



Full Year and Fourth Quarter Report 2018

For the full year and
three month periods
ended December 31, 2018



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 14, 2019. 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, 2018.

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, 2018, 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 consolidated 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)

Byeongil Kim
President & Chief Executive Officer

(Signed)

Cheolwoong Choi
Chief Financial Officer

Calgary, Alberta
February 14, 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Harvest Operations Corp.

Opinion

We have audited the consolidated financial statements of Harvest Operations Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in shareholder's equity (deficiency) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is



materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is David Yung.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Professional Accountants
Calgary, Canada
February 14, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	December 31, 2018	December 31, 2017
Assets			
Current assets			
Accounts receivable		\$ 19.2	\$ 48.4
Prepaid expenses and other		6.6	6.4
Derivative contracts	13	4.4	-
		30.2	54.8
Non-current assets			
Deferred income tax asset	17	711.5	711.5
Exploration and evaluation assets	8	11.2	13.3
Property, plant and equipment	7	2,216.5	2,319.3
Investments in joint ventures	10	-	17.0
		2,939.2	3,061.1
Total assets		\$ 2,969.4	\$ 3,115.9
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 166.3	\$ 157.8
Taxes payable	17	0.9	3.7
Derivative contracts	13	-	5.1
Current portion of provisions	14	11.7	15.0
Current portion of long-term debt	11	-	791.5
		178.9	973.1
Non-current liabilities			
Long-term debt	11,12	2,646.5	1,538.7
Long-term liability	15	46.1	85.6
Investments in joint ventures	10	0.1	-
Non-current provisions	14	657.4	690.9
		3,350.1	2,315.2
Total liabilities		\$ 3,529.0	\$ 3,288.3
Shareholder's deficit			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus		11.3	11.3
Deficit		(5,157.2)	(4,777.0)
Accumulated other comprehensive loss	24	(7.0)	-
Total shareholder's deficit		(559.6)	(172.4)
Total liabilities and shareholder's deficit		\$ 2,969.4	\$ 3,115.9

Commitments [Note 23]

Subsequent Event [Note 13]

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

<i>(millions of Canadian dollars)</i>	Notes	Year ended December 31	
		2018	2017
Petroleum and natural gas sales	16	\$ 317.7	\$ 318.4
Royalties		(31.8)	(33.2)
Revenues		285.9	285.2
Expenses			
Operating	18	171.0	154.0
Cost of diluent		2.8	—
Transportation and marketing		18.7	12.3
General and administrative	18	36.5	39.1
Depletion, depreciation and amortization	7	170.9	188.3
Exploration and evaluation	8	2.1	0.1
Loss from joint ventures	10	33.0	84.9
Gain on disposition of assets	7	(7.7)	(1.3)
Finance costs	19	104.0	98.6
Derivative contract (gain) loss	13	(33.1)	43.0
Foreign exchange loss (gain)	20	125.3	(116.9)
Gain on onerous contract	14	(1.6)	(1.3)
Impairment	7,9	44.2	66.6
Net loss from operations		(380.2)	(282.2)
Other comprehensive loss ("OCL")			
<i>Items that may be reclassified to net income</i>			
Loss on designated cash flow hedges, net of tax	24	(7.0)	—
Comprehensive loss		\$ (387.2)	\$ (282.2)

The accompanying notes are an integral part of these 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 Loss ("AOCI")	Total Shareholder's Equity (Deficit)
Balance at December 31, 2016		\$ 4,593.3	\$ 5.5	\$ (4,494.8)	\$ —	\$ 104.0
Net loss		—	—	(282.2)	—	(282.2)
Shareholder cash contribution	22	—	5.8	—	—	5.8
Balance at December 31, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ —	\$ (172.4)
Net loss		—	—	(380.2)	—	(380.2)
Loss on designated hedges	24	—	—	—	(7.0)	(7.0)
As at December 31, 2018		\$ 4,593.3	\$ 11.3	\$ (5,157.2)	\$ (7.0)	\$ (559.6)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31	
(millions of Canadian dollars)	Notes	2018	2017
Cash provided by (used in)			
Operating Activities			
Net loss		\$ (380.2)	\$ (282.2)
Items not requiring cash			
Loss from joint ventures	10	33.0	84.9
Depletion, depreciation and amortization	7	170.9	188.3
Non-cash finance costs	11,19,21	22.0	22.7
Unrealized loss (gain) on derivative contracts	13	(36.3)	31.9
Unrealized loss (gain) on foreign exchange	20	107.5	(72.5)
Non-cash exploration and evaluation costs	8	2.1	0.1
Gain on disposition of assets	7	(7.7)	(1.3)
Realized foreign exchange (gain) loss on senior notes repayment		19.7	(28.2)
Gain on onerous contract	14	(1.6)	(1.3)
Impairment	7	44.2	66.6
Other non-cash items		(7.2)	(5.7)
Settlement of decommissioning and environmental remediation liabilities	14	(11.0)	(8.0)
Change in non-cash working capital	21	36.3	(0.5)
Cash used in operating activities		\$ (8.3)	\$ (5.2)
Financing Activities			
Credit facility borrowing (repayment), net	11	184.3	(698.5)
Issuance of senior notes	11	512.2	600.0
Repayment of senior notes	11	(811.7)	(353.1)
Borrowings from term loan	11	298.9	499.2
Senior notes transaction costs	11	(4.1)	—
Capital contribution	22	—	5.8
Cash from financing activities		\$ 179.6	\$ 53.4
Investing Activities			
Additions to property, plant and equipment	7	(150.3)	(70.2)
Property dispositions, net	7	6.2	0.8
Investment in joint ventures	10	(31.0)	(22.3)
Distributions received from joint ventures	10	15.9	27.8
Change in non-cash working capital	21	(12.1)	15.7
Cash used in investing activities		\$ (171.3)	\$ (48.2)
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 82.3	\$ 76.0

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(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 14, 2019.

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

On January 1, 2018 Harvest adopted IFRS 15 and IFRS 9.

IFRS 15 - Revenue from Contracts with Customers:

Harvest adopted IFRS 15 with a date of initial application as of January 1, 2018. Harvest used the cumulative effect method to adopt the new standard. Under this method, prior years' financial statements have not been restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. Management reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no material changes to net earnings or timing of revenue recognized or in the gross vs net presentation. Refer to note 4 for Harvest's amended revenue recognition policy and note 16 for additional IFRS 15 disclosures.

IFRS 9 – Financial Instruments:

Harvest adopted IFRS 9 with a date of initial application as of January 1, 2018, this is the date in which all IFRS 9 classification and measurement is required to be implemented. The Company retrospectively adopted the standard and elected not to restate comparative information. There were no material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). IFRS 9 eliminates the previous IFRS 39 categories of 'held to maturity investments, loans and receivables and other financial liabilities' and 'available for sale financial assets'. The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and the nature of its contractual cash flow characteristics. Embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9; the entire hybrid contract is assessed for classification and measurement.

IFRS 9 replaces the 'incurred credit loss model' in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract. Under IFRS 9, credit losses are recognized earlier than under IAS 39; it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities. The Company has no contract assets or financial instruments measured at FVOCI. The transition to IFRS 9 did not result in changes to the original carrying amount of the following financial instruments as compared to IAS 39.

Financial Instrument	Measurement Category	
	IAS 39	IFRS 9
Cash and cash equivalents	Fair value on a recurring basis	Amortised cost
Accounts receivable	Amortised cost	Amortised cost
Accounts payable and accrued liabilities	Amortised cost	Amortised cost
Long-term debt	Amortised cost	Amortised cost
Long-term liability		
Top-up obligation ⁽¹⁾	Fair value	FVTPL
Blackgold liability	Amortised cost	Amortised cost
Derivative contracts	Fair value	FVTPL

⁽¹⁾ Harvest's Top-up obligation is a derivative financial liability

Refer to note 4 for Harvest's amended financial instruments policy.

