KEYERA

DELIVERING MIDSTREAM SOLUTIONS

November 5, 2019

2019 Third Quarter Report

For the period ended September 30, 2019

HIGHLIGHTS

- Keyera delivered impressive financial results in the third quarter of 2019, with each key financial metric well above our results from the same period last year, reflecting strong demand for our integrated service offering and new capital projects completed over the last twelve months.
- Adjusted earnings before finance costs, taxes, depreciation and amortization ("Adjusted EBITDA")[1] was a record $269 million (Q3 2018 – $160 million). Distributable cash flow[1] was $184 million or $0.85 per share (Q3 2018 – $127 million or $0.61 per share) while net earnings were $153 million or $0.71 per share (Q3 2018 – $35 million or $0.17 per share).
- The Gathering and Processing segment recorded operating margin of $75 million in the third quarter (Q3 2018 – $64 million), as Keyera's new Wapiti gas plant began operating in May. This plant supports liquids-rich Montney production in northwestern Alberta where producers continue to focus their capital investment.
- The Liquids Infrastructure segment generated a record operating margin of $98 million (Q3 2018 – $82 million) as new assets such as the Base Line Terminal earned incremental margin compared to the same period last year. In addition, with producers focused on liquids-rich production, Keyera's fractionation, storage and condensate handling system assets remain in high demand.
- The Marketing segment delivered operating margin of $138 million (Q3 2018 – $70 million) and a record realized margin[2,3] of $116 million (Q3 2018 – $43 million). These impressive results were largely due to a higher contribution from iso-octane sales. Keyera expects the Marketing segment to generate realized margin between $320 million and $350 million in 2019, compared to previous guidance of $280 million to $320 million.
- Keyera currently has a significant capital program underway that extends secured growth out to 2022. During the quarter, the Simonette gas plant expansion and the North Wapiti Pipeline System ("NWPS") were completed. With the NWPS operating, a second producer is now delivering volumes to the Wapiti gas plant.
- Keyera expects to invest between $800 million and $900 million in growth capital in 2019 and between $700 million and $800 million in 2020, excluding acquisitions. A significant portion of the investment next year relates to the Pipestone gas plant and the KAPS liquids pipeline system.
- With a strong balance sheet and payout ratio[1] of 67% year to date, Keyera expects to fund its current growth capital programs without issuing common equity, aside from the existing DRIP program.

[1] Keyera uses certain "Non-GAAP Measures" such as adjusted EBITDA, funds from operations, distributable cash flow, distributable cash flow per share and payout ratio. See section titled "Non-GAAP Financial Measures", "Dividends: Funds from Operations and Distributable Cash Flow" and "EBITDA" of the MD&A for further details.

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

[3] With the adoption of IFRS 16, Leases on January 1, 2019, the Marketing segment financial results are not directly comparable between periods. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information.

Summary of Key Measures (Thousands of Canadian dollars, except where noted)	**Three months ended September 30,** **2019**	 2018	**Nine months ended September 30,** **2019**	 2018
Net earnings	**153,219**	34,684	**406,465**	229,172
Per share ($/share) – basic	**0.71**	0.17	**1.91**	1.11
Cash flow from operating activities	**259,229**	69,382	**674,259**	358,697
Funds from operations[1]	**227,403**	135,418	**553,383**	476,629
Distributable cash flow[1]	**183,807**	127,044	**435,323**	437,727
Per share ($/share)[1]	**0.85**	0.61	**2.04**	2.12
Dividends declared	**101,198**	91,645	**292,582**	264,832
Per share ($/share)	**0.47**	0.44	**1.37**	1.28
Payout ratio %[1]	**55%**	72%	**67%**	61%
Adjusted EBITDA[2]	**268,933**	159,816	**682,714**	559,085
Gathering and Processing:				
Gross processing throughput (MMcf/d)	**1,414**	1,478	**1,500**	1,531
Net processing throughput (MMcf/d)	**1,135**	1,149	**1,193**	1,186
Liquids Infrastructure:				
Gross processing throughput[3] (Mbbl/d)	**169**	183	**174**	175
Net processing throughput[3] (Mbbl/d)	**74**	79	**81**	79
AEF iso-octane production volumes (Mbbl/d)	**14**	14	**13**	14
Marketing:				
Inventory value	**134,076**	305,673	**134,076**	305,673
Sales volumes (Bbl/d)	**130,900**	147,800	**140,900**	147,700
Acquisitions	**—**	105,240	**549**	327,595
Growth capital expenditures	**207,661**	213,797	**732,403**	706,890
Maintenance capital expenditures	**27,500**	8,374	**75,345**	37,463
Total capital expenditures	**235,161**	327,411	**808,297**	1,071,948
Weighted average number of shares outstanding – basic and diluted	**215,016**	208,037	**213,258**	206,660

	As at September 30, **2019**	 2018
Long-term debt	**2,557,271**	2,086,460
Credit facility	**—**	40,000
Working capital deficit (surplus)[4]	**79,052**	24,164
Net debt	**2,636,323**	2,150,624
Common shares outstanding – end of period	**215,914**	208,757

Notes:

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

2 Adjusted EBITDA is defined as earnings before finance costs, taxes, depreciation, amortization, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and adjusted EBITDA are not standard measures under GAAP. See the section 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 delivered impressive financial results in the third quarter of 2019 reflecting the value of our integrated business and new capital projects completed over the last twelve months. Our Gathering and Processing segment processed 1.4 billion cubic feet of natural gas per day during the quarter and provided the Liquids Infrastructure and Marketing segments with volumes to earn additional fees, which contributed to their record results. With all three business segments performing well, Keyera delivered record adjusted EBITDA of $269 million, while distributable cashflow increased 39% to $0.85 per share compared to the same period last year and net earnings increased by more than four times to $0.71 per share.

Keyera is on track to deliver another year of strong operational and financial performance. Our four plant turnarounds were completed safely and according to plan. Our capital program is progressing safely and according to schedule and budget. With continued growth in liquids-rich natural gas production and oil sands production, our fractionation, transportation, storage and marketing services all remain in high demand.

Gathering and Processing Operations

Our Gathering and Processing operations are the foundation of our integrated value chain, providing volumes to our liquids Infrastructure assets and marketing business where we generate incremental cash flow. In the third quarter, the Gathering and Processing segment operating margin was $75 million, representing a 17% increase over the same period last year. Although our net natural gas processing volumes were down 1%, our operating margin increased. This was primarily due to processing additional liquids at the Wapiti gas plant that began operating in May 2019 and the Pipestone Liquids Hub we acquired last year.

Over the past few years we have been focused on building our footprint in northwestern Alberta to support the liquids-rich Montney and Duvernay developments, and we are seeing the benefits of these investments. With the completion of the North Wapiti Pipeline System, the Wapiti gas plant is now generating revenue from both anchor customers. Our ongoing capital projects in the Wapiti and Pipestone areas remain on schedule and on budget, extending our secured growth in the near term.

Liquids Infrastructure Operations

In the third quarter, the Liquids Infrastructure segment generated record results with operating margin of $98 million, which represents a 19% increase over the same period last year. These results were driven by the Base Line Terminal that was completed in the fall of 2018 and growing demand for our liquids infrastructure assets in the Edmonton/Fort Saskatchewan area. As producers continue to focus on liquids-rich gas developments in Western Canada there is strong demand for our fractionator, storage cavern and condensate system capacity.

Our industry-leading condensate system continues to provide impressive returns on our invested capital. As our system has the most condensate supply and delivery options, as well as significant cavern storage, the system handles the majority of condensate transported to the oil sands. We expect demand for our system to remain strong as we continue to move additional volumes on the Norlite pipeline and producers continue to grow their production.

Marketing Services

Marketing adds value to our integrated business by effectively utilizing Keyera’s infrastructure to earn additional margin on the products we handle. During the quarter, the Marketing business generated an operating margin of $138 million and a record realized margin of $116 million. Marketing’s results were primarily driven by the contribution from iso-octane sales, due to strong margins and higher sales volumes.

As market fundamentals continue to support strong iso-octane margins into the fourth quarter, we now expect Marketing realized margin for 2019 to be between $320 million and $350 million. This represents significant free cash flow that we can reinvest into infrastructure to grow our fee-for-service business.

Business Development

Keyera has a significant capital program underway that extends our secured growth into 2022. During the quarter we completed the expansion at Simonette and advanced the second phase of the Wapiti gas plant and the Pipestone gas plant. Once the Pipestone gas plant is completed in early 2021, Keyera will be one of the largest gas processing and condensate handling companies in this region with our fee-for-services revenues backed by a combination of take-or-pay commitments, revenue guarantees and areas of dedication.

In the first half of 2022, we plan to connect these gas plants as well as other third-party facilities to KAPS, a NGL and condensate pipeline system. KAPS is a strategic investment for Keyera, as it will provide a competitive liquids transportation alternative connecting gathering and processing assets in the liquids-rich Montney and Duvernay developments in northwestern Alberta to our liquids infrastructure assets in Fort Saskatchewan.

With stronger integration, we can provide services more efficiently and expect to attract additional volumes to our gas plants, fractionators, storage caverns and condensate system. These additional volumes provide us with opportunities for significant future investment, within our areas of expertise.

Keyera has a track record of responsible growth, investing in projects that generate strong rates of return on our invested capital while maintaining a heathy balance sheet. We will maintain our disciplined investment approach as we continue to grow, ensuring that we are creating long-term value for our shareholders.

Outlook

While producer activity has been strong in the liquids-rich Montney and Duvernay developments, drilling activity in west central Alberta has been weak, due to prolonged low natural gas prices. This has translated into a challenging environment for producers at some of Keyera’s gas plants in the region. Although we are encouraged by improving AECO gas fundamentals, we will manage factors within our control to provide the most competitive services and profitability for Keyera. As a result, we are reviewing various alternatives to optimize our Gathering and Processing operations that may include consolidating throughput volumes at certain facilities. Our goal is to improve the utilization and profitability of these facilities, which should lead to lower per unit operating costs and ultimately translate into higher netbacks for producers.

Even with the challenges our producers and industry are currently facing, we believe in the future of Canadian oil and gas. The world needs Canadian oil and gas to responsibly meet growing demand and transition to cleaner sources of energy. Canada is one of the most responsible energy producing countries in the world with significant resources that are amongst the most economical developments in North America. With Keyera’s strong values and integrated network of midstream assets, we are well positioned to be an important part of this evolution.

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 5, 2019, 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, 2019 and the notes thereto as well as the audited consolidated financial statements of Keyera for the year ended December 31, 2018, 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. Keyera also provides condensate handling services through its condensate gathering pipelines and stabilization facilities.

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

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

   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.

Overview

Keyera recorded impressive third quarter 2019 financial results as the Gathering and Processing segment delivered solid results, and the Liquids Infrastructure and Marketing segments each set a new record on a realized margin basis. These results highlight the value of Keyera's integrated asset base.

Keyera expects the following for 2019:

- realized margin from the Marketing segment to range between $320 million and $350 million, assuming the AEF facility is fully operational by mid-November. This is compared to previous guidance of $280 million to $320 million.
- cash taxes to range between $90 million and $100 million ($69 million expensed in the first nine months of 2019);
- maintenance capital expenditures to range between $105 million and $115 million, which includes the additional work being completed at AEF in the fourth quarter of 2019 ($75 million has been incurred to September 30, 2019); and
- growth capital expenditures to range between $800 million and $900 million ($732 million invested to September 30, 2019).

In early October, Bellatrix Exploration Ltd. ("Bellatrix") who is a customer of Keyera and joint venture partner at the Alder Flats gas plant, commenced restructuring proceedings under the Companies' Creditors Arrangement Act ("CCAA"). Keyera does not expect to incur any bad debt expenses for outstanding accounts receivable as of the petition date (October 2, 2019) due to maintaining sufficient security in the form of a letter of credit. Keyera will continue to work with Bellatrix and monitor the situation closely as they work through this restructuring.

Outlook

While producer activity has been strong in the Montney and Duvernay geological zones, drilling activity in west central Alberta has been weak given prolonged low natural gas prices. This has translated into a challenging environment for producers at several Keyera gas plants in the region. In response to this challenging environment, Keyera is reviewing various alternatives that may include consolidating throughput volumes at certain facilities. The objective of this strategy would be to increase utilization at these facilities and reduce overall operating costs, maintenance capital and turnaround costs. Ultimately this strategy would reduce per unit operating costs for producers, providing them with higher netbacks, and enhance margins for Keyera.

Keyera expects the following for 2020:

- cash taxes are estimated to be $nil;
- maintenance capital expenditures to range between $35 million and $45 million; and
- growth capital expenditures to range between $700 million and $800 million.

Funding for Growth Capital

Keyera currently has $2.9 billion of growth capital projects underway, including $650 million for Keyera's 50% share of KAPS. Of this capital, $1.5 billion has been expended since inception as phase one of the Wapiti gas plant, the North Wapiti Pipeline System and the Simonette expansion were all completed in 2019. With Keyera's strong balance sheet, it is well positioned to fund this capital program without issuing common equity apart from the DRIP and Premium DRIP program.

Keyera's financing decisions are largely predicated on balancing several factors that include maintaining its strong balance sheet and BBB investment grade credit ratings, while minimizing dilution to its common

shareholders. To maintain this balance, the DRIP program is the lowest cost and most efficient form of issuing common equity to fund a portion of Keyera's current growth capital program. For 2019, funding from the DRIP program represents less than 30% of Keyera's expected growth capital investment for the year.

Readers are referred to the section of the MD&A titled, "Forward-Looking Statements" for a further discussion of the assumptions and risks that could affect future performance and plans.

CONSOLIDATED FINANCIAL RESULTS

The following table highlights some of the key consolidated financial results for the three and nine months ended September 30, 2019 and 2018:

(Thousands of Canadian dollars, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Net earnings	**153,219**	34,684	**406,465**	229,172
Net earnings per share (basic)	**0.71**	0.17	**1.91**	1.11
Operating margin	**311,402**	219,468	**741,692**	659,376
Realized margin[1,2]	**289,508**	193,387	**758,268**	641,722
Adjusted EBITDA[3]	**268,933**	159,816	**682,714**	559,085
Cash flow from operating activities	**259,229**	69,382	**674,259**	358,697
Funds from operations[4]	**227,403**	135,418	**553,383**	476,629
Distributable cash flow[4]	**183,807**	127,044	**435,323**	437,727
Distributable cash flow per share[4] (basic)	**0.85**	0.61	**2.04**	2.12
Dividends declared	**101,198**	91,645	**292,582**	264,832
Dividends declared per share	**0.47**	0.44	**1.37**	1.28
Payout ratio[5]	**55%**	72%	**67%**	61%

Notes:

1. Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, "Segmented Results of Operations: Marketing", for a reconciliation of operating margin to realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes $634 and $1,297 of unrealized losses from commodity-related risk management contracts for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – $833 and $1,531 unrealized losses).
2. Information provided for the prior period has been revised to conform to the presentation adopted in the 2018 Year End Report.
3. Adjusted EBITDA is defined as earnings before finance costs, taxes, depreciation, amortization, impairment expenses, unrealized gains/losses and any other non-cash items such as gains/losses on the disposal of property, plant and equipment. EBITDA and adjusted EBITDA are not standard measures under GAAP. See the section titled "EBITDA" for a reconciliation of adjusted EBITDA to its most closely related GAAP measure.
4. Funds from operations and distributable cash flow are not standard measures under GAAP. See the section titled, "Dividends: Funds from Operations and Distributable Cash Flow", for a reconciliation of funds from operations and distributable cash flow to the most closely related GAAP measure.
5. Payout ratio is defined as dividends declared to shareholders divided by distributable cash flow and is not a standard measure under GAAP.

