency gain (loss) on U.S. debt	14	**828**	6,200	**(7,311)**	15,228
Long-term incentive plan expense	11	**(6,278)**	(1,020)	**(18,182)**	(13,938)
Impairment expense	6	**(63,350)**	—	**(63,350)**	(17,890)
Gain on disposal of property, plant and equipment	6	**—**	—	**—**	22,166
Loss on settlement of finance lease	7	**—**	—	**(286)**	—
Earnings before income tax		**48,753**	56,095	**297,808**	272,592
Income tax expense	12	**(14,069)**	(17,631)	**(68,636)**	(70,724)
Net earnings		**34,684**	38,464	**229,172**	201,868
Other comprehensive loss					
Foreign currency translation adjustment		**(6,257)**	—	**(6,257)**	—
Comprehensive income		**28,427**	38,464	**222,915**	201,868
Earnings per share					
Basic earnings per share	10	**0.17**	0.20	**1.11**	1.08
Diluted earnings per share	10	**0.17**	0.20	**1.11**	1.08

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 September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Cash provided by (used in):					
OPERATING ACTIVITIES					
Net earnings		**34,684**	38,464	**229,172**	201,868
Adjustments for items not affecting cash:					
Finance costs	15	**3,061**	3,536	**10,255**	10,733
Depreciation, depletion and amortization expenses		**55,349**	42,495	**152,340**	122,061
Long-term incentive plan expense	11	**6,278**	1,020	**18,182**	13,938
Unrealized (gain) loss on derivative financial instruments	13	**(17,004)**	40,364	**(27,018)**	16,533
Unrealized (gain) loss on foreign exchange		**(7,763)**	(14,500)	**8,943**	(33,455)
Deferred income tax expense	12	**5,199**	16,576	**43,635**	65,848
Impairment expense	6	**63,350**	—	**63,350**	17,890
Gain on disposal of property, plant and equipment	6	**—**	—	**—**	(22,166)
Loss on settlement of finance lease	7	**—**	—	**286**	—
Decommissioning liability expenditures		**(1,458)**	(1,188)	**(4,334)**	(7,152)
Changes in non-cash working capital	16	**(72,314)**	(46,069)	**(136,114)**	(85,010)
Net cash provided by operating activities		**69,382**	80,698	**358,697**	301,088
INVESTING ACTIVITIES					
Acquisitions	3	**(105,240)**	(3,265)	**(327,595)**	(61,122)
Capital expenditures		**(222,171)**	(159,093)	**(744,353)**	(502,167)
Proceeds on disposal of property, plant and equipment	3, 6	**19,484**	—	**23,928**	6,015
Changes in non-cash working capital	16	**(18,231)**	(7,697)	**56,520**	108,400
Net cash used in investing activities		**(326,158)**	(170,055)	**(991,500)**	(448,874)
FINANCING ACTIVITIES					
Borrowings under credit facility		**300,000**	1,289,802	**300,000**	3,163,802
Repayments under credit facility		**(260,000)**	(1,569,802)	**(260,000)**	(3,303,802)
Proceeds from issuance of long-term debt	8	**—**	400,000	**400,000**	400,000
Financing costs related to credit facility/long-term debt		**89**	(1,460)	**(2,250)**	(2,559)
Issuance costs related to equity offering		**—**	—	**(166)**	250
Proceeds from issuance of shares related to DRIP	9	**50,201**	45,395	**143,868**	135,942
Repayment of finance lease liabilities		**—**	(563)	**(1,439)**	(1,687)
Dividends paid to shareholders		**(89,360)**	(79,145)	**(262,154)**	(228,948)
Net cash provided by financing activities		**930**	84,227	**317,859**	162,998
Effect of exchange rate fluctuations on foreign cash held		**(326)**	(819)	**2,314**	(1,772)
Net (decrease) increase in cash		**(256,172)**	(5,949)	**(312,630)**	13,440
Cash at the start of the period		**269,923**	35,866	**326,381**	16,477
Cash at the end of the period		**13,751**	29,917	**13,751**	29,917
Income taxes paid in cash		**7**	431	**353**	2,585
Interest paid in cash		**12,943**	7,036	**55,409**	49,635

