

One Company, One Plan, Execute the Plan



Full Year & Fourth Quarter Report

For the full year and three month periods ended December 31, 2016

Harvest Operations Corp.



MANAGEMENT'S REPORT

In management's opinion, the accompanying consolidated financial statements of Harvest Operations Corp. (the "Company") have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Since a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 23, 2017. Management is responsible for the consistency, therewith, of all other financial and operating data presented in Management's Discussion and Analysis for the year ended December 31, 2016.

To meet our responsibility for reliable and accurate financial statements, management has developed and maintains internal controls, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

Under the supervision of our President and Chief Executive Officer and our Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have concluded that as of December 31, 2016, our internal controls over financial reporting were effective.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The consolidated financial statements have been examined by our auditors, KPMG LLP. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements prepared in accordance with IFRS as issued by the IASB. The Auditors' Report outlines the scope of their examination and sets forth their opinion on our consolidated financial statements.

The Board of Directors is responsible for approving the consolidated financial statements. The Board fulfills its responsibilities related to financial reporting mainly through the Audit Committee. The Audit Committee consists exclusively of independent directors, including at least one director with financial expertise. The Audit Committee meets regularly with management and the external auditors to discuss reporting and governance issues and ensures each party is discharging its responsibilities. The Audit Committee has reviewed these financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements of the Company.

(Signed)

Jeff Tooth
President & Chief Executive Officer

(Signed)

Sungki Lee
Chief Financial Officer

Calgary, Alberta
February 23, 2017



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT OF REGISTERED ACCOUNTING FIRM

To the Shareholder and Directors of Harvest Operations Corp.

We have audited the accompanying consolidated financial statements of Harvest Operations Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in shareholder's equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the



appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Harvest Operations Corp. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Professional Accountants

February 23, 2017
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	December 31, 2016	December 31, 2015
Assets			
Current assets			
Accounts receivable	16	\$ 44.3	\$ 57.9
Prepaid expenses and other		7.0	11.6
Derivative contracts	16	1.1	—
		52.4	69.5
Non-current assets			
Deferred income tax asset	19	711.5	711.5
Exploration and evaluation assets	10	14.1	33.0
Property, plant and equipment	9	2,388.9	2,845.6
Investments in joint ventures	12	107.7	119.5
Goodwill	11	100.3	149.0
		3,322.5	3,858.6
Total assets		\$ 3,374.9	\$ 3,928.1
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	\$ 131.0	\$ 166.8
Taxes payable	19	3.7	3.7
Current portion of provisions	17	16.0	45.7
Credit facility	13, 16	892.6	923.8
Current portion of long-term debt	14, 16	379.7	—
		1,423.0	1,140.0
Non-current liabilities			
Long-term debt	14, 16	1,106.8	1,554.6
Related party loans	16, 25	—	629.9
Long-term liability	16, 18	66.0	67.7
Non-current provisions	17	675.1	811.2
		1,847.9	3,063.4
Total liabilities		\$ 3,270.9	\$ 4,203.4
Shareholder's equity (deficiency)			
Shareholder's capital	25	4,593.3	3,860.8
Contributed surplus	15, 25	5.5	10.5
Deficit		(4,494.8)	(4,146.6)
Total shareholder's equity (deficiency)		104.0	(275.3)
Total liabilities and shareholder's equity (deficiency)		\$ 3,374.9	\$ 3,928.1

Commitments [Note 26]

Subsequent Events [Note 9 and 13]

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

<i>(millions of Canadian dollars)</i>		For the Years Ended December 31		
		2016	2015	2014
	Notes			
Petroleum and natural gas sales		\$ 322.3	\$ 510.3	\$ 1,046.0
Royalties		(35.0)	(48.7)	(149.7)
Revenues		287.3	461.6	896.3
Expenses				
Operating	20	166.6	265.6	330.5
Transportation and marketing		11.0	5.2	17.5
General and administrative	20	53.3	60.8	64.8
Depletion, depreciation and amortization	9	289.7	418.6	435.2
Exploration and evaluation	10	19.9	27.5	10.2
Loss from joint ventures	12	43.8	97.3	4.7
Losses (gains) on disposition of assets	9	(35.2)	1.7	(47.5)
Finance costs	21	145.4	138.1	95.3
Derivative contract losses	16	5.2	5.2	2.1
Foreign exchange loss (gain)	22	(39.9)	310.5	126.4
Gain on senior notes exchange	14	(36.0)	—	—
Loss on onerous contract	17	10.7	—	—
Impairment, net of reversals	9, 11	1.0	1,256.3	267.6
Loss from continuing operations before income tax		(348.2)	(2,125.2)	(410.5)
Current income tax expense	19	—	5.1	—
Deferred income tax recovery	19	—	(336.9)	(324.9)
Net loss from continuing operations		(348.2)	(1,793.4)	(85.6)
Net loss from discontinued operations	8	—	(15.5)	(354.6)
Net loss		\$ (348.2)	\$ (1,808.9)	\$ (440.2)
Other comprehensive loss ("OCL")				
<i>Items that may be reclassified to net income</i>				
Gain (loss) on designated cash flow hedges, net of tax	16, 24	—	(1.4)	1.3
Losses on foreign currency translation		—	—	(9.9)
Reclassification of cumulative foreign currency translation on disposal of subsidiary	24	—	—	44.1
<i>Items that will not be reclassified to net income</i>				
Actuarial losses, net of tax	24	—	—	(5.7)
Comprehensive loss		\$ (348.2)	\$ (1,810.3)	\$ (410.4)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (DEFICIENCY)

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss) ("AOCI")	Total Shareholder's Equity
Balance at December 31, 2013		\$ 3,860.8	\$ 4.3	\$ (1,893.2)	\$ (32.7)	\$ 1,939.2
Gains on derivatives designated as cash flow hedges, net of tax	24	—	—	—	1.3	1.3
Losses on foreign currency translation	24	—	—	—	(9.9)	(9.9)
Reclassification of cumulative foreign currency translation losses on disposal of subsidiary	24	—	—	—	44.1	44.1
Actuarial losses, net of tax	24	—	—	—	(5.7)	(5.7)
Shareholder loan	25	—	6.0	—	—	6.0
Transfer of cumulative actuarial losses to deficit	24	—	—	(4.3)	4.3	—
Net loss		—	—	(440.2)	—	(440.2)
Balance at December 31, 2014		\$ 3,860.8	\$ 10.3	\$ (2,337.7)	\$ 1.4	\$ 1,534.8
Gains on derivatives designated as cash flow hedges, net of tax	24	—	—	—	(1.4)	(1.4)
Net loss		—	—	(1,808.9)	—	(1,808.9)
Shareholder loan	25	—	0.2	—	—	0.2
Net income						—
Balance at December 31, 2015		\$ 3,860.8	\$ 10.5	\$ (4,146.6)	\$ —	\$ (275.3)
Net loss		—	—	(348.2)	—	(348.2)
Shareholder cash contribution	25	—	5.3	—	—	5.3
Shareholder loan	25	732.5	(10.3)	—	—	722.2
Balance at December 31, 2016		\$ 4,593.3	\$ 5.5	\$ (4,494.8)	\$ —	\$ 104.0

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended December 31		
(millions of Canadian dollars)	Notes	2016	2015	2014
Cash provided by (used in)				
Operating Activities				
Net loss		\$ (348.2)	\$ (1,808.9)	\$ (440.2)
Items not requiring cash				
Loss from joint ventures	12	43.8	97.3	4.7
Depletion, depreciation and amortization	9	289.7	418.6	448.0
Non-cash finance costs	17, 21	53.0	54.7	27.1
Unrealized losses on derivative contracts	16	3.6	0.8	0.7
Unrealized loss (gain) on foreign exchange	22	(23.8)	308.3	103.3
Non-cash exploration and evaluation costs	10	19.9	27.5	9.4
Losses (gains) on disposition of assets	9	(35.2)	1.7	(47.7)
Gain on senior notes exchange	14	(36.0)	—	—
Deferred income tax recovery	19	—	(336.9)	(232.8)
Loss on onerous contract	17	10.7	—	—
Impairment, net of reversals	9	1.0	1,256.3	446.9
Loss on disposition of Downstream subsidiary	8	—	15.5	56.6
Other non-cash items		6.9	11.5	8.7
Settlement of decommissioning and environmental remediation liabilities	17	(6.5)	(15.6)	(14.0)
Change in non-cash working capital	23	(12.2)	(66.2)	112.2
Cash from (used in) operating activities		\$ (33.3)	\$ (35.4)	\$ 482.9
Financing Activities				
Credit facility (repayment) borrowings, net	13	(42.1)	304.4	(169.4)
Repayment of promissory note		—	—	(12.3)
Borrowings from related party loans	25	65.3	148.5	120.0
Senior notes exchange costs	14	(5.2)	—	—
Capital contribution	25	5.3	—	—
Cash from (used in) financing activities		\$ 23.3	\$ 452.9	\$ (61.7)
Investing Activities				
Additions to property, plant and equipment	9	(19.9)	(229.7)	(695.9)
Additions to exploration and evaluation assets	10	(1.0)	(1.2)	(22.3)
Property dispositions, net	9	74.3	41.2	237.4
Corporate acquisition, net of cash acquired	7	—	(34.9)	—
Investment in joint ventures	12	(47.4)	(93.0)	(26.7)
Distributions received from joint ventures	12	16.7	9.6	2.3
Net cash inflow from disposition of Downstream subsidiary	8	—	—	37.9
Change in non-cash working capital	23	(12.7)	(109.5)	47.1
Cash from (used) in investing activities		\$ 10.0	\$ (417.5)	\$ (420.2)
Change in cash		—	—	1.0
Effect of exchange rate changes on cash		—	—	(1.0)
Cash, at beginning of the period		—	—	—
Cash, at end of the period		\$ —	\$ —	\$ —
Interest paid		\$ 92.4	\$ 75.5	\$ 82.1

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016, 2015 and 2014

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. ("Harvest", "HOC" or the "Company") is an energy company in the business of the exploration, development, and production of crude oil, bitumen, natural gas and natural gas liquids in western Canada. Harvest has two reportable segments, Conventional and Oil Sands. For further information regarding these reportable segments, see note 6.

Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). The Company is incorporated and domiciled in Canada. Harvest's principal place of business is located at 1500, 700 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved and authorized for issue by the Board of Directors on February 23, 2017.

On November 13, 2014, Harvest completed the sale of its wholly-owned subsidiary North Atlantic Refining Limited ("North Atlantic" or "Downstream"). Results of Downstream have been presented as discontinued operations and the comparative consolidated statements of comprehensive loss have been adjusted to show the discontinued operation separately from continuing operations (also see note 8 – Discontinued Operations).

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value.

Functional and Presentation Currency

In these consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, which is the Company's functional currency. All references to US\$ are to United States dollars.

3. Changes in Accounting Policy**(a) New and amended accounting standards adopted**

There were no new or amended accounting standards or interpretations that had a significant impact on the consolidated financial statements during the year ended December 31, 2016.

(b) New standards and interpretation issued but not yet adopted

We have considered the accounting standards that will be issued in the future that may have a material impact on the financial statements which are outlined below.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. In April 2016, the IASB issued its final amendments that provide new examples and clarification on how the principles should be applied. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning January 1, 2018. Application of the standard is mandatory and early adoption is permitted. Harvest is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements.

On July 24, 2014, the IASB issued IFRS 9 "Financial Instruments" to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2018. Harvest is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16 “Leases” to replace IAS 17 “Leases”. IFRS 16 requires lessees to recognize most leases on the statement of financial position using a single recognition and measurement model. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 will be applied by Harvest on January 1, 2019. Harvest is currently evaluating the impact on its consolidated financial statements.

4. Significant Accounting Policies

(a) Consolidation

These consolidated financial statements include the accounts of Harvest and its subsidiaries. All inter-entity transactions and balances have been eliminated upon consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which Harvest obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when Harvest is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Harvest controls its subsidiaries as the Company has all of the following via its 100% ownership:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The financial statements of the subsidiaries are prepared for the same reporting period as Harvest, using consistent accounting policies. The consolidated financial statements of the Company include the following material subsidiaries:

Subsidiary	Principal activities	Country of incorporation	% Equity interest
Harvest Breeze Trust No. 1	Oil exploration and production	Canada	100
Harvest Breeze Trust No. 2	Oil exploration and production	Canada	100
Breeze Resources Partnership	Oil exploration and production	Canada	100
Hay River Partnership	Oil exploration and production	Canada	100
North Atlantic Refining Limited ⁽¹⁾	Petroleum refining and marketing	Canada	100

⁽¹⁾ Sold on November 13, 2014 (see note 8 – Discontinued Operations)

(b) Interests in Joint Arrangements

A joint arrangement is an arrangement in which two or more parties have joint control established by a contractual agreement. Joint control requires unanimous consent for decisions regarding the relevant activities of the arrangement. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

Interests in joint operations are recognized in the consolidated financial statements by including Harvest's share of assets, liabilities, revenues and expenses of the arrangement.

Interests in joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognized at cost, with the carrying value subsequently increased or decreased to reflect the Company's proportionate share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying value of the Company's investment. When necessary, adjustments are made to investee financial statements to align accounting policies of investees with those applied by the Company in its consolidated financial statements.

The carrying values of Harvest's equity accounted investments are reviewed at each reporting date to determine whether any indicators of impairment are present. If an indicator of impairment is identified, the recoverable amount of the investment is estimated. If the carrying value of the investment exceeds the estimated recoverable amount, an impairment charge is recognized.

Unrealized gains resulting from transactions with joint ventures are eliminated, to the extent of the Company's interest in the joint venture. For sales of products or services from the Company to its joint ventures, unrealized gains are eliminated against the carrying value of the investment.

(c) Revenue Recognition

Revenues associated with the sale of crude oil, natural gas, natural gas liquids and refined products are recognized when significant risk and rewards of ownership have been transferred, which is considered to occur when title passes to customers and payment has either been received or collection is reasonably certain. Revenues for retail services related to Downstream operations were recorded when the services were provided. Revenues are measured at the fair value of the consideration received or receivable.

(d) Property, Plant, and Equipment ("PP&E") and Exploration and Evaluation ("E&E") Assets**(i) Conventional and Oil sands**Exploration and evaluation expenditures

Prior to acquiring the legal rights to explore an area, all costs are charged directly to the statement of comprehensive loss as E&E expense.

Once the legal rights to explore are acquired, all costs directly associated with the E&E are capitalized. E&E costs are those expenditures incurred for identifying, exploring and evaluating new pools including acquisition of land and mineral leases, geological and geophysical costs, decommissioning costs, E&E drilling, sampling, appraisals and directly attributable general and administrative costs. All such costs are subject to technical, commercial and management review to confirm the continued intent to develop. When this is no longer the case, the costs are impaired. When technical feasibility and commercial viability are established, the relevant expenditure is transferred to PP&E after impairment is assessed and any resulting impairment loss is recognized. If no potentially commercial petroleum is discovered from exploration drilling, the relating E&E assets are impaired.

E&E assets are not amortized but are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash generating units ("CGUs"). The impairment of E&E assets, and any eventual reversal thereof, is recognized as E&E expense in the statement of comprehensive loss.

Development costs

The Conventional and Oil Sands PP&E generally represent costs incurred in acquiring and developing proved and/or probable reserves, and bringing in or enhancing production from such reserves. Development costs include the initial purchase price and directly attributable costs relating to land and mineral leases, geological and seismic studies, property acquisitions, development drilling, construction of gathering systems and infrastructure facilities, decommissioning costs, transfers from E&E assets, and for qualifying assets, borrowing costs. These costs are accumulated on a field or an area basis (major components).

Major capital maintenance projects such as well work-overs, major overhauls and turnarounds are capitalized but general maintenance and repair costs are charged against income. The costs of the day-to-day servicing of PP&E are recognized in net income as incurred.

PP&E are stated at historical cost, less accumulated depreciation, depletion, amortization and impairment losses.

For exchanges that involve only unproven properties, the exchange is accounted for at cost. Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or if neither the fair value of the assets given up nor the assets received can be reliably estimated. Any gains or losses on de-recognition of the asset given up is included in net income.

Depletion, Depreciation and Amortization

Costs incurred related to developed oil and gas properties are depleted using the unit-of-production basis over the proved developed reserves. Cost related to undeveloped oil and gas properties are not immediately included in the depletable pool of developed assets but are transferred to the depletable pool as the reserves are developed through drilling activities.

Certain major components within PP&E such as capitalized maintenance and replacement parts are amortized on a straight-line basis over their respective useful lives, which in general is around four years. Costs of major development projects under construction are excluded from the costs subject to depletion until they are available for use.

Corporate and administrative assets are depreciated on a straight-line basis over the individual assets' useful lives.

Harvest reviews its PP&E's residual values, useful lives and methods of depreciation at each reporting period and adjust prospectively, if appropriate.

(ii) Downstream

PP&E related to the refining assets were recorded at cost. General maintenance and repair costs were expensed as incurred. Major replacements and capital maintenance projects such as turnaround costs were capitalized. Improvements that increase or prolong the service life or capacity of an asset were capitalized.

Depreciation

When significant parts of an item of PP&E have different useful lives, they were accounted for as separate items (major components). Depreciation of recorded cost less the residual value was provided on a straight-line basis over the estimated useful life of the major components as set out below.

Asset	Period
Refining and production plant:	
Processing equipment	5 – 35 years
Structures	15 – 20 years
Catalysts and turnarounds	2 – 8 years
Tugs	25 years
Buildings	10 – 20 years
Vehicles	2 – 7 years
Office and computer equipment	3 – 5 years

(iii) Disposal of assets

An item of PP&E and any significant part initially recognized is derecognized upon disposal or abandonment. Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount of the item of PP&E and are recognized in the period of disposal.

(iv) Impairment of Property, Plant and Equipment and Exploration and Evaluation Assets

Harvest assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, Harvest estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to dispose ("FVLCD") and its value-in-use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, an impairment test is performed at the CGUs level. A CGU is a group of assets that Harvest aggregates based on their ability to generate largely independent cash flows.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU without consideration for potential enhancement or improvement of the underlying asset's performance. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCD, discounted cash flows, future developments, and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. Inputs are those that an independent market participant would consider appropriate.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in the consolidated statements of comprehensive loss.

(e) Capitalized Interest

Interest on major development projects is capitalized until the project is complete, ready for its intended use, or if development is suspended using the weighted-average interest rate on Harvest's general borrowings. In situations

where Harvest borrows funds specifically to acquire a qualifying asset or project, interests on these funds are also capitalized. Capitalized interest is limited to the actual interest incurred.

(f) Assets Held for Sale and Discontinued Operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and FVLCD, with impairments recognized in the consolidated statement of comprehensive loss. Non-current assets held for sale are presented in current assets and liabilities within the consolidated statement of financial positions. Assets held for sale are not depreciated, depleted or amortized. Comparative period consolidated statements of financial positions are not restated.

The results of discontinued operations are shown separately in the consolidated statements of comprehensive loss, and comparative figures are restated.

(g) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition including any contingent consideration is measured as the aggregate of the consideration transferred at acquisition date fair value. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in net income. Associated transaction costs are expensed when incurred. Any contingent consideration to be transferred to the vendor is recognized at fair value at the acquisition date. Contingent consideration classified as a financial asset or liability is measured at fair value, with changes in fair value recorded in net income.

Those petroleum reserves and resources that are able to be reliably valued are recognized in the assessment of fair values on acquisition. The fair value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on reserve estimates. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the operating segment that is expected to benefit from the combination. Goodwill is carried at cost less impairment and is not amortized.

Goodwill is assessed for impairment annually at year-end or more frequently if events occur that indicate possible impairment. The recoverable amount is determined by calculating the recoverable amount of the group of CGUs that goodwill has been allocated to. The excess of the carrying value of goodwill over the recoverable amount is then recognized as impairment and charged to net income in the period in which it occurs. An impairment loss in respect of goodwill is not reversed.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained, unless the Company determines there is a better method of allocating the goodwill on disposition.

(h) Provisions

(i) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expenses relating to provisions are generally presented in the consolidated statements of comprehensive loss

net of any reimbursement except for decommissioning liabilities. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) *Decommissioning Liabilities*

Harvest recognizes the present value of decommissioning liabilities as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and normal use of the assets. Harvest uses a risk-free rate to estimate the present value of the expenditure required to settle the present obligation at the reporting date. The associated decommissioning costs are capitalized as part of the carrying amount of the related asset and the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the decommissioning liabilities.

(iii) *Environmental Remediation Liabilities*

Environmental expenditures related to an existing condition caused by past operations are expensed. Environmental liabilities are recognized when a clean-up is probable and the associated costs can be reliably estimated. The amount recognized is the best estimate of the expenditure required. When the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure using a risk-free rate.

(iv) *Contingencies*

A contingency is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable.

(i) **Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax liabilities and assets are generally not recognized for temporary differences arising on:

- investments in subsidiaries and associates and interests in joint ventures;
- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, and Harvest intends to settle current tax liabilities and assets on a net basis.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets, both recognized and unrecognized are reviewed at each reporting date and are adjusted to the extent that it is probable that the related tax benefit will be realized.

(j) **Post-Employment Benefits**

Prior to its disposal, Harvest's Downstream operations maintained a defined benefit pension plan and a defined benefit health care plan, which cover the majority of its employees and their surviving spouses.

The cost of providing the defined pension benefits and other post-retirement benefits was actuarially determined by an independent actuary using the projected unit credit method reflecting management's best estimates of discount rates, rate of compensation increase, retirement ages of employees, and expected health care costs. The benefit plan expenses included the current service costs and the net interest expense on the net obligation. Net interest

expense was calculated by applying the discount rate to the net defined benefit asset or liability. Prior to the disposal, Harvest recognized the benefit plan expenses under operating expenses in the consolidated statements of comprehensive loss. Harvest did not have any past service costs arising from plan amendments, curtailment or restructuring.

Pension plan assets were measured at fair values with the difference between the fair value of the plan assets and the total employee benefit obligation recorded on the statement of financial position. Actuarial gains or losses were recognized in other comprehensive income immediately, and were not reclassified to the consolidated statements of comprehensive loss in subsequent periods.

(k) Currency Translation

Foreign currency-denominated transactions are translated to the respective functional currencies of Harvest's entities at exchange rates at the date of the transactions. Non-monetary items measured at historical cost are not subsequently re-translated. Monetary assets and liabilities denominated in foreign currencies are converted into Harvest's functional currencies at the exchange rate at the reporting date. Conversion gains and losses on monetary items are included in the consolidated statements of comprehensive loss in the period in which they arise.

Harvest's Downstream operations' functional currency was the U.S. dollar, while Harvest's presentation currency is the Canadian dollar. Therefore, the Downstream operations' assets and liabilities were translated at the period-end exchange rates, while revenues and expenses were translated using monthly average rates. Up until the disposal of Downstream, translation gains and losses relating to the foreign operations were included in accumulated other comprehensive income as a separate component of shareholder's equity. Upon disposal, the cumulative foreign currency translation differences were reclassified to the consolidated statements of comprehensive loss.

(l) Financial Instruments

Harvest recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. Financial liabilities are removed from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership.

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- **Fair value through profit or loss**
Financial assets and liabilities classified as held-for-trading or designated as at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to earnings.
- **Held-to-maturity investments, loans and receivables and other financial liabilities**
Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.
- **Available-for-sale financial assets**
Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in the statements of income. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is a significant or prolonged decrease in the value of the asset.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of commodity in accordance with the Company's expected purchase, sale or usage fall within the normal purchase or sale exemption and are accounted for as executory contracts.

(m) Hedges

Harvest uses derivative financial instruments such as foreign currency contracts and financial commodity contracts to hedge its foreign currency risks and commodity price risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are recorded in the consolidated statements of comprehensive income or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive loss.

At the inception of a hedge relationship, Harvest formally designates and documents the hedge relationship to which the Company intends to apply hedge accounting. The designation document includes the risk management objective and strategy for undertaking the hedge, the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedge effectiveness. Upon designation and at each reporting date, Harvest assesses hedge effectiveness by performing regression analysis to assess the relationship between the hedged item and hedging instrument. Only if such hedges are highly effective in achieving offsetting changes in fair value or cash flows will Harvest continue to apply hedge accounting.

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive loss, while any ineffective portion is recognized immediately in the consolidated statements of comprehensive loss. Amounts recognized in other comprehensive loss are transferred to the consolidated statements of comprehensive loss when the hedged transaction affects net income, such as when the hedged forecasted transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in other comprehensive loss are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognized in other comprehensive loss is transferred to the consolidated statements of comprehensive loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gains or losses previously recognized in other comprehensive loss remain in other comprehensive loss until the forecast transaction affects the consolidated statements of comprehensive loss.

(n) Leases

Leases or other arrangements that convey a right to use a specific asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are amortized over the shorter of the estimated useful life of the assets and the lease term. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

(o) Fair Value Measurement

Harvest measures derivatives at fair value at each balance sheet date and, for the purposes of business combinations and impairment testing, uses FVLCD to determine the fair value of some of its non-financial assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the following markets that are accessible by the Company:

- the principal market for the asset or liability, or
- in the absence of a principal market, the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Harvest uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy; described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, Harvest determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Harvest has identified the following areas where significant estimates and judgments are required. Further information on each of these areas and how they impact various accounting policies are described below and also in relevant notes to the consolidated financial statements. Changes in estimates are accounted for prospectively.

(a) Joint arrangements (note 4(b) and 12)

Judgment is required to determine whether or not Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 4 for more details.

In addition, judgment is required in determining whether joint arrangement structured through a separate vehicle is a joint operation or joint venture and involves determining whether the legal form and contractual arrangements give the Company direct rights to the assets and obligations for the liabilities. Other facts and circumstances are also assessed by management, including but not limited to, the Company's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement. This often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint venture or joint operation may materially impact the accounting.

On April 23, 2014, Harvest entered into two joint arrangements with KERR Canada Co. Ltd. ("KERR"): Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") (also see note 12). Unanimous consent must be obtained from the shareholders for decisions about relevant activities that impact the returns on investment. Such activities include but are not limited to the approval of the overall capital program and budget. Based on management's assessment, Harvest concluded that both joint arrangements are joint ventures as neither KERR nor Harvest has a direct interest in the underlying assets or liabilities. These joint ventures have been recognized using the equity method of accounting. However, based on the terms of the agreement, which provide for differing proportions of earnings based on ownership percentages that are not representative of the economic substance, Harvest cannot simply apply its percentage ownership to pick up the net income from these joint ventures. Therefore, Harvest applies a hypothetical liquidation at book value ("HLBV") method to calculate its equity share of net income for each reporting period. HLBV takes a balance sheet approach in calculating the earnings Harvest should recognize based on the change in Harvest's economic interest in the net assets in the partnerships under the provisions of the joint venture agreements in a liquidation scenario.

(b) Reserves (note 4(d), 9 and 11)

The provision for depletion and depreciation of Conventional assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Conventional and Oil Sand's decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to the Conventional and Oil Sands segments may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets.