With the adoption of *IFRS 16, Leases* that was effective January 1, 2019, the effects on Keyera's financial results for the respective three and nine month periods ended September 30, 2019 were as follows:

- decrease in operating expenses of $13 million and $40 million;
- increase in finance costs of $3 million and $8 million;
- increase in depreciation, depletion and amortization expenses of $15 million and $42 million; and
- a foreign currency gain on U.S. debt and other of $nil and $7 million.

The adoption of *IFRS 16, Leases* also affected certain financial and non-GAAP measures for the respective three and nine month periods ended September 30, 2019 as follows:

- decrease in net income of $4 million and $3 million;
- increase in operating margin, realized margin, and cash flow from operating activities of $13 million and $40 million;
- decrease in cash flow from financing activities of $13 million and $40 million; and

- an increase in funds from operations and adjusted EBITDA of $13 million and $40 million.

Distributable cash flow was not affected by the adoption of *IFRS 16, Leases* as lease payments continue to be deducted from this non-GAAP measure. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information on the adoption of *IFRS 16, Leases*.

Net Earnings

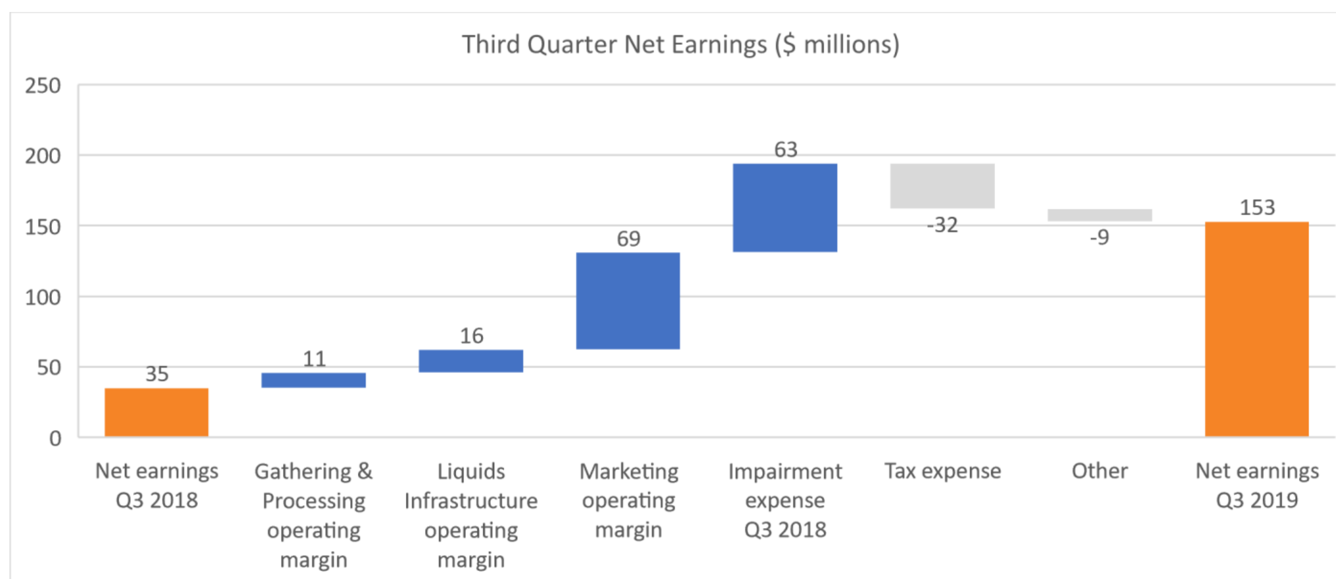
Third Quarter Results

For the three months ended September 30, 2019, net earnings were $153 million, $119 million higher than the same period in 2018. The higher net earnings were primarily attributable to:

- $92 million in higher operating margin largely driven by record financial results in the Liquids Infrastructure and Marketing segments; and

- an impairment charge of $63 million that was recorded in the third quarter of 2018, which reduced the carrying values of the Minnehik Buck Lake and Zeta Creek gas plants because of low producer activity in the areas surrounding these facilities.

These factors were partly offset by $32 million in higher income tax expense mainly resulting from higher earnings before income tax.



Year-To-Date Results

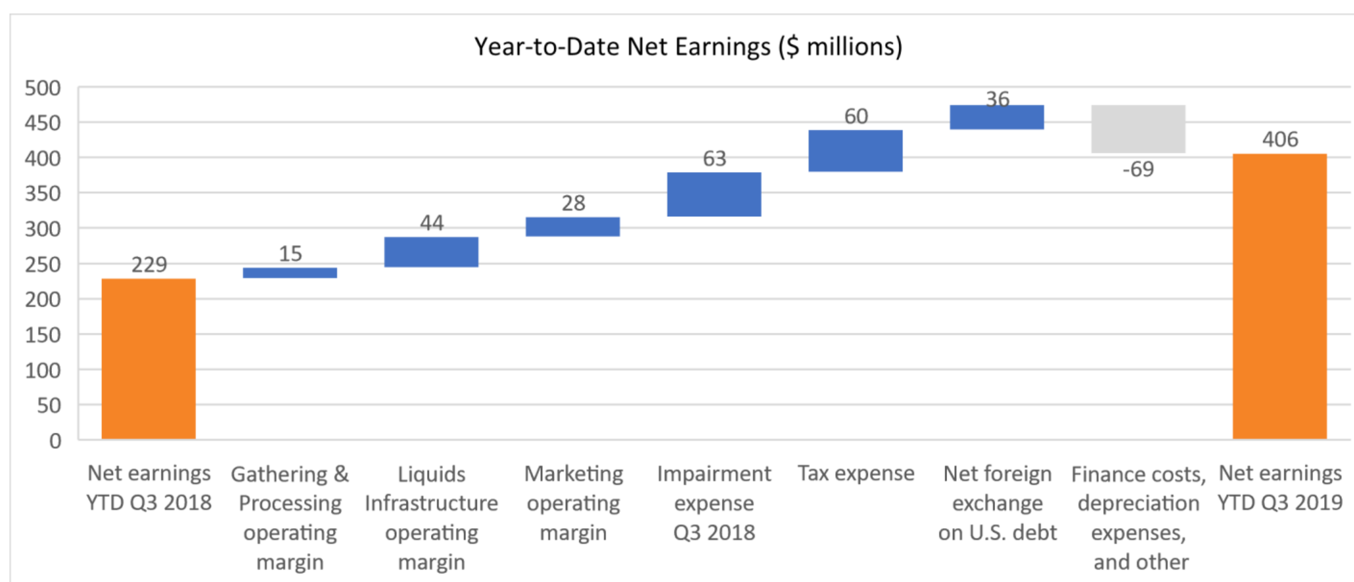
On a year-to-date basis, net earnings were $406 million, $177 million higher than the same period in 2018. The higher net earnings during the first nine months of 2019 compared to the same period in 2018 were largely due to the same factors that contributed to higher net earnings in the third quarter of 2019, as well as the following:

- $60 million in lower income tax expenses mainly due to a deferred income tax recovery recorded in the second quarter of 2019 resulting from a decrease in Alberta corporate income tax rates; and

- a $29 million net foreign currency gain in the first nine months of 2019 compared to a $7 million net foreign currency loss during the same period in 2018.

Partly offsetting these factors were higher finance costs and depreciation expenses which increased by $27 million and $45 million compared to the prior year, respectively.

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



Operating Margin and Realized Margin

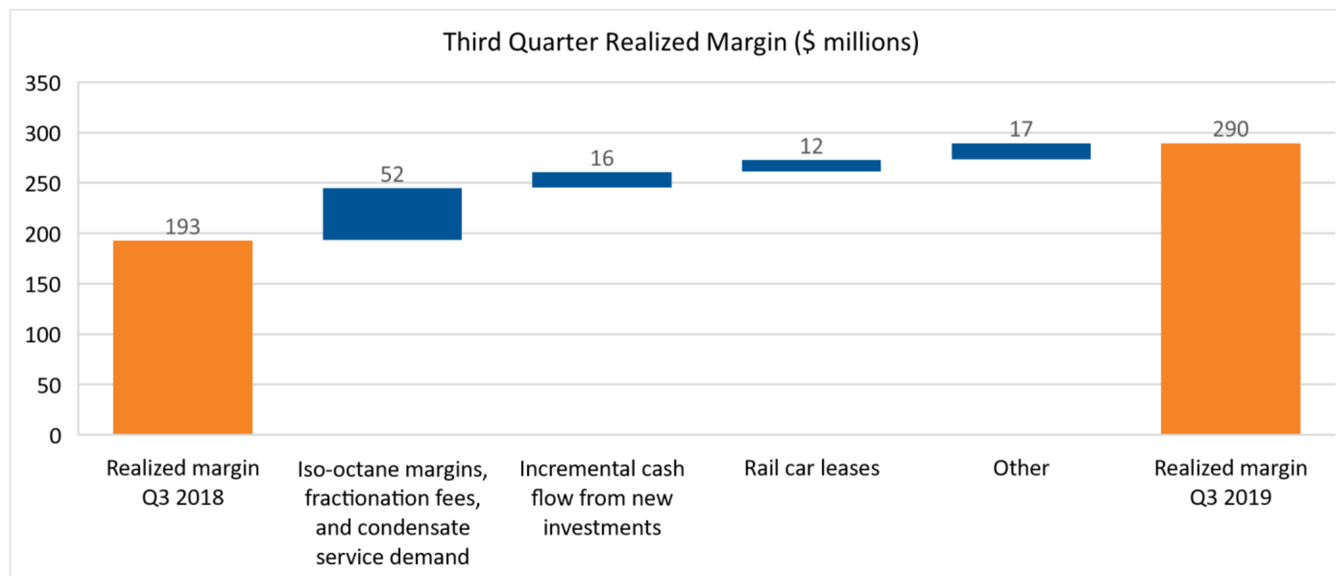
With the adoption of *IFRS 16, Leases,* rail car leases are no longer included in operating expenses of the Marketing segment but rather are capitalized for accounting purposes. The adoption of this standard did not result in the restatement of prior periods; accordingly, the financial results of the Marketing segment are not directly comparable between periods. Approximately $12 million and $32 million of rail car lease costs were included in operating expenses of the Marketing segment for the three and nine months ended September 30, 2018.

Third Quarter Results

For the three months ended September 30, 2019, operating margin was $311 million, $92 million higher than the same period in 2018 primarily due to $96 million in higher realized margin from all operating segments as described in more detail below.

For the three months ended September 30, 2019, realized margin (excluding the effect of unrealized gains and losses from commodity-related risk management contracts) was $290 million, $96 million higher than the third quarter of 2018 largely due to the following factors:

- incremental operating margin from recent investments including: phase one of the Wapiti gas plant that came into service in May 2019, the Pipestone Liquids Hub that began operations in September 2018, and the Base Line Terminal that was brought into service in phases starting in January 2018, with all 12 tanks operational by October 2018;
- the overall growth in demand for Keyera's condensate network, including transportation and storage services, as well as incremental revenue and volumes from the Norlite pipeline;
- higher fractionation fees effective with the new contract year that began on April 1, 2019; and
- higher iso-octane margins in the third quarter of 2019 resulting from: i) strong product premiums, ii) lower average butane feedstock costs relative to the prior year, and iii) higher sales volumes.

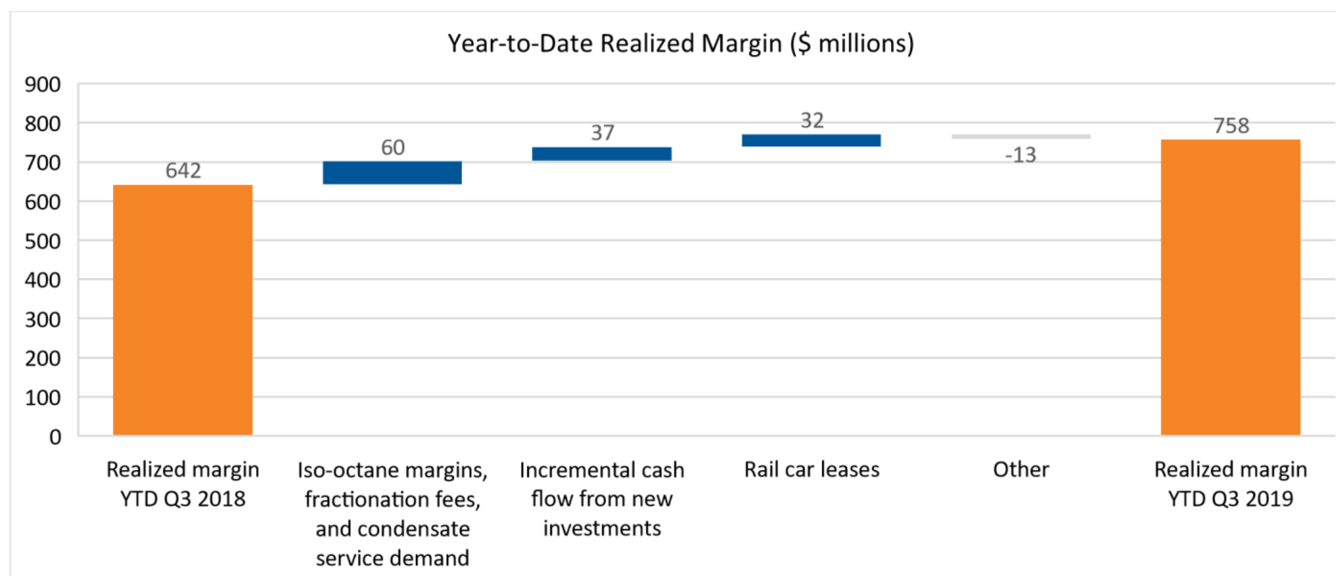


Year-To-Date Results

For the first nine months of 2019, operating margin was $742 million, $82 million higher than the same period in 2018 mainly due to $117 million in higher realized margin, as described in more detail below. The higher realized margin was partly offset by a non-cash unrealized loss of $15 million in the first nine months of 2019 compared to a non-cash gain of $19 million during the same period in 2018 on risk management contracts from the Marketing segment.

For the first nine months of 2019, realized margin was $758 million, $117 million higher than the same period in 2018 because of the same factors discussed above for the third quarter. This was partly offset by lower realized margin from the Marketing segment in the first quarter of 2019 due to: i) an unscheduled outage at AEF in February, which resulted in lower iso-octane sales volumes during that period, and ii) lower margins from the sale of butane as product was sold at low market prices to manage inventory levels resulting from the outage at AEF. Significant realized gains from risk management contracts were recorded in the fourth quarter of 2018 which offset the significant decline in butane prices in early 2019.