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

IFRS 16 - Leases:

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 of adoption on its consolidated financial statements. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. Harvest's parent company has not yet selected which adoption approach the company will follow. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on Harvest's 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

(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 from the sale of crude oil, natural gas and natural gas liquids are measured based on the consideration specified in contracts with customers. Harvest recognizes revenue when it transfers control of the product to the buyer and collection is reasonably assured. This is generally considered to occur when legal title to the product passes to customers, which is when it is physically transferred to the pipeline or other transportation method agreed upon. Revenues are recognized on a monthly basis, based on the completion of the performance obligations. The nature of each of its performance obligations, including roles of third parties and partners, are evaluated to determine if the Company acts as a principal, and therefore recognizes revenue on a gross basis, or as an agent, and therefore recognizes revenue on a net basis. The Company acts as the principal when it controls the product delivered before the control passes to its customer. Revenues from processing activities are recognized over time as processing occurs, and generally billed monthly.

(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. Costs 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.

Costs related to Oil Sands Central Processing Facility (CPF) are depleted using the unit-of-production basis over the proved developed reserves.

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) 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.

(iii) 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) 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.

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.

(g) 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.

(h) 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.

(i) 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.

(j) 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 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 liabilities are derecognized 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, 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.

- **Amortized cost**
A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.
- **Fair value through other comprehensive income ("FVTOCI")**
A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI") on the principal amount outstanding.
- **Fair value through profit or loss ("FVTPL")**
All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, this includes all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. For financial assets and liabilities, the Company may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

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.

Financial assets are assessed with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

(k) Hedges

Harvest periodically uses derivative financial instruments such as foreign currency contracts, interest rate contracts and financial commodity contracts to hedge its foreign currency risks, interest rate risk and commodity price risks. The quantity of derivative instruments entered into to address risk is determined in accordance with parent company policy and targets.

A hedging relationship qualifies for hedge accounting only if all the following criteria are met; the hedging relationship consists only of eligible instruments and eligible hedged items, at inception of the hedging relationship there is a formal designation, and the hedging relationship meets the hedge effectiveness requirements. 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 requirements. The hedge effectiveness requirements are that there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instruments that the entity actually uses to hedge the quantity of hedged item. Harvest will only discontinue hedge accounting prospectively if the hedging relationship ceases to meet the qualifying criteria.

There are two types of hedging relationships that the company could designate; fair value hedge and, cash flow hedge.

Fair value hedges

The carrying value of the hedged item is adjusted for fair value changes attributable to the risk being hedged, and those fair value changes are recognised in comprehensive income ("CI"). The hedging instrument is measured at fair value, with changes in fair value also recognised in CI.

Cash flow hedges

Changes in the fair value of the hedging instrument are initially recognised in other comprehensive income ("OCI"). The ineffective portion of the change in the fair value of the hedging instrument (if any) is recognized directly in CI.

The amount recognised in OCI should be the lower of:

- The cumulative gain or loss on the hedging instrument from the inception of the hedge, and
- The cumulative change in the fair value (present value) of the expected cash flows on the hedged item from the inception of the hedge.

Cash flow hedges of a forecast transaction which result in the recognition of a financial asset or liability, the accumulated gains and losses recorded in OCI are reclassified to CI in the same period or periods during which the hedged expected future cash flows affect CI. Where there is a cumulative loss on the hedging instrument and it is no longer expected that the loss will be recovered, it is immediately recognised in CI.

(l) 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.

(m) 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), 10 and 15)

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 10). 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), 7 and 9)

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), 7 and 9)

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 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. In determining the recoverable amount 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 14)

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 17)

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(m), 7, 9 and 13)

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. During Q4 2018 the oil sands project began operating in the manner intended by management.

	Year ended December 31					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Petroleum and natural gas sales	\$ 317.7	\$ 318.4	\$ —	\$ —	\$ 317.7	\$ 318.4
Royalties	(31.8)	(33.2)	—	—	(31.8)	(33.2)
Revenues	285.9	285.2	—	—	285.9	285.2
Expenses						
Operating	156.0	143.5	15.0	10.5	171.0	154.0
Cost of diluent	—	—	2.8	—	2.8	—
Transportation and marketing	16.3	12.3	2.4	—	18.7	12.3
General and administrative	35.6	37.3	0.9	1.8	36.5	39.1
Depletion, depreciation and amortization	167.1	188.0	3.8	0.3	170.9	188.3
Exploration and evaluation	2.1	0.1	—	—	2.1	0.1
Gains on disposition of assets	(7.7)	(1.3)	—	—	(7.7)	(1.3)
Derivative contracts loss (gain)	(31.2)	26.7	—	—	(31.2)	26.7
Impairment	44.2	66.6	—	—	44.2	66.6
Gain on onerous contract	(1.6)	(1.3)	—	—	(1.6)	(1.3)
Loss from joint ventures	33.0	84.9	—	—	33.0	84.9
Operating/Pre-operating loss	\$ (127.9)	\$ (271.6)	\$ (24.9)	\$ (12.6)	\$ (152.8)	\$ (284.2)
Finance costs					104.0	98.6
Foreign exchange (gains) losses					125.3	(116.9)
Derivative contract losses (gains) ⁽¹⁾					(1.9)	16.3
Net loss	(380.2)	(282.2)				

⁽¹⁾ Relates to realized and unrealized losses on foreign exchange swaps. See note 13 – Financial Instruments.

	Year ended December 31					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Capital Additions						
Additions to PP&E	\$ 56.2	\$ 65.6	\$ 94.1	\$ 4.6	\$ 150.3	\$ 70.2
PP&E acquisitions, net of dispositions	(2.0)	(0.4)	—	—	(2.0)	(0.4)
Net capital additions	\$ 54.2	\$ 65.2	\$ 94.1	\$ 4.6	\$ 148.3	\$ 69.8

	Investments in Joint Ventures	PP&E	E&E	Total Assets
December 31, 2017				
Conventional	\$ 17.0	\$ 1,305.4	\$ 13.3	\$ 2,102.0
Oil Sands	—	1,013.9	—	1,013.9
Total	\$ 17.0	\$ 2,319.3	\$ 13.3	\$ 3,115.9
December 31, 2018				
Conventional	\$ (0.1)	\$ 1,110.3	\$ 11.2	\$ 1,863.3
Oil Sands	—	1,106.2	—	1,106.0
Total	\$ (0.1)	\$ 2,216.5	\$ 11.2	\$ 2,969.3

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

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2016	\$ 4,899.7	\$ 1,500.9	\$ 6,400.6
Additions	65.6	4.6	70.2
Transfers of E&E	0.7	—	0.7
Disposals, net of acquisitions	(0.4)	—	(0.4)
Change in decommissioning liabilities	13.7	0.8	14.5
As at December 31, 2017	\$ 4,979.3	\$ 1,506.3	\$ 6,485.6
Additions	56.2	94.1	150.3
Disposals, net of acquisitions	(2.0)	—	(2.0)
Change in decommissioning liabilities	(38.0)	2.0	(36.0)
As at December 31, 2018	\$ 4,995.5	\$ 1,602.4	\$ 6,597.9

Accumulated depletion, depreciation and amortization:

As at December 31, 2016	\$ 3,519.6	\$ 492.1	\$ 4,011.7
Depreciation, depletion and amortization	188.0	0.3	188.3
Impairment reversal	(33.7)	—	(33.7)
As at December 31, 2017	\$ 3,673.9	\$ 492.4	\$ 4,166.3
Depreciation, depletion and amortization	167.1	3.8	170.9
Impairment	44.2	—	44.2
As at December 31, 2018	\$ 3,885.2	\$ 496.2	\$ 4,381.4

Net Book Value:

As at December 31, 2017	\$ 1,305.4	\$ 1,013.9	\$ 2,319.3
As at December 31, 2018	\$ 1,110.3	\$ 1,106.2	\$ 2,216.5

General and administrative costs directly attributable to PP&E addition activities of \$7.2 million have been capitalized during the year ended December 31, 2018 (2017 - \$4.4 million). No borrowing costs relating to the development of Oil Sands assets have been capitalized within PP&E during the years ended December 31, 2018 and 2017.