The process of estimating reserves is complex and requires significant judgments based on available geological, geophysical, engineering and economic data. In the process of estimating the recoverable oil and natural gas reserves and related future net cash flows, Harvest incorporates many factors and assumptions, such as:

- expected reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- future commodity prices and quality differentials;
- discount rates; and
- future development costs.

As the economic assumptions used may change, such changes may impact the reported financial position and results, which include E&E, PP&E, goodwill, DD&A, provisions for decommissioning liabilities and deferred tax assets. On an annual basis, the Company engages qualified, independent reserves evaluators to evaluate Harvest's reserves data. Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production ("UOP") calculation and the matching of capitalized costs with the benefit of production. The calculation of the UOP rate of DD&A will be impacted to the extent that actual production in the future is different from current forecasted production based on total proved reserves or future development cost estimate changes.

(c) Impairment of long-lived assets (note 4(d), 9 and 11)

Long-lived assets (goodwill and PP&E) are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to significant judgment; product type, internal operational teams, geology and geography were key factors considered when grouping Harvest's oil and gas assets into the CGUs. During 2016, Harvest re-aligned certain CGUs with its current asset base as a result of ongoing divestiture activity and corporate re-organization.

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. The determination of whether such indicators exist requires significant judgment.

E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment and directly impact the timing and amount of impairment. These assumptions may change as new information become available. If, after E&E expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in the consolidated statements of comprehensive loss in the period when the new information becomes available.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCD. To determine the recoverable amounts under VIU, Harvest uses reserve estimates for both the Conventional and Oil Sands operating segments. The estimates of reserves, future commodity prices, discount rates, operating expenses and future development costs require significant judgments. FVLCD is determined using judgments, see note 5(f) below for further discussion.

(d) Provisions (note 4(h) and 17)

In the determination of the decommissioning liability provision, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E. The provisions at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(e) Income taxes (note 4(i) and 19)

Tax interpretations, regulations and legislation in the various jurisdictions in which Harvest and its subsidiaries operate are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions.

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, capital expenditures, general and administrative expenses and finance costs) and the judgment about the application of existing tax laws in each

jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(f) Fair value measurements (note 4(d), 4(o), 9, 11 and 16)

Significant judgment is required to determine what assumptions market participants would use to price an asset or a liability, such as forward prices, foreign exchange rates and discount rates. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. To determine "highest and best use" requires further judgment. Changes in estimates and assumptions about these inputs could affect the reported fair value.

6. Segment Information

Harvest's operating segments are determined based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by Harvest's chief operating decision makers. The Company's reportable segments are:

- Conventional, which consists of exploration, development, production and subsequent sale of petroleum, natural gas and natural gas liquids in western Canada.
- Oil Sands, which is the BlackGold oil sands project located near Conklin, Alberta. Phase 1 of the project is designed to produce 10,000 barrels of bitumen per day. The project is currently in the commissioning phase and the decision to complete commissioning of the central processing facility and commence steam injection depends on a number of factors including the bitumen price environment.

	Year ended December 31								
	Conventional			Oil Sands			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Petroleum and natural gas sales	\$ 322.3	\$ 510.3	\$ 1,046.0	\$ —	\$ —	\$ —	\$ 322.3	\$ 510.3	\$ 1,046.0
Royalties	(35.0)	(48.7)	(149.7)	—	—	—	(35.0)	(48.7)	(149.7)
Revenues	287.3	461.6	896.3	—	—	—	287.3	461.6	896.3
Expenses									
Operating	155.9	251.5	330.5	10.7	14.1	—	166.6	265.6	330.5
Transportation and marketing	11.0	5.2	17.5	—	—	—	11.0	5.2	17.5
General and administrative	51.1	57.7	64.8	2.2	3.1	—	53.3	60.8	64.8
Depletion, depreciation and amortization	289.1	418.1	435.2	0.6	0.5	—	289.7	418.6	435.2
Exploration and evaluation	19.9	27.5	10.2	—	—	—	19.9	27.5	10.2
Losses (gains) on disposition of assets	(35.2)	1.7	(47.5)	—	—	—	(35.2)	1.7	(47.5)
Derivative contract losses	5.2	5.2	2.1	—	—	—	5.2	5.2	2.1
Impairment, net of reversals	1.0	765.3	267.6	—	491.0	—	1.0	1,256.3	267.6
Loss on onerous contract	10.7	—	—	—	—	—	10.7	—	—
Loss from joint ventures	43.8	97.3	4.7	—	—	—	43.8	97.3	4.7
Operating loss	\$ (265.2)	\$ (1,167.9)	\$ (188.8)	\$ (13.5)	\$ (508.7)	\$ —	\$ (278.7)	\$ (1,676.6)	\$ (188.8)
Finance costs							145.4	138.1	95.3
Foreign exchange losses (gains)							(39.9)	310.5	126.4
Gain on senior notes exchange							(36.0)	—	—
Current income tax expense							—	5.1	—
Income tax recovery							—	(336.9)	(324.9)
Net loss from continuing operations							\$ (348.2)	\$ (1,793.4)	\$ (85.6)
Net loss from discontinued operations							—	(15.5)	(354.6)
Net loss	\$ (348.2)	\$ (1,808.9)	\$ (440.2)						

	Year Ended December 31								
	Conventional			Oil Sands			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Capital Additions									
Additions to PP&E	\$ 18.0	\$ 145.3	\$ 386.2	\$ 1.9	\$ 66.0	\$ 283.5	\$ 19.9	\$ 211.3	\$ 669.7
Additions to E&E	1.0	1.2	22.3	—	—	—	1.0	1.2	22.3
Corporate acquisition	—	51.8	—	—	—	—	—	51.8	—
PP&E & E&E dispositions, net of acquisitions	(170.2)	(130.5)	(301.1)	—	—	0.2	(170.2)	(130.5)	(300.9)
Net capital additions (disposals)	\$ (151.2)	\$ 67.8	\$ 107.4	\$ 1.9	\$ 66.0	\$ 283.7	\$ (149.3)	\$ 133.8	\$ 391.1

	Investments in Joint Ventures	PP&E	E&E	Goodwill	Total Assets
December 31, 2016					
Conventional	\$ 107.7	\$ 1,380.1	\$ 14.1	\$ 100.3	\$ 2,366.0
Oil Sands	—	1,008.8	—	—	1,008.9
Total	\$ 107.7	\$ 2,388.9	\$ 14.1	\$ 100.3	\$ 3,374.9
December 31, 2015					
Conventional	\$ 119.5	\$ 1,835.0	\$ 33.0	\$ 149.0	\$ 2,917.9
Oil Sands	—	1,010.6	—	—	1,010.2
Total	\$ 119.5	\$ 2,845.6	\$ 33.0	\$ 149.0	\$ 3,928.1

7. Business Combination

On February 27, 2015, Harvest acquired all of the issued and outstanding common shares of Hunt Oil Company of Canada, Inc. ("Hunt"). Hunt was a private oil and gas company with operations immediately offsetting Harvest's lands and production in the Deep Basin area of Alberta.

The acquisition was accounted for as a business combination. The fair values of identifiable assets and liabilities, including interim adjustments as at the date of acquisition were:

Consideration	
Cash	\$ 37.1
	37.1
Fair value of net assets acquired	
Cash	\$ 2.2
Accounts receivable	0.6
Prepaid expenses	0.2
Property, plant and equipment	45.1
Exploration and evaluation assets	6.7
Accounts payable and accrued liabilities	(6.1)
Decommissioning liability	(3.2)
Deferred income tax liability	(8.4)
	\$ 37.1

These consolidated financial statements incorporate the results of operations of Hunt from February 27, 2015. For the year ended December 31, 2015, the assets acquired contributed \$2.6 million of revenues and \$1.4 million to revenues less operating and transportation expenses. If the acquisition had been completed on the first day of 2015, Harvest's revenues for the year ended December 31, 2015 would have been \$0.5 million higher and revenues less operating and transportation expenses would have been \$0.3 million higher.

On October 1, 2015, the property, plant & equipment and exploration and evaluation assets were contributed to the Deep Basin Partnership (see note 12 – Investment in Joint Ventures and note 9 – PP&E).

8. Discontinued Operations

Downstream operations included the purchase and refining of crude oil at a medium gravity sour crude oil hydrocracking refinery, and the sale of the refined products to commercial, wholesale and retail customers. Downstream was located in the Province of Newfoundland and Labrador. On November 13, 2014, Harvest closed the sale of its wholly owned Downstream segment for net proceeds of approximately \$70.5 million subject to post-closing adjustments. The Downstream segment was classified as discontinued operations as at December 31, 2014. Results of the Downstream segment are presented as discontinued operations for the current and prior periods.

The purchase and sale agreement to sell the Downstream segment triggered an impairment assessment during the third quarter of 2014. As a result of this assessment, Downstream recorded an impairment loss of \$179.3 million in its refinery CGU relating to the PP&E to reflect a recoverable amount of \$nil at December 31, 2014. This amount was included in the operating loss from discontinued operations for the year ended December 31, 2014. The recoverable amount was based on the asset's FVLCD. The FVLCD was determined in accordance with the terms of the purchase and sale agreement, which is level 3 of the fair value hierarchy.

As it was no longer probable for Downstream to utilize deferred tax assets of \$92.1 million, it was written down to \$nil as at December 31, 2014. Harvest completed a strategic tax planning transaction during the third quarter of 2014, which resulted in an increase of deferred tax assets in the amount of \$247.6 million. Harvest also realized a capital loss of \$1.6 billion (\$796 million taxable capital loss) on the sale of the Downstream segment, of which none has been recognized in the deferred tax asset. See note 19 - Income Taxes.

Harvest recorded an additional loss of \$15.5 million related to the disposal of the Downstream segment during the year ended December 31, 2015, which has been included in the net loss from discontinued operations (2014 - \$56.6 million). No results were reported for the Downstream segment during the year ended December 31, 2016.

	Year Ended December 31	
	2015	2014
Refined products sales	\$ —	\$ 3,432.1
Expenses		
Purchased products for resale and processing	—	3,250.0
Operating	—	209.8
Transportation and marketing	—	6.0
General and administrative	—	0.5
Depletion, depreciation and amortization	—	12.8
Gains on disposition of assets	—	(0.2)
Impairment and other charges	—	179.3
Operating loss from discontinued operations	\$ —	\$ (226.1)
Finance costs	—	1.5
Foreign exchange gains ⁽¹⁾	—	(21.7)
Loss before income tax from discontinued operations	\$ —	\$ (205.9)
Income tax expense	—	92.1
Net loss from discontinued operations	\$ —	\$ (298.0)
Loss on disposal of the Downstream subsidiary ⁽²⁾	15.5	56.6
Net loss from discontinued operations	\$ (15.5)	\$ (354.6)

The following table summarizes the components of the discontinued operations cash flows (\$nil in 2015 and 2016):

	2014
Cash flow used in operating activities	\$ (60.0)
Cash flow from financing activities	129.1
Cash flow used in investing activities	(35.5)
Effect of exchange rate changes on cash	(1.0)
Total cash inflow	\$ 32.6

Net cash inflow from the disposal of Downstream subsidiary for the year ended December 31, 2014 was \$37.9 million, calculated based on the net cash consideration received of \$70.5 million less Downstream's total ending cash balance of \$32.6 million.

9. Property, Plant and Equipment ("PP&E")

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2014	5,285.2	1,434.6	6,719.8
Additions	145.3	66.0	211.3
Corporate acquisitions	45.1	-	45.1
Disposals, net of acquisitions	(212.5)	-	(212.5)
Change in decommissioning liabilities	79.2	1.0	80.1
As at December 31, 2015	\$ 5,342.3	\$ 1,501.6	\$ 6,843.9
Additions	18.0	1.9	19.9
Disposals, net of acquisitions	(410.5)	—	(410.5)
Change in decommissioning liabilities	(50.1)	(2.6)	(52.7)
As at December 31, 2016	\$ 4,899.7	\$ 1,500.9	\$ 6,400.7

Accumulated depletion, depreciation, amortization and impairment losses:

As at December 31, 2014	\$ 2,609.9	\$ —	\$ 2,609.9
Depreciation, depletion and amortization	418.1	0.5	418.6
Disposals	(91.5)	—	(91.5)
Impairment	570.3	491.0	1,061.3
As at December 31, 2015	\$ 3,506.8	\$ 491.5	\$ 3,998.3
Depreciation, depletion and amortization	289.1	0.6	289.7
Disposals	(240.3)	—	(240.3)
Impairment reversal, net of expense	(36.0)	—	(36.0)
As at December 31, 2016	\$ 3,519.6	\$ 492.1	\$ 4,011.7

Net Book Value:

As at December 31, 2016	\$ 1,380.1	\$ 1,008.8	\$ 2,388.9
As at December 31, 2015	\$ 1,835.5	\$ 1,010.2	\$ 2,845.6

During 2016, Harvest reviewed and adjusted its CGUs as a result of the Company's ongoing divestiture activity and corporate re-organization. CGU's were aggregated based on proximity of operations, product composition, cash flows and management monitoring.

General and administrative costs directly attributable to PP&E addition activities of \$2.4 million have been capitalized during the year ended December 31, 2016 (2015 - \$12.3 million; 2014 - \$23.4 million). No borrowing costs relating to the development of Oil Sands assets have been capitalized within PP&E during the year ended December 31, 2016 (2015 - \$9.7 million; 2014 - \$33.4 million at a weighted average interest rate of 4.4% in 2015 and 4.7% in 2014).

Subsequent to December 31, 2016 an indicative bid was received from an arm's length party to purchase certain oil and gas assets in Southern Alberta. The assets included in the bid are in the South Oil and South Gas CGUs. The estimated

proceeds, which is the recoverable amount based on the FVLCD (level 2 fair value input) of the assets included in the proposed transaction was estimated at \$1.3 million. This triggered an impairment reversal during the year ended December 31, 2016, of \$38.8 million to PP&E in Harvest's Conventional segment (2015 – \$570.3 million loss, 2014 - \$267.6 million loss), which has been included in Impairment, net of reversal line in the statement of comprehensive loss.

During the year ended December 31, 2016, Harvest recognized an impairment expense of \$2.8 million against leasehold improvements and furniture and fixtures in its Head Office, relating to an operating lease that was classified as an onerous contract. See Note 17 – Provisions.

At December, 2016, the Oil Sands assets of \$1.0 billion (December 31, 2015 – \$1.0 billion) were excluded from the asset base subject to depreciation, depletion and amortization. In early 2015, the BlackGold oil sands central processing facility was substantially completed, however, no depletion expense has been incurred as Harvest uses the unit-of-production method and the Oil Sands assets currently have no production. During the year ended December 31, 2016, \$nil impairment (after-tax discount rate of 9.5% for proved plus probable reserves and 12% for possible reserves) was recorded against the Oil Sands CGU (2015 - \$491.0 million at a pre-tax discount rate of 12% resulting in a recoverable amount of \$959.1 million, 2014 - \$nil) against its PP&E.

During the year ended December 31, 2015, the Conventional segment recorded an impairment expense of \$570.3 million. Of this total, \$560.2 million related to all Conventional CGUs except for two out of sixteen, which were impaired during the year ended December 31, 2015. The recoverable amounts for respective CGUs were estimated at their FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator and the estimated fair value of undeveloped land. A discount rate in the range of 11% - 16.5% was used to determine the recoverable amount of \$965.8 million for the CGUs impaired during the year ended December 31, 2015.

The remainder of the Conventional impairment of \$10.1 million during the year ended December 31, 2015 related to assets held for sale in 2015. The sale of certain Conventional oil and gas assets in the Willesden Green area closed on February 1, 2016. As such, these assets were classified as assets held for sale at December 31, 2015. As a result of this classification, the assets were tested for impairment and written down to its recoverable amount of \$nil.

The following forecast commodity prices were used at December 31, 2016:

Year	Edmonton Light				US\$/Cdn\$ Exchange Rate
	WTI Crude Oil (\$US/bbl)	Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	
2017	55.00	68.24	53.38	3.43	0.7600
2018	60.90	73.16	58.95	3.17	0.7900
2019	65.47	76.25	62.70	3.26	0.8167
2020	69.13	79.37	65.48	3.67	0.8333
2021	73.21	82.56	68.39	3.86	0.8500
2022	75.19	84.85	70.49	3.97	0.8500
2023	77.19	87.15	72.58	4.11	0.8500
2024	79.23	89.50	74.73	4.23	0.8500
2025	81.28	91.89	76.88	4.31	0.8500
2026	83.39	94.01	79.08	4.41	0.8500
2027	85.03	95.85	80.64	4.51	0.8500
Thereafter ⁽¹⁾	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.8500

The following forecast commodity prices were used for impairment as at December 31, 2015:

Year	Edmonton Light				US\$/Cdn\$ Exchange Rate
	WTI Crude Oil (\$US/bbl)	Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	
2016	44.67	55.89	44.64	2.57	0.7350
2017	55.20	66.47	54.52	3.14	0.7667
2018	63.47	73.21	60.32	3.47	0.8017
2019	71.00	81.35	67.42	3.80	0.8167
2020	74.77	84.57	70.47	3.99	0.8333
2021	78.24	87.88	73.50	4.13	0.8417
2022	81.75	92.01	77.25	4.30	0.8417
2023	85.37	96.24	80.95	4.48	0.8417
2024	87.32	98.17	83.09	4.60	0.8417
2025	88.90	99.94	84.56	4.70	0.8417
Thereafter ⁽¹⁾	+1.8%/year	+1.8%/year	+1.8%/year	+1.8%/year	0.8417

(1) Represents the average escalation percentage in each year after 2025 to the end of reserve life

Harvest closed the disposition of its oil and gas assets in Saskatchewan for net proceeds of \$61.6 million on June 30, 2016 and the disposition of its oil and gas assets in South Alberta for net proceeds of \$6.7 million on August 16, 2016. Together with other insignificant dispositions of Exploration and Production assets and net proceeds of \$74.3 million, Harvest recognized a gain of \$35.2 million for the year ended December 31, 2016 (2015 - \$1.7 million loss, 2014 - \$47.5 million gain), relating to the de-recognition of PP&E, E&E, goodwill and decommissioning and environmental liabilities.

10. Exploration and Evaluation Assets ("E&E")

As at December 31, 2014	\$	62.1
Additions		1.2
Acquisition		6.7
Disposition		(9.5)
Impairment		(27.5)
As at December 31, 2015	\$	33.0
Additions		1.0
Impairment		(19.9)
As at December 31, 2016	\$	14.1

During the year ended December 31, 2016, \$19.9 million (2015 - \$27.5 million; 2014 - \$9.4 million), of E&E costs were impaired as they were no longer deemed to be technically feasible or commercially viable. There were no pre-licensing costs incurred for the year ended December 31, 2016 (2015 - \$nil, 2014 - \$0.8 million).

11. Goodwill

As at December 31, 2014	\$	353.1
Disposals		(9.1)
Impairment		(195.0)
As at December 31, 2015	\$	149.0
Disposals		(11.7)
Impairment		(37.0)
As at December 31, 2016	\$	100.3

Goodwill has been allocated to the Conventional operating segment. In assessing whether goodwill has been impaired, the carrying amount of the operating segment (including goodwill) is compared with the recoverable amount of the operating segment. The estimated recoverable amount of the segment is determined based on its FVLCD.

Market participants generally apply the market multiple enterprise value per barrel of proved and probable reserves ("EV/2P") when estimating the fair value of an oil and gas company. As such, Harvest determined the fair value of its Conventional segment by applying the observed EV/2P multiple of comparable public companies to its proved and

probable reserves (Level 2 fair value input). Harvest's proved and probable reserves were estimated by an independent qualified reserves evaluator and are subject to significant judgment.

At December 31, 2016, the EV/2P multiples ranged from \$5.60 to \$17.61 per barrel of proved and probable reserves for a group of comparable companies of similar size, operating metrics and production profile. Harvest used an average EV/2P multiple of \$6.00 per barrel of proved and probable reserves when determining the implied fair value of Harvest's Conventional segment. As at December 31, 2016, the carrying value exceeded the recoverable amount by \$37.0 million (2015 - \$195.0 million); as such, goodwill impairment was recorded.

12. Investment in Joint Ventures

On April 23, 2014, Harvest entered into the DBP and HKMS joint ventures with KERR. The principal place of operations for both DBP and HKMS is in Canada. DBP was established for the purposes of exploring, developing and producing from oil and gas properties in the Deep Basin area in Northwest Alberta.

Amounts contributed by KERR were spent by the DBP to purchase land, drill and develop partnership properties in the Deep Basin area. As the initial funding from KERR is consumed and additional funds are required to fund the development program, each partner is entitled to participate in and fund the additional work programs, however to the extent only one partner funds, its partnership interest will be increased and the other partner's interest will be diluted proportionately. Harvest will be obligated to fund the balance of the program to the extent of its share of partnership distributions received.

The preferred partnership units issued to KERR at inception provides certain preference rights, including a put option right exercisable after 10.5 years, whereby KERR could cause DBP to redeem all its preferred partnership units for consideration equal to its initial contribution plus a specified internal rate of return. If DBP does not have sufficient funds to complete the redemption obligation and after making efforts to secure funding, whether via issuing new equity, entering into a financing arrangement or selling assets, the partnership can cash-call Harvest to meet such obligation (the "top-up obligation"). This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP (level 3 fair value inputs). The cash flow forecast is based on management's internal assumptions of the volumes, commodity prices (below), royalties, operating costs and capital expenditures specific to the DBP. As at December 31, 2016, the fair value of the top-up obligation was estimated as \$6.7 million (December 31, 2015 - \$2.0 million), using a discount rate of 10% (December 31, 2015 - 29%). This top-up obligation has been included in the derivative contract losses in the statement of comprehensive loss and in the long-term liability at December 31, 2016 (see note 18 - Long-Term Liability). Once KERR achieves the minimum after-tax internal rate of return on its investment, Harvest is entitled to increased return on its investment.

Year	Light Medium Oil (\$C/bbl)	Natural Gas Liquids (\$C/bbl)	Gas (\$C/Mcf)
2017	68.24	49.82	3.59
2018	73.16	53.49	3.26
2019	76.25	56.22	3.35
2020	79.37	58.24	3.79
2021	82.56	60.97	4.00
2022	84.85	63.10	4.13
2023	87.15	65.36	4.30
2024	89.50	67.43	4.43
2025	91.89	69.71	4.51
2026	94.01	71.46	4.62
Thereafter ⁽¹⁾	+1.8%/year	+1.8%/year	+1.8%/year

(2) Represents the average escalation percentage in each year after 2026 to the end of reserve life

HKMS was formed for the purposes of constructing and operating a gas processing facility, which is now primarily used to process the gas produced from the properties owned by the DBP. A gas processing agreement was entered by the two partnerships. On the earlier of 10.5 years after the formation of HKMS or when KERR achieves a specified internal rate of return, Harvest will have the right but not the obligation to purchase all of KERR's interest in HKMS Partnership for nominal consideration.

	December 31, 2016	Ownership Interest	December 31, 2015	Ownership Interest
DBP	\$ 45.0	82.32%	\$ 50.5	81.17%
HKMS	62.7	70.23%	69.0	69.93%
Investments in joint ventures	\$ 107.7		\$ 119.5	

	DBP	HKMS	Total
Balance as at December 31, 2014	\$ 49.2	\$ 26.6	\$ 75.8
Additional investments	107.2	43.2	150.4
Share of income (losses)	(104.2)	6.9	(97.3)
Distributions	(1.9)	(7.7)	(9.6)
Dilution gain recognized on disposal of assets	0.2	—	0.2
Balance as at December 31, 2015	\$ 50.5	\$ 69.0	\$ 119.5
Additional investments	47.7	1.0	48.7
Share of income (losses)	(51.6)	7.8	(43.8)
Distributions	(1.6)	(15.1)	(16.7)
Balance as at December 31, 2016	\$ 45.0	\$ 62.7	\$ 107.7

As KERR's ownership interest in DBP is considered a liability and not an equity interest, Harvest's initial unrecognized dilution gain on the transaction of approximately \$91.5 million will be recognized over 10.5 years based on KERR's interest being converted to equity as distributions are made to KERR during the term. For the year ended December 31, 2016, Harvest recognized a dilution gain of \$nil (2015 - \$0.2 million, 2014 - \$1.2 million).

The following tables summarize the financial information of the DBP and HKMS joint ventures:

	December 31, 2016		December 31, 2015	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ 0.1	\$ —	\$ 0.1	\$ 0.1
Other current assets	25.5	14.4	22.1	13.3
Total current assets	\$ 25.6	\$ 14.4	\$ 22.2	\$ 13.4
Non-current assets	184.9	98.4	212.8	102.6
Total assets ⁽¹⁾	\$ 210.5	\$ 112.8	\$ 235.0	\$ 116.0
Current liabilities	\$ 27.3	\$ 1.2	\$ 48.9	\$ 1.8
Non-current financial liabilities	135.6	107.1	131.1	109.2
Other non-current liabilities	4.9	4.4	6.0	4.8
Total liabilities ⁽¹⁾	\$ 167.8	\$ 112.7	\$ 186.0	\$ 115.8
Net assets ⁽¹⁾	\$ 42.7	\$ 0.1	\$ 49.0	\$ 0.2

(1) Balances represent 100% share of DBP and HKMS

	Year Ended December 31					
	2016		2015		2014 ⁽²⁾	
	DBP	HKMS	DBP	HKMS	DBP	HKMS
Revenues	\$ 37.2	\$ 24.6	\$ 30.2	\$ 19.8	\$ 9.9	\$ —
Impairment	(1.4)	—	(61.5)	—	—	—
Depletion, depreciation and amortization	(40.7)	(3.5)	(43.9)	(3.1)	(9.0)	—
Operating expenses and other	(34.8)	(1.5)	(26.3)	(1.5)	(3.8)	(0.1)
Loss on disposition of assets	(9.8)	—	—	—	—	—
Finance costs	(2.8)	(19.6)	(2.7)	(15.0)	(1.7)	—
Net income (loss) ⁽¹⁾	\$ (52.3)	\$ —	\$ (104.2)	\$ 0.2	\$ (4.6)	\$ (0.1)

(1) Balances represent 100% share of DBP and HKMS

(2) For the period from April 23, 2014 to December 31, 2014

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at December 31, 2016:

	Payments Due by Period					Total
	1 year	2-3 years	4-5 years	After 5 years		
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 136.0	\$	136.0
Firm processing commitment	23.2	46.5	46.5	54.2		170.4
Decommissioning and environmental liabilities ⁽¹⁾	—	0.2	0.1	12.2		12.5
Total	\$ 23.2	\$ 46.7	\$ 46.6	\$ 202.4	\$	318.9

(1) Represents the undiscounted obligation by period.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at December 31, 2016:

	Payments Due by Period					Total
	1 year	2-3 years	4-5 years	After 5 years		
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 13.8	\$	13.8
Total	\$ —	\$ —	\$ —	\$ 13.8	\$	13.8

(1) Represents the undiscounted obligation by period.