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



Cash Flow Metrics

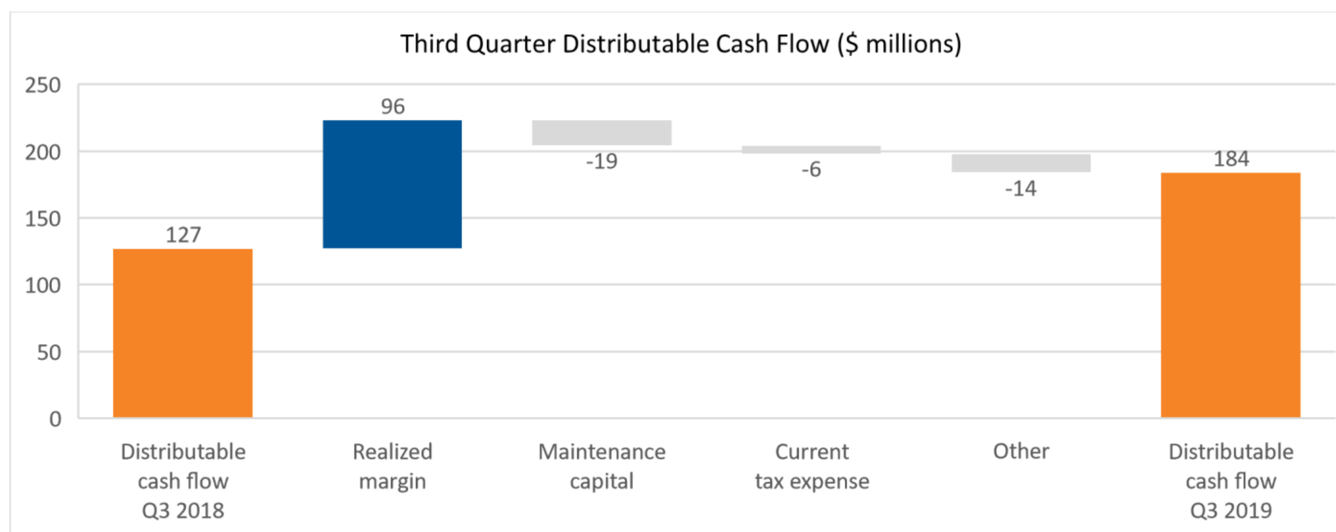
With the adoption of *IFRS 16, Leases* effective January 1, 2019, operating lease payments are excluded from the calculation of cash flow from operating activities and funds from operations as these payments are no longer included in operating expenses. Accordingly, these two cash flow measures are not comparable between periods, as approximately $13 million and $35 million in lease expenses were deducted in the three and nine months ended September 30, 2018. However, distributable cash flow is comparable between periods as lease expenditures are deducted in both periods to calculate this measure.

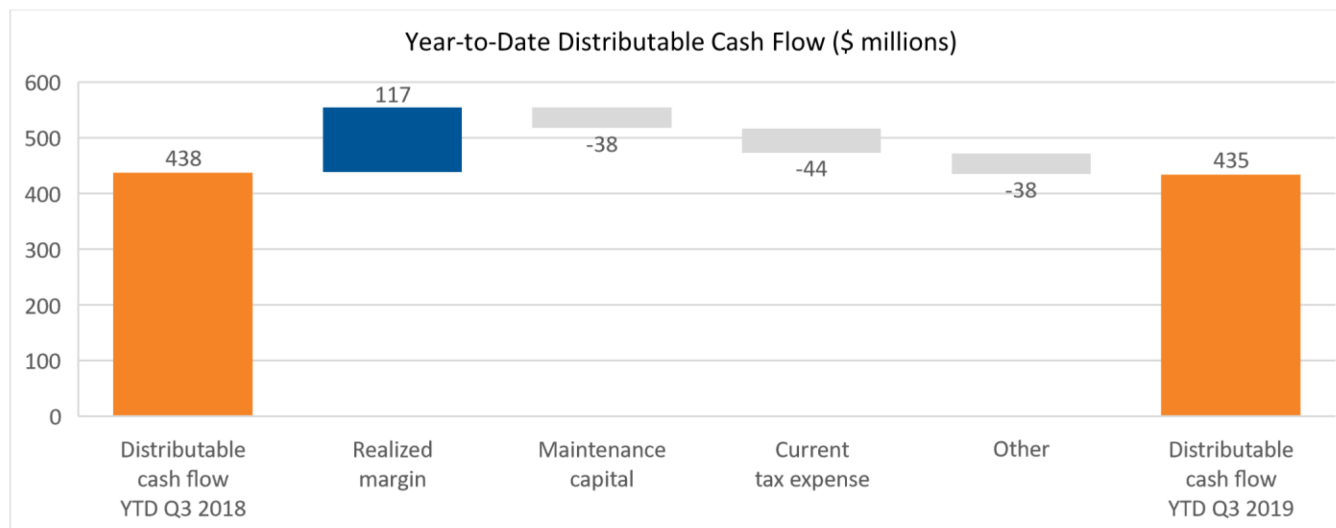
Third Quarter and Year-To-Date Results

Cash flow from operating activities for the three and nine months ended September 30, 2019 was $259 million and $674 million, $190 million and $316 million higher than the same periods last year because of the strong operating results in 2019 and reduced cash requirements to fund inventory due to lower average NGL prices and lower volumes of propane and butane in inventory at September 30, 2019 compared to September 30, 2018.

Distributable cash flow for the three months ended September 30, 2019 was $184 million, $57 million higher than the same period in 2018. The strong financial results from all operating segments was partly offset by higher maintenance capital expenditures primarily related to the scheduled maintenance turnarounds at the Ricinus and Cynthia gas plants in the third quarter, and maintenance capital work at AEF. On a year-to-date basis, distributable cash flow was $435 million, $2 million lower than the same period in 2018 as higher maintenance capital expenditures and current tax expense more than offset the strong financial results in the first nine months of 2019.

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





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, 2019 and 2018 are reported in note 18, Segment Information, of the accompanying financial statements.

Gathering and Processing

Keyera currently has interests in 18 active gas plants and one gas plant that is under construction, all of which are located in Alberta. Keyera operates 16 of the 18 active gas plants and has the option to become the operator of the gas plant currently under construction, five years after the commencement of its operations. The Gathering and Processing segment includes raw gas gathering systems and processing plants strategically located in the natural gas production areas on the western side of the Western Canada Sedimentary Basin ("WCSB"). Several of the gas plants are interconnected by raw gas gathering pipelines, allowing raw gas to be directed to the gas plant best suited to process the gas. Most of Keyera's facilities are also equipped with condensate handling capabilities. Keyera's facilities and gathering systems collectively constitute a network that is well positioned to serve drilling and production activity in the WCSB.

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

Operating Margin and Throughput Information (Thousands of Canadian dollars)	Three months ended September 30,		Nine months ended September 30	
	2019	2018	**2019**	2018
Revenue[1]	**133,057**	117,588	**369,716**	332,930
Operating expenses[1]	**(58,206)**	(53,483)	**(156,246)**	(134,015)
Unrealized loss on electricity and other financial contracts	**(48)**	(250)	**(632)**	(612)
Total operating expenses	**(58,254)**	(53,733)	**(156,878)**	(134,627)
Operating margin	**74,803**	63,855	**212,838**	198,303
Gross processing throughput – (MMcf/d)	**1,414**	1,478	**1,500**	1,531
Net processing throughput[2] – (MMcf/d)	**1,135**	1,149	**1,193**	1,186

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

Third Quarter Results

The Gathering and Processing segment recorded total operating margin of $75 million in the third quarter of 2019, $11 million or 17% higher than the same period in 2018 due to:

- incremental operating margin from phase one of the Wapiti gas plant which came into service in May 2019, and the Pipestone Liquids Hub that began operations in September 2018; and

- lower operating expenses at the Strachan gas plant as costs incurred in the third quarter of 2018 included expenses related to the shutdown of sour gas processing equipment at the facility.

The factors above were partly offset by a reduction in fees provided to two customers in exchange for longer-term commitments of volume and the ability to process volumes at several Keyera facilities in the west central Alberta area. Agreements with these customers were finalized in the first quarter of 2019 and fourth quarter of 2018.

Year-To-Date Results

Operating margin for the nine months ended September 30, 2019 was $213 million, $15 million or 7% higher than the same period in 2018. The higher operating margin during the first nine months of 2019 was due to the same factors that affected the third quarter, as well as incremental operating margin from the Simonette facility for liquids volumes processed through its liquids handling infrastructure that became operational in May 2018.

Revenue

Gathering and Processing revenue for the three and nine months ended September 30, 2019 was $133 million and $370 million, $15 million and $37 million higher than the same periods in 2018. The increased revenues were primarily related to the same factors that contributed to higher operating margin.

Gathering and Processing Activity

Gross processing throughput for the Gathering and Processing segment averaged 1,414 million cubic feet per day in the third quarter of 2019, 4% lower than the same period in 2018 and the second quarter of 2019. The lower processing throughput compared to the second quarter of 2019 was primarily attributable to:

- a planned maintenance outage at the third party operated Edson gas plant. Processing throughput levels at this facility have a minimal effect on operating margin;

- lower volumes at the Simonette gas plant as the facility was taken offline for approximately one week to connect the new acid gas injection and expansion infrastructure;

- scheduled maintenance turnarounds at the Cynthia and Ricinus gas plants; and
- weak natural gas and NGL prices which continued to contribute to lower producer activity levels and production declines across several facilities in west central Alberta.

The factors above were partly offset by higher gross processing throughput at: i) the Rimbey gas plant, which returned to similar throughput levels as those experienced prior to the facility's 14-day maintenance turnaround in the second quarter of 2019, and ii) the Wapiti gas plant which operated for a full quarter after it began operations in May 2019.

The effect of lower processing throughput on operating margin in the third quarter of 2019 was more than offset by incremental volumes and revenues associated with the Wapiti gas plant and an increase in liquids processing volumes at the Pipestone Liquids Hub.

Phase one of the Wapiti gas plant continued to increase its gross processing throughput during the third quarter of 2019 as the North Wapiti Pipeline became operational in September. This new pipeline began delivering incremental volumes from Pipestone Energy Corp., while volumes from Paramount Resources Ltd., the primary customer for phase one of the Wapiti gas plant, also trended upward.

Keyera has continued to engage in discussions with producers in the Montney and Duvernay area to provide gathering and processing solutions that will support their developments and utilize Keyera's infrastructure.

Over the past several years, Keyera has focused on expanding its footprint in the liquids-rich Montney and Duvernay geological zones where producer activity is strong due to condensate-rich gas. These investments will continue to contribute incremental cash flow as the North Wapiti Pipeline System and the expansion of the Simonette gas plant are now complete, and phase two of the Wapiti gas plant is scheduled to be operational by mid-2020. Partly offsetting this incremental cash flow will be reduced volumes and revenue at Keyera's Brazeau River gas plant beginning in the spring of 2020, where a customer will be diverting volumes to their own facility for processing. The financial impact is expected to be a reduction in operating margin of approximately $10 million relative to 2019.

As drilling activity around the Nevis gas plant has continued to decline in recent years, gross processing throughput at the gas plant has correspondingly declined. As a result, Keyera suspended operations at the gas plant on September 30, 2019.

During the third quarter of 2019, maintenance turnarounds were completed at the Cynthia and Ricinus gas plants. Combined with the maintenance turnarounds completed at the Rimbey and Pembina North gas plants in the second quarter of 2019, the total cost of the maintenance turnarounds in 2019 was approximately $42 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. 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 were constructed with this project: i) Acid gas injection facilities including surface facilities at the plant and well site, and a pipeline connecting the facilities to a disposal well. ii) Inlet liquids separation facilities consisting of multiple pressure vessels to accommodate the high volumes of liquids-rich gas coming into the Simonette gas plant. iii) Flare system to accommodate the various growth projects at the Simonette gas plant.	***Completed Assets:*** The inlet liquids separation facilities and flare system were completed and commenced operations at the beginning of March 2019. The acid gas injection facilities became operational in July 2019. *Estimated total cost to complete:* • approximately $78 million, $22 million lower than the original estimate *Total net costs to September 30, 2019:* • $4 million and $38 million for the three and nine months ended September 30, 2019 • $77 million since inception
Simonette	***Simonette Expansion Project:*** The expansion project created an additional 150 million cubic feet per day of gas processing capacity, bringing the total licensed capacity of the plant to 450 million cubic feet per day.	The expansion project became operational at the beginning of September 2019. *Estimated total cost to complete:* • approximately $70 million, $15 million lower than the original estimate *Total net costs to September 30, 2019:* • $7 million and $45 million for the three and nine months ended September 30, 2019 • $69 million since inception

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Wapiti	***Wapiti Gas Plant (Phase One):*** Phase one includes the construction of a 150 million cubic feet per day sour gas processing plant with acid gas injection capabilities and 25,000 barrels per day of condensate processing facilities, as well as a gathering pipeline system, field compressor stations, and condensate treating facilities.	***Wapiti Gas Plant (Phase One):*** Phase one of the Wapiti Gas Plant was completed and began operating in May 2019.
	Water Disposal System: This project includes the installation of high pressure injection pumps and pipeline connectivity for multiple disposal wells that are capable of disposing up to 30,000 barrels per day of produced water from the Wapiti gas plant.	***Water Disposal System:*** The water disposal system became operational with the start-up of phase one of the Wapiti Gas Plant in May 2019. The system is currently equipped with two disposal wells, with the second disposal well coming into service in August 2019.
	North Wapiti Pipeline System: The North Wapiti Pipeline System extends the capture area of Keyera's Wapiti gas plant and includes a 12-inch sour gas gathering pipeline, an 8-inch condensate and water pipeline, and a compressor station.	***North Wapiti Pipeline System:*** The pipeline system commenced operations in September 2019.
	Gold Creek Compressor and Gathering System Expansion: This project provides additional compression and includes an expansion of the Wapiti gathering system.	***Gold Creek Compressor and Gathering System Expansion:*** Detailed engineering work continued while construction activities on the compressor station commenced in the third quarter of 2019. The additional compression and expansion of the Wapiti gathering system is anticipated to be operational by mid-2020.
	Wapiti Gas Plant (Phase Two): Phase two will add another 150 million cubic feet per day of sour gas processing capacity to the Wapiti gas plant.	***Wapiti Gas Plant (Phase Two):*** Fabrication of major equipment and engineering work continued in the third quarter of 2019. Phase two of the Wapiti gas plant is expected to be complete by mid-2020. *Estimated total cost to complete the Wapiti complex and related infrastructure:* • approximately $1 billion *Total net costs to September 30, 2019:* • $60 million and $276 million for the three and nine months ended September 30, 2019 • $860 million since inception (including $19 million in 2016 to acquire the project and acid gas injection well and $10 million for the acquisition of land)

Gathering and Processing – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Pipestone	***Pipestone Gas Plant:*** The Pipestone gas plant will include a total of 200 million cubic feet per day of sour gas processing capacity with acid gas injection capabilities, 24,000 barrels per day of condensate processing capacity, and associated water disposal facilities.	Field construction, detailed engineering, and procurement activities continued in the third quarter of 2019. The Pipestone gas plant is expected to be operational in early 2021. *Estimated total cost to complete:* • approximately $600 million *Total net costs to September 30, 2019:* • $83 million and $202 million for the three and nine months ended September 30, 2019 • $243 million since inception

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

Liquids Infrastructure

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

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

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

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

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

Operating margin for the Liquids Infrastructure segment was as follows:

Operating Margin (Thousands of Canadian dollars)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Revenue[1]	**137,657**	123,701	**401,433**	349,057
Operating expenses[1]	**(39,122)**	(40,294)	**(115,805)**	(107,466)
Unrealized loss on electricity financial contracts	**(450)**	(1,093)	**(533)**	(903)
Total operating expenses	**(39,572)**	(41,387)	**(116,338)**	(108,369)
Operating margin	**98,085**	82,314	**285,095**	240,688

Note:
[1] Includes inter-segment transactions.