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 $	Accumulated Other Comprehensive Income $	Total $
Balance at December 31, 2016	**1,987,341**	**(145,833)**	**—**	**1,841,508**
Common shares issued pursuant to dividend reinvestment plans	135,942	—	—	135,942
Issuance costs related to 2016 equity offering	250	—	—	250
Net earnings	—	201,868	—	201,868
Dividends declared to shareholders	—	(230,842)	—	(230,842)
Balance at September 30, 2017	**2,123,533**	**(174,807)**	**—**	**1,948,726**

	Share Capital $	Accumulated Deficit $	Accumulated Other Comprehensive Income $	Total $
Balance at December 31, 2017	**2,647,836**	**(168,556)**	**—**	**2,479,280**
Common shares issued pursuant to dividend reinvestment plans	143,868	—	—	143,868
Issuance costs related to 2017 equity offering	(166)	—	—	(166)
Net earnings	—	229,172	—	229,172
Dividends declared to shareholders	—	(264,832)	—	(264,832)
Cumulative opening translation adjustment			6,710	6,710
Other comprehensive loss	—	—	(6,257)	(6,257)
Other adjustments	2,657	(2,657)	—	—
Balance at September 30, 2018	**2,794,195**	**(206,873)**	**453**	**2,587,775**

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

Keyera Corp.

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2018 and 2017

(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)
(Unaudited)

1. GENERAL BUSINESS DESCRIPTION

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

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

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

Keyera is approved to issue two classes of preferred shares (one class referred to as the "First Preferred Shares", a second class referred to as the "Second Preferred Shares"), and collectively both classes being referred to as the "Preferred Shares". Each are issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the board of directors may at any time and from time to time determine, subject to an aggregate maximum number of authorized Preferred Shares. No preferred shares had been issued as at September 30, 2018.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements are in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The accounting policies applied are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2017, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2018.

These condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2018 and 2017 do not include all disclosures required for the preparation of annual consolidated financial statements and should be read in conjunction with Keyera Corp.'s consolidated financial statements as at and for the year ended December 31, 2017.

The condensed interim consolidated financial statements were authorized for issuance on November 6, 2018 by the board of directors.

Change in Functional Currency of Foreign Subsidiary

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

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

During the third quarter, the company reassessed the functional currency of KEI due to changes that occurred with the acquisition of the Oklahoma Liquids Terminal, which was completed on June 19, 2018. This acquisition, combined with Keyera's Wildhorse Terminal project which was announced during the second quarter of 2018, are expected to generate profits and cash flows for KEI that are denominated in U.S. dollars. As a result, KEI is no longer expected to be an integral foreign operation that carries on business as an extension of its Canadian parent company's operations, thereby indicating that the primary economic environment in which it operates is the U.S.

Keyera determined that these changes in circumstances resulted in a change in the functional currency of KEI from Canadian dollars to U.S. dollars, effective July 1, 2018, and has made this change in functional currency on a prospective basis.

Keyera Corp.'s functional and presentation currency has not changed and remains Canadian dollars. Since KEI's functional currency will no longer be the same as the Canadian parent's presentation currency, the accounts of KEI must be translated into Keyera Corp.'s presentation currency at period-end exchange rates for assets and liabilities, and using the rates in effect at the date of the transaction for revenues and expenses. The resulting translation gains and losses related to the foreign operations of KEI will be recognized as foreign currency translation adjustments in other comprehensive income ("OCI") in the consolidated statement of net earnings and comprehensive income.

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

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

Adoption of new standards

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

Future accounting pronouncements update

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

IFRS 16, Leases

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

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

For lessors, the accounting treatment remains the same whereby a lessor continues to classify a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. Early adoption is permitted as long as an entity has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") on or before the initial application of IFRS 16.

Expected impact

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

IFRS 16 will be adopted by Keyera on January 1, 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard will be recognized at the date of initial application, including the election of allowable practical expedients. A reliable estimate of the transitional impact cannot be made at this time; however, Keyera anticipates that the adoption of IFRS 16 will have a material impact on its consolidated statement of financial position at transition.

3. SOUTH GRAND RAPIDS JOINT ARRANGEMENT

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

4. BUSINESS COMBINATION

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

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

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

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

5. INVENTORY

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

As at	**September 30, 2018 $**	December 31, 2017 $
NGLs and iso-octane	**300,396**	142,356
Other	**5,277**	5,475
Total inventory	**305,673**	147,831

For the period ended September 30, 2018, $305,673 of inventory was carried at cost (December 31, 2017 – $147,831) and $nil was carried at net realizable value (December 31, 2017 – $nil). The cost of inventory expensed for the three and nine months ended September 30, 2018 was $798,149 and $2,306,219 (three and nine months ended September 30, 2017 – $513,131 and $1,539,392).