Related party transactions

Deep Basin Partnership

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the year ended December 31, 2016, Harvest charged DBP a marketing fee of \$0.4 million (2015 - \$0.3 million, 2014 - \$0.1 million) and general and administrative expenses of \$1.0 million (2015 - \$0.9 million, 2014 - \$1.1 million). As at December 31, 2016, \$14.2 million remains outstanding to DBP from Harvest (December 31, 2015 - \$14.1 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.2 million for the year ended December 31, 2016 (2015 - \$0.1, 2014 - \$nil). As at December 31, 2016, \$2.1 million remains outstanding to HKMS from Harvest (December 31, 2015 - \$1.1 million).

13. Credit Facility

	December 31, 2016	December 31, 2015
Amount Drawn	\$ 893.5	\$ 926.6
Deferred financial fees	(0.9)	(2.8)
Credit Facility	\$ 892.6	\$ 923.8

On April 22, 2015, Harvest amended its \$1 billion syndicated revolving credit facility and replaced it with a \$940 million revolving credit facility that matures on April 30, 2017, with a syndicate of eight financial institutions. On July 15, 2015 Harvest secured a \$60 million commitment from a new lender to increase the borrowing capacity of the new facility to \$1 billion. The facility is secured by KNOC's guarantee (up to \$1.0 billion) and by a first floating charge over all of the assets of Harvest and its material subsidiaries. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually. Also see note 25 - Related Party Transactions.

Under the amended credit facility, applicable interest and fees will be based on a margin pricing grid based on the credit ratings of KNOC. The financial covenants under the previous credit facility were deleted and replaced with a new covenant: Total Debt to Capitalization ratio of 70% or less. At December 31, 2015, Harvest was in violation of the debt covenant and the carrying value of the credit facility, \$923.8 million, was classified as a current liability. Subsequent to December 31, 2015, Harvest's syndicate banks consented to a waiver of this covenant effective until April 30, 2017.

Borrowings under the credit facility are available by way of bankers' acceptances, Canadian prime rate loans, LIBOR based loans, or U.S. base rate loans at the Company's discretion. For the year ended December 31, 2016, interest charges on the credit facility borrowings aggregated to \$14.2 million (2015 - \$17.6 million; 2014 - \$23.6 million). Harvest has entered into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's

effective interest rate for borrowings under the credit facility was 1.6% for the year ended December 31, 2016 (2015 - 2.0%; 2014 - 3.4%). See note 16 – Financial Instruments.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allows Harvest to borrow \$500 million through a three year fixed rate term loan. Once drawn, proceeds from the term loan will be used to repay credit facility borrowings. In addition, as at February 23, 2017, Harvest has received formal commitments for a new three year \$500 million revolving credit facility with a syndicate of banks that will replace the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC and are both expected to close on February 24, 2017. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants.

14. Long-Term Debt

	December 31, 2016	December 31, 2015
6 $\frac{7}{8}$ % senior notes due 2017 (US\$282.5 million) ⁽¹⁾	\$ 379.7	\$ 685.7
2 $\frac{1}{2}$ % senior notes due 2018 (US\$630 million)	844.2	868.9
2 $\frac{1}{8}$ % senior notes due 2021 (US\$195.8 million) ⁽¹⁾	262.6	—
Less current portion	(379.7)	—
Long-term debt	\$ 1,106.8	\$ 1,554.6

(1) As at December 31, 2015, the principal amount of the 6 $\frac{7}{8}$ % senior notes was US\$500 million and 2 $\frac{1}{8}$ % senior notes was \$nil.

a) 6 $\frac{7}{8}$ % and 2 $\frac{1}{8}$ % Senior Notes

On October 4, 2010, Harvest issued US\$500 million of 6 $\frac{7}{8}$ % senior notes for net cash proceeds of US\$484.6 million. The senior notes are unsecured with interest payable semi-annually on April 1 and October 1 and mature on October 1, 2017. The senior notes are unconditionally guaranteed by Harvest and all of its wholly-owned subsidiaries that guarantee the revolving credit facility and every future restricted subsidiary that guarantees certain debt. The notes are redeemable at a redemption price equal to 100% of the principal amount of the notes plus a make-whole redemption premium, plus accrued and unpaid interest to the redemption date. Harvest may also redeem the notes at any time in the event that certain changes affecting Canadian withholding taxes occur.

There are covenants restricting, among other things, the sale of assets and the incurrence of additional indebtedness if such issuance would result in an interest coverage ratio, as defined, of less than 2.0 to 1. Notwithstanding the interest coverage ratio limitation, the incurrence of additional indebtedness may be permitted under certain incurrence tests. One provision allows Harvest's incurrence of indebtedness under the credit facility or other future bank debt in an aggregate principal amount not to exceed the greater of \$1.0 billion and 15% of total assets. In addition, the covenants of the senior notes restrict the amount of dividends Harvest can pay to shareholders; no dividends have been paid during the year ended December 31, 2016.

On June 16, 2016 Harvest completed the partial exchange of its 6 $\frac{7}{8}$ % senior notes due 2017 for new 2 $\frac{1}{8}$ % senior notes due 2021, at an exchange ratio of US\$900 principal amount of the new 2 $\frac{1}{8}$ % senior notes for each US\$1,000 principal amount of the old 6 $\frac{7}{8}$ % senior notes. US\$217.5 million of the old 6 $\frac{7}{8}$ % senior notes was exchanged for US\$195.8 million new 2 $\frac{1}{8}$ % senior notes. The extinguishment of the old 6 $\frac{7}{8}$ % senior notes resulted in a net gain of \$36.0 million, after the deduction of \$5.2 million of related costs. At December 31, 2016, the remaining 6 $\frac{7}{8}$ % senior notes were classified as a current liability.

The new 2 $\frac{1}{8}$ % senior notes are unsecured and mature on April 14, 2021, with interest payable semi-annually on April 14 and October 14 of each year. They are unconditionally and irrevocably guaranteed by Harvest's parent company, KNOC. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually on April 14 and October 14 of each year. See note 25 – Related Party Transactions.

b) 2 $\frac{1}{2}$ % Senior Notes

On May 14, 2013, Harvest issued US\$630 million senior unsecured notes due May 14, 2018 with a coupon rate of 2 $\frac{1}{2}$ % for net proceeds of US\$626.1 million. Interest on the 2 $\frac{1}{2}$ % senior notes is paid semi-annually on May 14 and November 14 of each year.

The senior notes are unconditionally and irrevocably guaranteed by Harvest's parent company KNOC. A guarantee fee of 0.52% per annum of the principal balance is payable to KNOC semi-annually on May 14 and November 14 of each year. See note 25 - Related Party Transactions.

15. Shareholder's Capital & Capital Structure

Harvest considers its capital structure to be its credit facility, long term debt and shareholder's equity.

	December 31, 2016	December 31, 2015
Credit facility ⁽¹⁾⁽²⁾	\$ 893.5	\$ 926.6
6 $\frac{7}{8}$ % senior notes (US\$282.5 million) ⁽²⁾⁽³⁾	379.3	692.0
2 $\frac{1}{8}$ % senior notes (US\$630 million) ⁽²⁾⁽³⁾	845.9	871.9
2 $\frac{1}{3}$ % senior notes (US\$195.8 million) ⁽²⁾⁽³⁾	262.9	—
Related party loans ⁽³⁾⁽⁴⁾	—	601.4
	\$ 2,381.6	\$ 3,091.9
Shareholder's equity (deficiency)	104.0	(275.3)
	\$ 2,485.6	\$ 2,816.6

(1) Excludes letters of credit issued in the amount of \$9.9 million at December 31, 2016 (December 31, 2015 - \$9.7 million).

(2) Excludes capitalized financing fees.

(2) Face value converted at the period end exchange rate. At December 31, 2015, the principal amount of the 6 $\frac{7}{8}$ % senior notes was US\$500 million.

(3) At December 31, 2015, related party loans were \$200 million and US\$290 million.

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future operating and capital activities. Harvest monitors its capital structure and makes adjustments according to market conditions to remain flexible while meeting these objectives. Accordingly, Harvest may adjust its capital spending programs, issue equity, issue new debt or repay existing debt.

The Company's capital structure and liquidity needs are met through cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility, related party loans, long-term debt issuances and capital injections by KNOC.

Harvest evaluates its capital structure using the same financial covenants as the ones under the Company's debt commitments.

Harvest's authorized capital consists of an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series. During 2016, 72,687,818 common shares were issued to KNOC to settle the related party loans, resulting in a total of 458,766,467 common shares outstanding at December 31, 2016 (December 31, 2015 - 386,078,649). See note 25 – Related Party Transactions.

16. Financial Instruments

a) Fair Values

Financial instruments of Harvest consist of accounts receivable, accounts payable and accrued liabilities, borrowings under the credit facility, derivative contracts, senior notes, related party loans, long term debt and long term liability. Cash and derivative contracts are the only financial instruments that are measured at fair value on a recurring basis. Harvest classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All financial instruments are level 2, except for the 2 $\frac{1}{8}$ % senior notes, which are level 1 and \$6.7 million of the long-term liability (relating to the top-up obligation to DBP) at December 31, 2016, which is level 3. Also see note 12 – Investment in Joint Ventures and note 18 – Long-Term Liability. There were no transfers during the year ended December 31, 2016.

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
<u>Held for Trading</u>				
Derivative contracts	\$ 1.1	\$ 1.1	\$ —	\$ —
Total Financial Assets	\$ 1.1	\$ 1.1	\$ —	\$ —
Financial Liabilities				
<u>Held for Trading</u>				
Long-term liability	\$ 6.7	\$ 6.7	\$ 2.0	\$ 2.0
<u>Measured at Amortized Cost</u>				
Credit Facility	892.6	893.5	923.8	926.6
6½% senior notes	379.7	379.3	685.7	494.2
2½% senior notes	844.2	847.1	868.9	870.5
2¼% senior notes	262.6	255.6	—	—
Related party loans	—	—	629.9	384.3
Long-term liability	48.4	41.6	54.5	29.0
Total Financial Liabilities	\$ 2,434.2	\$ 2,423.8	\$ 3,164.8	\$ 2,706.6

Non-derivative financial instruments

The credit facility bears a floating market rate, thus, the fair value approximates the carrying value (excluding deferred financing charges). The carrying value of the credit facility includes \$0.8 million of deferred financing charges at December 31, 2016 (December 31, 2015 – \$2.8 million). See note 13 – Credit Facility.

The fair value of the 2½% senior notes was based on the quoted market price of the notes on the Singapore Exchange as at December 31, 2016 (Level 1 fair value input), which includes the benefit of the guarantee offered by KNOC. The fair value of the 2¼% and 6½% senior notes was based on the average of the bid and ask price (Level 2 fair value input).

The fair values of the related party loans and long-term liability measured at amortized cost are estimated by discounting the future interest and principal payments using the current market interest rates of instruments with similar terms. At December 31, 2016, the rate used in determining the fair value of the long-term liability was 10% (December 31, 2015 – 29%). There were no outstanding related party loans at December 31, 2016, however the rate used to determine the fair value at December 31, 2015 was 29%.

Derivative financial instruments

Harvest enters into derivative contracts with various counterparties, principally financial institutions with investment grade credit ratings. The fair values of the derivative contracts are determined based on the quoted forward prices of similar transactions observable in active markets. The fair values of the derivative contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in the hedging relationship and other financial instruments recognized at fair value.

See note 12 – Investment in Joint Ventures for the fair value estimation of the top-up obligation portion of the long-term liability.

The following is a summary of Harvest's derivative contracts outstanding at December 31, 2016:

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of asset
US\$373 million	Foreign exchange swap	January 2017	\$1.34 Cdn/US	1.1
				\$ 1.1

b) Financial Assets and Liabilities Subject to Offsetting

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2016 and 2015, and shows in the "net" column what the net impact would be on Harvest's statement of financial position if all set-off rights were exercised.

Amounts offset					
	Gross assets (liabilities)	Gross assets (liabilities) offset	Net amount presented	Related financial instruments that are not offset	Net
December 31, 2016					
Financial assets					
Account receivable ⁽¹⁾	\$ 1.6	\$ (0.5)	\$ 1.1	\$ —	\$ 1.1
Risk management contracts ⁽²⁾	1.1	—	1.1	—	1.1
	\$ 2.7	\$ (0.5)	\$ 2.2	\$ —	\$ 2.2
Financial Liabilities					
Account payable and accrued liabilities ⁽¹⁾	\$ (0.5)	\$ 0.5	\$ —	\$ —	\$ —
December 31, 2015					
Financial assets					
Account receivable ⁽¹⁾	\$ 0.3	\$ (0.3)	\$ —	\$ —	\$ —
Financial Liabilities					
Account payable and accrued liabilities ⁽¹⁾	\$ (0.3)	\$ 0.3	\$ —	\$ —	\$ —

(1) Various master netting agreements with counterparties that allow net settlement of payments in the normal course of business.

(2) Harvest entered into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is settled for all transactions. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position as Harvest does not have currently enforceable right to offset recognized amounts because the rights to offset is enforceable only on the occurrence of future events such as a default on the bank loan or other credit events.

c) Risk Exposure

Harvest manages its exposures to financial risks in accordance with its risk management profile with the objective to support the Company's cash flow requirements and to deliver financial targets. Harvest is exposed to market risks resulting from fluctuations in commodity prices, currency exchange rates and interest rates in the normal course of operations. Harvest is also exposed, to a lesser extent, to credit risk on accounts receivable, counterparty risk from price risk management contracts and to liquidity risk relating to the Company's debt. Management monitors and measures these risks and report to the Board of Directors on a regular basis. Risk management targets, such as hedging ratio, hedge contracts, prices and duration of contracts are reviewed and approved by the Board at least annually.

Derivative Contracts

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. These derivative contracts are entered for periods consistent with the underlying hedged transactions. Under hedge accounting, the effective portion of the unrealized gains and losses is included in OCL. When the hedged item is settled, the related effective portion of the realized gains and losses is removed from AOCL and included in petroleum and natural gas sales (see note 24). The ineffective portion of the unrealized and realized gains and losses are recognized in the consolidated statement of comprehensive loss.

Derivative contracts (gains) losses recorded to income include the ineffective portion of the gains or losses on the derivative contracts designated as cash flow hedges, the gains or losses on the derivatives that were not designated as hedges and the gains or losses subsequent to the discontinuation of hedge accounting on the previously designated derivatives:

	Year Ended December								
	2016			2015			2014		
	Realized losses	Unrealized losses (gains)	Total	Realized losses	Unrealized losses (gains)	Total	Realized losses (gains)	Unrealized losses	Total
Power	\$ 1.6	\$ —	\$ 1.6	\$ 4.2	\$ (1.2)	\$ 3.0	\$ 1.6	\$ 0.7	\$ 2.3
Currency	—	(1.1)	(1.1)	0.2	—	0.2	(0.2)	—	(0.2)
Top-up obligation (note 12)	—	4.7	4.7	—	2.0	2.0	—	—	—
	\$ 1.6	\$ 3.6	\$ 5.2	\$ 4.4	\$ 0.8	\$ 5.2	\$ 1.4	\$ 0.7	\$ 2.1

Credit Risk
Accounts Receivable

Accounts receivable in Harvest's Conventional operations are due from crude oil and natural gas purchasers as well as joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad customer base, which includes a significant number of companies engaged in joint operations with Harvest. Harvest periodically assesses the financial strength of its crude oil and natural gas purchasers and will adjust its marketing plan to mitigate credit risks. This assessment involves a review of external credit ratings of the counterparty; however, if external ratings are not available, Harvest performs an internal credit review based on the purchaser's past financial performance. Credit is allocated to a counterparty dependent on the external and internal credit rating, and if required, parent guarantees, letter of credit or prepayments are requested. The credit risk associated with joint venture partners is mitigated by reviewing the credit history of partners and requiring some partners to provide cash prior to incurring significant capital costs on their behalf. Additionally, most agreements have a provision enabling Harvest to use the proceeds from the sale of production that would otherwise be taken in kind by the partner to offset amounts owing from the partner that is in default. Generally, the only instances of impairment are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Derivative Contract Counterparties

Harvest is exposed to credit risk from the counterparties to its derivative contracts. This risk is managed by diversifying Harvest's risk management portfolio among a number of counterparties limited to lenders in its syndicated credit facility; Harvest has no history of losses with these counterparties.

Harvest's maximum exposure to credit risk relating to the above classes of financial assets at December 31, 2016 and 2015 is the carrying value of accounts receivable. The tables below provide an analysis of Harvest's current and past due but not impaired receivables.

				> 30 days,	> 60 days,		
	Current	< 30 days	≤ 60 days	≤ 90 days	> 90 days ⁽²⁾	Total	
December 31, 2016 ⁽¹⁾	\$ 31.8	\$ 5.5	\$ 5.1	\$ 0.4	\$ 1.4	\$ 44.3	
December 31, 2015 ⁽¹⁾	45.7	0.4	9.5	—	2.3	57.9	

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 16(b).

(2) Net of \$0.7 million and \$1.3 million of allowance for doubtful accounts as at December 31, 2016 and 2015, respectively.

Liquidity Risk

Harvest is exposed to liquidity risk due to the Company's accounts payables and accrued liabilities, risk management contracts liability, borrowings under its credit facility, senior notes and long-term liability. This risk is mitigated by managing the maturity dates on the Company's obligations, utilizing the undrawn borrowing capacity in the credit facility and managing the Company's cash flow by entering into price risk management contracts. Additionally, when Harvest enters into price risk management contracts it selects counterparties that are also lenders in its syndicated credit facility thereby using the security provided in the credit agreement and eliminating the requirement for margin calls and the pledging of collateral. The majority of the financial liabilities are an integral part of Harvest's capital structure which is monitored and managed as discussed in note 15.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly and indirectly invested and provided financial support to Harvest since 2009 and as at the date of preparation of these audited financial statements, it is the Company's expectation that such support will continue for at least the next twelve months so that Harvest is able to continue as a going concern. In addition to this, Harvest has secured additional financing subsequent to December 31, 2016 (see note 13 – Credit Facility).

The following tables provide an analysis of Harvest's financial liability maturities based on the remaining terms of the liabilities including the related interest charges as at December 31, 2016 and 2015:

December 31, 2016					
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 131.0	\$ —	\$ —	\$ —	\$ 131.0
Credit facility and interest	898.5	—	—	—	898.5
6 $\frac{7}{8}$ % senior notes and interest	405.8	—	—	—	405.8
2 $\frac{1}{8}$ % senior notes and interest	22.4	857.1	—	—	879.5
2 $\frac{3}{8}$ % senior notes and interest	7.1	14.2	273.5	—	294.8
Long-term liability	20.5	19.3	19.0	19.0	77.8
Total	\$ 1,485.3	\$ 890.6	\$ 292.5	\$ 19.0	\$ 2,687.4

December 31, 2015					
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 166.8	\$ —	\$ —	\$ —	\$ 166.8
Credit facility and interest	15.8	929.0	—	—	944.8
6 $\frac{7}{8}$ % senior notes and interest	47.6	739.6	—	—	787.2
2 $\frac{1}{8}$ % senior notes and interest	18.5	909.0	—	—	927.5
Related party loans and interest	—	702.5	—	—	702.5
Long-term liability	14.4	23.8	19.0	47.9	105.1
Total	\$ 263.1	\$ 3,303.9	\$ 19.0	\$ 47.9	\$ 3,633.9

Market Risk & Sensitivity Analysis

Interest rate risk

Harvest is exposed to interest rate risk on its bank borrowings as interest rates are determined in relation to floating market rates based on KNOC's credit rating. Harvest's senior notes have fixed interest rates and therefore do not have any additional interest rate risk. Harvest manages its interest rate risk by targeting appropriate levels of debt relative to its expected cash flow from operations.

If the interest rate applicable to Harvest's bank borrowings at December 31, 2016 increased or decreased by approximately 25 basis points with all other variables held constant, pre-tax loss for the year would change by \$1.8 million (2015 - \$2.3 million) as a result of change in interest expense on variable rate borrowings under the credit facility.

Commodity Price Risk

Harvest is exposed to natural gas and crude oil price movements as part of its normal business operations. The Company uses derivative contracts to protect a portion of the Company's future cash flows and net income against unfavorable movements in commodity prices. These contracts are recorded on the consolidated statement of financial position at their fair value as of the reporting date. These fair values are generally determined as the difference between the stated fixed price of the contract and an expected future price of the commodity. Variances in expected future prices expose Harvest to commodity price risk as changes will result in a gain or loss that Harvest will realize on settlement of these contracts. This risk is mitigated by continuously monitoring the effectiveness of these contracts. Harvest had no commodity derivative contracts in place at December 31, 2016 and 2015.

Currency exchange rate risk

Harvest is exposed to the risk of changes in the U.S. dollar exchange rate on its U.S. dollar denominated revenues. In addition, Harvest's senior notes and LIBOR based loans are denominated in U.S. dollars, collectively US\$1.5 billion (2015 - US\$1.4 billion). Interest on such debt is also payable in U.S. dollars and accordingly, the future cash payments of the principal and interest obligations will be sensitive to fluctuations in the U.S. dollars relative to the Canadian dollars.

If the U.S. dollar strengthened or weakened by 10% relative to the Canadian dollar, the impact on pre-tax loss and other comprehensive loss due to the translation of financial instruments held at December 31 would be as follows:

	Increase (decrease) in income before tax	
	December 31, 2016	December 31, 2015
10% strengthening in U.S. dollar relative to Canadian dollar	\$ (200.0)	\$ (198.9)
10% weakening in U.S. dollar relative to Canadian dollar	\$ 200.0	\$ 198.9

17. Provisions

	Conventional	Oil Sands	Head Office operating lease	Total
Decommissioning liabilities at December 31, 2014	\$ 752.0	\$ 47.5	\$ —	\$ 799.5
Liabilities incurred	2.3	0.7	—	3.0
Corporate acquisition	3.2	—	—	3.2
Settled during the period	(15.6)	—	—	(15.6)
Revisions (change in estimated timing and costs)	76.4	0.8	—	77.2
Disposals	(38.9)	—	—	(38.9)
Accretion	17.2	1.1	—	18.3
Decommissioning liabilities at December 31, 2015	\$ 796.6	\$ 50.1	\$ —	\$ 846.7
Environmental remediation at December 31, 2015	6.7	—	—	6.7
Other provisions at December 31, 2015	3.5	—	—	3.5
Less current portion	(45.7)	—	—	(45.7)
Balance at December 31, 2015	\$ 761.1	\$ 50.1	\$ —	\$ 811.2
Decommissioning liabilities at December 31, 2015	\$ 796.6	\$ 50.1	\$ —	\$ 846.7
Liabilities incurred	0.3	—	—	0.3
Settled during the period	(6.4)	—	—	(6.4)
Revisions (change in estimated costs and discount rate)	(50.4)	(2.6)	—	(53.0)
Disposals	(140.2)	—	—	(140.2)
Accretion	15.5	1.1	—	16.6
Decommissioning liabilities at December 31, 2016	\$ 615.4	\$ 48.6	\$ —	\$ 664.0
Environmental remediation at December 31, 2016	11.4	—	—	11.4
Other provisions at December 31, 2016	5.0	—	10.7	15.7
Less current portion	(14.7)	—	(1.3)	(16.0)
Balance at December 31, 2016	\$ 617.1	\$ 48.6	\$ 9.4	\$ 675.1

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.2 billion at December 31, 2016 (December 31, 2015 – \$1.4 billion), which will be incurred between 2017 and 2076. A risk-free discount rate of 2.3% (December 31, 2015 – 2.3%) and inflation rate of 1.5% (December 31, 2015 – 1.7%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities. The actual decommissioning and environmental remediation costs will ultimately depend upon future market prices for the necessary decommissioning and remediation work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

At December 31, 2016, Harvest recognized an onerous contract provision of \$10.7 million, relating to a Head Office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future lease payments that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries. The total undiscounted amount of estimated future cash flows to settle the obligation is \$19.3 million netted with \$3.5 million of cash inflows from subleases, discounted at a credit adjusted rate of 10%, specific to the liability. This resulted in a \$10.7 million onerous contract loss during the year ended December 31, 2016 (2015 and 2014 - \$nil). The onerous contract provision will be settled in periods up to the year 2025. In addition to the onerous contract loss, Harvest impaired certain PP&E assets relating to this operating lease agreement. See Note 9 - PP&E.

Harvest's other provisions also relates to legal claims against Harvest and their estimated settlement amounts. In addition to these claims, Harvest is defendant and plaintiff in a number of other legal actions that arise in the normal course of business and the company believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial statements.

18. Long-Term Liability

	December 31, 2016	December 31, 2015
BlackGold liability ⁽¹⁾	\$ 67.2	\$ 62.0
Less: current portion of BlackGold liability ⁽¹⁾	(19.0)	(9.5)
Deferred rent and other ⁽²⁾	11.1	13.2
Top-up obligation ⁽³⁾	6.7	2.0
	\$ 66.0	\$ 67.7

(1) Calculated using a discount rate of 4.5% at December 31, 2016 (December 31, 2015 – 5.5%). The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third deferred payment due April 30, 2016 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work.

(2) Includes deferred credits and an accrual related to Harvest's long term incentive program.

(3) See note 12 – Investment in Joint Ventures.

Under the BlackGold oil sands engineering, procurement and construction ("EPC") contract, \$94.9 million of EPC costs are to be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work. The first two installments were paid on April 30, 2015.

At December 31, 2016 \$6.7 million (December 31, 2015 - \$2.0 million) was included in the long-term liability relating to the top-up obligation to KERR. See note 12 - Investment in Joint Ventures.

19. Income Taxes

Income tax recovery recognized in net loss from continuing operations:

	Year Ended December 31		
	2016	2015	2014
Current income tax expense	\$ —	\$ 5.1	\$ —
Deferred income tax ("DIT") recovery	—	(336.9)	(324.9)
Income tax recovery from continuing operations	\$ —	\$ (331.8)	\$ (324.9)

The income tax recovery, for continuing operations, varies from the amount that would be computed by applying the relevant Canadian income tax rates to reported losses before taxes as follows:

	Year Ended December 31		
	2016	2015	2014
Loss before income tax from continuing operations	\$ (348.2)	\$ (2,125.2)	\$ (410.5)
Combined Canadian federal and provincial statutory income tax rate	26.96%	26.96%	27.51%
Computed income tax recovery at statutory rates	\$ (93.9)	\$ (572.9)	\$ (112.9)
Increased expense (recovery) resulting from the following:			
Difference between current and expected tax rates	—	(28.8)	10.2
Foreign exchange impact not recognized in income	(8.7)	41.5	18.7
Amended returns and pool balances	7.4	33.9	0.5
Recognition of previously unrecognized temporary difference (see note 8)	—	—	(247.6)
Unrecognized temporary differences	(23.0)	133.4	—
Non-deductible goodwill impairment	—	52.6	—
Non-deductible expenses	19.4	8.4	2.0
Gain on related party loan conversion to equity	96.1	—	—
Other	2.7	0.1	4.2
Income tax recovery	\$ —	\$ (331.8)	\$ (324.9)

The tax rate is comprised of the Federal and Provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2016 and 2015. The net change in the combined federal and provincial tax rate from 2014

to 2015 is due largely to a decrease in the provincial rate from the sale of the Downstream segment which operated in a province with a 14% tax rate. This was partially offset due to the Government of Alberta increase in the corporate income tax rate from 10% to 12% effective July 1, 2015. The increase to the Alberta tax rate resulted in an additional deferred income tax recovery of \$28.8 million, which was recorded in the second quarter of 2015.