For the year ended December 31, 2018, Harvest evaluated its conventional assets for indicators of impairment. A decrease in natural gas pricing and an increase in reserve value were the primary triggers that indicated further testing was necessary for the West Gas and South Gas Conventional CGUs.

For the year ended December 31, 2018, an impairment expense of \$44.2 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 16% was applied to calculate the recoverable amount of \$40.1 million.

For the year ended December 31, 2018, nil impairment was recorded for the South Gas CGU. The recoverable amount for the South Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 12% was applied to calculate the recoverable amount of \$260.2 million which matched the carrying amount and no impairment was recorded.

During the year ended December 31, 2017, an impairment expense of \$28.4 million was recorded for the West Gas Conventional segment CGU. The recoverable amount for the West Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate of 12% was used to determine the recoverable amount of \$83.0 million for the CGU impaired during the year ended December 31, 2017.

Changes in timing and amount of cash flows from the reserve report were deemed to be the main triggers indicating impairment reversals. Previously recognized impairment charge on the Conventional assets was reversed for the North Oil CGU and the South Gas CGU in the amount of \$22.6 million and \$39.5 million, respectively. The recoverable amounts for the CGUs were estimated 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.

At December 31, 2018, the Oil Sands assets had a carrying value of \$1.1 billion (December 31, 2017 – \$1.0 billion). In Q4 2018, the project began operating in the manner intended by management and the asset base was subject to depletion. In prior year these costs were excluded from the asset base subject to depreciation, depletion and amortization.

The following forecast commodity prices were used at December 31, 2018:

Year	WTI Crude Oil (\$US/bbl)	Edmonton Light Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	US\$/Cdn\$ Exchange Rate
2019	58.58	69.75	53.88	1.88	0.7567
2020	64.60	75.84	59.58	2.31	0.7817
2021	68.20	80.17	65.89	2.74	0.7967
2022	71.00	83.22	68.61	3.05	0.8033
2023	72.81	85.34	70.53	3.21	0.8067
2024	74.59	87.33	72.34	3.31	0.8083
2025	76.42	89.50	74.31	3.39	0.8083
2026	78.40	91.89	76.44	3.46	0.8083
2027	79.98	93.76	78.10	3.54	0.8083
2028	81.59	95.68	79.81	3.62	0.8083
2029	83.22	97.57	81.40	3.70	0.8083
2030	84.87	99.52	83.00	3.78	0.8083

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2031	86.57	101.52	84.69	3.85	0.8083
2032	88.30	103.55	86.37	3.92	0.8083
Thereafter	2%/year	2%/year	2%/year	2%/year	0.8083

The following forecast commodity prices were used at December 31, 2017:

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)	
2018	57.50	68.60	50.61	2.43	0.7900
2019	60.90	72.02	56.59	2.77	0.8000
2020	64.13	74.48	60.86	3.19	0.8167
2021	68.33	78.60	64.56	3.48	0.8283
2022	71.19	80.84	66.63	3.67	0.8400
2023	73.15	82.83	68.49	3.76	0.8433
2024	75.16	85.17	70.63	3.85	0.8433
2025	77.17	87.53	72.79	3.93	0.8433
2026	79.01	89.66	74.72	4.02	0.8433
2027	80.60	91.49	76.31	4.10	0.8433
2028	82.20	93.31	77.84	4.19	0.8433
2029	83.83	95.15	79.38	4.28	0.8433
2030	85.52	97.09	80.99	4.37	0.8433
2031	87.22	99.02	82.61	4.45	0.8433
2032	88.98	101.01	84.25	4.53	0.8433
Thereafter ⁽¹⁾	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.8433

During the year ended December 31, 2018, Harvest disposed of non-core assets for net proceeds of \$6.2 million (2017 - \$0.8 million) and recognized gains on disposals of \$7.7 million (2017 - \$1.3 million) relating to the de-recognition of PP&E and decommissioning liabilities.

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

As at December 31, 2016	\$	14.1
Transfer to PP&E		(0.7)
Impairment		(0.1)
As at December 31, 2017	\$	13.3
Impairment		(2.1)
As at December 31, 2018	\$	11.2

During the year ended December 31, 2018, \$2.1 million (2017 - \$0.1 million), of E&E costs were impaired as they were no longer deemed to be technically feasible or commercially viable to pursue. There were no pre-licensing costs incurred for the years ended December 31, 2018 and 2017.

9. Goodwill

As at December 31, 2016	\$	100.3
Impairment		(100.3)
As at December 31, 2017 and 2018	\$	—

At December 31, 2017, the impairment test of goodwill concluded that the carrying amount exceeded the estimated recoverable amount. An impairment loss of \$100.3 million was recorded.

10. 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 (see note 7 – PP&E), royalties, operating costs and capital expenditures specific to the DBP. As at December 31, 2018, the fair value of the top-up obligation was estimated as \$2.2 million (December 31, 2017 - \$33.4 million), using a discount rate of 20% (December 31, 2017 – 12%). The decrease in the top-up obligation from the previous year is related primarily to an increase in forecasted reserve cash flows and volume and an increase in discount rate. This top-up obligation has been included in the derivative contract losses (gain) in the statement of comprehensive loss and in the long-term liability at December 31, 2018 (see note 15 – 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.

For the year ended December 31, 2018, Deep Basin Partnership evaluated its assets for indicators of potential impairment. A decrease in natural gas pricing and an increase in the reserve value were primary indicators and an impairment test was performed.

The recoverable amount was estimated FVLCD based on the net present value of after-tax cash flows from proved plus probable reserves estimated by an independent reserve evaluator as at December 31, 2018 (see note 7 – PP&E). A discount rate of 19% was used to determine the recoverable amount of \$89.0 million. The carrying amount exceeded the recoverable amount and an impairment expense of \$22.2 million was recorded.

During the year ended December 31, 2017, an impairment expense of \$52.9 million was recorded on property, plant and equipment. The recoverable amount for property, plant and equipment was estimated based on FVLCD, which is classified as a level 3 fair value measurement. The estimated value was determined 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 (see note 7 – PP&E). A discount rate of 12% was used to determine the recoverable amount of \$89.0 million for the property, plant and equipment impaired as at December 31, 2017.

During the year ended December 31, 2017, an expense of \$6.7 million against E&E was recognized as the costs were deemed to not be technically feasible and commercially viable.

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 which provides HKMS with a minimum guaranteed return. 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 for nominal consideration.

	December 31, 2018	Ownership Interest	December 31, 2017	Ownership Interest
Deep Basin Partnership ("DBP")	\$ (43.4)	83.45%	\$ (39.4)	82.59%
HK MS Partnership ("HKMS")	43.3	68.15%	56.4	70.47%
Investments in joint ventures	\$ (0.1)		\$ 17.0	

	DBP	HKMS	Total
As at December 31, 2016	\$ 45.0	\$ 62.7	\$ 107.7
Additional investments	21.5	0.8	22.3
Share of income (loss)	(94.8)	9.9	(84.9)
Distributions	(11.1)	(17.0)	(28.1)
As at December 31, 2017	\$ (39.4)	\$ 56.4	\$ 17.0
Additional investments	38.4	(6.6)	31.8
Share of income (loss)	(42.4)	9.4	(33.0)
Distributions	—	(15.9)	(15.9)
As at December 31, 2018	\$ (43.4)	\$ 43.3	\$ (0.1)

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 years ended December 31, 2018 and 2017, Harvest recognized a dilution gain of \$nil.