Operating Margin and Revenue
Third Quarter and Year-To-Date Results

The Liquids Infrastructure segment posted record financial results for the third quarter of 2019. For the three and nine months ended September 30, 2019, operating margin was $98 million and $285 million, an increase of $16 million or 19% and $44 million or 18% compared to the same periods in 2018. This increase was primarily due to the following:

- incremental operating margin from the Base Line Terminal that was brought into service in phases starting in January 2018, with all 12 tanks operational in October 2018;
- higher fractionation revenue resulting from an increase in fees effective with the new NGL contract year that began on April 1, 2019; and
- the overall growth in demand for Keyera's condensate network, including transportation and storage services as well as incremental volumes and revenue from the Norlite pipeline.

Revenue

Liquids Infrastructure revenues for the three and nine months ended September 30, 2019 were $14 million and $52 million higher than the same periods in 2018, primarily due to the same factors that contributed to higher operating margin as described above.

Liquids Infrastructure Activity

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, CRW pool, and a pipeline connection to Pembina Pipeline's Canadian Diluent Hub. In early 2019, Keyera completed construction of a condensate connection to Inter Pipeline's Cold Lake pipeline system, which added another delivery point to 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.

Utilization of the two fractionation units at Keyera's Fort Saskatchewan complex averaged its nameplate capacity in the third quarter of 2019. For the contract year beginning April 1, 2019, Keyera contracted higher fractionation fees compared to the prior year that has contributed to the higher overall margin for the Liquids Infrastructure segment.

In October, the first fractionation unit was taken offline for repair work that is expected to be complete by mid-November. Keyera was able to access alternative fractionation capacity to fulfill its customers' needs. Assuming the unit is operational by mid-November, the outage is not expected to have a material effect on Keyera's overall results.

In May, Keyera announced that it will be proceeding with the development of an NGL and condensate gathering system, called "KAPS", under a 50/50 joint venture agreement with SemCAMS Midstream ULC ("SemCAMS"). KAPS will transport growing Montney and Duvernay production in northwestern Alberta to Fort Saskatchewan. KAPS will be an open access system with initial connections into Keyera's fractionation assets and condensate system in Fort Saskatchewan.

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

The 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 100% of nameplate

capacity in the third quarter of 2019, and 98% on a year-to-date basis. In February, AEF was taken offline for approximately 17 days to address an equipment failure.

In October, Keyera took the AEF facility offline to complete preventative maintenance work, as well as to complete some of the work that would have been undertaken during the scheduled turnaround in 2020. The maintenance work is progressing well, and the facility is expected to be fully operational by mid-November. Because of the scope of the planned outage in 2019, the next turnaround at AEF is now expected to occur in the fall of 2021 instead of 2020. The incremental costs in 2019 associated with this planned outage are estimated to be approximately $20 million. Of this total, approximately half will be expensed in the fourth quarter as operating expenses and will be flowed through in full to the Marketing segment, with the remainder of the costs being treated as maintenance capital. Refer to the section of this MD&A, “Marketing: Market Overview”, for more information related to the effect of the outage on realized margin from the Marketing segment in 2019.

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

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Fort Saskatchewan	***Underground Storage Development:*** Development of five additional underground storage caverns, including ancillary infrastructure such as pumps, wells, piping and brine pond capacity. The fifth cavern was approved in the third quarter of 2019. Once complete, Keyera will have 19 underground storage caverns in its portfolio.	***Construction-In-Progress Assets:*** Washing of the 16th and 17th caverns continued in the third quarter of 2019. These caverns are expected to be in service by mid-2020 and the first half of 2021, respectively. Drilling activities for the 18th cavern were completed in the second quarter of 2019. Construction of the cavern's related infrastructure commenced in July. This cavern is anticipated to be operational in the second half of 2022. Ground work activities for the 19th cavern commenced in the third quarter of 2019. This cavern is anticipated to be operational in 2023. ***Completed Assets:*** The 15th cavern and its related infrastructure was put into service in early May 2018. *Estimated total cost to complete:* • Gross cost is approximately $160 million including costs to expand and upgrade the existing brine ponds and other ancillary equipment • Keyera's net share is approximately $125 million *Total net costs to September 30, 2019:* • $2 million and $10 million for the three and nine months ended September 30, 2019 • $91 million since inception (includes costs related to the 15th cavern that was completed in May 2018)

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
KAPS	***KAPS NGL and Condensate Pipeline System:*** Development of a 12-inch and 16-inch NGL and condensate pipeline system that will transport Montney and Duvernay production in northwestern Alberta to Keyera's fractionation assets and condensate system in Fort Saskatchewan. Along its route, KAPS will be connected to Keyera's Pipestone, Wapiti, and Simonette gas plants and several third-party gas plants. The KAPS project will be jointly developed and owned under a 50/50 joint venture with SemCAMS.	Land assessment activities and data gathering work related to future regulatory submissions commenced in the third quarter of 2019. KAPS is anticipated to be operational in the first half of 2022. *Estimated total cost to complete:* • preliminary gross cost estimate of $1.3 billion • Keyera's net share is approximately $650 million *Total net costs to September 30, 2019:* • $6 million for the three and nine months ended September 30, 2019 • $6 million since inception
South Cheecham	***Sulphur Facilities:*** Development of sulphur handling, forming, and storage facilities at the South Cheecham rail and truck terminal. The sulphur facilities will be jointly owned and built with Enbridge which is consistent with the ownership of the terminal.	Front-end engineering and design studies commenced in the third quarter of 2019. The sulphur facilities are anticipated to be operational in 2022. *Estimated total cost to complete:* • preliminary gross cost estimate of $115 million • Keyera's net share is approximately $58 million *Total net costs to September 30, 2019:* • $1 million for the three and nine months ended September 30, 2019 • $1 million since inception

Liquids Infrastructure – Capital Projects Status Update		
Facility/Area	**Project Description**	**Project Status Update**
Cushing, Oklahoma (90/10 joint venture with affiliate of Lama Energy Group)	***Wildhorse Terminal ("Wildhorse"):*** Development of a crude oil storage and blending terminal in Cushing, Oklahoma which will include 12 above ground tanks with 4.5 million barrels of working storage capacity. Wildhorse will initially be pipeline connected to two existing storage terminals in Cushing. An affiliate of Lama Energy Group will own 10% of the project.	During the third quarter of 2019 construction of the terminal continued to advance. The terminal is expected to be operational in the second half of 2020. *Estimated total cost to complete:* • gross cost is approximately US$205 million • Keyera's net share of costs is approximately US$185 million *Total net costs to September 30, 2019:* • $18 million (US$14 million) and $74 million (US$56 million) for the three and nine months ended September 30, 2019 • $150 million (US$113 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. Regarding the Wildhorse Terminal, operational regulatory permitting is applied for at construction completion or prior to startup. Activities related to future regulatory submissions for KAPS and the South Cheecham Sulphur Facilities are currently in progress. Regulatory approvals for these projects will be in place for the start of their construction schedules. A portion of the costs incurred for completed and ongoing projects is based on estimates. Final costs may differ when actual invoices are received or contracts are settled. Costs for the projects described above exclude carrying charges (i.e., capitalized interest). The section of this MD&A titled, "Forward-Looking Statements", provides more information on factors that could affect the development of these projects.

Marketing

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

Keyera negotiates sales contracts with customers in Canada and the U.S. based on the volumes it has contracted to purchase. In the case of condensate sales, the majority of the product is sold to customers in Alberta shortly after it is purchased. Butane is used as the primary feedstock in the production of iso-octane at Keyera's AEF facility and therefore a significant portion of the contracted butane supply is retained for Keyera's own use, 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, where it operates facilities at various locations, including the Oklahoma Liquids Terminal, allowing it to transport, process and blend various product streams. Margins are earned by blending products of lower value into higher value products. As a result, these transactions are exposed to variability in price and quality differentials between various product streams. Keyera manages this risk by balancing its purchases and sales and employing risk management strategies.

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

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

Marketing segment. For a detailed discussion of risk factors that affect Keyera, see Keyera's Annual Information Form which is available at www.sedar.com.

For 2019, Keyera expects the Marketing segment to outperform this base range and generate realized margin of between $320 million and $350 million. This is primarily due to lower butane feedstock prices and strong iso-octane premiums.

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,** **2019**	2018	**Nine months ended September 30,** **2019**	2018
Revenue[1]	**644,141**	991,777	**2,095,858**	2,850,425
Operating expenses[1]	**(505,879)**	(922,159)	**(1,858,245)**	(2,640,818)
Operating margin	**138,262**	69,618	**237,613**	209,607
Unrealized (gain) loss on risk management contracts	**(22,528)**	(26,914)	**15,279**	(19,185)
Realized margin	**115,734**	42,704	**252,892**	190,422
Sales volumes (Bbl/d)	**130,900**	147,800	**140,900**	147,700

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,** **2019**	2018	**Nine months ended September 30,** **2019**	2018
Physical sales	**616,304**	991,124	**2,105,387**	2,886,498
Realized cash gain (loss) on financial contracts[1]	**5,309**	(26,261)	**5,750**	(55,258)
Unrealized (loss) gain due to reversal of financial contracts existing at end of prior period	**(4,399)**	35,786	**(41,516)**	27,599
Unrealized gain (loss) due to fair value of financial contracts existing at end of current period	**26,843**	(9,007)	**26,843**	(9,007)
Unrealized gain (loss) from fixed price physical contracts[2]	**84**	135	**(606)**	593
Total unrealized gain (loss) on risk management contracts	**22,528**	26,914	**(15,279)**	19,185
Total gain (loss) on risk management contracts	**27,837**	653	**(9,529)**	(36,073)
Total Marketing revenue	**644,141**	991,777	**2,095,858**	2,850,425

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

Revenue, Operating and Realized Margin

As described throughout this MD&A, with the adoption of *IFRS 16, Leases* on January 1, 2019, rail car leases are now capitalized for accounting purposes and are no longer included in operating expenses of the Marketing segment. The adoption of this standard did not require the restatement of prior periods. Accordingly, the financial results of the Marketing segment are not directly comparable between periods as approximately $12 million and $32 million of rail car lease costs were included in the financial results for the three and nine months ended September 30, 2018, respectively. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information related to the adoption of *IFRS 16, Leases*.

Third Quarter Results

For the three months ended September 30, 2019, operating margin was $138 million or $69 million higher than the same period in 2018.

Realized margin (excluding the effect of non-cash unrealized gains and losses from risk management contracts) was $116 million in the third quarter of 2019, $73 million higher than the same period in 2018 and slightly above the record financial results recorded in the prior quarter. The higher realized margin in 2019 was primarily due to the following factors:

- higher iso-octane margins that resulted from: i) strong product premiums in the quarter; ii) lower average butane feedstock costs relative to the prior year; and iii) higher sales volumes; and

- $12 million of rail car lease expenses that were included in the 2018 third quarter results that are now capitalized for accounting purposes with the adoption of *IFRS 16, Leases* effective January 1, 2019.

Contribution from the liquids blending business was also strong in the third quarter of 2019 as the Oklahoma Liquids Terminal that was acquired in mid-2018 continues to perform well.

Year-To-Date Results

For the first nine months of 2019, operating margin was $238 million, $28 million higher than the same period of 2018 due to $62 million in higher realized margin described in more detail below. This was partly offset by the inclusion of a non-cash unrealized loss on risk management contracts of $15 million in 2019, compared to a non-cash gain of $19 million in the same period of 2018.

Realized margin was $253 million for the nine months ended September 30, 2019, $62 million higher than the same period in 2018 largely due to the following:

- $32 million of rail car lease expenses that were included in the 2018 results that are now capitalized for accounting purposes; and

- strong iso-octane margins in the second and third quarters of 2019 as described for the third quarter results. Iso-octane margins were also strong in the second quarter of 2019 because of the receipt of additional insurance proceeds for $10 million, associated with the unplanned outage at AEF in 2017.

These factors were partly offset by lower first quarter 2019 financial results that stemmed from an unscheduled outage at AEF in February, that resulted in lower iso-octane sales volumes during that period. Because of the outage, butane was also sold at low market prices to manage inventory levels. Keyera typically maintains its butane inventory to produce iso-octane. Significant realized gains from risk management contracts were recorded in the fourth quarter of 2018 which offset the significant decline in butane prices in early 2019.

Revenue

In general, gross revenue in the Marketing segment is influenced by NGL and iso-octane sales volumes as well as commodity prices. For the three and nine months ended September 30, 2019, revenue from physical sales was $375 million and $781 million lower than the same periods in 2018 due to lower 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. Because butane is the primary feedstock to produce iso-octane, butane costs directly affect iso-octane margins. The majority of Keyera's butane supply is purchased on a one-year term basis. For the annual term supply contracts that began on April 1, 2019, the price for butane as a percentage of crude oil is substantially lower than the prior contract year.

Overall, iso-octane margins continued to be strong in the third quarter of 2019 due to a combination of various factors including: i) strong sales volumes in the quarter as AEF operated at its nameplate capacity; ii) low butane feedstock costs relative to 2018; and iii) strong premiums resulting from a growing shortage of high octane blending components throughout the United States that began in mid-April and extended through September. The closure of the Philadelphia Energy Solutions ("PES") refinery in late June, which was one of the largest suppliers of gasoline on the U.S. east coast, also contributed to the strength in iso-octane premiums in the third quarter.

In October, Keyera began the process of taking the AEF facility offline for approximately six weeks to complete preventative maintenance work. This maintenance work has been progressing well and AEF is expected to be fully operational by mid-November. Keyera has been utilizing its storage capabilities to maintain higher volumes of low cost butane to be consumed in 2020. Refer to the section of this MD&A, "Liquids Infrastructure: Liquids Infrastructure Activity", for information related to the estimated cost of this maintenance outage.

As oil sands projects have come on stream over the past few years, bitumen production has increased along with demand for condensate that is used as a diluent. This demand for condensate is being met primarily by increased condensate production from the Western Canada Sedimentary Basin and pipeline deliveries from the United States. Also, Keyera imports condensate into Alberta by rail when demand fundamentals support positive product margins. Contribution from the sale of condensate and Keyera's liquids blending business continued to be strong in the first nine months of 2019. The Oklahoma Liquids Terminal, a liquids blending business, was acquired in June 2018.

In the second and third quarters of 2019, propane margins returned to seasonally lower levels and Keyera began to build propane inventory to meet winter heating demand in markets across North America. Also, in the second quarter of 2019, Keyera began supplying propane on a ratable basis to a west coast export terminal that helps reduce some of the seasonality in propane margins. On an annual basis, propane margins are expected to remain a relatively small contributor to Keyera's overall Marketing operating margin.