6. PROPERTY, PLANT AND EQUIPMENT

Impairment

In the third quarter of 2018, Keyera identified through its impairment review that the Minnehik Buck Lake and Zeta Creek gas plants had carrying values that were greater than their recoverable amounts. The recoverable amount for each asset was calculated based on value in use which represents the estimated net present value of the cash flows expected to be derived from the asset. The main factors leading to a reduction in the carrying value of the assets were due to lower producer activity and throughput in the capture areas surrounding these assets. The following impairment expenses with a combined value of $63,350 were recognized in the Gathering and Processing segment for the three and nine months ended September 30, 2018:

	Applicable value in use discount date	Recoverable amount as at September 30, 2018	Impairment expense recognized for the three and nine months ended September 30, 2018
Minnehik Buck Lake gas plant[1]	10.02%	19,592	31,383
Zeta Creek gas plant[2]	10.02%	3,804	31,967
Total Impairment expense recognized in Gathering and Processing segment			63,350

Notes:
[1] Minnehik Buck Lake gas plant is included in the Alder Flats & Minnehik Buck Lake Cash Generating Unit ("CGU")
[2] The Zeta Creek gas plant is included in the Zeta Creek CGU.

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

Disposal of property, plant and equipment

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

7. OTHER LIABILITIES

As at	**September 30, 2018 $**	December 31, 2017 $
Finance lease liabilities	—	54,029
Less: current portion of finance lease liabilities	—	(1,474)
Long-term portion of finance lease liabilities	—	52,555
Long-term incentive plan liability	**8,479**	6,367
Other	**8,130**	—
Total other liabilities	**16,609**	58,922

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

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

8. LONG-TERM DEBT

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

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

9. CAPITAL

	Number of Common Shares	Share Capital $
Balance at December 31, 2017	**204,547,142**	**2,647,836**
Common shares issued pursuant to dividend reinvestment plans	**4,210,012**	**143,868**
Issuance costs related to 2017 equity offering	**—**	**(166)**
Other adjustments	**—**	**2,657**
Balance at September 30, 2018	**208,757,154**	**2,794,195**

10. 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 September 30,		Nine months ended September 30,	
	2018 $	2017 $	**2018 $**	2017 $
Basic and diluted earnings per share	**0.17**	0.20	**1.11**	1.08
Net earnings – basic and diluted	**34,684**	38,464	**229,172**	201,868

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2018**	2017	**2018**	2017
Weighted average number of shares – basic and diluted	**208,037**	188,650	**206,660**	187,469

11. SHARE-BASED COMPENSATION AND PENSION PLANS

Long-Term Incentive Plan

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

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

The LTIP is accounted for using the liability method and is measured at fair value at each statement of financial position date until the award is settled. The fair value of the liability is measured by applying a fair value pricing model whereby one of the valuation inputs was the September 30, 2018 share price of Keyera, which was $34.61 per share (December 31, 2017 – $35.42 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Performance Awards	**5,631**	2,323	**15,788**	13,816
Restricted Awards	**647**	(1,303)	**2,394**	122
Total long-term incentive plan expense	**6,278**	1,020	**18,182**	13,938

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 nine months ended September 30, 2018, Keyera made pension contributions of $2,438 and $7,228 (three and nine months ended September 30, 2017 – $2,303 and $6,808) on behalf of its employees. The contributions were recorded in general and administrative expenses.

Deferred Share Unit Plan
Effective January 1, 2016, Keyera implemented a deferred share unit ("DSU") plan, for non-employee directors. Each DSU vests on the date the grant is awarded but cannot be redeemed until a director ceases to be a member of the board of directors. The grant value is determined based on a 20 day weighted average trading share price. DSUs are settled in cash (on an after-tax basis) based on the 20 day weighted average Keyera share price up to the date of termination. For the three and nine months ended September 30, 2018, Keyera recorded $112 and $804 (three and nine months ended September 30, 2017 – $162 and $641) in general and administrative expenses related to the DSU plan.