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

	December 31, 2018		December 31, 2017	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ —	\$ —	\$ 0.1	\$ —
Other current assets	18.5	7.8	22.6	14.3
Total current assets	\$ 18.5	\$ 7.8	\$ 22.7	\$ 14.3
Non-current assets	102.2	210.4	94.2	96.1
Total assets ⁽¹⁾	\$ 120.7	\$ 218.2	\$ 116.9	\$ 110.4
Current liabilities	\$ 20.7	\$ 1.9	\$ 17.4	\$ 2.4
Non-current financial liabilities	138.7	207.4	136.0	102.3
Other non-current liabilities	6.9	4.7	5.1	4.6
Total liabilities ⁽¹⁾	\$ 166.3	\$ 214.0	\$ 158.5	\$ 109.3
Net assets (liabilities) ⁽¹⁾	\$ (45.6)	\$ 4.2	\$ (41.6)	\$ 1.1

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

Year ended December 31					
2018			2017		
	DBP	HKMS	DBP	HKMS	
Revenues	\$ 39.9	\$ 26.6	\$ 51.0	\$ 27.7	
Impairment	(22.2)	—	(59.6)	—	
Depletion, depreciation and amortization	(17.7)	(3.5)	(42.7)	(3.4)	
Operating expenses and other	(39.7)	(2.9)	(40.8)	(4.2)	
(Gain) loss on disposition of assets	—	—	0.1	—	
Finance costs	(2.9)	(17.0)	(2.8)	(19.1)	
Net income (loss) ⁽¹⁾	\$ (42.6)	\$ 3.2	\$ (94.8)	\$ 1.0	

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

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at December 31, 2018:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 156.0	\$ 156.0
Firm processing commitment	23.2	46.4	46.4	30.9	146.9
Decommissioning and environmental liabilities ⁽¹⁾	0.1	—	—	17.1	17.2
Total	\$ 23.3	\$ 46.4	\$ 46.4	\$ 204.0	\$ 320.1

(1) Represents the undiscounted obligation by period.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at December 31, 2018:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 13.6	\$ 13.6
Total	\$ —	\$ —	\$ —	\$ 13.6	\$ 13.6

(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, 2018, Harvest charged DBP a marketing fee of \$0.7 million (2017 - \$0.7 million) and general and administrative expenses of \$1.7 million (2017 - \$1.3 million). As at December 31, 2018, \$11.6 million remains outstanding to DBP from Harvest (December 31, 2017 - \$14.4 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.4 million for the year ended December 31, 2018 (2017 - \$0.3 million). As at December 31, 2018, \$0.9 million remains outstanding to Harvest from HKMS (December 31, 2017 - \$0.5 million payable).

11. Long-Term Debt

	December 31, 2018	December 31, 2017
Credit Facility	\$ 386.4	\$ 189.7
Term Loan due 2020	499.7	499.5
Term Loan due 2023	299.0	-
2½% senior notes due 2018 (US\$630 million)	-	791.5
2½% senior notes due 2021 (US\$195.8 million)	266.8	245.9
3% senior notes due 2022 (US\$485 million)	656.3	603.6
4.2% senior notes due 2023 (US\$397.5 million)	538.3	-
Long-term debt outstanding	\$ 2,646.5	\$ 2,330.2
Less current portion	-	(791.5)
Non-current long-term debt	\$ 2,646.5	\$ 1,538.7

a) 6⅞% and 2⅓% Senior Notes

On October 4, 2010, Harvest issued US\$500 million of 6⅞% senior notes for net cash proceeds of US\$484.6 million. The senior notes were unsecured with interest payable semi-annually on April 1 and October 1 and matured on October 1, 2017. The senior notes were 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 were 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.

There were 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 allowed 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 restricted the amount of dividends Harvest could pay to shareholders; no dividends have been paid during the year ended December 31, 2017.

On June 16, 2016 Harvest completed the partial exchange of its 6⅞% senior notes due 2017 for new 2⅓% senior notes due 2021, at an exchange ratio of US\$900 principal amount of the new 2⅓% senior notes for each US\$1,000 principal amount of the old 6⅞% senior notes. US\$217.5 million of the old 6⅞% senior notes were exchanged for US\$195.8 million new 2⅓% senior notes. On October 2, 2017, Harvest repaid the remaining US\$ 282.5 million fully matured 6⅞% senior notes.

The new 2⅓% 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 22 – Related Party Transactions.

b) 2½% Senior Notes

On May 14, 2013, Harvest issued US\$630 million senior unsecured notes due May 14, 2018 with a coupon rate of 2½% for net proceeds of US\$626.1 million. Interest on the 2½% 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 22 - Related Party Transactions. At December 31, 2017 the senior notes were classified as a current liability. On May 14, 2018, Harvest repaid the 2½% senior notes using the proceeds from the 4.2% senior notes and May 11, 2018 term loan.

c) 3% Senior Notes

On September 21, 2017, Harvest issued US\$285 million 3% senior notes for net proceeds of US\$283.2 million. On November 6, 2017, Harvest issued an additional US\$200 million of 3% senior notes for net proceeds of US\$198.5 million. The 3% senior notes are unsecured and mature on September 21, 2022, with interest payable semi-annually on March 21 and September 21 of each year. They are unconditionally and irrevocably guaranteed by KNOC. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually on March

21 and September 21 of each year. Also see note 22 – Related Party Transactions. Proceeds from these notes were used to re-pay the 6½% senior notes that matured on October 2, 2017.

d) 4.2% Senior Notes

On May 1, 2018, Harvest issued US\$397.5 million 4.2% senior notes for net proceeds of US\$395.8 million. The 4.2% senior notes are unsecured and mature on June 1, 2023, with interest payable semi-annually on June 1 and December 1 of each year. The notes are unconditionally and irrevocably guaranteed by KNOC. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually. Proceeds from these notes were used to repay a portion the 2½% senior notes that matured on May 14, 2018.

e) Credit Facility and Term Loans

On February 24, 2017, Harvest replaced its \$1 billion revolving credit facility due April 30, 2017, with a new three year \$500 million revolving credit facility with a syndicate of banks. The credit facility is guaranteed by KNOC up to \$500 million and is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries. A guarantee fee of 0.37% per annum payable semi-annually on the principal balance is payable to KNOC. Harvest pays a floating interest rate based on a margin pricing grid based on the credit ratings of KNOC. Based on KNOC's current credit ratings, the interest rates are Canadian Dollar Offered Rate plus 90 basis points on Canadian dollar drawn balances and LIBOR plus 90 basis points on US dollar drawn balances. The credit facility contains no financial covenants. The most restrictive limitations of Harvest's credit facility include no financial assistance and/or capital contributions to parties other than Harvest or its restricted subsidiaries, a limitation on conducting business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to the shareholder in certain circumstances such as an event of default. For the year ended December 31, 2018, interest charges on the credit facility borrowings aggregated to \$8.2 million (2017 - \$7.9 million), reflecting an effective interest rate of 2.9% (2017 - 1.7%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. See note 13 – Financial Instruments.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allowed Harvest to borrow \$500 million through a three year term loan, at a fixed rate of 2.27% per annum. Interest is paid semi-annually in February and August and the loan matures on February 24, 2020. This term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 0.37% per annum payable semi-annually on the principal balance is payable to KNOC. On February 24, 2017 the loan was fully drawn. Proceeds from this term loan were used to partially re-pay the credit facility.

On May 11, 2018, Harvest entered into an agreement with a Japanese based bank to borrow \$300 million through a five year term loan at a variable rate. To manage the risks associated with the variable interest component of the term loan due 2023 Harvest entered into a new interest rate swap contract, see note 13 – Financial Instruments. The term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually. On May 11, 2018 the loan was fully drawn. Proceeds from this term loan were used to repay the remainder of the 2½% senior notes that matured on May 14, 2018.

12. Shareholder's Capital & Capital Structure

Harvest considers its capital structure to be its credit facility, term loan, senior notes and shareholder's deficit.

	December 31, 2018	December 31, 2017
Credit facility ⁽¹⁾⁽²⁾	\$ 386.8	\$ 190.6
Term Loan due 2020 ⁽¹⁾	500.0	500.0
Term Loan due 2023 ⁽¹⁾	300.0	—
2½% senior notes (US\$630 million) ⁽¹⁾⁽³⁾	—	792.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽³⁾	267.0	246.1
3% senior notes (US\$485 million) ⁽¹⁾⁽³⁾	661.4	609.7
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽³⁾	542.1	—
	\$ 2,657.3	\$ 2,338.4
Shareholder's deficit	(559.6)	(172.4)
	\$ 2,097.7	\$ 2,166.0

(1) Excludes capitalized financing fees.