Movements in the DIT asset (liability) are as follows:

	PP&E	Decommissioning liabilities	Non-capital tax losses	Other	Total deferred asset
At December 31, 2014	\$ (50.5)	\$ 204.0	\$ 208.7	\$ 20.3	\$ 382.5
Recognized in profit or loss	351.3	27.3	(21.1)	(20.6)	336.9
Recognized in purchase price adjustment (note 7)		0.9	—	—	(8.4)
Recognized in other comprehensive loss	—	—	—	0.5	0.5
At December 31, 2015	\$ 291.5	\$ 232.2	\$ 187.6	\$ 0.2	\$ 711.5
Recognized in profit or loss	115.5	(48.2)	(74.6)	7.3	—
At December 31, 2016	\$ 407.0	\$ 184.0	\$ 113.0	\$ 7.5	\$ 711.5

As at December 31, 2016, Harvest had approximately \$649 million (December 31, 2015 - \$987 million) of carry-forward tax losses and approximately \$4.2 billion (December 31, 2015 - \$4.0 billion) of tax pools that would be available to offset against future taxable profit. The carry-forward losses will expire between the years 2024 and 2035. DIT assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. A deferred tax asset related to the carry-forward tax losses has been recorded as Harvest expects that future taxable profits, through a combination of future operating results and other tax planning opportunities will be sufficient to utilize the deferred tax asset. As at December 31, 2016 Harvest has not recognized approximately \$226 million (December 31, 2015 - \$242 million) of temporary difference arising from foreign exchange, \$191 million (December 31, 2015 - \$253 million) of non-capital losses and \$796 million (December 31, 2015 - \$796 million) of capital losses.

As at December 31, 2016, Harvest had a contingent liability relating to an unsettled dispute with the Canada Revenue Agency. During the year ended December 31, 2015 year with respect to this item, Harvest recorded a current income tax expense in the amount of \$5.3 million in the consolidated statement of comprehensive loss. As at December 31, 2016, a taxes payable balance of \$3.7 million was recorded with respect to this item (December 31, 2015 - \$3.7 million).

20. Operating and General and Administrative (“G&A”) Expenses

	Year Ended December 31		
Operating expenses	2016	2015	2014
Power and purchased energy	\$ 26.4	\$ 49.1	\$ 67.6
Well servicing	7.1	19.6	39.6
Repairs and maintenance	23.2	40.7	53.3
Lease rentals and property taxes	25.4	34.5	38.8
Salaries and benefits	22.0	32.4	30.9
Professional and consultation fees	9.3	14.0	14.2
Chemicals	9.8	17.8	19.9
Processing fees	27.5	30.0	38.2
Trucking	3.9	7.4	13.7
Other	12.0	20.1	14.3
	\$ 166.6	\$ 265.6	\$ 330.5

	Year Ended December 31		
	2016	2015	2014
General and administrative expenses			
Salaries and benefits	\$ 35.7	\$ 51.3	\$ 64.5
Professional and consultation fees	7.1	7.2	10.3
Other	12.9	11.8	14.0
G&A capitalized and recovery	(2.4)	(9.5)	(24.0)
	\$ 53.3	\$ 60.8	\$ 64.8

21. Finance Costs

	Year Ended December 31		
	2016	2015	2014
Interest and other financing charges	\$ 125.6	\$ 126.7	\$ 106.7
Accretion of decommissioning and environmental remediation liabilities (note 17)	16.7	18.5	22.0
Accretion of BlackGold long-term liability (note 18)	3.1	2.6	—
Less: interest capitalized	—	(9.7)	(33.4)
	\$ 145.4	\$ 138.1	\$ 95.3

22. Foreign Exchange

	Year Ended December 31		
	2016	2015	2014
Realized (gains) losses on foreign exchange	\$ (16.1)	\$ 2.2	\$ 1.5
Unrealized (gains) losses on foreign exchange	(23.8)	308.3	124.9
	\$ (39.9)	\$ 310.5	\$ 126.4

23. Supplemental Cash Flow Information

	Year Ended December 31, 2016		
	2016	2015	2014
Source (use) of cash:			
Accounts receivable	\$ 13.6	\$ 32.5	\$ 44.2
Prepaid expenses, long-term deposit and other	4.6	5.1	(46.5)
Accounts payable and accrued liabilities	(35.8)	(205.8)	173.2
Net changes in non-cash working capital	(17.6)	(168.2)	170.9
Changes relating to operating activities	(12.2)	(66.2)	112.2
Changes relating to investing activities	(12.7)	(109.5)	47.1
Post-closing adjustments related to discontinued operations (note 8)	—	15.5	—
Reclass of long-term liability to accounts payable	9.5	(7.6)	11.4
Add: Other non-cash changes	(2.2)	(0.4)	0.2
	\$ (17.6)	\$ (168.2)	\$ 170.9

24. Accumulated Other Comprehensive Loss ("AOCL")

		Designated Cash Flow Hedges, Net of Tax	Total
As at December 31, 2014	\$	1.4	\$ 1.4
Reclassification to net loss of gains on cash flow hedges		(12.4)	(12.4)
Gains on derivatives designated as cash flow hedges, net of tax		11.0	11.0
As at December 31, 2015	\$	—	\$ —
Reclassification to net loss of losses on cash flow hedges		0.1	0.1
Losses on derivatives designated as cash flow hedges, net of tax		(0.1)	(0.1)
As at December 31, 2016	\$	—	\$ —

The following table summarizes the impacts of the cash flow hedges on the OCL.

	Year Ended December 31					
	After-tax			Pre-tax		
	2016	2015	2014	2016	2015	2014
Losses (gains) re-classified from OCL	\$ 0.1	\$ (12.4)	\$ (2.1)	\$ 0.1	\$ (17.0)	\$ (3.0)
Gains (losses) recognized in OCL	(0.1)	11.0	3.4	(0.1)	15.1	4.7
Total	\$ —	\$ (1.4)	\$ 1.3	\$ —	\$ (1.9)	\$ 1.7

25. Related Party Transactions
Related party loans

Related Party	Principal	Carrying Value	Interest Payable	Total
KNOC	US\$171	\$ 166.1	\$ 4.1	\$ 170.2
KNOC	\$200	193.2	16.7	209.9
ANKOR	US\$170	235.2	14.6	249.8
KNOC	US\$184.8	—	—	—
As at December 31, 2015	\$	594.5	\$ 35.4	\$ 629.9

On December 22, 2016, KNOC converted all its outstanding loans to common shares of Harvest. The carrying value of the loans plus accrued interest at December 22, 2016 of \$722.2 million was converted to equity and \$10.3 million previously recognized in contributed surplus relating to these loans were transferred to shareholder's capital. As a result, 72,687,818 common shares were issued to KNOC. As at December 31, 2016 there were no related party loans outstanding.

On June 30, 2016 Harvest entered into a US\$184.8 million loan agreement with KNOC, originally due on October 2, 2017, with an interest rate of 4.66% per annum. Interest was due upon maturity. On July 6, 2016, Harvest drew down the US\$184.8 million KNOC loan and used the proceeds to re-pay the US\$170 million ANKOR loan, including accrued interest. Harvest had originally entered into a subordinated loan agreement with ANKOR, which is a fully-owned subsidiary of KNOC, in 2012 at a fixed interest rate of 4.62% per annum. Both principal and accrued interest was originally due on October 2, 2017. As a result of the repayment of the ANKOR loan, a \$15.7 million realized foreign exchange gain was recognized.

On April 2, 2015, Harvest entered into an US\$171 million loan agreement with KNOC, repayable within a year from the date of the first drawing which was on April 10, 2015, at an interest rate of 3.42% per annum. During the year ended December 31, 2015, the maturity date was extended to December 31, 2017 and the interest rate was increased to 5.91% per annum effective December 31, 2015. At December 31, 2015 US\$120 million was drawn from the loan and the remainder of the loan was drawn during the year ended December 31, 2016.

On December 30, 2013, Harvest entered into a subordinated loan agreement with KNOC to borrow up to \$200 million at a fixed interest rate of 5.3% per annum. The full principal and accrued interest was payable on December 30, 2018. The loan amount was recorded at fair value on initial recognition by discounting the future cash payments at the rate of 7%

which is considered the market rate applicable to the liability. The difference between the fair value and the loan amount was recognized in contributed surplus. A total of \$10.3 million was recorded in contributed surplus relating to this loan.

The related party loans were unsecured and the loan agreements contained no restrictive covenants. The following table summarizes the interest expense on each related party loan:

Related Party	Principal	Interest Rate	Year Ended December 31			
			2016	2015	2014	
KNOC	US\$171	5.91%	\$ 14.1	\$ 3.8	\$ —	
KNOC	\$200	5.30%	14.0	13.7	11.5	
ANKOR	US\$170	4.62%	5.9	10.0	8.7	
KNOC	US\$184.8	4.66%	5.9	—	—	
			\$ 39.9	\$ 27.5	\$ 20.2	

Directors and Key Management Personnel Remuneration

Key management personnel include the Company's officers, other members of the executive management team and directors. The amounts disclosed in the table below are the amounts recognized as an expense during the reporting period related to key management personnel.

	Year Ended December 31		
	2016	2015	2014
Short-term benefits	\$ 2.5	\$ 4.1	\$ 5.2
Other long-term benefits	0.1	0.6	0.7
Termination and other	1.3	0.5	0.2
	\$ 3.9	\$ 5.2	\$ 6.1

Other Related Party Transactions

	Balance Outstanding							
	Year Ended December 31				Accounts Receivable as at December 31			
	2016	2015	2014		2016	2015	2016	2015
Revenues								
KNOC ⁽¹⁾	\$ —	\$ —	\$ 1.7	\$ —	\$ —	\$ —	\$ —	\$ —
G&A Expenses								
KNOC ⁽²⁾	\$ 0.4	\$ (5.6)	\$ (3.7)	\$ 0.1	\$ —	\$ 0.4	\$ 0.8	
Finance costs								
KNOC ⁽³⁾	\$ 9.0	\$ 7.5	\$ 4.0	\$ —	\$ —	\$ 1.7	\$ 3.5	

(1) The Global Technology and Research Centre ("GTRC") was used as a training and research facility for KNOC until the end of 2015. The amount is related to a geological study performed by the GTRC on behalf of KNOC.

(2) Amounts relate to payments to (reimbursement from) KNOC for secondees salaries.

(3) Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½% and 2⅓% senior notes and the credit facility. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes and 37 basis points per annum on the credit facility and 2⅓% senior notes. See note 13 – Credit Facility and note 14 – Long Term Debt.

During the year ended December 31, 2016, Harvest entered into an agreement with KNOC to drill a well and provide technical data to KNOC. KNOC initially provided Harvest with \$5.3 million in cash to drill a well, and any additional amounts incurred relating to the well will be billed to KNOC for reimbursement up to a maximum of 9.4 billion Korean Won equivalent. The initial funds of \$5.3 million, provided by KNOC was recorded in contributed surplus.

26. Commitments

The following is a summary of Harvest's estimated commitments as at December 31, 2016:

	Payments Due by Period					Total
	1 year	2-3 years	4-5 years	After 5		
Purchase commitments ⁽¹⁾	\$ 20.5	19.0	19.0	33.1		91.6
Operating leases	6.8	15.7	17.0	28.8		68.3
Firm processing commitments	14.8	24.4	17.9	34.4		91.5
Firm transportation agreements	25.0	53.2	32.2	47.0		157.4
Employee benefits ⁽²⁾	1.5	0.3	—	—		1.8
Total ⁽³⁾	\$ 68.6	\$ 112.6	\$ 86.1	\$ 143.3	\$	410.6

(1) Relates to BlackGold oil sands project commitment, revised estimated capital costs for the Bellshill area and the DBP top-up obligation (see note 12 - Investment in Joint Ventures).

(2) Relates to the long-term incentive plan payments.

(3) See note 13 - Credit facility, note 14 - Long Term Debt, note 15 - Shareholder's Capital & Capital Structure and note 25 - Related Party Transactions for Harvest's debt obligations.

27. Supplemental Guarantor Condensed Financial Information

Harvest Breeze Trust No. 1, Harvest Breeze Trust No. 2, Breeze Resources Partnership, Hay River Partnership, and 1496965 Alberta Ltd. (collectively "guarantor subsidiaries") fully and unconditionally guarantees the 6% senior notes issued by Harvest Operations Corporation ("HOC"). Each of the guarantor subsidiaries is 100% owned by HOC. Prior to the disposal of North Atlantic Refining Limited on November 13, 2014, North Atlantic was also considered a guarantor subsidiary of HOC.

The full and unconditional guarantees may be automatically released under the following customary circumstances:

- the subsidiary is sold to a non-affiliate and ceases to be a restricted subsidiary;
- the subsidiary is designated as an "unrestricted" subsidiary for covenant purposes;
- the subsidiary's guarantee of the indebtedness (such as indebtedness under the credit facility agreement) which resulted in the creation of the notes guarantee is terminated or (other than by payment) released; or
- upon legal defeasance or covenant defeasance or satisfaction and discharge of the indenture.

The following financial information for HOC, the guarantor subsidiaries and all other subsidiaries on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information about HOC and its subsidiaries and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each guarantor subsidiary. Investments include the investments in subsidiaries recorded under the equity method for the purposes of the condensed consolidating financial information. Equity income of subsidiaries is the group's share of profit related to such investments. The eliminations and reclassifications column includes the necessary amounts to eliminate the intercompany balances and transactions between subsidiaries. HOC's cost basis has not been pushed down to the subsidiaries as push-down accounting is not permitted in the separate financial statements of the subsidiaries.

CONDENSED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets					
Accounts receivable	\$ 43.9	\$ 0.4	\$ —	\$ —	\$ 44.3
Prepaid expenses and other	7.0	—	—	—	7.0
Risk management contracts	1.1	—	—	—	1.1
Due from affiliates	332.0	144.3	0.3	(476.6)	—
	\$ 384.0	\$ 144.7	\$ 0.3	\$ (476.6)	\$ 52.4
Non-current assets					
Deferred income tax asset	\$ 695.3	\$ 15.5	\$ 0.7	\$ —	\$ 711.5
Exploration & evaluation assets	10.7	3.4	—	—	14.1
Property, plant and equipment	2,195.3	192.3	1.3	—	2,388.9
Investment in subsidiaries	(159.8)	—	—	159.8	—
Investment in joint ventures	107.7	—	—	—	107.7
Goodwill	100.3	—	—	—	100.3
Total assets	\$ 3,333.5	\$ 355.9	\$ 2.3	\$ (316.8)	\$ 3,374.9
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	\$ 130.3	\$ 0.7	\$ —	\$ —	\$ 131.0
Taxes payable	3.7	—	—	—	3.7
Credit Facility	892.6	—	—	—	892.6
Current portion of long term debt	379.7	—	—	—	379.7
Current portion of provisions	13.3	2.7	—	—	16.0
Due to affiliates	142.1	328.5	6.0	(476.6)	—
	\$ 1,561.7	\$ 331.9	\$ 6.0	\$ (476.6)	\$ 1,423.0
Non-current liabilities					
Long-term debt	\$ 1,106.8	\$ —	\$ —	\$ —	\$ 1,106.8
Long-term liability	66.0	—	—	—	66.0
Non-current provisions	495.0	180.1	—	—	675.1
Intercompany loan	—	—	0.8	(0.8)	—
Total liabilities	\$ 3,229.5	\$ 512.0	\$ 6.8	\$ (477.4)	\$ 3,270.9
Shareholder's equity	104.0	(156.1)	(4.5)	160.6	104.0
Total liabilities and shareholder's equity	\$ 3,333.5	\$ 355.9	\$ 2.3	\$ (316.8)	\$ 3,374.9

CONDENSED STATEMENT OF COMPREHENSIVE LOSS
For the year ended December 31, 2016

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Petroleum and natural gas sales	\$ 240.7	\$ 81.6	\$ —	\$ —	\$ 322.3
Royalties	(24.4)	(10.6)	—	—	(35.0)
Earnings from equity accounted subsidiaries	(60.1)	—	—	60.1	—
Revenues	156.2	71.0	—	60.1	287.3
Expenses					
Operating	134.9	31.3	0.4	—	166.6
Transportation and marketing	11.0	—	—	—	11.0
General and administrative	43.6	9.7	—	—	53.3
Depletion, depreciation and amortization	220.7	69.0	—	—	289.7
Exploration and evaluation	19.6	0.3	—	—	19.9
Loss from joint ventures	43.8	—	—	—	43.8
Gains on disposition of assets	(26.1)	(9.1)	—	—	(35.2)
Finance costs	142.7	2.7	—	—	145.4
Derivative contracts losses	5.2	—	—	—	5.2
Foreign exchange gain	(39.9)	—	—	—	(39.9)
Gain on senior notes exchange	(36.0)	—	—	—	(36.0)
Loss on onerous contract	10.7	—	—	—	10.7
Impairment, net of reversals	1.0	—	—	—	1.0
Loss from continuing operations before income tax	(375.0)	(32.9)	(0.4)	60.1	(348.2)
Income tax recovery	(26.8)	27.0	(0.1)	(0.1)	—
Net loss from continuing operations	(348.2)	(59.9)	(0.3)	60.2	(348.2)
Comprehensive loss	\$ (348.2)	\$ (59.9)	\$ (0.3)	\$ 60.2	\$ (348.2)

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2016

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Cash provided by (used in) operating activities	\$ (68.3)	\$ 35.0	\$ —	\$ —	\$ (33.3)
Cash proved by (used in) financing activities	23.3	(28.0)	—	28.0	23.3
Cash provided by (used in) investing activities	45.0	(7.0)	—	(28.0)	10.0
Change in cash and cash equivalents	—	—	—	—	—
Cash and cash equivalents, beginning of year	—	—	—	—	—
Cash and cash equivalents, end of year	\$ —	\$ —	\$ —	\$ —	\$ —

CONDENSED STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets					
Accounts receivable	\$ 57.8	\$ 0.1	\$ —	\$ —	\$ 57.9
Prepaid expenses and other	11.6	—	—	—	11.6
Due from affiliates	202.4	142.9	0.3	(345.6)	—
	\$ 271.8	\$ 143.0	\$ 0.3	\$ (345.6)	\$ 69.5
Non-current assets					
Deferred income tax asset	\$ 668.7	\$ 42.2	\$ 0.6	\$ —	\$ 711.5
Exploration & evaluation assets	27.7	5.3	—	—	33.0
Property, plant and equipment	2,717.6	126.6	1.4	—	2,845.6
Investment in subsidiaries	(71.6)	—	—	71.6	—
Investment in joint ventures	119.5	—	—	—	119.5
Goodwill	149.0	—	—	—	149.0
Total assets	\$ 3,882.7	\$ 317.1	\$ 2.3	\$ (274.0)	\$ 3,928.1
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	\$ 165.2	\$ 1.3	\$ 0.3	\$ —	\$ 166.8
Taxes payable	3.7	—	—	—	3.7
Credit Facility	923.8	—	—	—	923.8
Current portion of provisions	45.7	—	—	—	45.7
Due to affiliates	140.7	199.7	5.3	(345.7)	—
	\$ 1,279.1	\$ 201.0	\$ 5.6	\$ (345.7)	\$ 1,140.0
Non-current liabilities					
Long-term debt	\$ 1,554.6	\$ —	\$ —	\$ —	\$ 1,554.6
Related party loans	629.9	—	—	—	629.9
Long-term liability	67.7	—	—	—	67.7
Non-current provisions	626.7	184.5	—	—	811.2
Intercompany loan	—	—	0.8	(0.8)	—
Total liabilities	\$ 4,158.0	\$ 385.5	\$ 6.4	\$ (346.5)	\$ 4,203.4
Shareholder's equity	(275.3)	(68.4)	(4.1)	72.5	(275.3)
Total liabilities and shareholder's equity	\$ 3,882.7	\$ 317.1	\$ 2.3	\$ (274.0)	\$ 3,928.1

CONDENSED STATEMENT OF COMPREHENSIVE LOSS
For the year ended December 31, 2015

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Petroleum and natural gas sales	\$ 415.1	\$ 95.2	\$ —	\$ —	\$ 510.3
Royalties	(36.4)	(12.3)	—	—	(48.7)
Earnings from equity accounted subsidiaries	(7.3)	—	—	7.3	—
Revenues	371.4	82.9	—	7.3	461.6
Expenses					
Operating	224.4	40.8	0.4	—	265.6
Transportation and marketing	5.9	(0.7)	—	—	5.2
General and administrative	49.9	10.9	—	—	60.8
Depletion, depreciation and amortization	337.4	81.2	—	—	418.6
Exploration and evaluation	23.8	3.7	—	—	27.5
Loss from joint ventures	97.3	—	—	—	97.3
Gains on disposition of assets	20.2	(18.5)	—	—	1.7
Finance costs	135.6	2.5	—	—	138.1
Derivative contracts losses	5.2	—	—	—	5.2
Foreign exchange losses	310.5	—	—	—	310.5
Impairment	1,184.5	71.8	—	—	1,256.3
Loss from continuing operations before income tax	(2,023.3)	(108.8)	(0.4)	7.3	(2,125.2)
Current income tax expense	5.1	—	—	—	5.1
Income tax (recovery) expense	(234.8)	(101.9)	(0.2)	—	(336.9)
Net loss from continuing operations	(1,793.6)	(6.9)	(0.2)	7.3	(1,793.4)
Net loss from discontinued operations	(15.5)	—	—	—	(15.5)
Net loss	\$ (1,809.1)	\$ (6.9)	\$ (0.2)	\$ 7.3	\$ (1,808.9)
Other comprehensive loss					
Loss on designated cash flow hedges, net of tax	(1.4)	—	—	—	(1.4)
Comprehensive loss	\$ (1,810.5)	\$ (6.9)	\$ (0.2)	\$ 7.3	\$ (1,810.3)

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Cash provided by (used in) operating activities	\$ 183.4	\$ (218.8)	\$ —	\$ —	\$ (35.4)
Cash provided by (used in) financing activities	452.9	(49.1)	—	49.1	452.9
Cash provided by (used in) investing activities	(636.3)	267.9	—	(49.1)	(417.5)
Change in cash and cash equivalents	—	—	—	—	—
Cash and cash equivalents, beginning of year	—	—	—	—	—
Cash and cash equivalents, end of year	\$ —	\$ —	\$ —	\$ —	\$ —

CONDENSED STATEMENT OF FINANCIAL POSITION
As at December 31, 2014

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets					
Accounts receivable	\$ 78.7	\$ 11.1	\$ —	\$ —	89.8
Prepaid expenses and other	16.5	—	—	—	16.5
Risk management contracts	1.9	—	—	—	1.9
Due from affiliates	412.0	94.2	0.3	(506.5)	—
	\$ 509.1	\$ 105.3	\$ 0.3	\$ (506.5)	108.2
Non-current assets					
Deferred income tax asset	\$ 441.7	\$ (59.7)	\$ 0.5	\$ —	382.5
Exploration & evaluation assets	51.4	10.7	—	—	62.1
Property, plant and equipment	3,567.8	540.8	1.3	—	4,109.9
Investment in subsidiaries	(15.3)	—	—	15.3	—
Investment in joint ventures	75.8	—	—	—	75.8
Goodwill	353.1	—	—	—	353.1
Total assets	\$ 4,983.6	\$ 597.1	\$ 2.1	\$ (491.2)	5,091.6
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	\$ 359.3	\$ 10.6	\$ 0.3	\$ —	370.2
Current portion of provisions	37.3	—	—	—	37.3
Risk management contracts	1.2	—	—	—	1.2
Due to affiliates	91.9	409.8	4.8	(506.5)	—
	\$ 489.7	\$ 420.4	\$ 5.1	\$ (506.5)	408.7
Non-current liabilities					
Long-term debt	\$ 1,916.8	\$ —	\$ —	\$ —	1,916.8
Related party loans	396.5	—	—	—	396.5
Long-term liability	61.5	—	—	—	61.5
Non-current provisions	584.3	189.0	—	—	773.3
Intercompany loan	—	—	0.8	(0.8)	—
Total liabilities	\$ 3,448.8	\$ 609.4	\$ 5.9	\$ (507.3)	3,556.8
Shareholder's equity	1,534.8	(12.3)	(3.8)	16.1	1,534.8
Total liabilities and shareholder's equity	\$ 4,983.6	\$ 597.1	\$ 2.1	\$ (491.2)	5,091.6

CONDENSED STATEMENT OF COMPREHENSIVE LOSS
For the year ended December 31, 2014

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Petroleum and natural gas sales	\$ 817.3	\$ 228.7	\$ —	\$ —	1,046.0
Royalties	(114.4)	(35.3)	—	—	(149.7)
Earnings from equity accounted subsidiaries	(6.1)	—	—	6.1	—
Revenues	696.8	193.4	—	6.1	896.3
Expenses					
Operating	271.1	58.9	0.5	—	330.5
Transportation and marketing	13.8	3.7	—	—	17.5
General and administrative	51.6	13.2	—	—	64.8
Depletion, depreciation and amortization	342.6	92.6	—	—	435.2
Exploration and evaluation	9.6	0.6	—	—	10.2
Loss from joint ventures	4.7	—	—	—	4.7
Gains on disposition of assets	(29.4)	(18.1)	—	—	(47.5)
Finance costs	90.6	4.7	—	—	95.3
Derivative contracts losses	2.1	—	—	—	2.1
Foreign exchange losses	126.4	—	—	—	126.4
Impairment on property, plant and equipment	252.6	15.0	—	—	267.6
Income (loss) from continuing operations before income tax	(438.9)	22.8	(0.5)	6.1	(410.5)
Income tax (recovery) expense	(353.3)	28.5	(0.1)	—	(324.9)
Net loss from continuing operations	(85.6)	(5.7)	(0.4)	6.1	(85.6)
Net loss from discontinued operations	(354.6)	(298.0)	(0.2)	298.2	(354.6)
Net loss	\$ (440.2)	\$ (303.7)	\$ (0.6)	\$ 304.3	\$ (440.2)
Other comprehensive income (loss)					
Gains on designated cash flow hedges, net of tax	1.3	—	—	—	1.3
Losses on foreign currency translation	—	(9.9)	—	—	(9.9)
Reclassification of cumulative foreign currency translation on disposal of subsidiary	44.1	—	—	—	44.1
Actuarial loss, net of tax	—	(5.7)	—	—	(5.7)
Share of equity accounted comprehensive loss	(15.6)	—	—	15.6	—
Comprehensive loss	\$ (410.4)	\$ (319.3)	\$ (0.6)	\$ 319.9	\$ (410.4)

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2014

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Cash provided by operating activities	\$ 371.0	\$ 110.2	\$ 1.7	\$ —	482.9
Cash provided by (used in) financing activities	(41.0)	(135.5)	2.0	112.8	(61.7)
Cash provided by (used in) investing activities	(330.0)	55.2	—	(145.4)	(420.2)
Change in cash and cash equivalents	—	29.9	3.7	(32.6)	1.0
Effect of exchange rate changes on cash	—	(1.0)	—	—	(1.0)
Cash and cash equivalents, beginning of year	—	—	—	—	—
Cash disposed of on sale of Downstream	—	(28.9)	(3.7)	32.6	—
Cash and cash equivalents, end of year	\$ —	\$ —	\$ —	\$ —	—



MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the year ended December 31, 2016 together with the accompanying notes. The information and opinions concerning the future outlook are based on information available at February 23, 2016.