The following table shows the number of DSUs granted:

As at	**September 30, 2018**	December 31, 2017
Balance at beginning of period	**46,171**	19,827
Granted	**26,408**	26,344
Balance at end of period	**72,579**	46,171

12. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Current	**8,870**	1,055	**25,001**	4,876
Deferred	**5,199**	16,576	**43,635**	65,848
Total income tax expense	**14,069**	17,631	**68,636**	70,724

With the acquisition of the Oklahoma Liquids Terminal in June 2018, Keyera considers it probable that there will be sufficient future taxable profits in its U.S. subsidiary to utilize tax losses that had not been recognized prior to June 30, 2018 for deferred income tax purposes. As a result, Keyera has recorded a deferred income tax asset of $16,295 as at September 30, 2018. Corresponding deferred tax recoveries of $1,192 and $16,550 have been included in deferred income tax expenses for the three and nine months ended September 30, 2018.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial Instruments

(a) Fair value

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

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

The fair value hierarchy has the following levels:

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

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

Financial instruments with fair value equal to carrying value

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

Fair value of senior fixed rate debt

The fair value of long-term debt is based on third party estimates for similar issues or current rates offered to Keyera for debt of the same maturity. The total fair value of Keyera's unsecured senior notes and medium term notes at September 30, 2018 was $2,211,200 (December 31, 2017 – $1,831,467) and this was determined by reference to inputs other than quoted market prices in active markets for identical liabilities under Level 2 of the fair value hierarchy.

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

As at September 30, 2018	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by December 31, 2019)	3,336,700 Bbls	86.76/Bbl	Level 2	(25,057)	—	(25,057)
Buyer of fixed price WTI swaps (maturing by March 31, 2019)	52,000 Bbls	84.60/Bbl	Level 2	516	516	—
Seller of fixed price NGL swaps (maturing by December 31, 2018)	2,080,000 Bbls	48.04/Bbl	Level 2	(1,440)	1,264	(2,704)
Buyer of fixed price NGL swaps (maturing by December 31, 2019)	1,306,000 Bbls	50.53/Bbl	Level 2	19,366	19,366	—
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	3,015,000 Bbls	21.62/Bbl	Level 2	(3,312)	2,696	(6,008)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by October 31, 2018)	85,000 Bbls	45.15/Bbl	Level 2	(67)	—	(67)
Buyer of fixed price NGL forward contracts (maturing by October 31, 2018)	30,000 Bbls	61.88/Bbl	Level 2	521	521	—
Currency:						
Seller of forward contracts (maturing by June 30, 2019)	US$199,000,000	1.30/USD	Level 2	920	1,307	(387)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	86,376 MWhs	41.44/MWh	Level 2	1,231	1,258	(27)
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	13,176 MWhs	44.91/MWh	Level 2	141	141	—
Emission Performance Credits:						
Seller of emission performance credits	282,597 credits	23.54/credit	Level 2	592	592	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	30,696 MWhs	43.17/MWh	Level 2	375	375	—
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2018)	30,000 Bbls	73.60/Bbls	Level 2	(625)	—	(625)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$562,426,350	0.98/USD - 1.22/USD	Level 2	99,909	99,909	—
				93,070	**127,945**	**(34,875)**

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

As at December 31, 2017	Notional Volume[1]	Weighted Average Price $	Fair Value Hierarchy Level [2]	Net Fair Value $	Carrying Value Asset $	Carrying Value Liability $
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI swaps (maturing by March 31, 2019)	2,095,175 Bbls	69.81/Bbl	Level 2	(11,138)	—	(11,138)
Buyer of fixed price WTI swaps (maturing by March 31, 2018)	73,500 Bbls	71.63/Bbl	Level 2	293	293	—
Seller of fixed price NGL swaps (maturing by March 31, 2018)	1,337,154 Bbls	45.35/Bbl	Level 2	(7,719)	64	(7,783)
Buyer of fixed price NGL swaps (maturing by March 31, 2018)	404,000 Bbls	48.77/Bbl	Level 2	3,913	3,978	(65)
Seller of fixed price RBOB basis spreads (iso-octane) (maturing by December 31, 2019)	3,380,000 Bbls	19.69/Bbl	Level 2	(15,163)	479	(15,642)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by March 31, 2018)	26,188 Bbls	43.94/Bbl	Level 2	(138)	—	(138)
Currency:						
Seller of forward contracts (maturing by June 30, 2018)	US$103,500,000	1.27/USD	Level 2	2,214	2,287	(73)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	157,680 MWhs	40.41/MWh	Level 2	2,134	2,194	(60)
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2018)	35,040 MWhs	44.65/MWh	Level 2	335	377	(42)
Emission Performance Credits:						
Seller of emission performance credits	340,520 credits	22.53/credit	Level 2	1,010	1,010	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	35,040 MWhs	41.95/MWh	Level 2	422	443	(21)
Crude Oil & NGLs:						
Seller of fixed price swaps (maturing by December 31, 2018)	135,000 Bbls	66.55/Bbl	Level 2	(656)	—	(656)
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$575,335,900	0.98/USD - 1.22/USD	Level 2	90,545	90,545	—
				66,052	**101,670**	**(35,618)**

Notes:

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

[2] A description of the fair value hierarchy is discussed in the fair value section.