(2) Excludes letters of credit issued in the amount of \$15.1 million at December 31, 2018 (December 31, 2017 - \$14.9 million).

(3) Face value converted at the period end exchange rate.

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 prepares annual operational and capital budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production levels, the success of the capital expenditures program and other general industry conditions. 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.

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 financial statements, it is the Company's expectation that such support will continue. KNOC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company's credit facility, term loans and senior notes. 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, 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. Opening share balance as of January 1, 2017 was 458,766,467. During 2018 and 2017, no additional common shares were issued.

13. 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, term loans 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.

At December 31, 2018, all financial instruments are level 2, except for the 2 ½ % and 3%, and 4.2% senior notes, which are level 1 and \$2.2 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. As at December 31, 2017, the 2½% and 3% senior notes were classified as level 1. There were no transfers during the year ended December 31, 2018. All of the senior notes are traded on the Singapore Stock Exchange. Also see note 10 – Investment in Joint Ventures and note 15 – Long-Term Liability.

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Derivative contracts	4.4	\$ 4.4	\$ —	\$ —
Total Financial Assets	\$ 4.4	\$ 4.4	\$ —	\$ —
Financial Liabilities				
<u>Fair value through profit or loss</u>				
Derivative contracts	\$ —	—	5.1	\$ 5.1
Long-term liability	2.2	2.2	33.4	33.4
<u>Amortised Cost</u>				
Credit Facility	386.4	386.8	189.7	190.6
Term Loan due 2020	499.7	500.0	499.5	500.0
Term Loan due 2023	299.0	300.0	—	—
2½% senior notes	—	—	791.5	791.2
2½% senior notes	266.8	259.8	245.9	238.4
3% senior notes	656.3	650.2	603.6	603.0
4.2% senior notes	538.3	556.4	—	—
Long-term liability	33.9	24.9	41.7	34.9
Total Financial Liabilities	\$ 2,682.6	\$ 2,680.3	\$ 2,410.4	\$ 2,396.6

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 \$0.5 million of deferred financing charges at December 31, 2018 (December 31, 2017 – \$0.9 million). See note 11 – Long Term Debt.

The fair value of the 2½ % and 3%, and 4.2% senior notes was based on the quoted market price of the notes on the Singapore Exchange as at December 31, 2018 (Level 1 fair value input), which includes the benefit of the guarantee offered by KNOC.

The fair value of the long-term liability measured at amortized cost is estimated by discounting the future interest and principal payments using the current market interest rates of instruments with similar terms. At December 31, 2018, the rate used in determining the fair value of the long-term liability was 20% (December 31, 2017 – 12%).

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 10 – 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, 2018:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair value of asset at December 31, 2018
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	(7.3)
US\$248 Million	FX Swap	Jan 2019	\$1.34 CDN/US	Cash Flow	6.7
880 bbl/d	MSW price swap ⁽¹⁾	Oct - Dec 2018	CDN \$71.75/bbl	Cash Flow	1.1
1,166 bbl/d	MSW price swap ⁽¹⁾	Oct - Dec 2018	CDN \$70.73/bbl	Cash Flow	1.6
1,175 bbl/d	MSW price swap ⁽¹⁾	Oct - Dec 2018	CDN \$73.00/bbl	Cash Flow	1.8
487 bbl/d	WCS price swap ⁽¹⁾	Oct - Dec 2018	CDN \$52.85/bbl	Cash Flow	0.5
					\$ 4.4

(1) Hedging contracts expired at December 31, 2018, to be settled in January 2019.

Contracts Designated as Hedges Subsequent to December 31, 2018

Contract Quantity	Type of Contract	Term	Contract Price
4,100 bbl/d	WCS price swap	Feb - Dec 2019	CDN \$45.00/bbl
2,800 bbl/d	MSW price swap	Feb - Dec 2019	CDN \$57.50/bbl
1,300 bbl/d	WCS price swap	Mar - Jun 2019	CDN \$54.10/bbl
1,000 bbl/d	MSW price swap	Mar - Jun 2019	CDN \$64.25/bbl
US\$300 Million	FX Swap	Feb 2019	\$1.335 CDN/US

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, 2018 and 2017, 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, 2018					
Financial assets					
Account receivable ⁽¹⁾	\$ 1.2	\$ (2.1)	\$ (0.9)	\$ —	\$ (0.9)
Risk management contracts ⁽²⁾	11.7	—	11.7	—	11.7
	\$ 12.9	\$ (2.1)	\$ 10.8	\$ —	\$ 10.8
Financial Liabilities					
Account payable and accrued liabilities ⁽¹⁾	\$ (2.1)	\$ 2.1	\$ —	\$ —	\$ —
Risk management contracts ⁽²⁾	(7.3)	—	(7.3)	—	(7.3)
	\$ (9.4)	\$ 2.1	\$ (7.3)	\$ —	\$ (7.3)

December 31, 2017
Financial assets

Account receivable ⁽¹⁾	\$	0.4	\$	(0.6)	\$	(0.2)	\$	—	\$	(0.2)
	\$	0.4	\$	(0.6)	\$	(0.2)	\$	—	\$	(0.2)

Financial Liabilities

Account payable and accrued liabilities ⁽¹⁾	\$	(0.6)	\$	0.6	\$	—	\$	—	\$	—
Risk management contracts ⁽²⁾		(5.1)		—		(5.1)		—		(5.1)
	\$	(5.7)	\$	0.6	\$	(5.1)	\$	—	\$	(5.1)

(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, interest rate and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases.

Harvest periodically enters 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 for the year ended December 31, 2018 was lowered to 2.48%, respectively (2017 - 1.6%). Also see note 11 – Long-Term Debt for effective interest rates before the effect of these swaps.

To manage the risk associated with the variable component of the Term Loan – Due 2023, Harvest entered into an interest rate swap contract during the year ended December 31, 2018. As the result of this transaction the company has effectively fixed the interest rate on \$300 million of the loan at approximately 3.971% for the term of the loan.

Derivative contracts (gains) losses recorded to income include the gains or losses on derivatives that were designated as hedges:

	Year ended December 31					
	2018			2017		
	Realized losses	Unrealized gains	Total	Realized losses	Unrealized losses	Total
Foreign exchange	3.2	—	3.2	—	—	—
Derivative contract	—	(5.1)	(5.1)	11.2	5.1	16.3
Top-up obligation (note 10)	—	(31.2)	(31.2)	—	26.7	26.7
	\$ 3.2	\$ (36.3)	\$ (33.1)	\$ 11.2	\$ 31.8	\$ 43.0

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 default are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Harvest uses the simplified expected credit loss (ECL) model. Harvest's joint venture receivables are segregated by age, with a specified default rate that is applied to determine the ECL. The default rate is assessed based on historical default rates based on the aging of the receivable. These rates are updated based on changing macroeconomic information within the industry. Below are the rates used at December 31, 2018:

AR Aging	Default rate
Current	0.00%
JV >30-days	1.00%
JV >60-days	3.00%
JV >90-days	10.00%

Harvest's expected credit loss at December 31, 2018 is \$1.1 million. Receivables from crude oil and natural gas purchasers are assumed to have a 0% default rate as they are collected on the 25th day of the following month.

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, 2018 and 2017 is the carrying value of accounts receivable. The tables below provide an analysis of Harvest's current and past due but not impaired receivables.

	Current	< 30 days	> 30 days, ≤ 60 days	> 60 days, ≤ 90 days	> 90 days ⁽²⁾	Total
December 31, 2018⁽¹⁾	\$ 14.4	\$ 0.6	\$ 1.5	\$ 0.7	\$ 2.0	\$ 19.2
December 31, 2017⁽¹⁾	37.8	0.7	2.6	3.8	3.5	48.4

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 13(b).

(2) Net of \$1.1 million of lifetime expected credit losses as at December 31, 2018 (2017 - \$0.7 million)

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, term loans 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 12.

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.