In this MD&A, all dollar amounts are expressed in Canadian dollars unless otherwise indicated. Tabular amounts are in millions of dollars, except where noted.

Natural gas volumes are converted to barrels of oil equivalent ("boe") using the ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. In accordance with Canadian practice, petroleum and natural gas revenues are reported on a gross basis before deduction of Crown and other royalties.

Additional information concerning Harvest, including its audited annual consolidated financial statements and Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com.

ADVISORY

This MD&A contains non-GAAP measures and forward-looking information about our current expectations, estimates and projections. Readers are cautioned that the MD&A should be read in conjunction with the "Non-GAAP Measures" and "Forward-Looking Information" sections at the end of this MD&A.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Conventional				
Petroleum and natural gas sales ⁽¹⁾	90.8	109.0	322.3	510.3
Daily sales volumes (boe/d) ⁽²⁾	26,589	38,141	31,996	41,735
Deep Basin Partnership				
Daily sales volumes (boe/d)	5,553	5,418	5,802	4,126
Harvest's share of daily sales volumes (boe/d) ⁽⁴⁾	4,571	4,427	4,762	3,300
Average realized price				
Oil and NGLs (\$/bbl) ⁽³⁾	45.12	37.65	37.14	43.02
Gas (\$/mcf) ⁽³⁾	4.27	2.30	2.22	2.62
Operating netback prior to hedging (\$/boe) ⁽⁴⁾	15.97	9.29	10.22	12.30
Operating loss ⁽⁴⁾	(71.4)	(569.7)	(265.2)	(1,167.9)
Cash contribution from operations ⁽⁴⁾	33.3	29.8	74.6	154.3
Capital asset additions (excluding acquisitions)	13.7	22.4	19.0	146.5
Corporate acquisition ⁽⁵⁾	—	—	—	37.1
Property dispositions, net	—	(9.4)	(170.2)	(130.5)
Net wells drilled	2.1	—	2.4	19.2
Net undeveloped land additions (acres)	3,608	795	15,513	42,988
Net undeveloped land dispositions (acres)	(3,794)	(14,902)	(43,842)	(20,702)
Oil Sands				
Capital asset additions	1.9	0.5	1.9	66.0
Pre-operating loss ⁽⁴⁾⁽⁶⁾	(3.5)	(235.1)	(13.5)	(508.7)
NET LOSS	(162.5)	(909.7)	(348.2)	(1,808.9)

(1) Includes the effective portion of Harvest's realized natural gas and crude oil hedges.

(2) Excludes volumes from Harvest's equity investment in the Deep Basin Partnership.

(3) Excludes the effect of derivative contracts designated as hedges.

(4) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

(5) Corporate acquisition represents the total consideration for the transaction including working capital assumed.

(6) Oil Sands was substantially completed in Q1 2015, all pre-operating expenses prior to Q1 2015 were capitalized.

REVIEW OF OVERALL PERFORMANCE

Harvest is an energy company with a petroleum and natural gas business focused on the exploration, development and production of assets in western Canada ("Conventional") and an in-situ oil sands project ("Oil Sands") in the pre-commissioning phase in northern Alberta. Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). Our earnings and cash flow from continuing operations are largely determined by the realized prices for our crude oil and natural gas production.

The global commodity market for crude oil and natural gas has remained depressed since the latter part of 2014. We believe that commodity prices will eventually improve; however, the timing of that improvement is uncertain and we expect continued commodity price and cash flow volatility in the near term. In the meantime, we are focused on directing our capital spending on high impact programs, operational optimizations, and executing on cost reductions.

Conventional

- Petroleum and natural gas sales for the fourth quarter and twelve months ended December 31, 2016 decreased by \$18.2 million and \$188.0 million, respectively when compared to the same periods in 2015. The decrease on a fourth quarter basis was due primarily to a reduction in sales volumes which was partially offset by increased commodity prices. The decrease on a twelve month basis was due to a reduction in sales volumes and decreased commodity prices.
- Sales volumes for the fourth quarter and twelve months ended December 31, 2016 decreased by 11,552 boe/d and 9,739 boe/d, respectively, as compared to the same periods in 2015. The decreases were primarily due to dispositions of certain producing properties during 2015 and 2016 and natural declines which exceeded the volume added from our curtailed drilling program in 2016.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the fourth quarter and twelve months ended December 31, 2016 increased 144 boe/d and 1,462 boe/d, respectively, when compared to the same periods in 2015. The fourth quarter increase was due to DBP's successful 2016 drilling program. The twelve month increase was primarily due to new wells being brought online and additional assets contributed on October 1, 2015 by Harvest. These were partially offset by production curtailments due to third party transportation restrictions.
- Operating losses for the fourth quarter and twelve months ended December 31, 2016 were \$71.4 million and \$265.2 million, respectively (2015 – \$569.7 million and \$1,167.9 million). The decrease in operating loss from the fourth quarter and twelve months of 2015 was primarily due to lower impairment expenses, depreciation, depletion and amortization expenses, loss from joint ventures, royalties, operating expenses and higher gains on disposition of assets, which was partially offset by lower revenue.
- Capital asset additions of \$13.7 million and \$19.0 million in the fourth quarter and twelve months of 2016, respectively, were mainly related to drilling and completion, well equipment, pipelines and facilities. Four gross wells (2.1 net) and five gross wells (2.4 net) were rig-released during the fourth quarter and twelve months of 2016, respectively.
- On August 16, 2016 Harvest closed the disposition of some of its oil and gas assets in Southern Alberta for net proceeds of \$6.7 million. On June 30, 2016, Harvest closed the disposition of all of its oil and gas assets in Saskatchewan for net proceeds of \$61.6 million. Together with other less significant dispositions of Conventional assets, Harvest recognized gains of \$0.3 million and \$35.2 million for the three and twelve months ended December 31, 2016, respectively (2015 – gains of \$4.5 million and losses of \$1.7 million), relating to the derecognition of PP&E, E&E, goodwill, and decommissioning and environmental liabilities.
- Operating netback prior to hedging per boe for the fourth quarter and twelve months ended December 31, 2016 were \$15.97 and \$10.22 respectively; an increase of \$6.68 and a decrease of \$2.08 from the same periods in 2015. The year to date decrease was mainly due to lower realized prices, which was partially offset by lower operating expenses per boe. The fourth quarter increase was mainly due to higher realized prices which were partially offset by increased transportation and marketing expenses per boe.

- Cash contributions from Harvest's Conventional operations for the fourth quarter and twelve months of 2016 were \$33.3 million and \$74.6 million, respectively (2015 – \$29.8 million and \$154.3 million). The fourth quarter increase in cash contributions is primarily due to higher commodity prices, decreased operating costs and royalties. These increases were partially offset by lower revenue and increased transportation costs. The twelve month decrease in cash contributions was mainly due to lower revenue, partially offset by lower operating expenses, and general and administrative expenses.

Oil Sands

- Pre-operating losses for the fourth quarter and twelve months of 2016 were \$3.5 million and \$13.5 million, respectively (2015 – \$235.1 million and \$508.7 million, respectively). The 2016 pre-operating losses were mainly due to pre-operating and general and administrative expenses. Prior year pre-operating losses also included asset impairment expenses of \$229.0 million and \$491.0 million, respectively.
- The central processing facility ("CPF") was substantially completed in early 2015. The decision to complete commissioning of the CPF and commence steam injection depends on the bitumen price environment, and a number of operational factors.

Corporate

- The credit facility net movements during the fourth quarter and twelve months ended December 31, 2016 were \$6.8 million net borrowing and \$42.1 million net repayment, respectively (2015 – \$44.1 million net repayment and \$304.4 million net borrowings). At December 31, 2016, Harvest had \$893.5 million drawn under the credit facility (December 31, 2015 - \$926.6 million).
- The weakening of the Canadian dollar against the U.S. dollar during the fourth quarter of 2016 resulted in a net unrealized foreign exchange loss of \$45.5 million (2015 - \$69.6 million). The strengthening of the Canadian dollar against the U.S. dollar during the twelve months of 2016 resulted in net unrealized foreign exchange gain of \$23.8 million (2015 - \$308.4 million loss). Unrealized foreign exchange gains and losses resulted primarily due to the translation of U.S. dollar denominated debt (including related party loans) into Canadian dollars. For the fourth quarter and twelve months ended 2016, the total effect of currency fluctuations on unrealized foreign exchange was reduced by lower levels of U.S. dollar denominated debt as a result of the conversion of all related party debt into equity on December 22, 2016, and the reduction in principal balance of senior notes resulting from a 6% senior notes debt exchange transaction.
- During 2015, Harvest amended the terms of its \$1.0 billion syndicated revolving credit facility and replaced it with a KNOC guaranteed \$1.0 billion syndicated revolving credit facility, maturing April 30, 2017. Under the amended credit facility, applicable interest and fees are based on a margin pricing grid based on the Moody's and S&P credit ratings of KNOC. The financial covenants under the previous credit facility were deleted and replaced with a new covenant: Total Debt to Capitalization ratio of 70% or less. At December 31, 2015, Harvest was in violation of the debt covenant, and as a result, the carrying value of the credit facility of \$923.8 million was reclassified from long-term debt to a current liability. On February 5, 2016 Harvest's syndicate banks consented to a waiver of this covenant for the duration of the term of the credit facility and the maturity date remains at April 30, 2017.
- On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allows Harvest to borrow \$500 million through a three year fixed rate term loan. Once drawn, proceeds from the term loan will be used to repay credit facility borrowings. In addition, as at February 23, 2017, Harvest has

received formal commitments for a new three year \$500 million revolving credit facility with a syndicate of banks that will replace the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC and are both expected to close on February 24, 2017. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants.

- On December 22, 2016, KNOC converted all its outstanding loans to common shares of Harvest. The carrying value of the loans, plus accrued interest at December 22, 2016 of \$722.2 million was converted to equity and \$10.3 million previously recognized in contributed surplus relating to these loans were transferred to shareholder's capital. As a result, 72.7 million common shares were issued to KNOC. As at December 31, 2016 there were no related party loans outstanding. This transaction provides significant savings to Harvest through reducing interest expense by approximately \$40.0 million annually, improving the Company's balance sheet, and is further evidence of KNOC's continuing financial support of Harvest.
- On June 16, 2016 Harvest completed an exchange of a significant portion of its 6 $\frac{7}{8}$ % senior notes due 2017, for new 2 $\frac{1}{3}$ % senior notes due 2021, at an exchange ratio of US\$900 principal amount of the new 2 $\frac{1}{3}$ % senior notes for each US\$1,000 principal amount of the old 6 $\frac{7}{8}$ % senior notes. US\$217.5 million of the old 6 $\frac{7}{8}$ % senior notes was exchanged for US\$195.8 million new 2 $\frac{1}{3}$ % senior notes. The extinguishment of the old 6 $\frac{7}{8}$ % senior notes resulted in a gain of \$36.0 million. The transaction provides significant saving to Harvest by reducing interest expense by US\$9.9 million annually, as well as a reduction in principal of US \$21.7 million.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONVENTIONAL

Summary of Financial and Operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
FINANCIAL				
Petroleum and natural gas sales ⁽¹⁾	90.8	109.0	322.3	510.3
Royalties	(6.4)	(11.9)	(35.0)	(48.7)
Revenues and other income	84.4	97.1	287.3	461.6
Expenses				
Operating	36.2	52.5	155.9	251.5
Transportation and marketing	9.1	0.9	11.0	5.2
Realized losses on derivative contracts ⁽³⁾	0.3	2.0	1.6	4.4
Operating netback after hedging ⁽²⁾	38.8	41.7	118.8	200.5
General and administrative	11.2	11.5	51.1	57.7
Depreciation, depletion and amortization	86.4	118.1	289.1	418.1
Loss from joint ventures	8.1	71.5	43.8	97.3
Exploration and evaluation	17.4	22.3	19.9	27.5
Impairment	(1.7)	391.1	1.0	765.3
Unrealized losses (gains) on derivative contracts ⁽⁴⁾	(12.2)	1.4	3.6	0.8
Loss on onerous contract	1.3	-	10.7	-
Losses (gains) on disposition of assets	(0.3)	(4.5)	(35.2)	1.7
Operating loss ⁽²⁾	(71.4)	(569.7)	(265.2)	(1,167.9)
Capital asset additions (excluding acquisitions)	13.7	22.4	19.0	146.5
Corporate acquisition ⁽⁵⁾	—	—	—	37.1
Property dispositions, net	—	(9.4)	(170.2)	(130.5)
OPERATING				
Light to medium oil (bbl/d)	3,821	7,934	5,548	8,768
Heavy oil (bbl/d)	7,760	10,044	9,158	11,301
Natural gas liquids (bbl/d)	3,188	3,820	3,527	3,956
Natural gas (mcf/d)	70,923	98,055	82,583	106,259
Total (boe/d) ⁽⁶⁾	26,589	38,141	31,996	41,735

(1) Includes the effective portion of Harvest's realized natural gas and oil hedges.

(2) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

(3) Realized losses on derivative contracts include the settlement amounts for power, crude oil, natural gas and foreign exchange derivative contracts, excluding the effective portion of realized gains from Harvest's designated accounting hedges. See "Risk Management, Financing and Other" section of this MD&A for details.

(4) Unrealized gains or losses on derivative contracts reflect the change in fair value of derivative contracts that are not designated as accounting hedges and the ineffective portion of changes in fair value of designated hedges. See "Risk Management, Financing and Other" section of this MD&A for details.

(5) Corporate acquisition represents the total consideration for the transaction, including working capital assumed.

(6) Excludes volumes from Harvest's equity investment in the Deep Basin Partnership.

Benchmark Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	49.29	42.18	17%	43.32	48.80	(11%)
West Texas Intermediate crude oil (\$/bbl)	65.81	56.22	17%	57.38	62.13	(8%)
Edmonton Light Sweet crude oil ("EDM") (\$/bbl)	61.58	52.89	16%	52.96	57.20	(7%)
Western Canadian Select ("WCS") crude oil (\$/bbl)	46.63	36.88	26%	38.96	44.85	(13%)
AECO natural gas daily (\$/mcf)	3.09	2.47	25%	2.16	2.69	(20%)
U.S. / Canadian dollar exchange rate	0.749	0.749	0%	0.755	0.783	(4%)

Differential Benchmarks

EDM differential to WTI (\$/bbl)	4.23	3.33	27%	4.42	4.93	(10%)
EDM differential as a % of WTI	6.4%	5.9%	8%	7.7%	7.9%	(3%)
WCS differential to WTI (\$/bbl)	19.18	19.34	(1%)	18.42	17.28	7%
WCS differential as a % of WTI	29.1%	34.4%	(15%)	32.1%	27.8%	15%

For the fourth quarter and twelve months of 2016, the average WTI benchmark price increased 17% and decreased 11% compared to the same periods in 2015. The average Edmonton Light Sweet crude oil price ("Edmonton Light") increased 16% and decreased 7% compared to the same periods 2015. The increase in Edmonton Light for the fourth quarter of 2016 is due to the increase in the WTI price, which was partially offset by an increase in the Edmonton Light differential to WTI. The decrease in Edmonton Light for the twelve months is due to the decrease in the WTI price offset by a depreciation of the Canadian dollar against the U.S. dollar, and the narrowing of the Edmonton Light differential to WTI.

Heavy oil differentials fluctuate based on a combination of factors including production and inventory levels of heavy oil, pipeline and rail capacity to deliver heavy crude to market, and the seasonal demand for heavy oil. The 26% increase in the WCS price for the fourth quarter of 2016 compared to the same period in 2015 was due to the increase in the WTI price and a decrease in the WCS differential to WTI. The 13% decrease in the WCS price for the twelve months ended December 31, 2016, as compared to the same period in 2015 was mainly the result of the decrease in the WTI price and a widening of WCS differential to WTI, partially offset by a depreciation of the Canadian dollar against the U.S. dollar.

In the fourth quarter of 2016, North American natural gas prices strengthened compared to the fourth quarter of 2015, but overall average price for the twelve months of 2016 weakened in comparison to the same period in 2015. Harvest's realized natural gas price is referenced to the AECO hub, which increased 25% and decreased 20%, respectively, in the fourth quarter and twelve months of 2016 when compared to the same period in 2015.

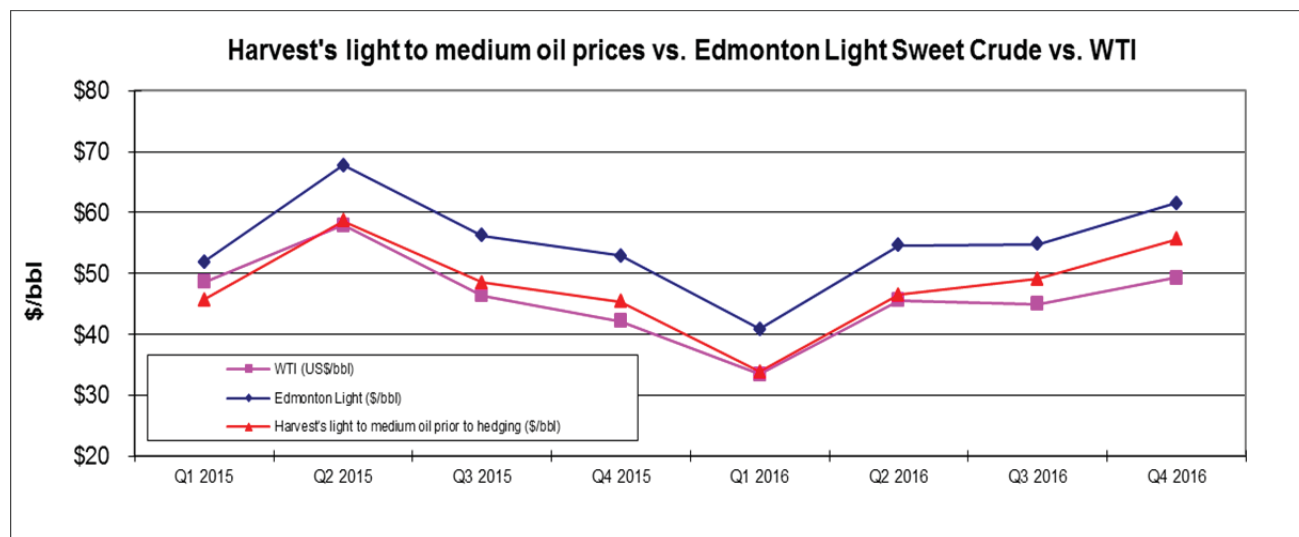
Realized Commodity Prices

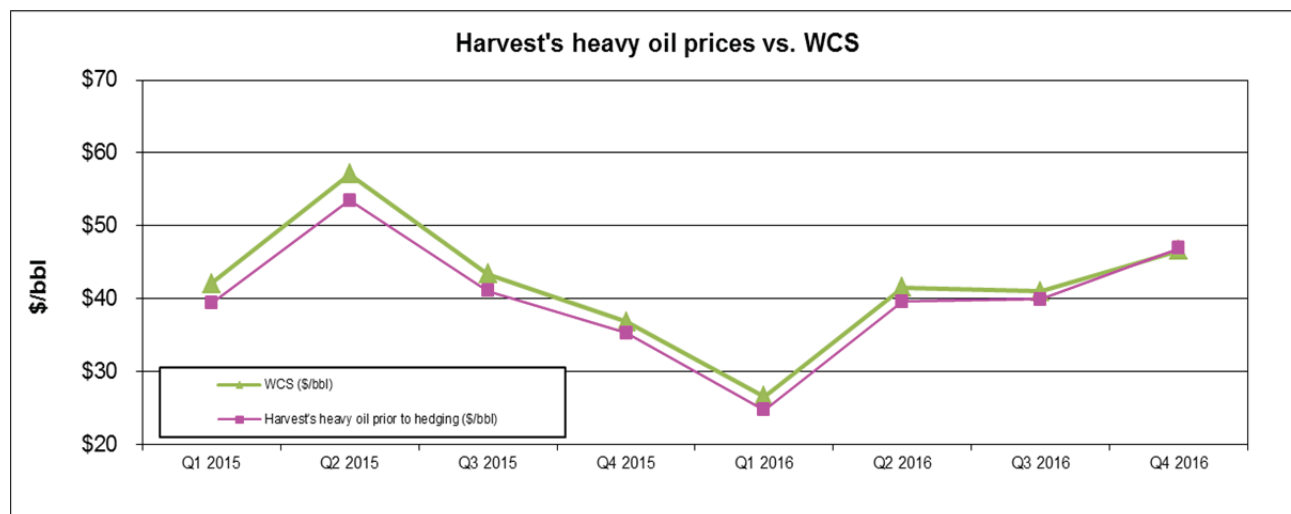
	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Light to medium oil (\$/bbl)	55.63	45.52	22%	44.41	49.59	(10%)
Heavy oil prior to hedging(\$/bbl)	46.94	35.63	32%	37.19	42.69	(13%)
Natural gas liquids (\$/bbl)	28.08	26.61	6%	25.58	29.36	(13%)
Natural gas prior to hedging(\$/mcf)	4.27	2.30	86%	2.22	2.62	(15%)
Average realized price prior to hedging (\$/boe) ⁽¹⁾	37.06	27.89	33%	27.45	32.33	(15%)
Heavy oil after hedging (\$/bbl) ⁽²⁾	46.23	44.69	3%	37.15	45.71	(19%)
Natural gas after hedging (\$/mcf) ⁽²⁾	4.27	2.61	64%	2.22	2.74	(19%)
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	36.85	31.06	19%	27.43	33.45	(18%)

(1) Inclusive of sulphur revenue.

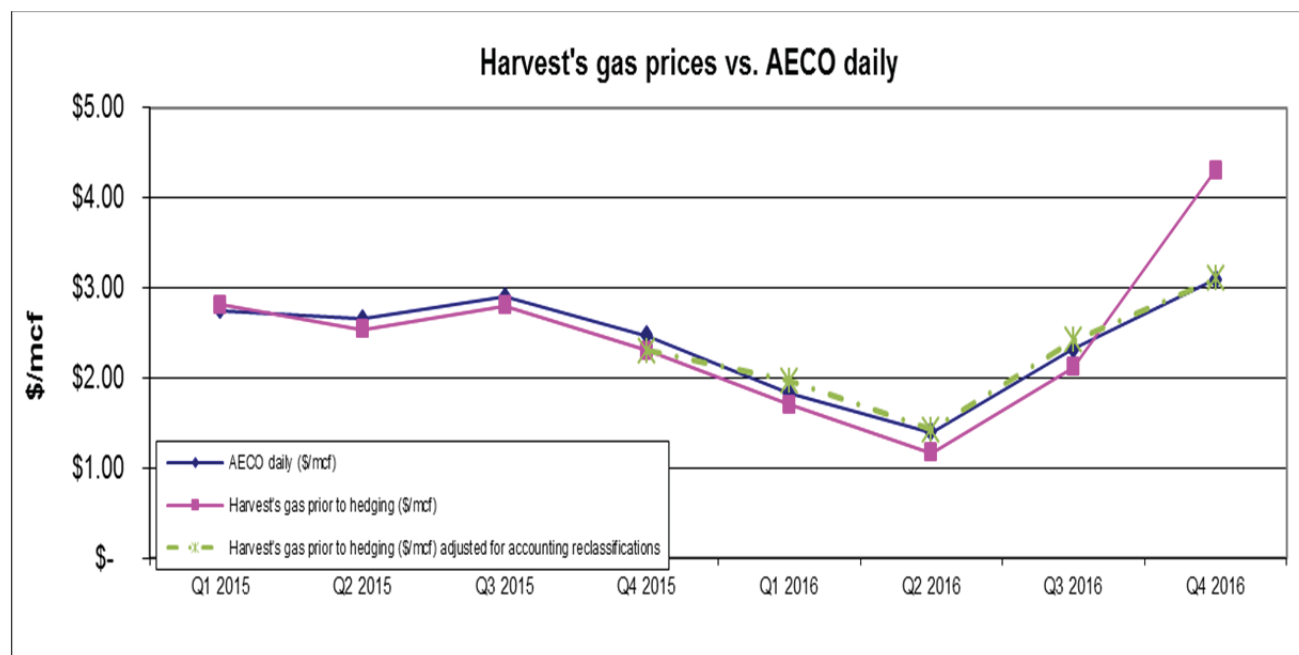
(2) Inclusive of the realized gains (losses) from contracts designated as hedges. Foreign exchange swaps and power contracts are excluded from the realized price.

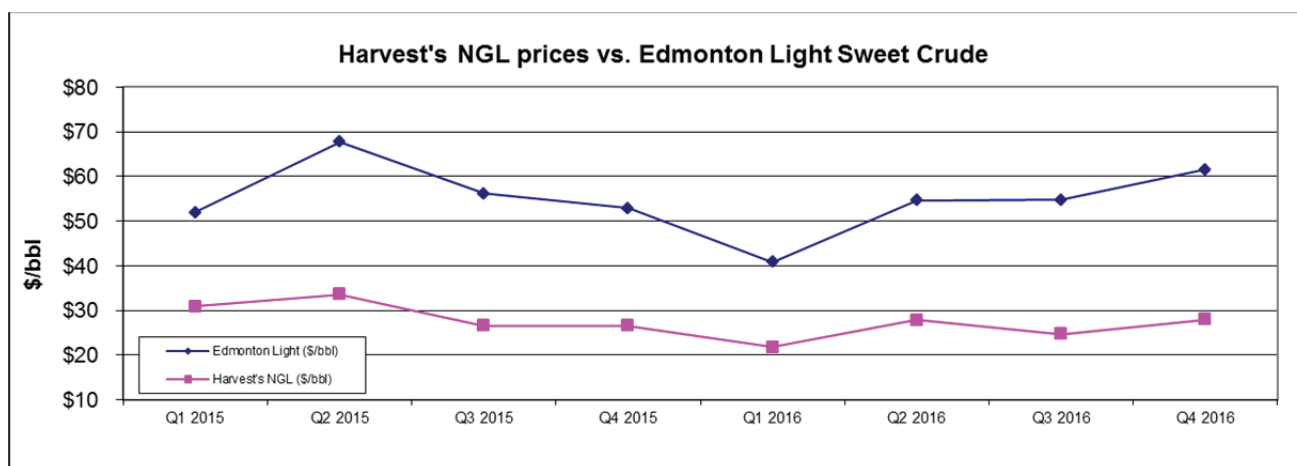
Harvest's realized prices prior to any hedging activity for light to medium oil generally trends with the Edmonton Light benchmark price. Harvest's realized prices prior to any hedging activity for heavy oil are a function of both the WCS and Edmonton Light benchmarks due to a portion of our heavy oil volumes being sold based on a discount to the Edmonton Light benchmark. For the fourth quarter and twelve months of 2016, the period-over-period variances and movements of light to medium oil and heavy oil were relatively consistent with the changes in their related benchmarks.