Risk Management

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

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

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

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

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

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

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

For the quarter ended September 30, 2019, the total unrealized gain on risk management contracts was $23 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, 2019 resulted in an unrealized (non-cash) gain of $27 million that included the following significant items:

- a $13 million non-cash gain relating to iso-octane risk management contracts;
- a $9 million non-cash gain relating to propane, butane and condensate risk management contracts; and
- a $5 million non-cash gain relating to foreign currency and other financial contracts.

The fair value of financial and fixed price physical contracts will vary as these contracts are marked-to-market at the end of each period. A summary of the financial contracts existing at September 30, 2019, and the sensitivity to earnings resulting from changes in commodity prices, can be found in note 14, 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,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Other income (operating margin)	**252**	3,681	**6,146**	10,778
General and administrative (net of overhead recoveries on operated facilities)	**(16,085)**	(27,293)	**(54,960)**	(64,455)
Finance costs	**(33,233)**	(19,273)	**(82,385)**	(55,644)
Depreciation, depletion and amortization expenses	**(68,151)**	(55,349)	**(197,322)**	(152,340)
Net foreign currency gain (loss) on U.S. debt and other	**9,981**	828	**29,020**	(7,311)
Long-term incentive plan expense	**(4,490)**	(6,278)	**(20,594)**	(18,182)
Impairment expense	**—**	(63,350)	**—**	(63,350)
Income tax expense	**(46,205)**	(14,069)	**(8,986)**	(68,636)

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, 2019 was $nil, $3 million lower than the same period in 2018. On a year-to-date basis, other income was $6 million, $5 million lower than the prior year. Production for the three and nine months ended September 30, 2019 averaged 2,606 and 3,213 barrels of oil equivalent per day compared to 3,427 and 3,717 barrels of oil equivalent per day for the same periods in 2018.

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

General and Administrative Expenses

General and administrative ("G&A") expenses for the three and nine months ended September 30, 2019 were $16 million and $55 million, $11 million and $9 million lower than the same periods in 2018 primarily due to:

- lower employee related short-term incentive plan costs; and
- approximately $6 million in costs and interest charges recorded in the third quarter of 2018 that was related to the settlement of a construction dispute.

Finance Costs

Finance costs for the three months ended September 30, 2019 were $33 million, $14 million higher than the same period in 2018 primarily due to incremental interest expense related to:

- the $600 million subordinated hybrid note issuance in June 2019; and
- lease liabilities recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information.

Finance costs for the nine months ended September 30, 2019 were $82 million, $27 million higher than the same period in 2018. The same factors that contributed to higher finance costs for the third quarter, along with incremental interest expense related to the $400 million public note offering from June 2018, were largely responsible for the increase in finance costs.

Depreciation, Depletion and Amortization Expenses

Depreciation, depletion and amortization ("DD&A") expenses for the three and nine months ended September 30, 2019 were $68 million and $197 million, $13 million and $45 million higher than the same periods in 2018 due to: i) an increase in Keyera's overall asset base including phase one of the Wapiti gas plant, South Grand Rapids Pipeline, Simonette Liquids Handling Expansion, Pipestone Liquids Hub, and the Oklahoma Liquids Terminal; and ii) depreciation related to the right-of-use assets recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information on the adoption of *IFRS 16, Leases*.

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

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

Net Foreign Currency Gain (Loss) on U.S. Debt and Other (Thousands of Canadian dollars)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Translation of long-term debt and interest payable	**(6,698)**	9,706	**17,658**	(18,129)
Change in fair value of cross-currency swaps – principal and interest portion	**16,084**	(9,077)	**2,709**	9,364
Gain on cross-currency swaps – interest portion[1]	**206**	199	**1,904**	1,454
Foreign exchange re-measurement of lease liabilities and other	**389**	—	**6,749**	—
Net foreign currency gain (loss) on U.S. debt and other	**9,981**	828	**29,020**	(7,311)

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

To manage the foreign currency exposure on U.S. dollar denominated debt, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars. The cross currency agreements are accounted for as derivative instruments and are marked-to-market at the end of each period. The fair value of the cross currency swap agreements will fluctuate between periods due to changes in the forward curve for foreign exchange rates, as well as an adjustment to reflect credit risk. Additional information on the swap agreements can be found in note 14, Financial Instruments and Risk Management, of the accompanying financial statements.

A net foreign currency gain of $10 million for the three months ended September 30, 2019 was primarily related to a $16 million non-cash gain resulting from the change in fair value of cross currency swaps agreements in the third quarter. This was partly offset by a $7 million non-cash loss from 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 the second quarter of 2019.

A net foreign currency gain of $29 million was recorded for the nine months ended September 30, 2019 and was primarily comprised of: i) an $18 million non-cash gain from the translation of U.S. dollar denominated debt into Canadian dollars as the Canadian dollar strengthened relative to the U.S. dollar since the end of 2018; and ii) a $7 million non-cash gain from the re-measurement of U.S. dollar denominated lease liabilities and other. These lease liabilities were recognized with the adoption of *IFRS 16, Leases* that was effective January 1, 2019. Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and related MD&A for further information.

Long-Term Incentive Plan Expense

The Long-Term Incentive Plan ("LTIP") expense was $4 million for the three months ended September 30, 2019, $2 million lower than the same period in 2018. The lower LTIP expense was primarily due to a decrease in estimated payout multipliers associated with certain outstanding LTIP grants compared to the prior year.

For the nine months ended September 30, 2019, LTIP expense was $21 million, $2 million higher than the same period in 2018. The higher LTIP expense was largely attributable to a larger growth in share price compared to the same period in the prior year.

Net Impairment Expense

Keyera reviews its assets for indicators of impairment on a quarterly basis. As well, if an asset has been impaired and subsequently recovers in value, GAAP requires the asset to be written-up (i.e., reversal of previous impairments). In the first nine months of 2019, no impairment charges or impairment reversals were recorded.

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.

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

Taxes

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

Current Income Taxes

Current income tax expense for the three and nine months ended September 30, 2019 was $15 million and $69 million, compared to an expense of $9 million and $25 million in the same periods of 2018. The increase in current tax expense was primarily due to taxable income exceeding the amount of available tax pool deductions. For 2019, current income tax expense is expected to range between $90 million and $100 million.

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

The current tax expense estimates for 2019 and 2020 assumes Keyera's business performs as planned and its capital projects are completed as expected. For 2020 and 2021, a further $775 million of announced capital projects in the Gathering and Processing segment are expected to be available for use. In addition, the cost of turnarounds are fully deductible in the year they are incurred for income tax purposes.

Deferred Income Taxes

Deferred income tax expense for the three months ended September 30, 2019 was $31 million compared to $5 million during the same period in 2018. The increase in deferred tax expense was primarily attributable to higher earnings before taxes in 2019. On a year to date basis, a deferred income tax recovery of $60 million was recorded in 2019 compared to a deferred income tax expense of $44 million during the same period in 2018. The deferred income tax recovery in 2019 is primarily the result of a decrease in the Alberta corporate income tax rate from 12% in the first half of 2019 to 8% in 2022. The new tax rates were enacted on June 28, 2019.

Keyera estimates its total tax pools at September 30, 2019 were approximately $3.5 billion.

CRITICAL ACCOUNTING ESTIMATES

In preparing Keyera's accompanying financial statements in accordance with GAAP, management is required to make estimates and assumptions that are not readily apparent from other sources, and are subject to change based on revised circumstances and the availability of new information. Actual results may differ from the estimates, which could materially affect the company's consolidated financial statements. Management has made appropriate decisions with respect to the formulation of estimates and assumptions that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Keyera has hired qualified individuals who have the skills required to make such estimates. These estimates and assumptions are reviewed and compared to actual results as well as to budgets in order to make more informed decisions on future estimates. The methodologies and assumptions used in developing these estimates have not significantly changed since December 31, 2018. A description of the accounting estimates and the methodologies and assumptions underlying the estimates are described in the 2018 annual MD&A and note 4 of the audited consolidated financial statements for the year ended December 31, 2018, 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, 2019 and 2018:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Three months ended September 30, 2019	2018	Increase (decrease)	Explanation
Operating	**259,229**	69,382	189,847	Cash generated from operating activities was higher in the third quarter of 2019 because of: i) $96 million in higher realized margin from all operating segments; and ii) a reduced cash requirement to fund inventory due to lower average prices and lower volumes for propane and butane at September 30, 2019 compared to September 30, 2018.
Investing	**(281,552)**	(326,158)	44,606	Capital investment in the third quarter of 2019 primarily related to construction activities associated with: i) phase two of the Wapiti gas plant and associated projects; ii) the Pipestone gas plant; and iii) the Wildhorse Terminal in the U.S. These projects are described in more detail in the "Segmented Results of Operations" section of this MD&A. Capital investment in the third quarter of 2018 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	**(54,080)**	930	(55,010)	Financing activities in the third quarter of 2019 were primarily limited to the payment of dividends for a net cash outflow of $41 million (net of proceeds from the DRIP program). Keyera's capital program was substantially funded by cash flow generated from operations and cash remaining from the issuance of $600 million in hybrid notes in June 2019.

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, 2019 and 2018:

Cash inflows (outflows)
(Thousands of Canadian dollars)

	Nine months ended September 30, 2019	2018	Increase (decrease)	Explanation
Operating	**674,259**	358,697	315,562	Cash generated from operating activities was significantly higher in 2019 because of: i) $117 million in higher realized margin from all operating segments; and ii) a reduced cash requirement to fund inventory due to lower average prices and lower volumes for propane and butane at September 30, 2019 compared to September 30, 2018.
Investing	**(843,038)**	(991,500)	148,462	Capital investment in the first nine months of 2019 primarily related to construction activities associated with the Wapiti and Pipestone gas plants and Wildhorse Terminal projects as described in the "Segmented Results of Operations" section of this MD&A. Capital investment in 2018 included $304 million in acquisitions (net of disposals) associated with the South Grand Rapids Pipeline, Oklahoma Liquids Terminal, Keyera Butane System and the Pipestone project purchased from Encana.
Financing	**224,088**	317,859	(93,771)	Cash flow from financing activities in 2019 was lower due to higher cash generated from operations to fund Keyera's capital program. In 2019, Keyera issued $600 million of subordinated hybrid notes in June and repaid $206 million of long-term debt and outstanding borrowings under its credit facility. Comparatively, in 2018 Keyera issued $400 million of senior unsecured medium-term notes in June and borrowed $40 million under its credit facility.

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.

A working capital deficit (current assets less current liabilities) of $79 million existed at September 30, 2019. This is compared to a surplus of $1 million at December 31, 2018. Keyera has access to a credit facility in the amount of $1.5 billion, of which no amounts were drawn as at September 30, 2019, 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").

Dividend Reinvestment Plan

Keyera's dividend reinvestment plan (the "Plan") consists of two components: a Premium Dividend™ ("Premium DRIP") reinvestment component and a regular dividend reinvestment component ("DRIP"). The DRIP component allows eligible shareholders of Keyera to direct their cash dividends to be reinvested in additional shares issued from treasury at a 3% discount to the Average Market Price (as defined in the Plan) on the applicable dividend date, with no incremental finance costs.

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

The DRIP and Premium DRIP generated cash of $58 million and $165 million for the three and nine months ended September 30, 2019. In the same periods in 2018, the plan generated cash of $50 million and $144 million.

Corporate Credit Ratings

Keyera has been assigned an issuer rating of "BBB" with a "stable" trend by DBRS Limited ("DBRS") and a long-term corporate credit rating of "BBB/Stable" by S&P Global ("S&P"). The medium-term notes issued by Keyera in June 2018 have been assigned a rating of "BBB" with a "stable" trend by DBRS and "BBB" by S&P. The subordinated hybrid notes issued in June 2019 have been assigned credit ratings of "BB+" by S&P and "BB (high)" by DBRS and are currently treated as 50% equity by these two credit rating agencies.

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

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

Long-term Debt (including Credit Facilities)

Below is a summary of Keyera's long-term debt obligations as at September 30, 2019:

As at September 30, 2019 (Thousands of Canadian dollars)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**After 2023**
Credit facilities	—	—	—	—	—	—	—
Canadian dollar denominated debt							
Senior unsecured notes	1,134,000	—	2,000	—	60,000	30,000	1,042,000
Senior unsecured medium-term notes	400,000	—	—	—	—	—	400,000
Subordinated hybrid notes	600,000	—	—	—	—	—	600,000
	2,134,000	**—**	**2,000**	**—**	**60,000**	**30,000**	**2,042,000**
Senior unsecured U.S. dollar denominated notes	577,417	—	136,408	—	—	—	441,009
Total debt	**2,711,417**	**—**	**138,408**	**—**	**60,000**	**30,000**	**2,483,009**
Less: current portion of long-term debt	(138,408)	—	(138,408)	—	—	—	—
Total long-term debt	**2,573,009**	**—**	**—**	**—**	**60,000**	**30,000**	**2,483,009**

Credit Facilities

Keyera has an unsecured revolving Credit Facility with a syndicate of nine lenders under which it can borrow up to $1.5 billion, with the potential to increase that limit to $1.85 billion subject to certain conditions. As at September 30, 2019, there were no amounts drawn under this facility (December 31, 2018 – $80 million).

In December 2018, the Credit Facility was amended to extend the term from December 6, 2022 to December 6, 2023. Management expects to extend the Credit Facility prior to maturity, and in the event of reaching maturity, expects an adequate replacement will be established.

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

Long-term Debt

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

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. Keyera has an uncommitted private shelf agreement with Prudential Capital Group ("Prudential") under which it may issue notes subject to certain conditions. The aggregate amount that can be issued under the Prudential facility is US$375 million with an issuance period to December 15, 2019. As at September 30, 2019, there was approximately US$122 million of capacity under the Prudential shelf facility.

As at September 30, 2019, Keyera had $2,134 million and US$436 million of long-term debt (including amounts drawn under the Prudential shelf facility, medium-term notes and subordinated hybrid notes). To manage the foreign currency exposure on the U.S. dollar denominated debt existing at September 30, 2019, Keyera has entered into cross-currency agreements with a syndicate of banks to swap the U.S. dollar principal and future interest payments into Canadian dollars at foreign exchange rates of $1.0425, $0.9838 and $1.029 per U.S. dollar. The cross-currency agreements are accounted for as derivative instruments and are measured at fair value at the end of each quarter. The section of this MD&A titled, “Net Foreign Currency Gain (Loss) on U.S. Debt and Other”, provides more information.

The Credit Facility, senior note agreements, and note indenture for the medium-term notes and subordinated hybrid notes contain a number of covenants, all of which were met as at September 30, 2019. The agreements are available at www.sedar.com. Failure to adhere to the covenants may impair Keyera’s ability to pay dividends and such a circumstance could affect its ability to execute future growth plans. The primary covenant for Keyera’s senior unsecured notes and its Credit Facility is the Net Debt to EBITDA ratio. In the calculation of debt for the purpose of calculating this covenant, Keyera is required to: i) deduct working capital surpluses or add working capital deficits; ii) utilize the cross-currency swap rates in the calculation of debt rather than the spot rate as at each balance sheet date; and iii) exclude subordinated debt (as approved by the lenders and the senior note holders). Keyera is required to maintain a Net Debt to EBITDA ratio of less than 4.0; however, the company has the flexibility to increase this ratio from 4.0 to 4.5 for periods of up to four consecutive fiscal quarters.