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, 2018 and 2017:

December 31, 2018						
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total	
Accounts payable and accrued	\$ 166.3	\$ —	\$ —	\$ —	\$	166.3
Credit facility, term loans and interest	30.9	935.0	326.7	—		1,292.6
3% senior notes and interest	22.2	44.3	691.1	—		757.6
4.2% senior notes and interest	24.7	49.4	589.3	—		663.4
2½% senior notes and interest	7.2	281.4	—	—		288.6
Long-term liability	39.1	19.4	19.1	6.4		84.0
Risk management contracts liability	7.3	—	—	—		7.3
Total	\$ 297.7	\$ 1,329.5	\$ 1,626.2	\$ 6.4	\$	3,259.8

December 31, 2017						
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total	
Accounts payable and accrued liabilities	\$ 157.8	\$ —	\$ —	\$ —	\$	157.8
Credit facility, term loan and interest	19.7	720.8	—	—		740.5
3% senior notes and interest	20.5	40.8	646.6	—		707.9
2½% senior notes and interest	802.4	—	—	—		802.4
2½% senior notes and interest	6.6	13.3	249.4	—		269.3
Long-term liability	29.9	19.6	19.0	9.5		78.0
Risk management contracts liability	5.1	—	—	—		5.1
Total	\$ 1,042.0	\$ 794.5	\$ 915.0	\$ 9.5	\$	2,761.0

Market Risk & Sensitivity Analysis

Interest rate risk

Harvest is exposed to interest rate risk on its credit facility as interest rates are determined in relation to floating market rates based on KNOC's credit rating. Harvest's term loans and senior notes have fixed interest rates and therefore do not have any additional interest rate risk prior to maturity. 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 credit facility at December 31, 2018 increased or decreased by approximately 25 basis points with all other variables held constant, pre-tax loss for the year would change by \$1.7 million (2017 - \$0.5 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 periodically 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.

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\$1.3 billion (2017 - US\$1.5 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 estimated 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, 2018	December 31, 2017
10% strengthening in U.S. dollar relative to Canadian dollar	\$ (183.7)	\$ (184.0)
10% weakening in U.S. dollar relative to Canadian dollar	\$ 183.7	\$ 184.0

14. Provisions

	Conventional	Oil Sands	Head Office operating lease	Total
As at December 31, 2016	\$ 631.8	\$ 48.6	\$ 10.7	\$ 691.1
Liabilities incurred	1.6	—	—	1.6
Settled during the period	(13.0)	—	(1.4)	(14.4)
Revisions (change in estimated costs and discount rate)	12.1	0.8	(1.3)	11.6
Disposals	(0.5)	—	—	(0.5)
Accretion	14.3	1.1	1.1	16.5
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9
Liabilities incurred	1.7	—	—	1.7
Acquisition	0.3	—	—	0.3
Settled during the period	(11.0)	—	(1.8)	(12.8)
Revisions (change in estimated costs and discount rate)	(40.0)	2.0	(1.6)	(39.6)
Disposals	(3.4)	—	—	(3.4)
Accretion	14.7	1.2	1.1	17.0
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1
Current portion as at December 31, 2017	\$ 13.5	\$ —	\$ 1.5	\$ 15.0
Non-current provisions as at December 31, 2017	632.8	50.5	7.6	690.9
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9
Current portion as at December 31, 2018	\$ 9.9	\$ —	\$ 1.8	\$ 11.7
Non-current provisions as at December 31, 2018	598.7	53.7	5.0	657.4
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1

(1) Conventional includes balance of both decommissioning liabilities and environmental liability.

(2) Oil Sands includes balance of decommissioning liability.

(3) Head office includes provision related to operating lease.

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, 2018 (December 31, 2017 – \$1.2 billion), which will be incurred between 2018 and 2077. A risk-free discount rate of 2.18% (December 31, 2017 – 2.26%) and inflation rate of 1.50% (December 31, 2017 – 1.50%) 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, 2018, Harvest recognized an onerous contract provision of \$6.8 million (December 31, 2017 - \$9.1 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 discounted at a credit adjusted rate of 20% (December 31, 2017 – 12%), specific to the liability. A gain of \$1.6 million resulted from changes in the discount rate and an amendment to a sublease contract was recorded during the year ended December 31, 2018 (2017 – \$1.3 million). The onerous contract provision will be settled in periods up to the year 2025.

Harvest is defendant and plaintiff in 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.

15. Long-Term Liability

	December 31, 2018	December 31, 2017
BlackGold liability ⁽¹⁾	\$ 71.4	\$ 69.4
Less: current portion of BlackGold liability ⁽¹⁾	(37.9)	(28.5)
Deferred rent and other ⁽²⁾	10.4	11.3
Top-up obligation ⁽³⁾	2.2	33.4
	\$ 46.1	\$ 85.6

⁽¹⁾ Calculated using a discount rate of 4.5% at December 31, 2018 and 2017. The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third, fourth and fifth deferred payments due April 30, 2018, 2017 and 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 10 – 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, 2018 \$2.2 million (December 31, 2017 - \$33.4 million) was included in the long-term liability relating to the top-up obligation to KERR. See note 10 - Investment in Joint Ventures.

16. Revenue

Harvest sells its production pursuant to variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, Harvest is required to deliver a fixed or variable volume of crude oil, natural gas liquids or natural gas to the contract counterparty. Revenue is recognized when the performance obligation is satisfied – specified volume or unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to Harvest's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs.

Crude oil, natural gas and natural gas liquids are mostly sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table presents Harvests' petroleum and natural gas sales disaggregated by revenue source for the conventional segment:

	Year Ended December 31	
	2018	2017
Light to medium oil sales after hedging ⁽¹⁾	\$ 96.0	\$ 83.6
Heavy oil sales after hedging ⁽¹⁾	118.9	124.5
Natural gas sales after hedging ⁽¹⁾	38.7	62.4
Natural gas liquids sales	46.6	41.8
Other ⁽²⁾	17.5	6.1
Petroleum and natural gas sales	\$ 317.7	\$ 318.4

⁽¹⁾ Inclusive of the realized losses from contracts designated as hedges. Foreign exchange swaps are not included in the realized price.

⁽²⁾ Inclusive of sulphur revenue and pipeline arbitrage

Included in accounts receivable at December 31, 2018 is \$15.8 million (December 31, 2017 – \$34.9 million for December 2017 sales) of accrued oil and gas sales related to December 2018 sales. The decrease in the amount of accrued revenue is related primarily to the decrease in oil price.

17. Income Taxes

Income tax recovery recognized in net loss from continuing operations:

	Year Ended December 31	
	2018	2017
Current income tax expense	\$ —	\$ —
Deferred income tax ("DIT") recovery	—	—
Income tax recovery from continuing operations	\$ —	\$ —

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	
	2018	2017
Loss before income tax from continuing operations	\$ (380.2)	\$ (282.2)
Combined Canadian federal and provincial statutory income tax rate	27.00%	26.96%
Computed income tax recovery at statutory rates	\$ (102.7)	\$ (76.1)
Increased expense (recovery) resulting from the following:		
Difference between current and expected tax rates	—	(1.8)
Foreign exchange impact not recognized in income	12.9	(15.8)
Amended returns and pool balances	(6.0)	0.5
Change in unrecognized deferred tax asset	96.5	59.9
Non-deductible goodwill impairment	—	26.7
Non-deductible expenses	0.7	6.4
Other	(1.4)	0.2
Income tax recovery	\$ —	\$ —

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, 2018 and 2017.