Realized natural gas prices prior to hedging increased by 86% and decreased by 15% for the fourth quarter and twelve months ended December 31, 2016 as compared to the same periods in 2015. The increase in the fourth quarter 2016 realized price is primarily due to a reclassification of prior quarters' transportation charges previously netted against revenue that are now being presented on a gross basis. When the realized price for the fourth quarter of 2016 is adjusted for reclassified amounts for the year, it fluctuates in a relatively consistent manner with its benchmark.





Realized natural gas liquids prices increased by 6% and decreased by 13% for the fourth quarter and year ended December 31, 2016, respectively, as compared to the same periods in the prior year. The changes are consistent with the changes in its benchmark oil prices.

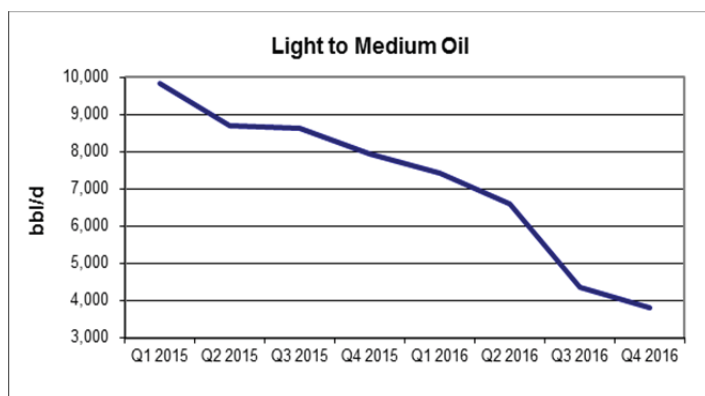
In order to partially mitigate the risk of fluctuating cash flows due to natural gas and heavy oil pricing volatility, Harvest will periodically enter into WCS and AECO derivative contracts. During the twelve months of 2015 Harvest had AECO derivative contracts in place for a portion of its production; however none were in place in the twelve months of 2016. During the fourth quarter of 2015 and 2016, and for portions of the twelve months ended 2015 and 2016, Harvest had WCS derivative contracts in place for a portion of its production.

Please see "Cash Flow Risk Management" section in this MD&A for further discussion with respect to the cash flow risk management program.

Sales Volumes

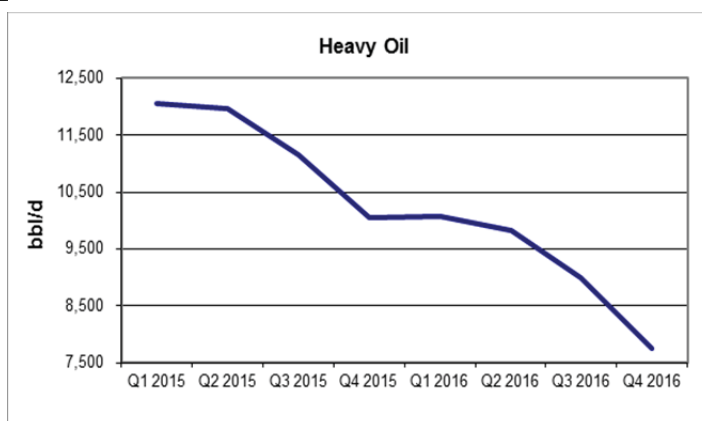
	Three Months Ended December 31				
	2016		2015		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	3,821	14%	7,934	21%	(52%)
Heavy oil (bbl/d)	7,760	29%	10,044	26%	(23%)
Natural gas liquids (bbl/d)	3,188	12%	3,820	10%	(17%)
Total liquids (bbl/d)	14,769	55%	21,798	57%	(32%)
Natural gas (mcf/d)	70,923	45%	98,055	43%	(28%)
Total oil equivalent (boe/d)	26,589	100%	38,141	100%	(30%)

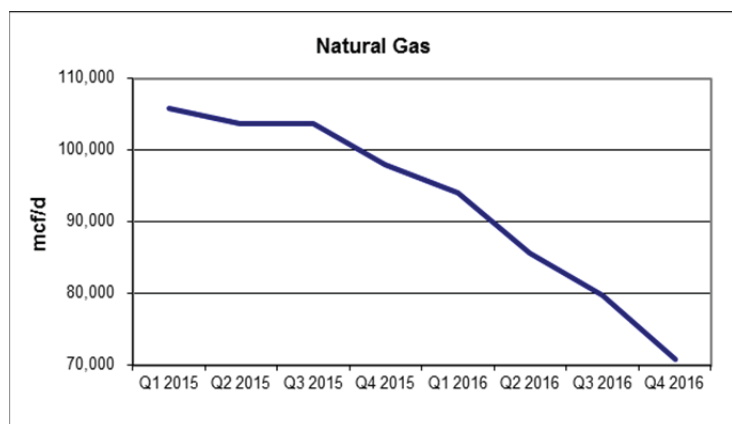
	Twelve Months Ended December 31				
	2016		2015		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	5,548	17%	8,768	21%	(37%)
Heavy oil (bbl/d)	9,158	29%	11,301	27%	(19%)
Natural gas liquids (bbl/d)	3,527	11%	3,956	9%	(11%)
Total liquids (bbl/d)	18,233	57%	24,025	57%	(24%)
Natural gas (mcf/d)	82,583	43%	106,259	43%	(22%)
Total oil equivalent (boe/d)	31,996	100%	41,735	100%	(23%)



Harvest's average daily sales of light to medium oil decreased 52% in the fourth quarter of 2016, as compared to the same period in 2015. The decrease was mainly due to the disposition of Harvest's Saskatchewan properties, natural declines, and reflects a greatly reduced drilling program in 2016.

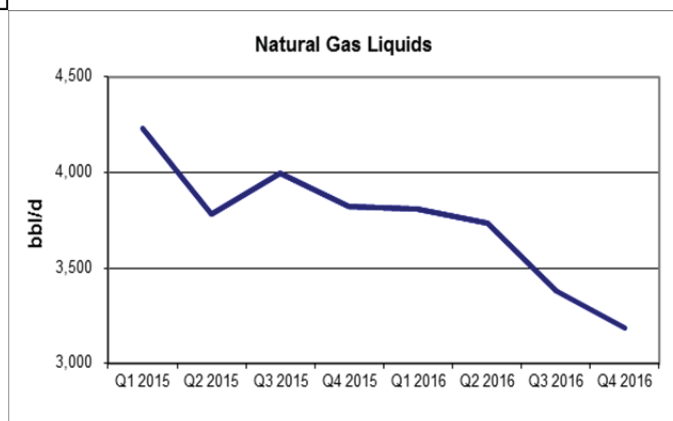
Heavy oil sales for the fourth quarter of 2016 decreased 23% as compared to the same period in 2015 mainly due to dispositions of properties, natural declines, and reflect a greatly reduced drilling program in 2016.





Natural gas sales during the fourth quarter of 2016 decreased 28%, as compared to the same period in 2015. The decrease was mainly a result of disposition of assets to the Deep Basin Partnership during the fourth quarter of 2015, disposition of properties to third parties, natural declines and a curtailed drilling program in 2016.

Natural gas liquids sales for the fourth quarter of 2016 decreased by 17% from the same period in 2015 due to natural declines and third party constraints.



Revenues

Sales Revenue by Product

	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Light to medium oil sales	19.6	33.2	(41%)	90.2	158.7	(43%)
Heavy oil sales after hedging ⁽¹⁾	33.0	41.3	(20%)	124.5	188.6	(34%)
Natural gas sales after hedging ⁽¹⁾	27.8	23.5	18%	67.1	106.3	(37%)
Natural gas liquids sales	8.2	9.4	(13%)	33.0	42.4	(22%)
Other ⁽²⁾	2.2	1.6	38%	7.5	14.3	(48%)
Petroleum and natural gas sales	90.8	109.0	(17%)	322.3	510.3	(37%)
Royalties	(6.4)	(11.9)	(46%)	(35.0)	(48.7)	(28%)
Revenues	84.4	97.1	(13%)	287.3	461.6	(38%)

(1) Inclusive of the effective portion of realized gains (losses) from natural gas and crude oil contracts designated as hedges.

(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. Total petroleum and natural gas sales decreased in the twelve months of 2016 as compared to 2015, mainly due to the decrease in sales volumes and the decrease in the realized prices. Total

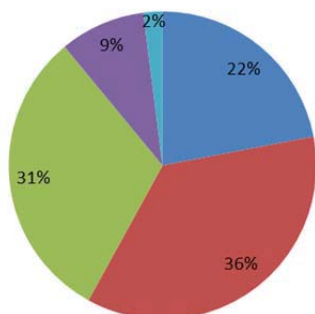
petroleum and natural gas sales decreased in the fourth quarter of 2016 as compared to 2015, primarily due to the decrease in sales volumes which was partially offset by an increase realized prices.

Sulphur revenue represented \$1.5 million of the total in other revenues for the fourth quarter of 2016 (2015 - \$1.5 million) and \$6.4 million for the twelve months of 2016 (2015 - \$13.6 million).

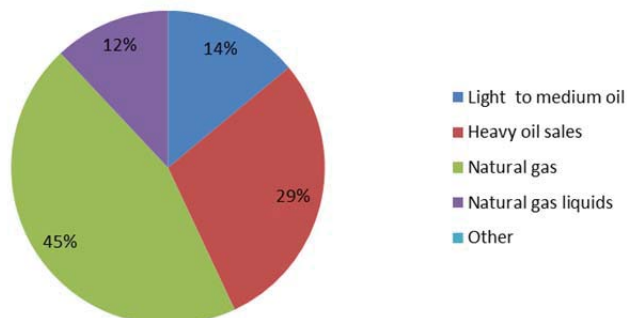
Revenue by Product Type as % of Total Revenue

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Light to medium oil sales	22%	30%	28%	31%
Heavy oil sales after hedging	36%	38%	39%	37%
Natural gas sales after hedging	31%	22%	21%	21%
Natural gas liquids sales	9%	9%	10%	8%
Other	2%	1%	2%	3%
Total Sales Revenue	100%	100%	100%	100%

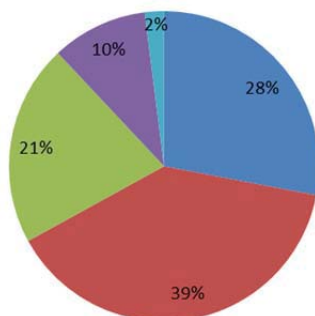
Sales Revenue by Product
(Three Months ended December 31, 2016)



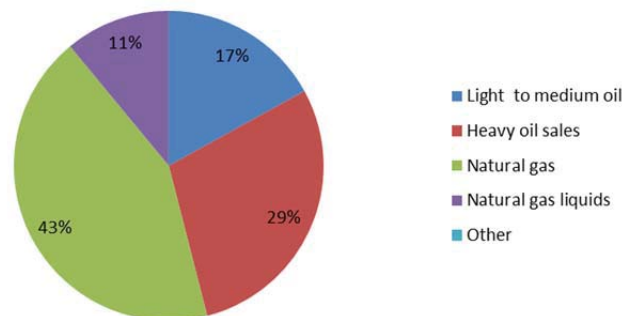
Sales Volumes by Product
(Three Months ended December 31, 2016)



Sales Revenue by Product
(Twelve Months ended December 31, 2016)



Sales Volumes by Product
(Twelve Months ended December 31, 2016)



Harvest's product mix on a volumetric basis is slightly weighted heavier towards crude oil and natural gas liquids than natural gas. Revenue contribution is more heavily weighted to crude oil and liquids as shown by the pie charts above.

Royalties

Harvest pays Crown, freehold and overriding royalties to the owners of mineral rights from which production is generated. These royalties vary for each property and product and Crown royalties are based on various sliding scales dependent on incentives, production volumes and commodity prices.

For the fourth quarter and twelve months ended December 31, 2016, royalties as a percentage of gross revenue averaged 7.0% and 10.9% respectively (2015 – 10.9% and 9.5%). The decrease in royalties as a percentage of gross revenue for the fourth quarter of 2016 as compared to the same period of 2015 was due to lower production and the 2016 disposition of assets with high royalty rates, partially offset by increased realized prices. The increase in royalties as a percentage of gross revenue for the twelve months of 2016 was mainly due to a \$10.0 million year to date prior period adjustment related to a Crown royalty audit which was partially offset by lower royalty rates due to lower prices, production volumes, and the disposition of assets with high royalty rates.

Operating Expenses

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Operating expense	36.2	52.5	155.9	251.5
Operating expense (\$/boe)	14.81	14.96	13.31	16.50

Operating expenses for the fourth quarter and twelve months of 2016 decreased by \$16.3 million and \$95.6 million, respectively, compared to the same periods in 2015. The decreases were mainly due to overall lower activity levels, reduced levels of well servicing and repairs and maintenance activity, reductions in labour and the impact of asset dispositions. Additionally, electricity costs were lower in the twelve months of 2016 due to lower Power Pool Rates of \$18.24 per megawatt hour (2015 - \$33.41 per megawatt hour), which resulted in decreased power and energy costs.

Operating expenses on a per boe basis decreased by 1% to \$14.81 per boe and 19% to \$13.31 per boe for fourth quarter and twelve months of 2016, respectively, when compared to the same periods in 2015, mainly due to lower activity levels and spending, partially offset by the lower sales volumes in comparison to fixed operating costs.

Transportation and Marketing Expense

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Transportation and marketing	9.1	0.9	11.0	5.2
Transportation and marketing (\$/boe)	3.69	0.26	0.94	0.34



MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation and marketing expenses relate primarily to the cost of delivery of natural gas and natural gas liquids, and trucking crude oil to pipeline or rail receipt points. Transportation and marketing expenses in the fourth quarter and twelve months of 2016 were \$8.2 million and \$5.8 million higher in comparison to the same periods in 2015. The increases were primarily due to the reclassification of prior quarters' gas transportation costs to being presented on a gross basis.

Operating Netback⁽¹⁾

(\$/boe)	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	37.06	27.89	9.17	27.45	32.33	(4.88)
Royalties	(2.59)	(3.38)	0.79	(2.98)	(3.19)	0.21
Operating expenses	(14.81)	(14.96)	0.15	(13.31)	(16.50)	3.19
Transportation and marketing	(3.69)	(0.26)	(3.43)	(0.94)	(0.34)	(0.60)
Operating netback prior to hedging ⁽¹⁾	15.97	9.29	6.68	10.22	12.30	(2.08)
Hedging (loss) gain ⁽³⁾	(0.35)	2.59	(2.94)	(0.15)	0.82	(0.97)
Operating netback after hedging ⁽¹⁾	15.62	11.88	3.74	10.07	13.12	(3.05)

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

(2) Excludes miscellaneous income not related to oil and gas production

(3) Includes the settlement amounts for natural gas, crude oil and power contracts.

For the fourth quarter and twelve months ended December 31, 2016 netback prior to hedging were \$15.97 per boe and \$10.22 per boe, respectively, representing a 72 percent increase and a 17 percent decrease compared to the same periods in 2015.

For the fourth quarter and twelve months ended December 31, 2016 netback after hedging were \$15.62 per boe and \$10.07 per boe, respectively, representing an increase of 31 percent and a decrease of 23 percent compared to the same periods in 2015.

The increase in operating netback for the fourth quarter of 2016 in comparison to the same period in 2015 was mainly due to increased realized sale prices, partially offset by increased transportation and marketing expenses. The decrease in operating netback for the 12 month period of 2016 in comparison to the same period in 2015 was mainly due to lower realized sale prices, partially offset by reduced operating expenses.

General and Administrative ("G&A") Expenses

	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Gross G&A expenses	11.7	13.2	(11%)	53.5	67.2	(20%)
Capitalized G&A and recoveries	(0.5)	(1.7)	71%	(2.4)	(9.5)	75%
Net G&A expenses	11.2	11.5	(3%)	51.1	57.7	(11%)
Net G&A expenses (\$/boe)	4.58	3.28	40%	4.36	3.79	15%

For the fourth quarter and twelve months ended December 31, 2016 G&A expenses net of capitalized G&A decreased \$0.3 million and \$6.6 million respectively, while gross G&A expenses decreased \$1.5 million and \$13.7 million respectively, when compared to the same period in the prior year. The decrease in the gross

G&A expenses from the same periods in the prior year were mainly due to comparative lower staffing levels, lower bonus and long-term incentive ("LTI") accruals, and decreases in employee benefit expenses, partially offset by higher severance charges related to staff layoffs completed during the twelve months of 2016. The reduction in capitalized G&A is mainly related to reduced capital spending in 2016. Harvest does not have a stock option program, however there is a LTI program which is a cash settled plan that has been included in the G&A expense.

On a per boe basis, G&A expenses increased \$1.30 and \$0.57 in the fourth quarter and twelve months of 2016, from the same period in the prior year mainly due to lower sales volumes in the current year.

Depletion, Depreciation and Amortization ("DD&A") Expenses

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
DD&A	86.4	118.1	289.1	418.1
DD&A (\$/boe)	35.33	33.66	24.69	27.45

DD&A expense for the fourth quarter and twelve months of 2016 decreased by \$31.7 million and \$129.0 million, respectively as compared to the same period in 2015, mainly due to lower sales volumes and the impact of a lower DD&A rate due to impairment charges recorded during fiscal 2015. These decreases were partially offset by a fourth quarter write down of reserves on non-core assets due to the current pricing environment. This write down led to an acceleration of DD&A of \$32.2 million in the fourth quarter of 2016.

Onerous Contract

As the result of recent staff reductions, Harvest vacated some floors of its head office lease. This occurrence, in conjunction with the poor sublease market in Calgary resulted in an onerous contract. During the twelve months ended 2016, Harvest recognized a provision of \$10.7 million. The provision represents the present value of the difference between future lease obligations and the estimated sublease recoveries. The onerous contract provision will be settled in periods up to August 2025. The recording of the provision for onerous contract resulted in a \$10.7 million loss on onerous contract, and an impairment of leasehold improvements and furniture and fixtures of \$2.8 million.

Impairment Expense/Reversal

As a result of the onerous contract noted above, for the twelve months of 2016, Harvest recognized an impairment loss of \$2.8 million related to leasehold improvement and furniture and fixtures.

As a result of changes in future development plans and lease expirations, exploration and evaluation assets were impaired in the amount of \$17.4 million and \$19.9 million, respectively, for the fourth quarter and twelve months of 2016 (2015 - \$22.3 million and \$27.5 million).

Subsequent to December 31, 2016 an indicative bid was received from an arm's length party to purchase certain oil and gas assets in Southern Alberta. The assets included in the bid are in the South Oil and South Gas CGUs. The estimated proceeds, which is the recoverable amount based on the FVLCD (level 2 fair value input) of the assets included in the proposed transaction was estimated at \$1.3 million. This triggered an

impairment reversal for the three and twelve months ended December 31, 2016, of \$38.8 million to PP&E in Harvest's Conventional segment (2015 – \$196.1 million and \$570.3 million, respectively), which has been included in Impairment, net of reversal line in the statement of comprehensive loss.

During the 12 months ended December 31, 2016, Harvest reviewed and adjusted its Conventional CGUs as a result of the Company's ongoing divestiture activity and corporate re-organization. CGU's were aggregated due to similarities in operations, product composition, cash flows and management and monitoring.

For the year ended December 31, 2015, the Conventional segment recorded an impairment expense of \$570.3 million. Of this total, \$560.2 million related to all Conventional CGUs except for two out of sixteen. Impairment in the South Oil CGU at March 31, 2015 was triggered by reserves write-downs as a result of a decline in oil prices combined with underperforming assets. Impairments in West Alberta Gas and South Alberta Gas CGUs at June 30, 2015 were triggered by a decline in gas prices while the East Central Oil CGU impairment was triggered by revised estimated capital costs in the Bellshill area. The recoverable amounts for respective CGUs were estimated at their FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator and the estimated fair value of undeveloped land. A discount rate in the range of 11% - 16.5% was used to determine the recoverable amount of \$965.8 million for the CGUs impaired during the year ended December 31, 2015.

The remainder of the Conventional impairment of \$10.1 million during the year ended December 31, 2015 related to assets held for sale in 2015. The sale of certain Conventional oil and gas assets in the Willesden Green area closed on February 1, 2016. As such, these assets were classified as assets held for sale at December 31, 2015. As a result of this classification, the assets were tested for impairment and written down to its recoverable amount of \$nil.

The results of the impairment assessments conducted during the year ended December 31, 2016 are sensitive to changes in any of the key management judgments and estimates inherent to the assessments made. These judgments and estimates include revisions in reserves or resources, a change in forecast commodity prices, expected royalty rates, required future development expenditures, and expected future production costs all of which could increase or decrease the recoverable amount of the assets.

Goodwill

Goodwill is recorded when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of that acquired business. At December 31, 2016, Harvest had \$100.3 million (2015 – \$149.0 million) of goodwill on the balance sheet related to the Conventional segment. The decrease of \$48.7 million resulted from dispositions of certain oil and gas properties totaling (see the "Property Dispositions" section below), and impairment charges.

Goodwill has been allocated to the Conventional operating segment. In assessing whether goodwill has been impaired, the carrying amount of the operating segment (including goodwill) is compared with the recoverable amount of the operating segment. The estimated recoverable amount of the segment is determined based on its FVLCD.

Market participants generally apply the market multiple enterprise value per barrel of proved and probable reserves ("EV/2P") when estimating the fair value of an oil and gas company. As such, Harvest determined the fair value of its Upstream segment by applying the observed EV/2P multiple of comparable public companies to its proved and probable reserves (Level 2 fair value input). Harvest's proved and probable reserves were estimated by an independent qualified reserves evaluator and are subject to significant judgment.

At December 31, 2016, the EV/2P multiples ranged from \$5.60 to \$17.61 per barrel of proved and probable reserves for a group of comparable companies of similar size, operating metrics and production profile. Harvest used an average EV/2P multiple of \$6.00 per barrel of proved and probable reserves when determining the implied fair value of Harvest's Upstream segment. As at December 31, 2016, the carrying value exceeded the recoverable amount by \$37.0 million (2015 - \$195.0 million), as such, goodwill impairment was recorded.

Acquisitions & Dispositions

On August 16, 2016 Harvest closed the disposition of some of its oil and gas assets in Southern Alberta for net proceeds of \$6.7 million. On June 30, 2016, Harvest closed the disposition of all of its oil and gas assets in Saskatchewan for net proceeds of \$61.6 million. Together with other insignificant dispositions of Conventional assets, Harvest recognized a gain of \$0.3 million and \$35.2 million for the three months and year ended December 31, 2016, respectively (2015 – gain of \$4.5 million and loss \$1.7 million), relating to the de-recognition of PP&E, E&E, goodwill and decommissioning and environmental liabilities.

Capital Asset Additions

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Drilling and completion	7.0	0.6	4.9	78.0
Well equipment, pipelines and facilities	5.3	17.1	10.9	50.0
Land and seismic	0.7	0.1	1.2	1.9
Geological and geophysical	—	1.0	—	2.9
Corporate	0.3	2.2	—	5.6
Other	0.4	1.4	2.0	8.1
Total additions excluding acquisitions	13.7	22.4	19.0	146.5

Total capital additions were lower for the fourth quarter and twelve months of 2016 compared to 2015 mainly due to reduced capital activity for the current year in response to a low commodity price environment and the impact of accrual reversals. The reversal of the accrual is primarily related to lower actual costs than previously estimated. Harvest's capital expenditures in the fourth quarter and twelve months of 2016 related to the drilling and completion of new wells, and the addition of capital expenditures related to well equipment, pipelines and facilities.

During the fourth quarter of 2016 Harvest drilled a horizontal well targeting light oil in the Charlie Lake formation, and participated in three partner operated horizontal multi-stage fractured wells (1.1 net). During

the twelve months of 2016 Harvest drilled a horizontal well targeting light oil in the Charlie Lake formation, and participated in four partner-operated horizontal multi-stage fractured well (1.4 net) to develop the liquids-rich Falher gas formation.

During the fourth quarter and twelve months ended December 31, 2016, Harvest's net undeveloped land additions were 3,608 acres and 15,513 acres respectively (2015 – 795 acres and 42,988 acres).

Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at December 31, 2016 was \$615.4 million (December 31, 2015 – \$796.6 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities are based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The decrease in balance as at December 31, 2016 is mainly due disposition of properties and revisions to the estimate as a result of changes in the Bank of Canada long term interest rates, and cost estimates. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Investments in Joint Ventures

Harvest has equity investments in Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") joint ventures with KERR Canada Co. Ltd. ("KERR") which are accounted for as equity investments. Harvest derives its income or loss from its investments based upon Harvest's share in the change of the net assets of the joint venture. Harvest's share of the change in the net assets does not directly correspond to its ownership interest because of contractual preference rights to KERR and changes based on contributions made by either party during the year. For the fourth quarter and twelve months ended December 31, 2016, Harvest recognized a loss of \$8.1 million and \$43.8 million (2015 – \$71.5 million and \$97.3 million) from its investment in the DBP and HKMS joint ventures.

Below is an overview of operational and financial highlights of the DBP and HKMS joint ventures for the fourth quarter and twelve months ended December 31, 2016. Unless otherwise noted the following discussion relates to 100% of the joint venture results and not based on Harvest ownership share.

Deep Basin Partnership

DBP was established for the purposes of exploring, developing and producing from certain oil and gas properties in the Deep Basin area in Northwest Alberta. During 2015 and in the twelve month ended December 31, 2016 Harvest made various contributions to the DBP that resulted in increase in its ownership percentage as reflected in the table below.

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Harvest's ownership interest	82.32%	82.03%	82.00%	81.98%	81.71%
KERR's ownership interest	17.68%	17.97%	18.00%	18.02%	18.29%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at December 31, 2016, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$6.7 million (December 31, 2015 - \$2.0 million).

At December 31, 2016, Harvest received a total of \$6.0 million (December 31, 2015 - \$4.3 million) in distributions from the DBP from inception of the joint venture.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Natural gas (mcf/d)	25,835	26,026	(1%)	27,375	19,135	43%
Natural gas liquids (bbl/d)	1,246	1,080	15%	1,238	936	32%
Light to medium oil (bbl/d)	2	—	—	2	1	100%
Total (boe/d)	5,553	5,418	2%	5,802	4,126	41%
Harvest's share ⁽¹⁾	4,571	4,427	3%	4,762	3,300	44%

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

Sales volumes for the fourth quarter and twelve months ended December 31, 2016 increased by 135 boe/d and 1,676 boe/d respectively, as compared to the same periods in 2015. The fourth quarter increase was due to DBP's 2016 drilling program. The twelve month increase was due to new wells being brought online and additional assets contributed on October 1, 2015 by Harvest, partially offset by production curtailments due to third party transportation restrictions.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Revenues ⁽²⁾	14.7	8.6	71%	37.2	30.2	23%
Operating expenses and Other	(12.8)	(8.8)	(45%)	(34.8)	(27.9)	(25%)
Depletion, depreciation and amortization	(11.3)	(13.0)	13%	(40.7)	(43.9)	7%
Finance costs	(0.7)	(0.7)	—	(2.8)	(2.7)	(4%)
Impairment	—	(59.8)	—	(1.4)	(59.8)	-
Loss on disposition of assets	—	—	—	(9.8)	-	-
Net loss ⁽¹⁾	(10.1)	(73.7)	86%	(52.3)	(104.1)	50%

(1) Balances represent 100% share of the DBP.