As at September 30, 2019, Keyera’s Net Debt to EBITDA ratio was 2.1 for covenant test purposes (December 31, 2018 – 2.6). The covenant test used for debt purposes is calculated differently compared to the leverage ratios that are used by credit rating agencies.

Keyera may consider financing options such as term debt, hybrid notes or preferred shares to fund a portion of its growth capital program. These instruments allow Keyera to raise funds at an attractive cost while minimizing dilution to common shareholders.

Capital Expenditures and Acquisitions

The following table is a breakdown of capital expenditures and acquisitions for the three and nine months ended September 30, 2019 and 2018:

Capital Expenditures and Acquisitions	**Three months ended September 30,**		**Nine months ended September 30,**	
(Thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Acquisitions	**—**	105,240	**549**	327,595
Growth capital expenditures	**207,661**	213,797	**732,403**	706,890
Maintenance capital expenditures	**27,500**	8,374	**75,345**	37,463
Total capital expenditures	**235,161**	327,411	**808,297**	1,071,948

Growth capital expenditures for the three and nine months ended September 30, 2019 amounted to $208 million and $732 million, respectively. Refer to the section of this MD&A, “Segmented Results of Operations”, for information related to the various growth capital projects in the Gathering and Processing and Liquids Infrastructure segments, including estimated costs to complete, costs incurred in 2019 and since inception of the project, and estimated completion timeframes.

There were no significant acquisitions in the first nine months of 2019. 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;
- $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;
- $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.

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 $16 million and $35 million for the three and nine months ended September 30, 2019, $3 million higher than the same respective periods in 2018. The majority of these expenditures, including maintenance capital, will be recovered over varying periods of time, depending upon the fee structure at each facility.

At December 31, 2018, Keyera had a $2.1 billion capital program underway, mainly focused on establishing a strong position in the condensate-rich Montney and Duvernay development areas. The addition of the sulphur handling project at the South Cheecham rail and truck terminal in the second quarter of 2019, also expected to be operational in 2022, increased the cost of the capital program to $2.2 billion. This portion of the growth capital program is expected to earn an annual return on capital of 10% to 15% in 2022, once all projects achieve their annual run rate. The return on capital estimate is unchanged from the December 31, 2018 year-end MD&A and is based on Keyera's current cash flow projections, and assumes capital projects are completed on a timely basis. Approximately $1.5 billion has been expended on this program since inception.

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

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

Dividends

Funds from Operations and Distributable Cash Flow

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

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

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

Funds from Operations and Distributable Cash Flow (Thousands of Canadian dollars)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Cash flow from operating activities	**259,229**	69,382	**674,259**	358,697
Add (deduct):				
Changes in non-cash working capital	**(31,826)**	66,036	**(120,876)**	117,932
Funds from operations	**227,403**	135,418	**553,383**	476,629
Maintenance capital	**(27,500)**	(8,374)	**(75,345)**	(37,463)
Leases	**(13,150)**	—	**(39,769)**	(1,439)
Inventory write-down	**(2,946)**	—	**(2,946)**	—
Distributable cash flow	**183,807**	127,044	**435,323**	437,727
Dividends declared to shareholders	**101,198**	91,645	**292,582**	264,832
Payout ratio	**55%**	72%	**67%**	61%

Distributable cash flow for the three months ended September 30, 2019 was $184 million, $57 million higher than the same period in 2018. The strong financial results from all operating segments was partly offset by higher maintenance capital expenditures primarily related to the scheduled maintenance turnarounds at the Ricinus and Cynthia gas plant in the third quarter, and maintenance work at AEF. On a year-to-date basis, distributable cash flow was $435 million, $2 million lower than the same period in 2018 as higher maintenance capital expenditures and current tax expense, more than offset the strong financial results in the first nine months of 2019.

Dividend Policy

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

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

EBITDA

EBITDA and adjusted EBITDA are not standard measures under GAAP and, therefore, may not be comparable to similar measures reported by other entities. EBITDA is a measure showing earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-cash items, including unrealized gains/losses on commodity 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,** **2019**	2018	**Nine months ended September 30,** **2019**	2018
Net earnings	**153,219**	34,684	**406,465**	229,172
Add (deduct):				
Finance costs	**33,233**	19,273	**82,385**	55,644
Depreciation, depletion and amortization expenses	**68,151**	55,349	**197,322**	152,340
Income tax expense	**46,205**	14,069	**8,986**	68,636
EBITDA	**300,808**	123,375	**695,158**	505,792
Unrealized (gain) loss on commodity contracts	**(21,894)**	(26,081)	**16,576**	(17,654)
Net foreign currency (gain) loss on U.S. debt and other	**(9,981)**	(828)	**(29,020)**	7,311
Impairment expense	**—**	63,350	**—**	63,350
Loss on settlement of finance lease	**—**	—	**—**	286
Adjusted EBITDA	**268,933**	159,816	**682,714**	559,085

CONTRACTUAL OBLIGATIONS

On January 1, 2019, Keyera adopted *IFRS 16, Leases* which required the recognition of lease liabilities on the consolidated statement of financial position for arrangements that were previously classified as operating leases. Prior to the adoption of *IFRS 16*, future operating lease obligations were disclosed as contractual obligations in the MD&A, and commitments in the notes to the financial statements. Refer to note 2 of the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 for a reconciliation of the operating lease obligations included in the “Contractual Obligations” section of the MD&A at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019.

Keyera has assumed various contractual obligations in the normal course of its operations. There were no material changes in contractual obligations since the December 31, 2018 year end.

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, 2018 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, 2018 MD&A and Keyera’s Annual Information Form, which are available on SEDAR at www.sedar.com.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

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

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

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

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for Keyera:

	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017
Revenue[1]								
Gathering and Processing	**133,057**	120,012	116,647	125,511	117,588	107,998	107,354	120,422
Liquids Infrastructure	**137,657**	130,955	132,821	128,980	123,701	115,880	109,476	114,525
Marketing	**644,141**	785,736	665,981	961,490	991,777	927,554	931,094	864,730
Other	**3,338**	5,570	6,487	5,696	6,578	5,921	7,241	5,303
Operating margin (loss)								
Gathering and Processing	**74,803**	69,713	68,322	73,530	63,855	63,901	70,547	72,744
Liquids Infrastructure	**98,085**	92,560	94,450	83,768	82,314	76,571	81,803	81,905
Marketing	**138,262**	117,479	(18,128)	156,623	69,618	74,137	65,852	54,032
Other	**252**	2,513	3,381	2,902	3,681	2,886	4,211	2,408
Operating margin	**311,402**	282,265	148,025	316,823	219,468	217,495	222,413	211,089
Realized margin[2]								
Gathering and Processing	**74,851**	69,707	68,912	73,599	64,105	63,997	70,813	71,373
Liquids Infrastructure	**98,535**	92,655	94,438	83,999	83,407	76,997	81,187	80,300
Marketing	**115,734**	114,687	22,471	105,598	42,704	90,409	57,309	61,779
Other	**388**	2,531	3,359	2,381	3,171	3,460	4,163	2,604
Realized margin[2]	**289,508**	279,580	189,180	265,577	193,387	234,863	213,472	216,056
Net earnings	**153,219**	219,447	33,799	165,052	34,684	106,773	87,715	88,052
Net earnings per share ($/share)								
Basic	**0.71**	1.03	0.16	0.79	0.17	0.52	0.43	0.45
Diluted	**0.71**	1.03	0.16	0.79	0.17	0.52	0.43	0.45
Weighted average common shares (basic)	**215,016**	213,239	211,480	209,585	208,037	206,646	205,267	193,552
Weighted average common shares (diluted)	**215,016**	213,239	211,480	209,585	208,037	206,646	205,267	193,552
Dividends declared to shareholders	**101,198**	96,085	95,299	94,437	91,645	86,882	86,305	81,801

Note:

1 Keyera's Gathering and Processing and Liquids Infrastructure segments charge Keyera's Marketing segment for the use of facilities at market rates. Revenue before inter-segment eliminations reflects these transactions. Inter-segment transactions are eliminated on consolidation in order to arrive at operating revenues in accordance with GAAP.

2 Realized margin is defined as operating margin excluding unrealized gains and losses on commodity-related risk management contracts. Realized margin is not a standard measure under GAAP. See the section titled, "Segmented Results of Operations: Marketing", for a reconciliation of operating margin to realized margin as it relates to the Marketing segment. Realized margin for the two facilities segments (Gathering and Processing and Liquids Infrastructure) and the Corporate and Other segment excludes $634 and $1,297 of unrealized losses from commodity-related risk management contracts for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – $833 and $1,531 unrealized losses).

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. Producers continue to be active in the Montney and Duvernay geological zones, resulting in throughput and operating margin growth at Keyera's Simonette gas plant and incremental volumes and operating margin from the recently completed Wapiti gas plant (phase one) which came into service in May 2019. This has helped to offset some of the financial effect of lower throughput at certain other facilities where drilling activity has been less robust.

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 spring and summer months. In contrast, propane sales are typically higher in the first and fourth quarters when propane demand is higher. Unrealized non-cash gains and losses resulting from the change in fair value of risk management contracts and the timing of settling these contracts can also have a material effect on quarterly operating margin for this segment. As a result, it is important to view Keyera's Marketing business on an annual basis.

Compared to the 2018 year-end results, operating margin from the Liquids Infrastructure segment continues to grow in 2019 due to: i) higher fractionation revenues resulting from an increase in fees; 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 became operational in October 2018. In the Gathering and Processing segment, producers continue to be active in condensate-rich areas, particularly in areas close to the Simonette gas plant and the Wapiti gas plant. Incremental volumes from these facilities and their related infrastructure have helped to offset some of the volume declines experienced at other facilities including the Rimbey gas plant. Fourth quarter 2018 financial results included a one-time $6 million upward revenue adjustment to reflect the value received from acquiring a 40% ownership interest in a gathering pipeline, in exchange for a reduction in take-or-pay fees effective July 1, 2018. Refer to the 2018 year-end MD&A for more information related to this adjustment.

In the Marketing segment, the seasonality associated with the sale of iso-octane and propane has continued in 2019. For 2019, the Marketing segment is expected to generate realized margin between $320 million and $350 million despite the planned outage at AEF in the fourth quarter of 2019. This is primarily due to higher iso-octane margins resulting from strong product premiums and lower butane feedstock prices effective with the annual term supply contracts that began on April 1, relative to 2018. On an annual basis, propane margins are estimated to remain a small part of Keyera's overall Marketing margin.

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, 2019.

ADOPTION OF NEW STANDARDS

Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 for the details of new IFRS standards and IFRS Interpretations Committee ("IFRIC") interpretations adopted by Keyera.

FUTURE ACCOUNTING PRONOUNCEMENTS

There were no significant new accounting standards or interpretations issued during the three and nine months ended September 30, 2019.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are satisfied that, as of September 30, 2019, Keyera's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to Keyera and its consolidated subsidiaries has been brought to their attention and that information required to be disclosed pursuant to applicable securities legislation has been recorded, processed, summarized and reported in an appropriate and timely manner.

Internal Controls Over Financial Reporting

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

No changes were made for the period beginning January 1, 2019 and ending September 30, 2019 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, 2019, there were 1,786,908 and 5,434,942 common shares issued under the DRIP and the Premium DRIP for consideration of $58 million and $165 million, bringing the total common shares outstanding at September 30 to 215,913,685.

Subsequent to September 30, 2019, 661,079 common shares were issued to shareholders enrolled in the DRIP and Premium DRIP for consideration of $20 million, bringing the total common shares outstanding at November 5, 2019 to 216,574,764.

NON-GAAP FINANCIAL MEASURES

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

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

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

FORWARD-LOOKING STATEMENTS

In order to provide readers with information regarding Keyera, including its assessment of future plans, operations and financial performance, certain statements contained herein (and in the documents incorporated by reference) are forward-looking. These forward-looking 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, forward-looking statements may be attributed to third party sources. Management believes that its assumptions and analysis 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 to fund capital requirements and future growth plans; 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 customers, including the performance of contractual obligations by customers and demand for services aligned with production profiles; oil sands development activity 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 21, 2019, 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); Keyera's ability to secure adequate land rights and water supply; and macro socio-economic trends. As a result, expected timing, costs and benefits associated with these projects may differ materially from the descriptions contained herein. Further, some of the projects discussed 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.

In addition to the factors referenced above, Keyera's expectations with respect to future returns associated with: (i) the growth capital projects that have been sanctioned and are in development as of the date hereof, and (ii) the KAPS project, are based on a number of assumptions, estimates and projections that have been developed based on past experience and anticipated trends, including but not limited to: capital cost estimates assuming no material unforeseen costs; timing for completion of growth capital projects; customer performance of contractual obligations; reliability of production profiles; commodity prices, margins and

volumes; tax and interest rates; availability of capital at attractive prices; and no changes in regulatory or approval requirements, including no delay in securing any outstanding regulatory approvals.

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 herein or in the accompanying documents are expressly qualified by this cautionary statement. Readers are cautioned that they should not unduly rely on these forward-looking statements and that the information contained in the forward-looking statements may not be appropriate for other purposes. Further, readers are cautioned that the forward-looking statements in this document speak only as of the date hereof. Keyera does not undertake any obligation to update forward-looking statements except as required by securities law.

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 $0.47 per share in the third quarter of 2019. Keyera increased its dividend by 7% from $0.15 per share to $0.16 per share per month, or $1.92 per share annually, beginning with its dividend payable on September 16, 2019. 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 2019 RESULTS CONFERENCE CALL AND WEBCAST
Keyera will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the financial results for the third quarter of 2019 at 8:00 am Mountain Time (10:00 am Eastern Time) on November 6, 2019. Callers may participate by dialing either 888-231-8191 or 647-427-7450. An audio recording of the call will be available for replay until 10:00 pm Mountain Time on November 22, 2019 by dialing 855-859-2056 or 416-849-0833 and entering pass code 9439456.

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, 2019**	December 31, 2018
ASSETS			
Cash		**43,334**	—
Trade and other receivables		**403,119**	422,747
Derivative financial instruments	14	**86,280**	71,415
Inventory	4	**134,076**	235,556
Other assets		**17,010**	8,982
Total current assets		**683,819**	738,700
Derivative financial instruments	14	**108,458**	130,815
Property, plant and equipment	5	**6,401,120**	5,749,350
Right-of-use assets	6	**255,420**	—
Intangible assets	3	**83,826**	92,413
Goodwill		**53,624**	53,624
Deferred tax assets	13	**19,891**	17,796
Total assets		**7,606,158**	6,782,698
LIABILITIES AND EQUITY			
Bank indebtedness		**—**	10,860
Trade and other payables, and provisions		**509,042**	532,935
Derivative financial instruments	14	**27,867**	24,188
Dividends payable		**34,546**	31,572
Current portion of lease liabilities	7	**39,833**	—
Current portion of long-term debt		**138,408**	126,094
Current portion of decommissioning liability		**13,175**	11,804
Total current liabilities		**762,871**	737,453
Derivative financial instruments	14	**3,522**	826
Credit facilities		**—**	80,000
Long-term debt	9	**2,557,271**	2,117,261
Decommissioning liability		**507,983**	502,535
Long-term lease liabilities	7	**222,567**	—
Other long-term liabilities	8	**14,099**	16,414
Deferred tax liabilities		**541,516**	598,486
Total liabilities		**4,609,829**	4,052,975
Equity			
Share capital	10	**3,011,442**	2,846,496
Accumulated deficit		**(22,375)**	(136,258)
Accumulated other comprehensive income		**7,262**	19,485
Total equity		**2,996,329**	2,729,723
Total liabilities and equity		**7,606,158**	6,782,698

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 5, 2019.