Movements in the DIT asset are as follows:

	PP&E	Decommissioning liabilities	Non-capital tax losses	Other	Total deferred asset
As at December 31, 2016	\$ 407.0	\$ 184.0	\$ 113.0	\$ 7.5	\$ 711.5
Recognized in profit or loss	50.9	(47.9)	(8.6)	5.6	—
As at December 31, 2017	\$ 457.9	\$ 136.1	\$ 104.4	\$ 13.1	\$ 711.5
Recognized in profit or loss	64.7	(5.4)	(51.3)	(8.0)	—
As at December 31, 2018	\$ 522.6	\$ 130.7	\$ 53.1	\$ 5.1	\$ 711.5

As at December 31, 2018, Harvest had approximately \$734 million (December 31, 2017 - \$644 million) of carry-forward tax losses and approximately \$4.2 billion (December 31, 2017 - \$4.2 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 2037. 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. As at December 31, 2018 Harvest has not recognized approximately \$244 million (December 31, 2017 - \$193 million) of temporary difference arising from foreign exchange, \$528 million (December 31, 2017 - \$244 million) of non-capital losses, \$200 million (December 31, 2017 - \$200 million) arising from asset retirement obligation and \$796 million (December 31, 2017 - \$796 million) of capital losses.

As at December 31, 2018 a balance of \$0.9 million was recorded in taxes payable, relating to amounts owing to the Canada Revenue Agency (December 31, 2017 - \$3.7 million).

18. Operating and General and Administrative ("G&A") Expenses

	Year Ended December 31	
	2018	2017
Operating expenses		
Power and purchased energy	\$ 37.6	\$ 29.5
Well servicing	7.4	7.6
Repairs and maintenance	35.4	24.3
Lease rentals and property taxes	23.9	26.3
Salaries and benefits	25.7	20.4
Professional and consultation fees	14.1	8.7
Chemicals	11.6	9.7
Processing fees	29.9	21.4
Trucking	4.9	2.7
Capitalized Operating Costs ⁽¹⁾	(23.0)	—
Other	3.5	3.4
	\$ 171.0	\$ 154.0

⁽¹⁾ Operating costs related to commissioning of Blackgold oil sands project.

	Year Ended December 31	
	2018	2017
General and administrative expenses		
Salaries and benefits	\$ 30.1	\$ 28.1
Professional and consultation fees	5.8	6.2
Other	8.5	9.2
G&A capitalized and recovery	(7.9)	(4.4)
	\$ 36.5	\$ 39.1

19. Finance Costs

	Year Ended December 31	
	2018	2017
Interest and other financing charges ⁽¹⁾	\$ 86.1	\$ 80.9
Accretion of decommissioning and environmental remediation liabilities (note 14)	15.9	15.4
Accretion of BlackGold long-term liability (note 15)	2.0	2.3
	\$ 104.0	\$ 98.6

⁽¹⁾ Includes \$1.1 million of accretion on the onerous contract during the years ended Dec. 31, 2018 and 2017. See note 14 – Provisions.

20. Foreign Exchange

	Year Ended December 31	
	2018	2017
Realized loss (gain) on foreign exchange	\$ 17.8	\$ (44.4)
Unrealized loss (gain) on foreign exchange	107.5	(72.5)
	\$ 125.3	\$ (116.9)

21. Supplemental Cash Flow Information

	Year Ended December 31	
	2018	2017
Source (use) of cash:		
Accounts receivable	\$ 29.2	\$ (4.1)
Prepaid expenses, long-term deposit and other	(0.2)	0.6
Accounts payable and accrued liabilities	8.5	26.8
Net changes in non-cash working capital	\$ 37.5	\$ 23.3
Changes relating to operating activities	\$ 36.3	\$ (0.5)
Changes relating to investing activities	(12.1)	15.7
Reclass of long-term liability to accounts payable	9.5	—
Add: Other non-cash changes	3.8	8.1
	\$ 37.5	\$ 23.3

	Credit Facility	Term Loan	Term Loan	6 ⁷ / ₈ % senior notes	2 ¹ / ₈ % senior notes	2 ¹ / ₃ % senior notes	3% senior notes	4.2% senior notes	Total
As at December 31, 2016	\$ 892.6	-	-	379.7	844.2	262.6	-	-	2,379.1
Net borrowing (repayment)	(698.5)	499.2	-	(353.1)	-	-	600.0	-	47.6
Foreign exchange	-	-	-	(28.2)	(53.9)	(16.8)	3.4	-	(95.5)
Other non-cash movements	(4.4)	0.3	-	1.6	1.2	0.1	0.2	-	(1.0)
As at December 31, 2017	\$ 189.7	499.5	-	-	791.5	245.9	603.6	-	2,330.2
Net borrowing (repayment)	178.8	-	300.0	-	(791.6)	-	-	508.3	195.5
Foreign exchange	13.1	-	-	-	-	20.9	52.2	29.8	116.0
Other non-cash movements	4.5	0.3	(1.0)	-	0.1	0.1	0.5	0.3	4.8
As at December 31, 2018	\$ 386.1	499.8	299.0	-	-	266.9	656.3	538.4	2,646.5

22. Related Party Transactions
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			
	2018		2017	
Short-term benefits	\$	2.2	\$	2.0
Other long-term benefits		0.2		0.1
Other		1.4		—
	\$	3.8	\$	2.1

Other Related Party Transactions

	Year Ended December 31				Accounts Payable as at December			
	2018		2017		2018		2017	
Diluent Expenses								
DBP ⁽³⁾	\$	0.9	\$	—	\$	0.2	\$	—
G&A Expenses								
KNOC ⁽¹⁾	\$	0.5	\$	0.7	\$	0.5	\$	0.3
Finance costs								
KNOC ⁽²⁾	\$	12.9	\$	10.2	\$	4.7	\$	2.9

⁽¹⁾ Amounts relate to payments to KNOC for secondees salaries.

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 2½%, 3%, 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum is charged by KNOC on the 2½%, 3%, 4.2% senior notes. A guarantee fee of 37 basis points per annum continues to be charged by KNOC on the credit facility and term loans. See note 11 – Long Term Debt.

⁽³⁾ Amounts relate to diluent purchased by BlackGold from the Deep Basin Partnership for the purposes of diluting bitumen for sale.

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. In the year ended December 31, 2017 funds of \$5.8 million provided by KNOC were recorded in contributed surplus.

23. Commitments

The following is a summary of Harvest's estimated commitments as at December 31, 2018:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Purchase commitments ⁽¹⁾	\$ 38.2	\$ 19.1	\$ 19.0	\$ 6.4	\$ 82.7
Operating leases	8.4	16.5	14.9	12.4	52.2
Firm processing commitments	10.7	18.3	17.6	10.8	57.4
Firm transportation agreements	13.5	24.8	15.7	27.4	81.4
Employee benefits ⁽²⁾	1.1	0.5	—	—	1.6
Total ⁽³⁾	\$ 71.9	\$ 79.2	\$ 67.2	\$ 57.0	\$ 275.3

⁽¹⁾ Relates to BlackGold oil sands project commitment and the DBP top-up obligation (see note 10 - Investment in Joint Ventures).

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

⁽³⁾ See note 11 - Long Term Debt, note 12 - Shareholder's Capital & Capital Structure and note 22 - Related Party Transactions for Harvest's debt obligations.

24. Accumulated Other Comprehensive Income ("AOCI")

	Designated Cash Flow Hedges, Net of Tax	Total
As at December 31, 2017	\$ —	\$ —
Loss on derivatives designated as cash flow hedges, net of tax ⁽¹⁾	(7.0)	(7.0)
As at December 31, 2018	\$ (7.0)	\$ (7.0)

⁽¹⁾ Related to Interest Rate Risk

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

	Year Ended December 31			
	After-tax		Pre-tax	
	2018	2017	2018	2017
Losses (Gains) re-classified from OCL	\$			
Interest Rate Risk	1.7	—	1.7	—
Commodity Price Risk	(0.7)	—	(0.7)	—
Losses (Gains) recognized in OCL				
Interest Rate Risk	(8.7)	—	(8.7)	—
Commodity Price Risk	0.7	—	0.7	—
Total	\$ (7.0)	\$ —	\$ (7.0)	\$ —

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, 2018. The information and opinions concerning the future outlook are based on information available at February 14, 2019.