(2) Revenue is presented net of royalties

The higher sales revenues in the fourth quarter ended December 31, 2016 reflects the higher commodity prices and higher volumes compared to the same period in the prior year, as well as a reclassification of previous quarters' transportation and marketing costs netted against revenues. The higher sales revenues in the twelve months of 2016 reflect a reclassification of transportation and marketing costs previously netted against revenue, as well as higher sales volumes, which was partially offset by lower commodity prices compared to the same period in 2015.

Operating expenses and other expenses for the fourth quarter and twelve months of 2016 were \$24.83 per boe and \$16.40 per boe, respectively, an increase of \$7.31 per boe and a decrease of \$2.12 per boe from the same periods in 2015. The increase in fourth quarter operating expenses was due to a reclassification of prior quarters' transportation and marketing costs previously netted against revenue. The decrease on a twelve

month basis from 2015 was mainly due to the higher sales volume being processed through the HKMS natural gas processing plant resulting in lower operating expense on a boe basis.

Depletion for the fourth quarter and twelve months ended December 31, 2016 were \$22.12 per boe and \$19.18 per boe, respectively (2015 – \$26.13 per boe and \$29.17 per boe). The decreases from 2015 were mainly due to the impact of an impairment charge recorded during the fourth quarter of 2015 and additional proved reserves recognized in the fourth quarter of 2015.

For the twelve months of 2016, the DBP recognized an impairment loss of \$1.4 million relating to a final statement of adjustments for a corporate acquisition completed in the fourth quarter of 2015. As the partnerships property, plant and equipment (PP&E) assets were impaired as at December 31, 2015 the additions to PP&E as a result of the statement of adjustment were flowed through as an expense in the first quarter of 2016.

On January 15, 2016 the DBP closed an asset exchange whereby the carrying value of assets given up exceeded the fair value of assets received based on the booked reserves associated with the properties exchanged. This transaction resulted in a loss on disposition of PP&E of \$9.8 million.

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Drilling and completion	9.6	22.7	17.4	64.6
Well equipment, pipelines and facilities	2.8	7.4	6.4	23.4
Total ⁽¹⁾	12.4	30.1	23.8	88.0

(1) Balances represent 100% share of the DBP.

Capital asset additions were \$12.4 million and \$23.8 million in the fourth quarter and twelve months ended December 31, 2016, mainly related to drilling, completion and tie-in of wells. During the fourth quarter and twelve months of 2016, DBP drilled 1 gross (1 net) and 4 gross (3.5 net) wells, respectively.

HKMS Partnership

The HKMS Partnership was formed for the purposes of constructing and operating a gas processing facility, which is primarily used to process the gas produced from the properties owned by the Deep Basin Partnership. A gas processing agreement was entered into by the two partnerships.

During 2015 and in the twelve months ended December 31, 2016 Harvest made various contributions to the HKMS Partnership that resulted in increase in its ownership percentage as reflected in the table below.

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Harvest's ownership interest	70.23%	70.21%	70.19%	70.15%	69.93%
KERR's ownership interest	29.77%	29.79%	29.81%	29.85%	30.07%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At December 31, 2016, Harvest received a total of \$23.4 million (December 31, 2015 - \$7.7 million) in distributions from HKMS from inception of the joint venture.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2016	2015	Change	2016	2015	Change
Revenues	6.7	5.8	16%	24.6	19.8	24%
Operating expenses and other	(0.7)	(0.2)	(250%)	(1.5)	(1.5)	0%
Depreciation and amortization	(0.9)	(0.8)	(13%)	(3.5)	(3.1)	(13%)
Finance costs	(4.9)	(4.9)	0%	(19.6)	(15.0)	(31%)
Net (loss) income ⁽¹⁾	0.2	(0.1)	300%	—	0.2	(100%)

(1) Balances represent 100% share of HKMS.

The Gas Processing Agreement between HKMS and DBP ensures that HKMS receives an 18% internal rate of return on capital deployed over the term of the contract. In order to guarantee this return, DBP is required to provide HKMS with a minimum monthly capital fee that is currently \$1.9 million a month. This capital fee is accounted for as revenue for HKMS and an operating expense for the DBP. In addition HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the fourth quarter and twelve months ended December 31, 2016 the partnership generated revenues of \$6.7 million and \$24.6 million, respectively (2015 – \$5.8 million and \$19.8 million).

Operating expenses of the facility are recovered through charging an operating fee to the producers. For the fourth quarter and twelve months ended December 31, 2016 the partnership operating expense and other were \$0.7 million and \$1.5 million, respectively (2015 – \$0.2 million and \$1.5 million).

Depreciation has been calculated on a straight-line basis over a 30 year useful life. Based on the capital expenditures incurred to date, the depreciation on a monthly basis is approximately \$0.3 million per month. For the fourth quarter and twelve months ended December 31, 2016 the partnership depreciation expense were \$0.9 million and \$3.5 million, respectively (2015 – \$0.8 million and \$3.1 million).

Finance costs mainly represent an accounting charge resulting from the Partner's contributions being classified as liabilities, as a result of the Gas Processing Agreement guaranteed returns. The finance costs represent the 18% rate of return on the partner's contributions. For the fourth quarter and twelve months ended December 31, 2016 the partnership financing costs were \$4.9 million and \$19.6 million, respectively (2015 – \$4.9 million and \$15.0 million).

See note 12 of the December 31, 2016 audited consolidated financial statements for discussion of the accounting implications of these joint ventures.

OIL SANDS
Pre-operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Expenses				
Pre-operating	2.9	5.0	10.7	14.1
General and administrative	0.5	0.9	2.2	3.1
Depreciation and amortization	0.1	0.2	0.6	0.5
Impairment of property, plant and equipment	—	229.0	—	491.0
Pre-Operating loss ⁽¹⁾	(3.5)	(235.1)	(13.5)	(508.7)

(1) This is a non GAAP measure; please refer to "non-GAAP Measures" in this MD&A.

As the CPF was substantially completed during the first quarter of 2015, the operating expenses that were previously capitalized to property plant and equipment are now expensed on the income statement. For the fourth quarter and twelve months ended December 31, 2016, Harvest recognized an operating loss of \$3.5 million and \$13.5 million (2015 – \$235.1 million and \$508.7 million) respectively, mainly relating to labour, power, maintenance and general and administrative expenses.

For the fourth quarter and twelve months of 2016, no impairments were charged to the Oil Sands segment (after-tax discount rate of 9.5% for proved plus probable reserves and 12% for possible reserves). Impairment charges of \$229.0 million and \$491.0 million were recognized for the fourth quarter and twelve months ended December 31, 2015, respectively (2015 - \$491.0 million at a pre-tax discount rate of 12% resulting in a recoverable amount of \$959.1 million).

Capital Asset Additions

	Three Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Well equipment, pipelines and facilities	(0.1)	0.3	0.1	44.4
Pre-operating costs	—	(0.2)	—	6.8
Drilling and completion	—	—	—	0.4
Capitalized borrowing costs and other	2.0	0.4	1.8	14.4
Total Oil Sands additions	1.9	0.5	1.9	66.0

The minimal capital spending during the fourth quarter and twelve months of 2016 reflects a halt in Oil Sands activity since the first quarter of 2015.

Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at December 31, 2016 was \$48.6 million (December 31, 2015 - \$50.1 million) relating to the future remediation, abandonment, and reclamation of the steam assisted gravity drainage ("SAGD") wells and CPF. The decrease in this balance as at December 31, 2016 is mainly due to revisions to the estimate as a result of changes in the Bank of Canada long term interest rates. Please see the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Project Development

Harvest has been developing its Oil Sands CPF under the engineering, procurement and construction ("EPC") contract. Initial drilling of 30 SAGD wells (15 well pairs) was completed by the end of 2012 and the majority of the well completion activities were completed by the end of 2014. More SAGD wells will be drilled in the future to compensate for the natural decline in production of the initial well pairs and maintain the Phase 1 production capacity of 10,000 bbl/d. During the first quarter of 2015 construction had been substantially completed, including the building of the CPF plant site, well pads, and connecting pipelines. Several systems have since been commissioned and others will be progressed slowly within a limited budget. The decision to complete commissioning of the CPF and commence steam injection depends on a number of factors including the bitumen price environment.

Harvest has recorded net \$1,082.5 million of costs on the entire project since acquiring the Oil Sands assets in 2010. This \$1,082.5 million includes certain Phase 2 pre-investment which is expected to improve the capital efficiency over the project lifecycle. Under the EPC contract, \$94.9 million of the EPC costs will be paid in equal installments, without interest, over 10 years. Payments commenced during the second quarter of 2015 with two payments made on April 30, 2015. Harvest withheld the third deferred payment due April 30, 2016 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2016, Harvest recognized a liability of \$67.2 million (December 31, 2015 - \$62.0 million) using a discount rate of 4.5% (December 31, 2015 - 5.5%).

As Harvest uses the unit of production method for depletion and the Oil Sands assets currently have no production, no depletion on the Oil Sands property, plant and equipment has been recorded. Minor depreciation has been recorded during the fourth quarter and twelve months of 2016 on administrative assets.

RISK MANAGEMENT, FINANCING AND OTHER
Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. The following is a summary of Harvest's derivative contracts outstanding at December 31, 2016:

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of asset
US\$373 million	Foreign exchange swap	January 2017	\$1.34 Cdn/US	1.1
				\$ 1.1

Harvest has entered into U.S. dollar currency swap transactions related to a LIBOR borrowings, which results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and twelve months ended December 31, 2016 was 1.5% and 1.6%, respectively (2015 – 1.7% and 2.0%, respectively).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended December 31											
Realized (gains) losses recognized in:	2016					2015					
	Power	Crude Oil	Currency	Top-Up Obligation	Total	Power	Crude Oil	Currency	Natural Gas	Top-Up Obligation	Total
Revenues	—	0.5	—	—	0.5	—	(8.4)	—	(2.7)	—	(11.1)
Derivative contract (gains) losses	0.3	—	—	—	0.3	2.0	—	—	—	—	2.0
Unrealized (gains) losses recognized in:											
OCI, before tax	—	0.1	—	—	0.1	—	(1.7)	—	(1.6)	—	(3.3)
Derivative contract (gains) losses	(0.1)	—	(4.3)	(7.8)	(12.2)	(0.6)	—	—	—	2.0	1.4

Twelve Months Ended December 31											
Realized (gains) losses recognized in:	2016					2015					
	Power	Crude Oil	Currency	Top-Up Obligation	Total	Power	Crude Oil	Currency	Natural Gas	Top-Up Obligation	Total
Revenues	—	0.1	—	—	0.1	—	(12.5)	—	(4.5)	—	(17.0)
Derivative contract (gains) losses	1.6	—	—	—	1.6	4.2	—	0.2	—	—	4.4
Unrealized (gains) losses recognized in:											
OCI, before tax	—	0.1	—	—	0.1	—	(12.5)	—	(2.6)	—	(15.1)
Derivative contract (gains) losses	—	—	(1.1)	4.7	3.6	(1.2)	—	—	—	2.0	0.8

Finance Costs

	Three Months Ended December 31		Twelve Months Ended December	
	2016	2015	2016	2015
Credit facility ⁽¹⁾	3.9	10.0	17.7	27.4
6%% senior notes	7.1	12.3	37.4	46.9
2½% senior notes ⁽¹⁾	6.0	5.9	23.7	22.8
2½% senior notes ⁽¹⁾	1.8	—	3.8	—
Related party loans	11.9	7.4	39.9	27.6
Amortization of deferred finance charges and other	1.0	0.6	3.1	2.0
Interest and other financing charges	31.7	36.2	125.6	126.7
Accretion of decommission and environmental remediation liabilities	3.4	4.6	16.7	18.5
Accretion of long-term liability	0.7	0.8	3.1	2.6
Less: capitalized interest	—	—	—	(9.7)
Total finance costs	35.8	41.6	145.4	138.1

(1) Includes guarantee fee to KNOC.

Currency Exchange

	Three Months Ended December 31		Twelve Months Ended December	
	2016	2015	2016	2015
Realized (gains) losses on foreign exchange	6.3	1.3	(16.1)	2.1
Unrealized (gains) losses on foreign exchange	45.5	69.6	(23.8)	308.4
Total (gains) losses on foreign exchange	51.8	70.9	(39.9)	310.5

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 6 $\frac{7}{8}$ %, 2 $\frac{1}{8}$ % and 2 $\frac{1}{3}$ % senior notes, the ANKOR and KNOC related party loans and on any U.S. dollar denominated monetary assets or liabilities. At December 31, 2016, the Canadian dollar had weakened compared to the US dollar, resulting in an unrealized foreign exchange loss of \$45.5 million for the fourth quarter of 2016 (2015 – \$69.6 million). Harvest recognized a realized foreign exchange loss of \$6.3 million for the fourth quarter of 2016 (2015 – \$1.3 million) as a result of a weaker Canadian dollar, primarily relating to a \$6.0 million loss on the settlement of related party debt. During the twelve months ending December 31, 2016, the Canadian dollar had strengthened compared to the US dollar as at December 31, 2015 resulting in an unrealized foreign exchange gain of \$23.8 million (2015 – \$308.4 million loss). Harvest recognized a realized foreign exchange gain of \$16.1 million for the twelve months of 2016 (2015 – \$2.1 million loss), which was primarily the result of a \$15.7 million realized foreign exchange gain related to the settlement of the ANKOR loan, which was partially offset by a realized loss of \$6.0 million relating to the settlement of related party debt. The remainder of the realized foreign exchange for 2016 relates to the settlement of U.S. dollar denominated working capital, interest payments on U.S. dollar denominated debt, and gains and losses on foreign exchange hedging instruments. For a discussion on the ANKOR loan transaction, and settlement of related party debt, please refer to the related party transactions section below.

Income Taxes

For the fourth quarter and twelve months ended December 31, 2016 Harvest recorded a deferred income tax recovery of \$nil and \$0.1 million, respectively (2015 – \$189.4 million and \$313.9 million). Harvest's deferred income tax asset will fluctuate during each accounting period to reflect changes in the temporary differences between the book value and tax basis of assets and liabilities. Currently, the principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the quarter ended December 31, 2016:

Related Party Loans

Related Party	Principal	Interest Rate	Maturity Date	Carrying Value		Interest Payable	
				Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
KNOC	US\$171	5.91%	Dec 31, 2017	—	166.1	—	4.1
KNOC	\$200	5.30%	Dec 30, 2018	—	193.2	—	16.7
KNOC	US\$184.8	4.66%	Oct 2, 2017	—	—	—	—
ANKOR	US\$170	4.62%	Oct 2, 2017	—	235.2	—	14.6

Related Party	Principal	Interest Rate	Maturity Date	Interest expense			
				Three months ended		Twelve Months Ended	
				December 31		December 31	
				2016	2015	2016	2015
KNOC	US\$171	5.91%	Dec 31, 2017	5.1	1.3	14.1	3.8
KNOC	\$200	5.30%	Dec 30, 2018	3.6	3.4	14.0	13.7
KNOC	US\$184.8	4.66%	Oct 2, 2017	3.2	—	5.9	—
ANKOR	US\$170	4.62%	Oct 2, 2017	—	2.6	5.9	10.0

On June 30, 2016 Harvest entered into an US\$184.8 million loan agreement with KNOC, due on October 2, 2017. During the third quarter of 2016, Harvest drew down the US\$184.8 million and used the proceeds to repay the US\$170 million ANKOR loan, including accrued interest. ANKOR is a fully-owned subsidiary of KNOC. The related party loans are unsecured and the loan agreements contain no restrictive covenants.

On December 22, 2016, KNOC converted all its outstanding loans to common shares of Harvest. The carrying value of the loans plus accrued interest at December 22, 2016 of \$722.2 million was converted to equity and \$10.3 million previously recognized in contributed surplus relating to these loans were transferred to shareholder's capital. As a result, 72.7 million common shares were issued to KNOC. As at December 31, 2016 there were no related party loans outstanding. This transaction provides significant savings to Harvest by reducing interest expense by approximately \$40.0 million annually, improves the company's balance sheet, and is further evidence of KNOC's continuing financial support of Harvest.

	Transactions				Balance Outstanding			
	Three Months Ended		Twelve Months Ended		Accounts Receivable as at		Accounts Payable as at	
	December 31		December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015	2016	2015
G&A Expenses								
KNOC ⁽¹⁾	0.1	(1.0)	0.4	(5.6)	0.1	—	0.4	0.8
Finance costs								
KNOC ⁽²⁾	2.3	4.1	9.0	7.5	—	—	1.7	3.5

⁽¹⁾ The Global Technology and Research Centre ("GTRC") was used as a training and research facility for KNOC. The GTRC was closed at the end of 2015. Amounts relate to the reimbursement from KNOC for general and administrative expenses incurred by the GTRC. Also included is Harvest's reimbursement to KNOC for secondees salaries paid by KNOC on behalf of Harvest.

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½% and 2½% senior notes and the senior unsecured credit facility. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes and 37 basis points per annum on the credit facility.

During the year ended December 31, 2016, Harvest entered into an agreement with KNOC to drill a well and provide technical data to KNOC. KNOC initially provided Harvest with \$5.3 million in cash, and any additional amounts incurred relating to the well will be billed to KNOC for reimbursement up to a maximum of 9.4 billion Korean won equivalent. The initial funds of \$5.3 million provided by KNOC was recorded in contributed surplus.

The Company identifies its related party transactions by making inquiries of management and the Board of Directors, reviewing KNOC's subsidiaries and associates, and performing a comprehensive search of transactions recorded in the accounting system. Material related party transactions require the Board of

Directors' approval. Also see note 12, "Investment in Joint Ventures" in the December 31, 2016 audited consolidated financial statements for details of related party transactions with DBP and HKMS.

CAPITAL RESOURCES

The following table summarizes Harvest's capital structure and provides the key financial ratios defined in the credit facility agreement.

	December 31, 2016	December 31, 2015
Credit facility ⁽¹⁾	893.5	926.6
6 $\frac{7}{8}$ % senior notes (US\$282.5 million) ⁽¹⁾⁽²⁾⁽⁴⁾	379.3	692.0
2 $\frac{1}{8}$ % senior notes (US\$630 million) ⁽¹⁾⁽²⁾	845.9	871.9
2 $\frac{1}{3}$ % senior notes (US\$195.8 million) ⁽²⁾	262.9	—
Related party loans (US\$355.8 million and CAD\$200 million) ⁽²⁾⁽³⁾	—	601.4
	2,381.6	3,091.9
Shareholder's equity (deficiency)		
458,766,467 (2015 - 386,078,649) common shares issued	104.0	(275.3)
	2,485.6	2,816.6

(1) Excludes capitalized financing fees

(2) Face value converted at the period end exchange rate

(3) As at December 31, 2015, related party loans comprised of US\$170 million from ANKOR, US\$120 million from KNOC and \$200 million from KNOC.

(4) As at December 31, 2015, there were US\$500 million of 6 $\frac{7}{8}$ % senior notes outstanding

On June 16, 2016 Harvest completed an exchange of a significant portion of its 6 $\frac{7}{8}$ % senior notes due 2017 for new 2 $\frac{1}{8}$ % senior notes due 2021, at an exchange ratio of US\$900 principal amount of the new 2 $\frac{1}{8}$ % senior notes for each US\$1,000 principal amount of the old 6 $\frac{7}{8}$ % senior notes. US\$217.5 million of the old 6 $\frac{7}{8}$ % senior notes was exchanged for US\$195.8 million new 2 $\frac{1}{8}$ % senior notes. The extinguishment of the old 6 $\frac{7}{8}$ % senior notes resulted in a gain of \$36.0 million. The transaction provides significant saving to Harvest by reducing interest expense by US\$9.9 million annually, as well as reduction in principal of US \$21.7 million.

During 2015, Harvest amended its \$1 billion syndicated revolving credit facility and replaced it with a KNOC guaranteed \$1.0 billion revolving credit facility that matures on April 30, 2017, with a syndicate of nine financial institutions. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually.

Under the amended credit facility, applicable interest and fees are based on a margin pricing grid based on the Moody's and S&P credit ratings of KNOC. The financial covenants under the previous credit facility were deleted and replaced with a new covenant: Total Debt to Capitalization ratio of 70% or less. At December 31, 2015, Harvest was in violation of the debt covenant and the carrying value of the credit facility, \$923.8 million, was reclassified from long-term debt to a current liability. On February 5, 2016 Harvest's syndicate banks consented to a waiver of this covenant for the duration of the term of the credit facility and the maturity date remains at April 30, 2017, and the credit facility was classified as current as at December 31, 2016.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allows Harvest to borrow \$500 million through a three year fixed rate term loan. Once drawn, proceeds from the term loan will

be used to repay credit facility borrowings. In addition, as at February 23, 2017, Harvest has received formal commitments for a new three year \$500 million revolving credit facility with a syndicate of banks that will replace the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC and are both expected to close on February 24, 2017. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants.

LIQUIDITY

The Company's liquidity needs are met through the following sources: cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility, related party loans, long-term debt issuances and capital injections by KNOC. Harvest's primary uses of funds are operating expenses, capital expenditures, and interest and principal repayments on debt instruments.

Cash generated from operating activities for the three months ended December 31, 2016 was \$15.1 million (2015 – \$21.0 million cash used in operations). The increase in the fourth quarter of 2016 is mainly a result of reduced expenses and changes in working capital requirement partially offset by increased interest expense. Cash used in operating activities for the twelve months ended December 31, 2016 was \$33.3 million (2015 – \$35.4 million). The increase in the twelve months of 2016 is mainly a result of lower revenues partially offset by reduced expenses, foreign exchange gains, and changes in working capital requirement.

Cash contributions from Harvest's Conventional operations for the fourth quarter and December 31, 2016 was \$33.3 million and \$74.6 million, respectively (2015 – \$29.8 million and \$154.3 million). The fourth quarter increase in cash contributions is primarily due to decreased operating costs and royalties, which was partially offset by lower sales volumes and increased transportation costs. The twelve month decrease in cash contribution was mainly due to lower sales volumes and lower realized prices, partially offset by lower operating expenses, and general and administrative expenses.

Harvest funded capital expenditures for the fourth quarter and twelve months ended December 31, 2016 of \$15.6 million and \$20.9 million, respectively (2015 – \$22.9 million and \$249.6 million) with the proceeds from property dispositions and borrowings under both the credit facility and KNOC subordinated loan.

Harvest's net drawings from the credit facility was \$6.8 million (2015 – \$44.1 million) during the fourth quarter ended December 31, 2016. Harvest made a net repayment of \$42.1 million during the twelve month period ended December 31, 2016 (2015 – \$304.4 million net drawings).

Harvest had a working capital deficiency of \$1,370.9 million as at December 31, 2016, as compared to a \$1,070.5 million deficiency at December 31, 2015, mainly due to long term debt with a 2017 maturity date becoming a current obligation in the year, which was partially offset by repayments to the credit facility. Harvest is in consultation with KNOC about the 6 $\frac{7}{8}$ % senior note refinancing plans in October 2017. Harvest's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility managing the collection and payment of accounts receivables and accounts payables respectively and using the proceeds from possible sale of assets, as required.

Harvest ensures its liquidity through the management of its capital structure, seeking to balance the amount of debt and equity used to fund investment in each of our operating segments. Harvest evaluates its capital structure using the same financial covenant ratios as the ones that were externally imposed under the Company's credit facility and the senior notes. The Company continually monitors its credit facility covenants and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating covenants as and when required.

In response to the low commodity price environment, Harvest constrained its capital expenditures in 2016, focusing on capital maintenance and regulatory activities. Harvest also continues to postpone first steam for the Oil Sands project in response to the unfavourable heavy oil prices and will continually assess the commodity price environment to determine when to complete commissioning of the CPF and first steam injection.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allows Harvest to borrow \$500 million through a three year fixed rate term loan. Once drawn, proceeds from the term loan will be used to repay credit facility borrowings. In addition, as at February 23, 2017, Harvest has received formal commitments for a new three year \$500 million revolving credit facility with a syndicate of banks that will replace the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC and are both expected to close on February 24, 2017. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly or indirectly invested and provided financial support to Harvest since 2009 and, as at the date of preparation of this MD&A, it is the Company's expectation that such support will continue.

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at December 31, 2016, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments ⁽¹⁾	1,273.2	845.9	262.9	—	2,382.0
Debt interest payments ^{(1) (2)}	60.6	25.4	10.6	—	96.6
Purchase commitments ⁽³⁾	20.5	19.0	19.0	33.1	91.6
Operating leases	6.8	15.7	17.0	28.8	68.3
Firm processing commitments	14.8	24.4	17.9	34.4	91.5
Firm transportation agreements	25.0	53.2	32.2	47.0	157.4
Employee benefits ⁽⁴⁾	1.5	0.3	—	—	1.8
Decommissioning and environmental liabilities ⁽⁵⁾	9.7	56.1	73.4	1,094.1	1,233.3
Total	1,412.1	1,040.0	433.0	1,237.4	4,122.5

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at December 31, 2016 will be applicable to future interest payments.

(3) Relates to the Oil Sands deferred payment under the EPC contract (see "Oil Sands" section of this MD&A for details), and revised estimated capital costs for the Bellshill area (see "Impairment of Property, Plant & Equipment" section of this MD&A for details).

(4) Relates to the long-term incentive plan payments.

(5) Represents the undiscounted obligation by period.

Environmental Initiatives Impacting Harvest

Subsequent to year end, on January 1, 2017, the provincial government of Alberta implemented an economy wide carbon emissions tax. The tax was set at \$20 per tonne and is expected to increase to \$30 per tonne on January 1, 2018. In addition, as part of their Climate Leadership Plan, they implemented an oil sands emission production cap of 100 megatonnes a year, have a plan to phase out of coal-fired power production by 2030, and initiated a program to reduce methane gas emissions by 45% from Alberta's oil and gas operations by the year 2025. Harvest anticipates these initiatives will result in an increase in the cost of operating its properties located in Alberta.