Keyera Corp.

Condensed Interim Consolidated Statements of Net Earnings and Comprehensive Income

(Thousands of Canadian dollars, except share information)
(Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	**2019**	2018
Revenues	18	**834,477**	1,161,071	**2,631,756**	3,322,869
Expenses	18	**(523,075)**	(941,603)	**(1,890,064)**	(2,663,493)
Operating margin		**311,402**	219,468	**741,692**	659,376
General and administrative expenses		**(16,085)**	(27,293)	**(54,960)**	(64,455)
Finance costs	16	**(33,233)**	(19,273)	**(82,385)**	(55,644)
Depreciation, depletion and amortization expenses		**(68,151)**	(55,349)	**(197,322)**	(152,340)
Net foreign currency gain (loss) on U.S. debt and other	15	**9,981**	828	**29,020**	(7,311)
Long-term incentive plan expense	12	**(4,490)**	(6,278)	**(20,594)**	(18,182)
Impairment expense	5	**—**	(63,350)	**—**	(63,350)
Loss on settlement of finance lease		**—**	—	**—**	(286)
Earnings before income tax		**199,424**	48,753	**415,451**	297,808
Income tax expense	13	**(46,205)**	(14,069)	**(8,986)**	(68,636)
Net earnings		**153,219**	34,684	**406,465**	229,172
Other comprehensive gain (loss)					
Foreign currency translation adjustment		**4,355**	(6,257)	**(12,223)**	(6,257)
Comprehensive income		**157,574**	28,427	**394,242**	222,915
Earnings per share					
Basic earnings per share	11	**0.71**	0.17	**1.91**	1.11
Diluted earnings per share	11	**0.71**	0.17	**1.91**	1.11

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, 2019	2018	Nine months ended September 30, 2019	2018
Cash provided by (used in):					
OPERATING ACTIVITIES					
Net earnings		**153,219**	34,684	**406,465**	229,172
Adjustments for items not affecting cash:					
Finance costs	16	**6,017**	3,061	**18,254**	10,255
Depreciation, depletion and amortization expenses		**68,151**	55,349	**197,322**	152,340
Unrealized (gain) loss on derivative financial instruments	14	**(37,978)**	(17,004)	**13,867**	(27,018)
Unrealized loss (gain) on foreign exchange		**4,763**	(7,763)	**(24,343)**	8,943
Deferred income tax expense (recovery)	13	**31,122**	5,199	**(59,602)**	43,635
Inventory write-down	4	**2,946**	—	**2,946**	—
Impairment expense	5	**—**	63,350	**—**	63,350
Loss on settlement of finance lease		**—**	—	**—**	286
Decommissioning liability expenditures		**(837)**	(1,458)	**(1,526)**	(4,334)
Changes in non-cash working capital	17	**31,826**	(66,036)	**120,876**	(117,932)
Net cash provided by operating activities		**259,229**	69,382	**674,259**	358,697
INVESTING ACTIVITIES					
Acquisitions		**—**	(105,240)	**(549)**	(327,595)
Capital expenditures		**(235,161)**	(222,171)	**(807,748)**	(744,353)
Proceeds on disposal of property, plant and equipment		**—**	19,484	**395**	23,928
Changes in non-cash working capital	17	**(46,391)**	(18,231)	**(35,136)**	56,520
Net cash used in investing activities		**(281,552)**	(326,158)	**(843,038)**	(991,500)
FINANCING ACTIVITIES					
Borrowings under credit facility		**—**	300,000	**640,000**	300,000
Repayments under credit facility		**—**	(260,000)	**(720,000)**	(260,000)
Proceeds from issuance of long-term debt	9	**—**	—	**600,000**	400,000
Repayments of long-term debt		**—**	—	**(126,019)**	—
Financing costs related to credit facility/long-term debt		**(127)**	89	**(5,462)**	(2,250)
Issuance costs related to equity offering		**—**	—	**—**	(166)
Proceeds from issuance of shares related to DRIP	10	**57,968**	50,201	**164,946**	143,868
Lease payments		**(13,150)**	—	**(39,769)**	(1,439)
Dividends paid to shareholders		**(98,771)**	(89,360)	**(289,608)**	(262,154)
Net cash (used in) provided by financing activities		**(54,080)**	930	**224,088**	317,859
Effect of exchange rate fluctuations on foreign cash held		**531**	(326)	**(1,115)**	2,314
Net (decrease) increase in cash		**(75,872)**	(256,172)	**54,194**	(312,630)
Cash (bank indebtedness) at the beginning of the period		**119,206**	269,923	**(10,860)**	326,381
Cash at the end of the period		**43,334**	13,751	**43,334**	13,751
Income taxes paid in cash		**8,179**	7	**54,071**	353
Interest paid in cash		**14,450**	12,943	**75,104**	55,409

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

Keyera Corp.

Condensed Interim Consolidated Statements of Changes in Equity

(Thousands of Canadian dollars)
(Unaudited)

	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**

	Share Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2018	**2,846,496**	**(136,258)**	**19,485**	**2,729,723**
Common shares issued pursuant to dividend reinvestment plans	164,946	—	—	164,946
Net earnings	—	406,465	—	406,465
Dividends declared to shareholders	—	(292,582)	—	(292,582)
Other comprehensive loss	—	—	(12,223)	(12,223)
Balance at September 30, 2019	**3,011,442**	**(22,375)**	**7,262**	**2,996,329**

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, 2019 and 2018
(All amounts expressed in thousands of Canadian dollars, except as otherwise noted)
(Unaudited)

1. GENERAL BUSINESS DESCRIPTION

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

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

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

Keyera is approved to issue two classes of preferred shares (one class referred to as the “First Preferred Shares”, a second class referred to as the “Second Preferred Shares”), and collectively both classes being referred to as the “Preferred Shares”. Each are issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the board of directors may at any time and from time to time determine, subject to an aggregate maximum number of authorized Preferred Shares. No preferred shares had been issued as at September 30, 2019.

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, 2018, except for the adoption of new IFRS standards, amendments and interpretations effective January 1, 2019.

These condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2019 and 2018 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, 2018.

The condensed interim consolidated financial statements were authorized for issuance on November 5, 2019 by the board of directors.

Adoption of new standards

Refer to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 for the details of new IFRS standards and IFRS Interpretations Committee (“IFRIC”) interpretations adopted by Keyera.

Future accounting pronouncements update

There were no significant new accounting standards or interpretations issued during the three and nine months ended September 30, 2019.

3. BUSINESS COMBINATION

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

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

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

Intangible Assets

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

4. INVENTORY

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

As at *(Thousands of Canadian dollars)*	**September 30, 2019**	December 31, 2018
NGLs and iso-octane	**115,496**	230,489
Other	**18,580**	5,067
Total inventory	**134,076**	235,556

For the period ended September 30, 2019, $105,925 of inventory was carried at cost (December 31, 2018 – $204,149) and $28,151 was carried at net realizable value (December 31, 2018 – $31,407). For the three and nine months ended September 30, 2019 a write-down of $2,946 was recorded to adjust the carrying amount of inventory to its net realizable value (three and nine months ended September 30, 2018– $nil). The cost of inventory expensed for the three and nine months ended September 30, 2019 was $388,349 and $1,505,435 (three and nine months ended September 30, 2018 – $798,149 and $2,306,219).

5. 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 rate	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			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.

6. RIGHT-OF-USE ASSETS

Cost *(Thousands of Canadian dollars)*	Rail cars	Pipeline Transportation	Real Estate	Other	Total
Balance at January 1, 2019	**141,356**	**44,669**	**10,269**	**2,225**	**198,519**
Additions and adjustments	91,919	—	6,986	—	98,905
Balance at September 30, 2019	**233,275**	**44,669**	**17,255**	**2,225**	**297,424**

Accumulated depreciation *(Thousands of Canadian dollars)*	Rail cars	Pipeline Transportation	Real Estate	Other	Total
Balance at January 1, 2019	**—**	**—**	**—**	**—**	**—**
Depreciation expense	(39,669)	(1,340)	(849)	(146)	(42,004)
Balance at September 30, 2019	**(39,669)**	**(1,340)**	**(849)**	**(146)**	**(42,004)**

Carrying value *(Thousands of Canadian dollars)*	Rail cars	Pipeline Transportation	Real Estate	Other	Total
As at January 1, 2019	**141,356**	**44,669**	**10,269**	**2,225**	**198,519**
As at September 30, 2019	**193,606**	**43,329**	**16,406**	**2,079**	**255,420**

7. LEASE LIABILITIES

As at *(Thousands of Canadian dollars)*	**September 30, 2019**
Lease liabilities at January 1, 2019	**202,698**
Additions	**98,905**
Interest on leases	**7,672**
Lease payments	**(39,769)**
Foreign exchange re-measurement and other	**(7,106)**
Total lease liabilities	**262,400**
Less: current portion of lease liabilities	**(39,833)**
Long-term lease liabilities	**222,567**

Keyera's most significant lease payments are incurred for rail car, pipeline transportation and real estate arrangements. The longest initial lease term for Keyera's lease contracts is 15 years. For certain lease arrangements, Keyera has the option to extend the lease for additional terms, up to 5 years each. As at September 30, 2019, the incremental borrowing rates used to measure the lease liabilities were 3.9% and 4.2%, which have been applied to Canadian dollar and U.S. dollar denominated leases, respectively.

(Thousands of Canadian dollars)	**Three months ended September 30, 2019**	**Nine months ended September 30, 2019**
Variable lease payments[1]	**219**	**591**
Short-term and low-value leases	**499**	**1,403**
Total lease payments expensed for the period	**718**	**1,994**

Note:
[1] The variable lease payments recognized have been reduced for lease incentives received. Total variable lease payments prior to the inclusion of the lease incentives were $853 and $2,524 for the three and nine months ended September 30, 2019.

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

As at September 30, 2019, the expected undiscounted cash payments related to leases were:

(Thousands of Canadian dollars)	
Remainder of 2019	12,878
2020	48,731
2021	43,810
2022	35,140
2023	25,125
After 2023	159,405
Total undiscounted cash lease payments	**325,089**

8. OTHER LONG-TERM LIABILITIES

As at *(Thousands of Canadian dollars)*	**September 30, 2019**	December 31, 2018
Long-term incentive plan	**8,072**	7,830
Other	**6,027**	8,584
Total other long-term liabilities	**14,099**	16,414

9. LONG-TERM DEBT

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

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

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

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.

10. SHARE CAPITAL

		(Thousands of Canadian dollars)
	Number of Common Shares	**Share Capital**
Balance at December 31, 2018	**210,478,743**	**2,846,496**
Common shares issued pursuant to dividend reinvestment plans	**5,434,942**	**164,946**
Balance at September 30, 2019	**215,913,685**	**3,011,442**

11. 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,**	
(Thousands of Canadian dollars, except per share amounts)	**2019**	2018	**2019**	2018
Basic and diluted earnings per share	**0.71**	0.17	**1.91**	1.11
Net earnings – basic and diluted	**153,219**	34,684	**406,465**	229,172

	Three months ended September 30,		**Nine months ended September 30,**	
(Thousands)	**2019**	2018	**2019**	2018
Weighted average number of shares – basic and diluted	**215,016**	208,037	**213,258**	206,660

12. 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, 2019 share price of Keyera, which was $32.17 per share (December 31, 2018 – $25.81 per share).

The compensation cost recorded for the LTIP was as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
(Thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Performance Awards	**3,938**	5,631	**17,990**	15,788
Restricted Awards	**552**	647	**2,604**	2,394
Total long-term incentive plan expense	**4,490**	6,278	**20,594**	18,182

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, 2019, Keyera made pension contributions of $2,621 and $7,730 (three and nine months ended September 30, 2018 – $2,438 and $7,228) 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, 2019, Keyera recorded $314 and $1,336 (three and nine months ended September 30, 2018 – $112 and $804) in general and administrative expenses related to the DSU plan.

The following table reconciles the number of DSUs outstanding:

	September 30, 2019	December 31, 2018
Balance at beginning of period	**80,521**	46,171
Granted	**27,491**	37,686
Redeemed	**(19,931)**	(3,336)
Balance at end of period	**88,081**	80,521

13. INCOME TAXES

The components of the income tax expense were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
(Thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Current	**15,083**	8,870	**68,588**	25,001
Deferred	**31,122**	5,199	**(59,602)**	43,635
Total income tax expense	**46,205**	14,069	**8,986**	68,636

On June 28, 2019, the Alberta Government reduced future corporate income tax rates from 12% to 8%. The reduction in tax rates will be gradually phased in from July 1, 2019 to January 1, 2022. The deferred income tax recovery of $59,602 for the nine months ended September 30, 2019 was primarily due to the decrease in the Alberta corporate income tax rates.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial Instruments

(a) Fair value

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

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

The fair value hierarchy has the following levels:

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

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

Financial instruments with fair value equal to carrying value

The carrying values of cash, trade and other receivables, trade and other payables and dividends payable approximate their fair values because the instruments are either near maturity, have 5 to 30 days payment terms or have no fixed repayment terms. The carrying value of the credit facilities 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, medium-term notes, and subordinated hybrid notes at September 30, 2019 was $2,843,500 (December 31, 2018 – $2,261,400) 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.

				(Thousands of Canadian dollars)		
As at September 30, 2019	**Notional Volume[1]**	**Weighted Average Price**	**Fair Value Hierarchy Level**	**Net Fair Value**	**Carrying Value Asset**	**Carrying Value Liability**
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI[2] swaps (maturing by December 31, 2020)	4,110,843 Bbls	76.50/Bbl	Level 2	25,459	25,607	(148)
Buyer of fixed price WTI[2] swaps (maturing by December 31, 2020)	959,755 Bbls	74.79/Bbl	Level 2	(4,472)	871	(5,343)
Seller of fixed price NGL swaps (maturing by December 31, 2020)	3,483,400 Bbls	35.02/Bbl	Level 2	22,368	22,806	(438)
Buyer of fixed price NGL swaps (maturing by December 31, 2020)	1,986,800 Bbls	39.80/Bbl	Level 2	(22,536)	237	(22,773)
Seller of fixed price RBOB[3] basis spreads (iso-octane) (maturing by December 31, 2020)	1,680,000 Bbls	17.95/Bbl	Level 2	2,082	4,192	(2,110)
Buyer of fixed price RBOB[3] basis spreads (iso-octane) (maturing by November 30, 2019)	145,000 Bbls	11.20/Bbl	Level 2	344	344	—
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by November 30, 2019)	330,000 Bbls	23.27/Bbl	Level 2	355	426	(71)
Buyer of fixed price NGL forward contracts (maturing by November 30, 2019)	65,000 Bbls	22.50/Bbl	Level 2	(5)	14	(19)
Currency:						
Seller of forward contracts (maturing by March 31, 2020)	US$168,500,000	1.33/USD	Level 2	1,118	1,209	(91)
Other foreign exchange contracts[4]			Level 2	2,480	2,480	—
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2020)	160,464 MWhs	55.23/MWh	Level 2	467	863	(396)
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	2,208 MWhs	45.45/MWh	Level 2	32	32	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	8,832 MWhs	45.76/MWh	Level 2	139	139	—
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$541,901,450	0.98/USD - 1.22/USD	Level 2	135,518	135,518	—
				163,349	**194,738**	**(31,389)**

Notes:
1 All notional amounts represent actual volumes or actual prices and are not expressed in thousands.
2 West Texas Intermediate ("WTI") crude oil.
3 Reformulated Blendstock for Oxygen Blending ("RBOB").
4 Keyera has entered into other foreign exchange contracts to protect against fluctuations in the U.S. dollar to Canadian dollar exchange rate.