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

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

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Unrealized gain (loss)	**$**	$	**$**	$
Marketing revenue	**26,914**	(25,444)	**19,185**	7,925
Liquids Infrastructure expenses	**(1,093)**	104	**(903)**	1,160
Gathering and Processing expenses	**(250)**	(14)	**(612)**	—
Corporate and Other:				
Corporate and Other revenues and expenses	**510**	(346)	**(16)**	1,208
Net foreign currency (loss)/gain on U.S. debt	**(9,077)**	(14,664)	**9,364**	(26,826)
Total unrealized gain (loss)	**17,004**	(40,364)	**27,018**	(16,533)

Risk Management

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

(b) Commodity price risk

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

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

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

(c) Foreign currency risk

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

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

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

Keyera is also exposed to foreign currency risk related to its U.S. dollar denominated long-term debt and U.S. dollar denominated LIBOR loans when drawn under Keyera's bank credit facility. To manage this currency exposure, Keyera has entered into long-term cross-currency swap contracts relating to the principal portion and future interest payments of the U.S. dollar denominated debt as well as short-term cross-currency swaps relating to the LIBOR loans drawn under the credit facility. These cross-currency contracts are accounted for as derivative instruments. Refer to note 14 for a summary of the foreign currency gains (losses) associated with the U.S. dollar denominated long-term debt.

(d) Interest rate risk

The majority of Keyera's interest rate risk is attributed to its fixed and floating rate debt, which is used to finance capital investments and operations. Keyera's remaining financial instruments are not significantly exposed to interest rate risk. The floating rate debt creates exposure to interest rate cash flow risk, whereas the fixed rate debt creates exposure to interest rate price risk. As at September 30, 2018, fixed rate borrowings comprised 98% of total debt outstanding (December 31, 2017 – 100%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

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

Keyera's maximum exposure to credit risk, which is a worst case scenario and does not reflect results expected by Keyera, is $533,364 at September 30, 2018 (December 31, 2017 – $435,620). Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at September 30, 2018. With respect to counterparties for derivative financial instruments, the credit risk is managed through dealing primarily with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which significantly reduce overall counterparty credit risk. In addition, Keyera incorporates the credit risk associated with counterparty default, as well as Keyera's own credit risk, into the estimates of fair value.

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

(f) Liquidity risk

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

Risk Management Sensitivities

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

	Impact on income before tax September 30, 2018		Impact on income before tax September 30, 2017	
Risk sensitivities	**Increase $**	**Decrease $**	Increase $	Decrease $
Commodity price changes				
+ 10% in electricity price	**724**	**—**	1,102	—
- 10% in electricity price	**—**	**(724)**	—	(1,102)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(39,849)**	—	(31,512)
- 10% in NGL, crude oil and iso-octane prices	**39,849**	**—**	31,512	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(970)**	—	(294)
- $0.01 in U.S./Canadian dollar exchange rate	**970**	**—**	294	—
Interest rate changes				
+ 1% in interest rate	**—**	**(22)**	—	(2,365)
- 1% in interest rate	**22**	**—**	2,365	—

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

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2018 $	2017 $	**2018 $**	2017 $
Foreign currency gain (loss) resulting from:				
Translation of long-term debt and interest payable	**9,706**	20,912	**(18,129)**	40,423
Change in fair value of the cross-currency swaps – principal and interest portion	**(9,077)**	(14,664)	**9,364**	(26,826)
Gain (loss) from cross-currency swaps – interest portion[1]	**199**	(48)	**1,454**	1,631
Total foreign currency gain (loss) on U.S. debt	**828**	6,200	**(7,311)**	15,228