Off Balance Sheet Arrangements

See "Investments in Joint Ventures" section in this MD&A and note 12, "Investment in Joint Ventures" in the December 31, 2016 audited consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the fourth quarter of 2016 results relative to the preceding 8 quarters:

	2016				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL									
Revenue, Conventional	84.4	65.8	72.7	64.4	97.1	120.4	130.8	113.3	175.5
Revenue, Downstream ⁽¹⁾	—	—	—	—	—	—	—	—	321.2
Total Revenues and other income ⁽²⁾	84.4	65.8	72.7	64.4	97.1	120.4	130.8	113.3	496.7
Net loss from continuing operations	(162.5)	(106.9)	(65.7)	(13.1)	(894.2)	(588.7)	(87.0)	(223.5)	(275.8)
Net loss from discontinued operations	—	—	—	—	(15.5)	—	—	—	(61.7)
Net loss	(162.5)	(106.9)	(65.7)	(13.1)	(909.7)	(588.7)	(87.0)	(223.5)	(337.5)
OPERATIONS									
Continuing Operations									
Daily sales volumes (boe/d)	26,589	30,051	34,440	36,986	38,141	43,356	41,716	43,770	42,539
Realized price prior to hedging (\$/boe)	37.06	28.03	26.50	20.86	27.89	31.47	37.85	31.85	47.99
Discontinued Operations⁽¹⁾									
Average daily throughput (bbl/d)	—	—	—	—	—	—	—	—	76,455
Average refining gross margin (US\$/bbl) ⁽³⁾	—	—	—	—	—	—	—	—	2.76

(1) Downstream operations have been classified as "Discontinued Operations" as a result of disposition on November 13, 2014.

(2) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

(3) Excludes volumes from the DBP

The quarterly revenues and cash from operating activities are mainly impacted by the Conventional sales volumes, realized prices and operating expenses and previously, Downstream throughput volumes, cost of feedstock and refined product prices. Significant items that impacted Harvest's quarterly revenues include:

- Total revenues were highest in the fourth quarter of 2014, as a result of high daily sales volumes and revenue from Downstream refinery, and lowest in the first quarter of 2016 due to reduced commodity prices.
- The declines in Conventional's sales volumes since 2014 were mainly due to asset dispositions and a capital program that was insufficient to offset declines in production.

Net loss reflects both cash and non-cash items. Changes in non-cash items including deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, accretion of onerous contracts, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on derivative contracts impact net loss from period to period. For these reasons, the net loss may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to. The net loss from continuing operations in the fourth quarter of 2016 is mainly a result of a \$17.4 million write off of exploration and evaluation assets, and \$51.8 million of foreign exchange losses on the company's U.S. denominated debt. The net loss from continuing operations in the third quarter of 2016 is mainly a result of lower realized prices and sales volumes. The net loss from continuing operations in the second quarter of 2016 is mainly a result of lower realized prices and sales volumes, and a \$10.6 million loss from joint ventures. The net loss from continuing operations in the first quarter of 2016 is mainly a result of lower realized prices and sales volumes, and an \$18.5 million loss from joint ventures. The net loss from continuing operations in the fourth quarter of 2015 is mainly a result of lower realized prices and sales volumes, a \$620.1 million impairment expense, and a \$71.5 million loss from joint ventures. The net loss from continuing operations in the third quarter of 2015 is mainly a result of lower realized prices and sales volumes and a \$542.0 million impairment expense. The net loss from continuing operations in the second quarter of 2015 is mainly a result of a result of lower realized prices and sales volumes and a \$70.7 million impairment expense. The net loss from continuing operations in the first quarter of 2015 was mainly a result of lower realized prices and sales volumes, a \$140.5 million foreign exchange loss and a \$23.5 million impairment expense. The net loss from continuing operations in the fourth quarter of 2014 was mainly due to the \$267.6 million impairment expense.

SELECTED ANNUAL INFORMATION

	Year Ended December 31		
	2016	2015	2014
Revenue, Conventional	287.3	461.6	896.3
Revenue, Downstream ⁽¹⁾	—	—	3,432.1
Total revenues and other income ⁽²⁾	287.3	461.6	4,328.4
Net loss from continuing operations	(348.2)	(1,793.4)	(85.6)
Net loss from discontinued operations	—	(15.5)	(354.6)
Net loss	(348.2)	(1,808.9)	(440.2)
Total assets	3,374.9	3,928.1	5,091.6
Total financial liabilities, non-current ⁽³⁾⁽⁴⁾	1,172.8	2,252.2	2,374.8

(1) Downstream operations for 2014 ended on November 13, 2014 and have been classified as "Discontinued Operations".

(2) This is an additional GAAP measure; please refer to "Additional GAAP Measures" in this MD&A.

(3) Total financial liabilities, non-current consists of the non-current portion of long-term debt, related party loans and long-term liability.

(4) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

Revenues and other income have decreased since 2014, mainly due to the decrease in Conventional sales volumes and realized prices, as well as discontinued Downstream operations.

Total assets have decreased since 2014 due to the impairment charges recorded of \$1,523.9 million and \$179.3 million for the years ended December 31, 2015 and 2014, respectively, the sale of Conventional assets in 2014, 2015 and 2016, and the sale of the Downstream segment in 2014, which was partially offset by a 2016 impairment reversal of \$38.8 million.

The decrease in non-current financial liabilities in 2016 is due primarily to the conversion of \$722.2 million of related party debt to equity, and the reclassification of \$379.7 million in long term senior notes as current which was partially offset by changes in the liabilities denominated in US dollars due to movement in the foreign currency exchange rates.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Harvest has identified the following areas where significant estimates and judgments are required. Further information on each of these areas and how they impact various accounting policies are described below and also in relevant notes to the audited consolidated financial statements. Changes in estimates are accounted for prospectively.

(a) Joint arrangements

Judgment is required to determine whether or not Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 5 of the audited consolidated financial statements for more details.

In addition, judgment is required in determining whether joint arrangement structured through a separate vehicle is a joint operation or joint venture and involves determining whether the legal form and contractual arrangements give the Company direct rights to the assets and obligations for the liabilities. Other facts and circumstances are also assessed by management, including but not limited to, the Company's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement. This often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint venture or joint operation may materially impact the accounting.

On April 23, 2014, Harvest entered into two joint arrangements with KERR Canada Co. Ltd. ("KERR"): Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") (also see note 12 of the audited consolidated financial statements). Unanimous consent must be obtained from the shareholders for decisions about relevant activities that impact the returns on investment. Such activities include but are not limited to the approval of the overall capital program and budget. Based on management's assessment, Harvest concluded that both joint arrangements are joint ventures as neither KERR nor Harvest has a direct interest in the underlying assets or liabilities. These joint ventures have been recognized using the equity method of accounting. However, based on the terms of the agreement, which provide for differing proportions of earnings based on ownership percentages that are not representative of the economic substance, Harvest cannot simply apply its percentage ownership to pick up the net income from these joint ventures. Therefore, Harvest applies a hypothetical liquidation at book value ("HLBV") method to calculate its equity share of net income for each reporting period. HLBV takes a balance sheet approach in calculating the earnings Harvest should recognize based on the change in Harvest's economic interest in the net assets in the partnerships under the provisions of the joint venture agreements in a liquidation scenario.

(b) Reserves

The provision for depletion and depreciation of Conventional assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Conventional and Oil Sands' decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to Conventional and Oil Sands may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets.

The process of estimating reserves is complex and requires significant judgments based on available geological, geophysical, engineering and economic data. In the process of estimating the recoverable oil and natural gas reserves and related future net cash flows, Harvest incorporates many factors and assumptions, such as:

- expected reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- future commodity prices and quality differentials;
- discount rates; and
- future development costs.

As the economic assumptions used may change, such changes may impact the reported financial position and results, which include E&E, PP&E, goodwill, DD&A, provisions for decommissioning liabilities and deferred tax assets.

On an annual basis, the Company engages qualified, independent reserves evaluators to evaluate Harvest's reserves data.

Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production ("UOP") calculation and the matching of capitalized costs with the benefit of production. The calculation of the UOP rate of DD&A will be impacted to the extent that actual production in the future is different from current forecasted production based on total proved reserves or future development cost estimate changes.

(c) Impairment of long-lived assets

Long-lived assets (goodwill and PP&E) are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to significant judgment; product type, internal operational teams, geology and geography were key factors considered when grouping Harvest's oil and gas assets into the CGUs.

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. The determination of whether such indicators exist requires significant judgment.

E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment and directly impact the timing and amount of impairment. These assumptions may change as new information become available. If, after E&E expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure

is unlikely, the relevant capitalized amount is written off in the statement of comprehensive loss in the period when the new information becomes available.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCD. To determine the recoverable amounts under VIU, Harvest uses reserve estimates for both the Conventional and Oil Sands operating segments. The estimates of reserves, future commodity prices, discount rates, operating expenses and future development costs require significant judgments. FVLCD is determined using judgments, see note 5(c) of the audited consolidated financial statements for further discussion.

(d) Provisions

In the determination of the decommissioning liability provision and provision for onerous contract, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E. The provisions at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(e) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which Harvest and its subsidiaries operate are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions.

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, capital expenditures, general and administrative expenses and finance costs) and the judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(f) Fair value measurements

Significant judgment is required to determine what assumptions market participants would use to price an asset or a liability, such as forward prices, foreign exchange rates and discount rates. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. To determine "highest and best use"

requires further judgment. Changes in estimates and assumptions about these inputs could affect the reported fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. In April 2016, the IASB issued its final amendments that provide new examples and clarification on how the principles should be applied. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning January 1, 2018. Application of the standard is mandatory and early adoption is permitted. Harvest is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements.

On July 24, 2014, the IASB issued IFRS 9 "Financial Instruments" to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2018. Harvest is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16 "Leases" to replace IAS 17 "Leases". IFRS 16 requires lessees to recognize most leases on the statement of financial position using a single recognition and measurement model. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 will be applied by Harvest on January 1, 2019. Harvest is currently evaluating the impact on its consolidated financial statements.

OPERATIONAL AND OTHER BUSINESS RISKS FOR CONTINUING OPERATIONS

Harvest's Conventional and Oil Sands operations are conducted in the same business environment as most other operators in the respective businesses and the business risks are very similar. Harvest has a risk management committee that meets on a regular basis to assess and manage operational and business risks and has a corporate Environment, Health and Safety ("EH&S") policy. For further risk discussion, refer to Harvest's AIF, which can be found on SEDAR at www.sedar.com. The Harvest management team is focused on long-term strategic planning and has identified the key risks and uncertainties associated with the business that could impact the financial results. The following summarizes the significant risks:

Risks Associated with Commodity Prices

- Prices received for petroleum and natural gas have fluctuated widely in recent years. Natural gas prices have experienced significant declines since 2010 and crude oil prices have experienced a sharp decline since 2014. Crude oil differentials continue to be volatile due to pipeline and infrastructure constraints. Decreases in commodity prices could reduce Harvest's earnings and cash flow and could result in shut-in of certain producing properties. Low commodity prices and/or wide

crude oil differentials may also result in asset impairment. Commodity prices are determined by economic, political and supply and demand factors. Harvest manages commodity price risks by entering into various commodity price risk management contracts. Refer to the "Cash Flow Risk Management" section of this MD&A for further information. To the extent that Harvest engages in risk management activities related to commodity prices, it will be subject to credit risks associated with the counterparties of the contracts.

Risk Associated with Refinancing

- Harvest currently has a \$1 billion financial covenant based syndicated revolving credit facility with nine financial institutions that matures on April 30, 2017. On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allows Harvest to borrow \$500 million through a three year fixed rate term loan. Once drawn, proceeds from the term loan will be used to repay credit facility borrowings. In addition, as at February 23, 2017, Harvest has received formal commitments for a new three year \$500 million revolving credit facility with a syndicate of banks that will replace the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC and are both expected to close on February 24, 2017. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants. In the event that Harvest is unable to fund future principal repayments on its term loan, it could impact Harvest's ability to fund its ongoing operations.
- Harvest currently has \$1,488.1 million of long-term fixed interest rate debt outstanding with require repayments in 2017 through to 2021. Harvest intends to fund these principal repayments with issuance of new long-term debt. In the event that Harvest is unable to fund future principal repayments, it could impact Harvest's ability to fund its ongoing operations.

Risks Associated with Operations

- The markets for petroleum and natural gas produced in western Canada are dependent upon available capacity to refine crude oil and process natural gas as well as pipeline or other methods to transport the products to consumers.
- Exploration and development activities may not yield anticipated production, and the associated cost outlay may not be recovered.
- Pipeline capacity and natural gas liquids fractionation capacity in Alberta has not kept pace with the drilling of liquid rich gas properties in some areas of the province which may limit production periodically.
- The production of petroleum and natural gas may involve a significant use of electrical power which has been volatile in price since deregulation of the electric system in Alberta. Increases in power prices reduce our cash flow and earnings. From time to time, Harvest may enter into electricity price swaps to manage our exposure to power price volatility.
- Certain of Harvest's properties are held in the form of licences and leases and working interests in licences and leases. If Harvest or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire.
- Aboriginal peoples have claimed aboriginal title and rights in portions of western Canada. Harvest is not aware that any claims have been made in respect of its properties and assets. However, if a claim

arose and was successful, such claim may have a material adverse effect on Harvest's business, financial condition, results of operations and prospects.

- Decommissioning liabilities are calculated using estimated costs and timelines based upon current operational plans, technology and reclamation practices, and environmental regulations. These factors are subject to change and such changes may impact the actual timing and amount of Harvest's decommissioning costs.

Risks Associated with Reserve Estimates

- The reservoir and recovery information in reserve reports prepared by independent reserve evaluators are estimates and actual production and recovery rates may vary from the estimates and the variations may be significant. The actual production and ultimate reserves and resources from Harvest's properties may be greater or less than the estimates prepared.
- Reserve and resource reports are prepared using certain commodity price assumptions for crude oil, natural gas, and natural gas liquids. If Harvest's realized price for the commodity are lower than the estimated amount, then the amount of reserves and resources and cash flows generated would be reduced and the decrease could be significant.
- Prices paid for acquisitions are based in part on reserve report estimates and the assumptions made preparing the reserve reports are subject to change as well as geological and engineering uncertainty. The actual reserves acquired may be lower than expected, which could adversely impact our cash flow and earnings.

Risks Associated with the Oil Sands Project

- The BlackGold Oil Sands project is exposed to the risks associated with major construction projects. These risks include the possibility that the project will not achieve the design objectives. This would have a significant impact on the financial results of the project.
- When operational, the BlackGold Oil Sands project will be subject to similar operating risks described above in "Risks associated with operations" such as: refinery and transportation constraints and the cost of Alberta Power.

Risks Associated with Acquisitions and Dispositions

- Harvest makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Harvest's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Harvest.
- Non-core assets are periodically disposed of, so that Harvest can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets, if disposed of, could be expected to realize less than their carrying value on the financial statements.

Risks Associated with Environment, Health & Safety ("EH&S")

- The operations of petroleum and natural gas properties involves a number of operating and natural hazards which may result in health and safety incidents, environmental damage and other unexpected and/or dangerous conditions.
- The operations of petroleum and natural gas properties are subject to environmental regulation pursuant to local, provincial and federal legislation. Changes in these regulations could have a material adverse effect as regards to operating costs and capital costs. A breach of such legislation may result in the imposition of fines as well as higher operating standards that may increase costs.
- Harvest's corporate EH&S program has a number of specific policies and practices to minimize the risk of safety hazards and environmental incidents. It also includes an emergency response program should an incident occur. If areas of higher risk are identified, Harvest will undertake to analyze and recommend changes to reduce the risk including replacement of specific infrastructure. In addition, our business units conduct emergency response training on a regular basis in all of our operating fields to ensure a high level of response capability when placed in a challenging situation. Harvest also performs safety and environmental audits of our operating facilities. In addition to the above, Harvest maintains business interruption insurance, commercial general liability insurance as well as specific environmental liability insurance, in amounts consistent with industry standards.
- Harvest carries industry standard property and liability insurance on its Conventional operations. Losses associated with potential incidents described above could exceed insurance coverage limits.

Risks Associated with Liquidity

- Absent capital reinvestment or acquisition, Harvest's reserves and production levels from petroleum and natural gas properties will decline over time as a result of natural declines. As a result, cash generated from operating these properties may decline.
- Fluctuations in interest rates and the U.S./Canada exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.
- Harvest is required to comply with covenants under the credit facility and the senior notes. In 2016, the syndicate of financial institutions consented to waive the credit facility financial covenant. In the event that the Company does not comply with the covenants, its access to capital may be restricted or repayment may be required.
- Although the Company monitors the credit worthiness of third parties it contracts with through a formal risk management policy, there can be no assurance that the Company will not experience a loss for nonperformance by any counterparty with whom it has a commercial relationship. Such events may result in material adverse consequences on the business of the Company.
- Harvest's ability to make scheduled repayments or refinance its debt obligations will depend upon its financial and operating performance, which in turn will partially depend upon prevailing industry and general economic conditions. There can be no assurance that our operating performance, cash flow and capital resources will be sufficient to service and/or repay the Company's debt in the future, in which case the Company may sell assets, enter into joint ventures with 3rd parties to support current and future capital projects, defer capital expenditures, and/or raise additional debt, to the extent available.

Harvest monitors its cash flow projections and covenants on a routine basis and will adjust its development plans accordingly in response to changes in commodity prices and cash flows. Harvest has sought financial support from KNOC as and when required, while KNOC has demonstrated its commitment to support Harvest through liquidity injections and guarantees, in the event KNOC withdraws or curtails its future financial support, this could result in material adverse consequences to Harvest. Harvest has also postponed first steam for the BlackGold Oil Sands project in response to the unfavourable heavy oil prices and will continually assess the commodity price environment to determine when to complete commissioning of the CPF and first steam injection.

Risks Associated with Investment in Joint Arrangement

- As KERR has the ability to cause DBP and HKMS to redeem all its preferred partnership units for consideration equal to its initial contribution plus a minimum after-tax internal rate of return of two percent, there is a risk that Harvest would have to meet this obligation if DBP does not have sufficient funds to complete the redemption obligation. This obligation could also arise upon the termination of this arrangement.

General Business Risks

- The operation of petroleum and natural gas properties requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- Skilled labor is necessary to run operations (both those employed directly by Harvest and by our contractors) and there is a risk that we may have difficulty in sourcing skilled labor which could lead to increased operating and capital costs.
- The loss of a member of our senior management team and/or key technical operations employee could result in a disruption to our operations.
- In the future, Harvest may acquire or move into new industry related activities or new geographical areas or may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase Harvest's exposure to one or more existing risk factors, which may in turn result in the Harvest's future operational and financial conditions being adversely affected.
- Conventional's crude oil sales and a large portion of Harvest's long-term debt are denominated in US dollars while the Company incurs operating and capital costs in Canadian dollars which results in a currency exchange exposure.
- The operations of Harvest operate under permits issued by the federal and provincial governments and these permits must be renewed periodically. The federal and provincial governments may make operating requirements more stringent which may require additional spending.
- Income tax laws, other laws or government incentive programs relating to the oil and gas industry, may in the future be changed or interpreted in a manner that affects Harvest or its stakeholders.
- In the normal course of operations, Harvest may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and it is possible that there could be material adverse developments in pending or

future proceedings and as a result, could have a material adverse effect on Harvest's assets, liabilities, business, financial condition and results of operations.

- Harvest may disclose confidential information relating to its business, operations or affairs while discussing potential business relationships or other transactions with third parties. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put us at competitive risk and may cause significant damage to the business. The harm to the business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages.

CHANGES IN REGULATORY ENVIRONMENT

The oil and gas industry is subject to extensive regulations imposed by many levels of government in Canada. Harvest currently operates in Alberta and British Columbia, both of which have different legislations and royalty programs which may be amended from time to time. A change in the royalty programs or legislations may have adverse impacts on Harvest's future earnings and cash flows.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2016 as defined under the rules adopted by the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2016, the disclosure controls and procedures were effective to ensure that information required to be disclosed by Harvest in reports that it files or submits to Canadian and U.S. securities authorities was recorded, processed, summarized and reported within the time period specified in Canadian and U.S. securities laws and was accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. The Company's DC&P are designed to provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS as issued by IASB. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operation of the Company's DC&P and ICFR as of December 31, 2016. The evaluation was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the

Treadway Commission (2013). Based on the evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

There were no significant changes in internal controls over financial reporting for the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Because of its inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

NON-GAAP MEASURES

Throughout this MD&A, Harvest uses certain terms or performance measure commonly used in the oil and natural gas industry that are not defined under IFRS (hereinafter also referred to as "GAAP"). These non-GAAP measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures of other companies. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for cash contribution (deficiency) which is shown below.

BOE presentation

Boe means barrel of oil equivalent. All boe conversions in this MD&A are derived by converting gas to oil at the ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("Bbl") of oil. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Bbl : 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Bbl : 6 Mcf, utilizing a conversion ratio of 1 Bbl : 6 Mcf may be misleading as an indication of value.

"Operating income (loss)" and "pre-operating loss" is a non-GAAP measure which Harvest uses as a performance measure to provide comparability of financial performance between periods excluding non-operating items. Harvest also uses this measure to assess and compare the performance of its operating segments. The amounts disclosed in the MD&A reconcile to segmented information in the financial statements.

"Operating netbacks" is calculated on a per boe basis and include revenues, operating expenses, transportation and marketing expenses, and realized gains or losses on derivative contracts. Operating netback is utilized by Harvest and other to analyze the operating performance of its oil and natural gas assets.

"Total debt to total capitalization" is a term defined in Harvest's amended credit facility agreement for the purpose of calculation of the financial covenant. The non-GAAP measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other issuers.

"Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of the each segment of Harvest to generate the cash from operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: operating, general and administrative, exploration and evaluation, depletion, depreciation and amortization, gains on disposition of assets, derivative contracts gains or losses, impairment and other charges, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included in operating income (loss). The measure demonstrates the ability of Harvest's Conventional segment to generate cash from operations and is calculated before changes in non-cash working capital. The most directly comparable additional GAAP measure is operating income (loss). Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended December 31					
	Conventional		Oilsands		Total	
	2016	2015	2016	2015	2016	2015
Operating loss	(71.4)	(569.7)	(3.5)	(235.1)	(74.9)	(804.8)
Adjustments:						
Loss from joint ventures	8.1	71.5	—	—	8.1	71.5
Operating, non-cash	5.8	—	—	—	5.8	—
General and administrative, non-cash	(0.1)	(0.5)	—	—	(0.1)	(0.5)
Exploration and evaluation, non-cash	17.4	22.3	—	—	17.4	22.3
Depletion, depreciation and amortization	86.4	118.2	0.1	0.2	86.5	118.4
(Gains) losses on disposition of assets	(0.3)	(4.5)	—	—	(0.3)	(4.5)
Unrealized losses on derivative contracts	(12.2)	1.4	—	—	(12.2)	1.4
Loss on onerous contract	1.3	—	—	—	1.3	—
Impairment and other charges, non-cash	(1.7)	391.1	—	229.0	(1.7)	620.1
Cash contribution (deficiency) from operations	33.3	29.8	(3.4)	(5.9)	29.9	23.9
Inclusion of items not attributable to segments:						
Net cash interest					(25.4)	(26.7)
Realized foreign exchange gains					(6.3)	(1.3)
Consolidated cash contribution from operations					(1.8)	(4.1)
Loss on disposition of Downstream subsidiary					—	(15.5)
Other non-cash items					(2.2)	(6.5)
Change in non-cash working capital					19.2	5.2
Cash from (used in) operating activities					15.2	(20.9)

	Twelve Months Ended December 31					
	Conventional		Oilsands		Total	
	2016	2015	2016	2015	2016	2015
Operating loss	(265.2)	(1,167.9)	(13.5)	(508.7)	(278.7)	(1,676.6)
Adjustments:						
Loss from joint ventures	43.8	97.3	—	—	43.8	97.3
Operating, non-cash	6.1	(0.9)	—	—	6.1	(0.9)
General and administrative, non-cash	0.8	12.4	—	—	0.8	12.4
Exploration and evaluation, non-cash	19.9	27.5	—	—	19.9	27.5
Depletion, depreciation and amortization	289.1	418.1	0.6	0.5	289.7	418.6
(Gains) losses on disposition of assets	(35.2)	1.7	—	—	(35.2)	1.7
Unrealized (gains) losses on derivative contracts	3.6	0.8	—	—	3.6	0.8
Loss on onerous contract	10.7	—	—	—	10.7	—
Impairment and other charges, non-cash	1.0	765.3	—	491.0	1.0	1,256.3
Cash contribution (deficiency) from operations	74.6	154.3	(12.9)	(17.2)	61.7	137.1
Inclusion of items not attributable to segments:						
Net cash interest					(92.4)	(81.7)
Realized foreign exchange losses (gains)					16.1	(2.1)
Consolidated cash contribution from operations					(14.6)	53.3
Loss on disposition of Downstream subsidiary					—	(15.5)
Other non-cash items					(6.5)	(7.0)
Change in non-cash working capital					(12.2)	(66.2)
Cash from (used in) operating activities					(33.3)	(35.4)

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three months and twelve months ended December 31, 2016 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

Such risks and uncertainties include, but are not limited to: risks associated with conventional petroleum and natural gas operations; risks associated with the construction of the oil sands project; the volatility in commodity prices, interest rates and currency exchange rates; risks associated with realizing the value of acquisitions; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources; and, such other risks and uncertainties described from time to time in regulatory reports and filings made with securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on the assessment of all information at that time. Please also refer to "Operational and Other Business Risks" in this MD&A and "Risk Factors" in the Annual Information Form for detailed discussion on these risks.

Forward-looking statements in this MD&A include, but are not limited to: commodity prices, price risk management activities, acquisitions and dispositions, capital spending and allocation of such to various projects, reserve estimates and ultimate recovery of reserves, potential timing and commerciality of Harvest's capital projects, the extent and success rate of Conventional and Oil Sands drilling programs, the ability to achieve the maximum capacity from the Oil Sands central processing facilities, availability of the credit facility, access and ability to raise capital, ability to maintain debt covenants, debt levels, recovery of long-lived assets, the timing and amount of decommission and environmental related costs, income taxes, cash from operating activities, regulatory approval of development projects and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "target", "plan", "potential", "intend", and similar expressions.

All of the forward-looking statements in this MD&A are qualified by the assumptions that are stated or inherent in such forward-looking statements. Although Harvest believes that these assumptions are reasonable based on the information available to us on the date such assumptions were made, this list is not exhaustive of the factors that may affect any of the forward-looking statements and the reader should not place an undue reliance on these assumptions and such forward-looking statements. The key assumptions that have been made in connection with the forward-looking statements include the following: that the Company will conduct its operations and achieve results of operations as anticipated; that its development plans and sustaining maintenance programs will achieve the expected results; the general continuance of current or, where applicable, assumed industry conditions; the continuation of assumed tax, royalty and regulatory regimes; the accuracy of the estimates of the Company's reserve volumes; commodity price, operation level, and cost assumptions; the continued availability of adequate cash flow and debt and/or equity financing to fund the Company's capital and operating requirements as needed; and the extent of Harvest's liabilities. Harvest

believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

Although management believes that the forward-looking information is reasonable based on information available on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements. Therefore, readers are cautioned not to place undue reliance on forward-looking statements as the plans, intentions or expectations upon which the forward-looking information is based might not occur. Forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

Further information about us can be accessed under our public filings found on SEDAR at www.sedar.com or at www.harvestenergy.ca. Information can also be found by contacting our Investor Relations department at (403) 265-1178 or at 1-866-666-1178.