As at December 31, 2018	Notional Volume[1]	Weighted Average Price	Fair Value Hierarchy Level	Net Fair Value (Thousands of Canadian dollars)	Carrying Value Asset	Carrying Value Liability
Marketing (NGLs and Iso-octane)						
Financial contracts:						
Seller of fixed price WTI[2] swaps (maturing by March 31, 2020)	2,968,189 Bbls	73.15/Bbl	Level 2	31,322	31,584	(262)
Buyer of fixed price WTI[2] swaps (maturing by December 31, 2019)	367,074 Bbls	65.36/Bbl	Level 2	(429)	221	(650)
Seller of fixed price NGL swaps (maturing by March 31, 2020)	2,380,750 Bbls	44.22/Bbl	Level 2	14,315	14,955	(640)
Buyer of fixed price NGL swaps (maturing by March 31, 2020)	1,667,000 Bbls	51.05/Bbl	Level 2	(16,203)	—	(16,203)
Seller of fixed price RBOB[3] basis spreads (iso-octane) (maturing by December 31, 2019)	2,270,000 Bbls	25.02/Bbl	Level 2	19,732	19,768	(36)
Physical contracts:						
Seller of fixed price NGL forward contracts (maturing by February 28, 2019)	320,000 Bbls	37.36/Bbl	Level 2	885	887	(2)
Buyer of fixed price NGL forward contracts (maturing by January 31, 2019)	35,222 Bbls	42.84/Bbl	Level 2	71	71	—
Currency:						
Seller of forward contracts (maturing by December 31, 2019)	US$197,000,000	1.33/USD	Level 2	(7,221)	—	(7,221)
Liquids Infrastructure						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	78,840 MWhs	41.03/MWh	Level 2	1,000	1,000	—
Gathering and Processing						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	8,760 MWhs	45.45/MWh	Level 2	72	72	—
Emission Performance Credits:						
Seller of emission performance credits	282,597 credits	23.54/credit	Level 2	592	592	—
Corporate and Other						
Electricity:						
Buyer of fixed price swaps (maturing by December 31, 2019)	26,280 MWhs	43.47/MWh	Level 2	271	271	—
Long-term Debt:						
Buyer of cross-currency swaps (maturing September 8, 2020 – November 20, 2028)	US$554,811,000	0.98/USD - 1.22/USD	Level 2	132,809	132,809	—
				177,216	**202,230**	**(25,014)**

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
(Thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Marketing revenue	**22,528**	26,914	**(15,279)**	19,185
Liquids infrastructure operating expenses	**(450)**	(1,093)	**(533)**	(903)
Gathering and processing expenses	**(48)**	(250)	**(632)**	(612)
Corporate and Other:				
Corporate and Other revenues and expenses	**(136)**	510	**(132)**	(16)
Change in fair value of the cross currency swaps on U.S. debt[1]	**16,084**	(9,077)	**2,709**	9,364
Total unrealized gain (loss)	**37,978**	17,004	**(13,867)**	27,018

Note:
[1] Includes principal and interest portion.

Risk Management

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

(b) Commodity price risk

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

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

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

(c) Foreign currency risk

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

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

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 15 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, 2019, fixed rate borrowings comprised 100% of total debt outstanding (December 31, 2018 – 97%). The fair value of future cash flows for fixed rate debt fluctuates with changes in market interest rates. It is Keyera's intention to not repay fixed rate debt until maturity and therefore future cash flows would not fluctuate.

(e) Credit risk

The majority of trade and other receivables are due from entities in the oil and gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad domestic and international customer base. Keyera evaluates and monitors the financial strength of its customers in accordance with its credit policy. Keyera does not typically renegotiate the terms of trade receivables. There were no significant renegotiated balances outstanding at September 30, 2019.

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

The allowance for credit losses is reviewed on a monthly basis. An assessment is made whether an account is deemed impaired based on expected credit losses, which includes the number of days outstanding and the likelihood of collection from the counterparty. The carrying amount of financial assets on the consolidated statements of financial position approximates Keyera's maximum exposure to credit risk.

(f) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for Keyera's business activities may not be available. Keyera manages liquidity risk by maintaining bank credit facilities, continuously managing forecasted 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 rates and interest rates could have resulted in unrealized gains (losses) affecting income before tax as follows:

	Impact on income before tax September 30, 2019		Impact on income before tax September 30, 2018	
(Thousands of Canadian dollars)	**Increase**	**(Decrease)**	Increase	(Decrease)
Commodity price changes				
+ 10% in electricity price	**1,001**	**—**	724	—
- 10% in electricity price	**—**	**(1,001)**	—	(724)
+ 10% in NGL, crude oil and iso-octane prices	**—**	**(29,680)**	—	(39,849)
- 10% in NGL, crude oil and iso-octane prices	**29,680**	**—**	39,849	—
Foreign currency rate changes				
+ $0.01 in U.S./Canadian dollar exchange rate	**—**	**(758)**	—	(970)
- $0.01 in U.S./Canadian dollar exchange rate	**758**	**—**	970	—
Interest rate changes				
+ 1% in interest rate	**—**	**—**	—	(22)
- 1% in interest rate	**—**	**—**	22	—

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

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
(Thousands of Canadian dollars)	**$**	$	**$**	$
Foreign currency gain (loss) resulting from:				
Translation of long-term debt and interest payable	**(6,698)**	9,706	**17,658**	(18,129)
Change in fair value of the cross-currency swaps – principal and interest portion	**16,084**	(9,077)	**2,709**	9,364
Gain from cross-currency swaps – interest portion[1]	**206**	199	**1,904**	1,454
Foreign exchange re-measurement of lease liabilities and other	**389**	—	**6,749**	—
Total foreign currency gain (loss) on U.S. debt and other	**9,981**	828	**29,020**	(7,311)

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.

16. FINANCE COSTS

The components of finance costs were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(Thousands of Canadian dollars)	**2019**	2018	**2019**	2018
Interest on bank indebtedness and credit facilities	**1,158**	1,201	**8,206**	3,686
Interest on long-term debt	**33,203**	24,265	**82,330**	65,150
Interest capitalized	**(6,782)**	(8,605)	**(25,918)**	(20,994)
Interest on leases	**2,744**	—	**7,672**	—
Other interest income	**(363)**	(649)	**(487)**	(1,374)
Total interest expense on leases, and current and long-term debt	**29,960**	16,212	**71,803**	46,468
Unwinding of discount on decommissioning liabilities	**2,802**	2,642	**8,406**	7,919
Unwinding of discount on long-term debt	**471**	419	**1,407**	1,257
Other	**—**	—	**769**	—
Non-cash expenses in finance costs	**3,273**	3,061	**10,582**	9,176
Total finance costs	**33,233**	19,273	**82,385**	55,644

For the three and nine months ended September 30, 2019, $6,782 and $25,918 of borrowing (interest) costs were capitalized (three and nine months ended September 30, 2018 – $8,605 and $20,994) at a weighted average capitalization rate of 4.75% on funds borrowed (three and nine months ended September 30, 2018 – 4.87%).

17. 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,	
	2019	2018	**2019**	2018
(Thousands of Canadian dollars)	**$**	$	**$**	$
Inventory	**(4,697)**	(69,090)	**95,007**	(150,940)
Trade and other receivables	**12,041**	(47,140)	**19,194**	(100,299)
Other assets	**6,542**	7,395	**(7,334)**	(10,328)
Trade and other payables, and provisions	**17,940**	42,799	**14,009**	143,635
Changes in non-cash working capital from operating activities	**31,826**	(66,036)	**120,876**	(117,932)

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
(Thousands of Canadian dollars)	**$**	$	**$**	$
Trade and other payables, and provisions	**(46,391)**	(18,231)	**(35,136)**	56,520
Changes in non-cash working capital from investing activities	**(46,391)**	(18,231)	**(35,136)**	56,520

18. 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 and de-ethanization facilities, NGL pipelines, rail and truck terminals, the AEF facility, a 50% interest in the Base Line Terminal, and the Oklahoma Liquids Terminal.

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

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

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

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

Three months ended September 30, 2019

(Thousands of Canadian dollars)	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Segmented revenue	133,057	137,657	644,141	3,338	(83,716)	834,477
Segmented expenses	(58,254)	(39,572)	(505,879)	(3,086)	83,716	(523,075)
Operating margin	74,803	98,085	138,262	252	—	311,402
General and administrative expenses	—	—	—	(16,085)	—	(16,085)
Finance costs	—	—	—	(33,233)	—	(33,233)
Depreciation, depletion and amortization expenses	—	—	—	(68,151)	—	(68,151)
Net foreign currency gain on U.S. debt and other	—	—	—	9,981	—	9,981
Long-term incentive plan expense	—	—	—	(4,490)	—	(4,490)
Earnings (loss) before income tax	74,803	98,085	138,262	(111,726)	—	199,424
Income tax expense	—	—	—	(46,205)	—	(46,205)
Net earnings (loss)	**74,803**	**98,085**	**138,262**	**(157,931)**	**—**	**153,219**

Three months ended September 30, 2018

(Thousands of Canadian dollars)	**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 and other	—	—	—	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**

Nine months ended September 30, 2019

(Thousands of Canadian dollars)	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Segmented revenue	369,716	401,433	2,095,858	15,395	(250,646)	2,631,756
Segmented expenses	(156,878)	(116,338)	(1,858,245)	(9,249)	250,646	(1,890,064)
Operating margin	212,838	285,095	237,613	6,146	—	741,692
General and administrative expenses	—	—	—	(54,960)	—	(54,960)
Finance costs	—	—	—	(82,385)	—	(82,385)
Depreciation, depletion and amortization expenses	—	—	—	(197,322)	—	(197,322)
Net foreign currency gain on U.S. debt and other	—	—	—	29,020	—	29,020
Long-term incentive plan expense	—	—	—	(20,594)	—	(20,594)
Earnings (loss) before income tax	212,838	285,095	237,613	(320,095)	—	415,451
Income tax expense	—	—	—	(8,986)	—	(8,986)
Net earnings (loss)	**212,838**	**285,095**	**237,613**	**(329,081)**	**—**	**406,465**

Nine months ended September 30, 2018

(Thousands of Canadian dollars)	**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 and other	—	—	—	(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**

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, 2019 *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	118,670	26,595	—	—	145,265
Fractionation and storage services	3,068	58,472	—	—	61,540
Transportation and terminalling services	—	52,243	—	—	52,243
Marketing of NGLs and iso-octane	—	—	644,141	—	644,141
Other[2]	11,319	347	—	3,338	15,004
Revenue before inter-segment eliminations	**133,057**	**137,657**	**644,141**	**3,338**	**918,193**
Inter-segment revenue eliminations	(5,992)	(72,600)	(1,696)	(3,428)	(83,716)
Revenue from external customers	**127,065**	**65,057**	**642,445**	**(90)**	**834,477**

Three months ended September 30, 2018 *(Thousands of Canadian dollars)*	**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**

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, 2019 *(Thousands of Canadian dollars)*	**Gathering & Processing**	**Liquids Infrastructure**	**Marketing**	**Corporate and Other**	**Total**
Gas handling and processing services[1]	323,282	75,756	—	—	399,038
Fractionation and storage services	7,594	167,477	—	—	175,071
Transportation and terminalling services	—	157,049	—	—	157,049
Marketing of NGLs and iso-octane	—	—	2,095,858	—	2,095,858
Other[2]	38,840	1,151	—	15,395	55,386
Revenue before inter-segment eliminations	**369,716**	**401,433**	**2,095,858**	**15,395**	**2,882,402**
Inter-segment revenue eliminations	(16,148)	(209,843)	(8,665)	(15,990)	(250,646)
Revenue from external customers	**353,568**	**191,590**	**2,087,193**	**(595)**	**2,631,756**

Nine months ended September 30, 2018 *(Thousands of Canadian dollars)*	**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**

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 *(Thousands of Canadian dollars)*	Three months ended September 30, **2019**	2018	Nine months ended September 30, **2019**	2018
Canada	**679,352**	978,922	**2,096,423**	2,818,116
U.S.	**155,125**	182,149	**535,333**	504,753
Total revenue	**834,477**	1,161,071	**2,631,756**	3,322,869

Non-current assets[1] as at *(Thousands of Canadian dollars)*	**September 30, 2019**	December 31, 2018
Canada	**6,409,576**	5,593,006
U.S.	**384,414**	302,381
Total non-current assets	**6,793,990**	5,895,387

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

Information about major customers

For the three and nine months ended September 30, 2019 and 2018, Keyera did not earn revenues from a single external customer that accounted for more than 10% of its total revenue.

19. COMMITMENTS AND CONTINGENCIES

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

On January 1, 2019, Keyera adopted *IFRS 16* which required the recognition of lease liabilities on the consolidated statement of financial position for arrangements that were previously classified as operating leases. Prior to the adoption of *IFRS 16,* future operating lease obligations were disclosed as commitments. Refer to note 2 of the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 for a reconciliation of the operating lease obligations included in the Commitments and Contingencies note at December 31, 2018 to the opening balance of lease liabilities at January 1, 2019.

20. SUBSEQUENT EVENTS

On October 10, 2019, Keyera declared a dividend of $0.16 per share, payable on November 15, 2019, to shareholders of record as of October 22, 2019.

On November 5, 2019, Keyera declared a dividend of $0.16 per share, payable on December 16, 2019, to shareholders of record as of November 22, 2019.

Corporate Information

Board of Directors

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

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

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

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

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

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

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

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

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

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

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

Head Office

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

Officers

David G. Smith
President and Chief Executive Officer

Steven B. Kroeker
Senior Vice President and Chief Financial Officer

Bradley W. Lock
Senior Vice President and Chief Operating Officer

C. Dean Setoguchi
Senior Vice President and Chief Commercial Officer

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

Graham Balzun
Vice President, Corporate Responsibility

Jarrod Beztilny
Vice President, Operations, Gathering and Processing

Kelly Hill
Vice President, Information Technology

John Hunszinger
Vice President, Operations, Liquids Infrastructure

Rick Koshman
Vice President, Corporate Development

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

Eileen Marikar
Vice President, Finance

Brian Martin
Vice President, Business Development, Liquids Business Unit

Jamie Urquhart
Vice President, Marketing

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol KEY

Trading Summary for Q3 2019

TSX:KEY – Cdn $	
High	$35.65
Low	$31.90
Close September 30, 2019	$32.17
Volume	54,439,114
Average Daily Volume	864,113

Auditors

Deloitte LLP
Chartered Professional Accountants
Calgary, Canada

Investor Relations

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