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

15. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Interest on bank overdrafts and credit facilities	**1,201**	3,726	**3,686**	9,073
Interest on long-term debt	**24,265**	17,672	**65,150**	53,041
Interest capitalized	**(8,605)**	(4,892)	**(20,994)**	(18,164)
Other interest (income) expense	**(649)**	559	**(1,374)**	1,620
Total interest expense on current and long-term debt	**16,212**	17,065	**46,468**	45,570
Unwinding of discount on decommissioning liability	**2,642**	2,649	**7,919**	8,080
Unwinding of discount on long-term debt	**419**	373	**1,257**	1,110
Non-cash expenses in finance costs	**3,061**	3,022	**9,176**	9,190
Total finance costs	**19,273**	20,087	**55,644**	54,760

For the three and nine months ended September 30, 2018, $8,605 and $20,994 of borrowing (interest) costs were capitalized (three and nine months ended September 30, 2017 – $4,892 and $18,164) at a weighted average capitalization rate of 4.87% on funds borrowed (three and nine months ended September 30, 2017 – 4.34%).

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Inventory	**(69,090)**	(12,415)	**(150,940)**	(62,543)
Trade and other receivables	**(47,140)**	(64,499)	**(100,299)**	(20,053)
Other assets	**7,395**	16,372	**(10,328)**	(4,696)
Trade and other payables, and provisions	**36,521**	14,473	**125,453**	2,282
Changes in non-cash working capital from operating activities	**(72,314)**	(46,069)	**(136,114)**	(85,010)

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Trade and other payables, and provisions	**(18,231)**	(7,697)	**56,520**	53,346
Other assets	**—**	—	**—**	55,054
Changes in non-cash working capital from investing activities	**(18,231)**	(7,697)	**56,520**	108,400

17. SEGMENT INFORMATION

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

Gathering and Processing
The Gathering and Processing segment includes raw gas gathering systems and processing plants located in the natural gas production areas primarily on the western side of the Western Canada Sedimentary Basin. The operations primarily involve providing natural gas gathering and processing, including liquids extraction and condensate stabilization services to customers. This segment also includes sales of ethane volumes extracted from the Rimbey facility and sold to a third party customer under a long-term commercial arrangement.

Liquids Infrastructure
The Liquids Infrastructure segment provides fractionation, storage, transportation and terminalling services for NGLs and crude oil. As well, it provides processing services to Keyera's Marketing business related to NGLs, iso-octane and liquids blending. These services are provided to customers through an extensive network of facilities that include underground NGL storage caverns, NGL fractionation facilities, NGL and crude oil pipelines as well as rail and truck terminals, the AEF facility, a 50% interest in the Base Line Terminal, and the Oklahoma Liquids Terminal.

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

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

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

Reclassification
Certain information provided for prior years has been reclassified to conform to a change in presentation adopted as a result of the transition to IFRS 15.

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

Three months ended September 30, 2018	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	117,588	123,701	991,777	6,578	(78,573)	1,161,071
Segmented expenses	(53,733)	(41,387)	(922,159)	(2,897)	78,573	(941,603)
Operating margin	63,855	82,314	69,618	3,681	—	219,468
General and administrative expenses	—	—	—	(27,293)	—	(27,293)
Finance costs	—	—	—	(19,273)	—	(19,273)
Depreciation, depletion and amortization expenses	—	—	—	(55,349)	—	(55,349)
Net foreign currency gain on U.S. debt	—	—	—	828	—	828
Long-term incentive plan expense	—	—	—	(6,278)	—	(6,278)
Impairment expense	(63,350)	—	—	—	—	(63,350)
Earnings (loss) before income tax	505	82,314	69,618	(103,684)	—	48,753
Income tax expense	—	—	—	(14,069)	—	(14,069)
Net earnings (loss)	**505**	**82,314**	**69,618**	**(117,753)**	**—**	**34,684**

Three months ended September 30, 2017	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	116,635	103,872	612,526	5,065	(73,282)	764,816
Segmented expenses	(47,254)	(32,154)	(627,656)	(2,800)	73,282	(636,582)
Operating margin	69,381	71,718	(15,130)	2,265	—	128,234
General and administrative expenses	—	—	—	(14,737)	—	(14,737)
Finance costs	—	—	—	(20,087)	—	(20,087)
Depreciation, depletion and amortization expenses	—	—	—	(42,495)	—	(42,495)
Net foreign currency gain on U.S. debt	—	—	—	6,200	—	6,200
Long-term incentive plan expense	—	—	—	(1,020)	—	(1,020)
Earnings (loss) before income tax	69,381	71,718	(15,130)	(69,874)	—	56,095
Income tax expense	—	—	—	(17,631)	—	(17,631)
Net earnings (loss)	**69,381**	**71,718**	**(15,130)**	**(87,505)**	**—**	**38,464**

Nine months ended September 30, 2018	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	332,930	349,057	2,850,425	19,740	(229,283)	3,322,869
Segmented expenses	(134,627)	(108,369)	(2,640,818)	(8,962)	229,283	(2,663,493)
Operating margin	198,303	240,688	209,607	10,778	—	659,376
General and administrative expenses	—	—	—	(64,455)	—	(64,455)
Finance costs	—	—	—	(55,644)	—	(55,644)
Depreciation, depletion and amortization expenses	—	—	—	(152,340)	—	(152,340)
Net foreign currency loss on U.S. debt	—	—	—	(7,311)	—	(7,311)
Long-term incentive plan expense	—	—	—	(18,182)	—	(18,182)
Impairment expense	(63,350)	—	—	—	—	(63,350)
Loss on settlement of finance lease	—	(286)	—	—	—	(286)
Earnings (loss) before income tax	134,953	240,402	209,607	(287,154)	—	297,808
Income tax expense	—	—	—	(68,636)	—	(68,636)
Net earnings (loss)	**134,953**	**240,402**	**209,607**	**(355,790)**	**—**	**229,172**

Nine months ended September 30, 2017	**Gathering & Processing $**	**Liquids Infrastructure $**	**Marketing $**	**Corporate and Other $**	**Inter-segment Eliminations $**	**Total $**
Segmented revenue	346,051	304,297	1,939,220	21,364	(224,573)	2,386,359
Segmented expenses	(143,511)	(100,931)	(1,864,882)	(9,156)	224,573	(1,893,907)
Operating margin	202,540	203,366	74,338	12,208	—	492,452
General and administrative expenses	—	—	—	(48,605)	—	(48,605)
Finance costs	—	—	—	(54,760)	—	(54,760)
Depreciation, depletion and amortization expenses	—	—	—	(122,061)	—	(122,061)
Net foreign currency gain on U.S. debt	—	—	—	15,228	—	15,228
Long-term incentive plan expense	—	—	—	(13,938)	—	(13,938)
Impairment expense	(17,890)	—	—	—	—	(17,890)
Gain on disposal of property, plant and equipment	22,166	—	—	—	—	22,166
Earnings (loss) before income tax	206,816	203,366	74,338	(211,928)	—	272,592
Income tax expense	—	—	—	(70,724)	—	(70,724)
Net earnings (loss)	**206,816**	**203,366**	**74,338**	**(282,652)**	**—**	**201,868**

DISAGGREGATION OF REVENUE

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

Three months ended September 30, 2018	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Total $
Gas handling and processing services[1]	102,252	22,857	—	—	125,109
Fractionation and storage services	1,917	48,080	—	—	49,997
Transportation and terminalling services	—	52,461	—	—	52,461
Marketing of NGLs and iso-octane	—	—	991,777	—	991,777
Other[2]	13,419	303	—	6,578	20,300
Revenue before inter-segment eliminations	**117,588**	**123,701**	**991,777**	**6,578**	**1,239,644**
Inter-segment revenue eliminations	(5,027)	(64,275)	(2,241)	(7,030)	(78,573)
Revenue from external customers	**112,561**	**59,426**	**989,536**	**(452)**	**1,161,071**

Three months ended September 30, 2017	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Total $
Gas handling and processing services[1]	94,370	23,308	—	—	117,678
Fractionation and storage services	1,995	37,693	—	—	39,688
Transportation and terminalling services	—	42,581	—	—	42,581
Marketing of NGLs and iso-octane	—	—	612,526	—	612,526
Other[2]	20,270	290	—	5,065	25,625
Revenue before inter-segment eliminations	**116,635**	**103,872**	**612,526**	**5,065**	**838,098**
Inter-segment revenue eliminations	(5,539)	(59,832)	(2,093)	(5,818)	(73,282)
Revenue from external customers	**111,096**	**44,040**	**610,433**	**(753)**	**764,816**

Notes:

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

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

Nine months ended September 30, 2018	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Total $
Gas handling and processing services[1]	289,518	62,044	—	—	351,562
Fractionation and storage services	5,666	135,675	—	—	141,341
Transportation and terminalling services	—	150,371	—	—	150,371
Marketing of NGLs and iso-octane	—	—	2,850,425	—	2,850,425
Other[2]	37,746	967	—	19,740	58,453
Revenue before inter-segment eliminations	**332,930**	**349,057**	**2,850,425**	**19,740**	**3,552,152**
Inter-segment revenue eliminations	(15,183)	(182,536)	(9,307)	(22,257)	(229,283)
Revenue from external customers	**317,747**	**166,521**	**2,841,118**	**(2,517)**	**3,322,869**

Nine months ended September 30, 2017	Gathering & Processing $	Liquids Infrastructure $	Marketing $	Corporate and Other $	Total $
Gas handling and processing services[1]	280,024	73,244	—	—	353,268
Fractionation and storage services	6,770	116,342	—	—	123,112
Transportation and terminalling services	—	113,843	—	—	113,843
Marketing of NGLs and iso-octane	—	—	1,939,220	—	1,939,220
Other[2]	59,257	868	—	21,364	81,489
Revenue before inter-segment eliminations	**346,051**	**304,297**	**1,939,220**	**21,364**	**2,610,932**
Inter-segment revenue eliminations	(17,896)	(179,517)	(4,046)	(23,114)	(224,573)
Revenue from external customers	**328,155**	**124,780**	**1,935,174**	**(1,750)**	**2,386,359**

Notes:

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

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

Geographical information

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

Revenue from external customers located in	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Canada	**978,922**	632,651	**2,818,116**	2,022,924
U.S.	**182,149**	132,165	**504,753**	363,435
Total revenue	**1,161,071**	764,816	**3,322,869**	2,386,359

Non-current assets[1] as at	September 30, 2018 $	December 31, 2017 $
Canada	**5,375,777**	4,752,164
U.S.	**265,035**	93,858
Total non-current assets	**5,640,812**	4,846,022

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

Information about major customers

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

18. COMMITMENTS AND CONTINGENCIES

Purchase obligations

Keyera has assumed various contractual obligations in the normal course of its operations. Since December 31, 2017, Keyera has committed to approximately $347 million in purchase obligations associated with orders on long-lead items related to the construction of the Wildhorse Terminal and Wapiti gas plant as well as expansion of the Simonette gas plant. In addition, Keyera has committed between $500 and $600 million in purchase obligations related to the Pipestone plant and liquids hub which is being constructed by Encana. These expenditures are expected to occur between 2018 and 2021.

Finance lease liability

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

Construction contract dispute

In 2016, Keyera agreed to arbitration with a contractor involved in the construction of the Simonette Wapiti pipeline to resolve a dispute over the final amounts due under the construction contract. In the third quarter of 2018, an arbitrator issued a decision on the contractor's claim and Keyera's counterclaim, requiring Keyera to pay a net amount of $21,000 for direct costs related to pipeline construction, which has been recognized in property, plant and equipment. Approximately $18,000 of the total $21,000 in construction costs had previously been accrued for prior to the third quarter based on Keyera's estimate of the expected outcome from the arbitration proceedings.

In the third quarter of 2018, Keyera recognized an additional $6,000 in general and administrative expenses for interest and other costs related to the final outcome of the arbitration proceedings.

19. SUBSEQUENT EVENTS

On October 10, 2018, Keyera declared a dividend of $0.15 per share, payable on November 15, 2018, to shareholders of record as of October 22, 2018.

On November 6, 2018, Keyera declared a dividend of $0.15 per share, payable on December 17, 2018, to shareholders of record as of November 22, 2018.

Corporate Information

Board of Directors

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

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

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

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

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

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

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

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

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

Janet Woodruff [(3)]
Corporate Director
West Vancouver, British Columbia

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

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David G. Smith
President and Chief Executive Officer

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President Operations, Liquids Business Unit

Michael Freeman
Vice President Commercial Strategy, Liquids Business Unit

Suzanne Hathaway
Senior Vice President, General Counsel and Corporate Secretary

Rick Koshman
Vice President, Engineering

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

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

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

Eileen Marikar
Vice President, Controller

Brian Martin
Vice President, Business Development, NGL Facilities

C. Dean Setoguchi
Senior Vice President, Liquids Business Unit

Jamie Urquhart
Vice President Operations, Gathering and Processing Business Unit

Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q3 2018

TSX:KEY – Cdn $	
High	$37.98
Low	$34.40
Close September 30, 2018	$34.61
Volume	46,540,466
Average Daily Volume	750,653

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Chartered Professional Accountants
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