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	
	2018	2017	2018	2017
Conventional				
Petroleum and natural gas sales	58.6	83.2	317.7	318.4
Daily sales volumes (boe/d) ⁽¹⁾	23,580	25,902	24,632	26,588
Deep Basin Partnership				
Daily sales volumes (boe/d)	6,207	4,381	4,563	5,779
Harvest's share of daily sales volumes (boe/d) ⁽³⁾	5,180	3,618	3,797	4,769
Average realized price ⁽²⁾				
Oil and NGLs (\$/bbl)	28.48	52.86	51.82	47.36
Gas (\$/mcf)	1.67	1.78	1.63	2.35
Operating netback prior to hedging(\$/boe) ⁽³⁾	(1.28)	15.04	11.83	13.35
Operating income (loss) ⁽³⁾	12.2	(176.2)	(127.9)	(271.6)
Cash contribution from operations ⁽³⁾	0.1	24.5	80.3	84.3
Capital expenditures	13.2	30.1	56.2	65.6
Property dispositions, net ⁽⁴⁾	(1.6)	(0.4)	(2.0)	(0.4)
Net wells drilled	2.1	5.0	11.6	9.7
Oil Sands				
Capital expenditures	8.8	3.8	94.1	4.6
Operating loss ⁽³⁾	(18.8)	(2.7)	(24.9)	(12.6)
NET LOSS	(114.2)	(207.3)	(380.2)	(282.3)

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

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

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

(4) This represents the historical cost of oil and gas assets disposed net of accumulated depreciation and depletion.

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 in northern Alberta ("Oil Sands"). Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). Our earnings and cash flow from operations are largely determined by the realized prices for our crude oil and natural gas production.

Conventional

- Petroleum and natural gas sales for the three and twelve months ended December 31, 2018 decreased by \$24.6 million and \$0.7 million, respectively, over the same periods in 2017. The decrease for the three month period is primarily the result of a decrease in average realized sales prices and volumes. The decrease for the twelve month period is primarily the result of decreased sales volumes, partially offset by an increase in average realized sales prices.
- Sales volumes for the three and twelve months ended December 31, 2018 decreased by 2,322 boe/d and 1,956 boe/d, respectively, as compared to the same periods in 2017. These decreases were primarily due to natural declines, partially offset by additional volumes resulting from new wells and asset optimization and revitalization projects.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three and twelve months ended December 31, 2018 increased 1,562 boe/d and decreased 972 boe/d, respectively, as compared to the same periods in 2017. The decrease for the year was primarily due to natural declines, which were partially offset by additional volumes from new wells. The increase for the three months ended December 31, 2018 was primarily as the result of additional production from new wells brought online during the fourth quarter of 2018.
- Operating income (loss) for the three and twelve months ended December 31, 2018 was \$12.2 million of income and \$127.9 million of loss, respectively (2017 - \$176.2 million loss and \$271.6 million loss, respectively). The decreases in operating loss from 2017 were primarily due to reduced impairment expenses in conventional and the DBP partnership, which also led to a reduced loss from joint ventures in the current periods, as well as an unrealized derivative contract gain as a result of a decrease in the top-up obligation to the DBP partnership.
- Capital expenditures totaled \$13.2 million and \$56.2 million for the three and twelve months ended December 31, 2018. Capital expenditures for the three and twelve month period ended December 31, 2018, were primarily related to drilling and completion, asset optimization and revitalization projects. During the three months ended December 31, 2018, Harvest rig released seven gross wells (2.1 net). These wells included three gross (0.9 net) partner operated horizontal wells in the Rocky Mountain House area, and four gross (1.2 net) horizontal wells in the Royce area. During the twelve months ended December 31, 2018, Harvest rig released twenty four gross wells (11.6 net). The wells rig released included eight (4.2 net) horizontal wells in the Royce area, ten (3.8 net) partner operated horizontal wells in the Rocky Mountain House area, five (2.7 net) partner operated horizontal wells in the Deep Basin area and one horizontal well in the Loon area.
- Operating netback per boe prior to hedging for the three months ended December 31, 2018 was \$(1.28), a decrease of \$16.32 from the same period in 2017. Operating netback per boe prior to hedging for the twelve months ended December 31, 2018 was \$11.83, a decrease of \$1.52 from the same period in 2017. The decrease for the three months ended December 31, 2018, was primarily the result of decrease average realized prices, as well as increased transportation and marketing fees, and operating expenses per boe. The decrease for the twelve month period was mainly due to an increase in operating expenses and transportation and marketing fees per boe.
- Cash contributions from Harvest's Conventional operations for the three and twelve months ended December 31, 2018 was a deficiency of \$0.1 million and contribution of \$80.3 million, respectively (2017 - \$24.5 million and \$84.3 million contributions, respectively). The decrease in cash contributions for the three months ended December 31, 2018 was primarily due to decreased petroleum and natural gas

sales. The decrease in cash contributions for the twelve months ended December 31, 2018 was mainly due to an increase in operating expenses.

Oil Sands

- Capital expenditures for the three and twelve months ended December 31, 2018 were \$8.8 million and \$94.1 million, respectively, (2017 - \$3.8 million and \$4.6 million, respectively). The capital expenditures for the three months ended December 31, 2018 primarily related to startup of the central processing facility ("CPF"). The capital expenditures for the twelve months ended December 31, 2018, mainly related to construction activities, pre-commissioning, commissioning, and start-up costs of the CPF. During the quarter, Harvest continued production ramp up of its BlackGold Oil Sands project and achieved bitumen production of 5,604 bbl/d for the month of December.
- Operating losses for the three and twelve months ended December 31, 2018 were \$18.8 million and \$24.9 million, respectively (2017 - \$2.7 million and \$12.6 million, respectively). Operating losses increased as compared to the same periods in 2017 as a result of the capitalization period of the Oilsands operation coming to an end as the asset is now operating as intended by management, and because of the price collapse of heavy oil experienced in November and December of 2018.

Corporate

- The weakening of the Canadian dollar against the U.S. dollar for the three months ended December 31, 2018 resulted in net unrealized foreign exchange losses of \$78.6 million (2017 - \$28.2 million) which was primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars. The weakening of the Canadian dollar against the U.S. dollar for the twelve months ended December 31, 2018 resulted in net unrealized foreign exchange losses of \$107.5 million (2017 - \$72.5 million net gains) which is primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars.
- Harvest's net change to the credit facility during the three and twelve months ended December 31, 2018 was \$48.3 million and \$184.3 million net borrowing, respectively (2017 - \$227.7 million and \$698.5 million net repayment, respectively). The net borrowing for the three and twelve months ended December 31, 2018 was primarily related to borrowings to finance capital additions, partially offset by cash flows from operations. At December 31, 2018, Harvest had \$386.8 million drawn under the credit facility (December 31, 2017 - \$190.6 million) excluding letters of credit of \$15.1 million (December 31, 2017 - \$14.9 million). As at December 31, 2018, the term loan facilities had an outstanding balance of \$800 million (December 31, 2017 - \$500 million).
- Subsequent to December 31, 2018, the Company received a production curtailment order from the Alberta Government. Currently, the Company does not believe the production curtailment order will have a material impact for 2019 and is fully cooperating with the Alberta Government. Harvest will be prepared to adjust its 2019 work plan and budget program, if and as required.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONVENTIONAL

Summary of Financial and Operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
FINANCIAL				
Petroleum and natural gas sales	58.6	83.2	317.7	318.4
Royalties	(5.1)	(7.9)	(31.8)	(33.2)
Revenues and other income	53.5	75.3	285.9	285.2
Expenses				
Operating	41.0	35.8	156.0	143.5
Transportation and marketing	4.6	4.2	16.3	12.3
Operating netback after hedging ⁽¹⁾	7.9	35.3	113.6	129.4
General and administrative	10.2	10.5	35.6	37.3
Depreciation, depletion and amortization	37.8	43.2	167.1	188.0
Loss from joint ventures	1.9	65.4	33.0	84.9
Exploration and evaluation	1.7	—	2.1	0.1
Unrealized derivative contract (gains) losses ⁽²⁾	(34.9)	26.1	(31.2)	26.7
Impairment (recovery)	(14.9)	66.6	44.2	66.6
Gain on onerous contract	(1.6)	(0.2)	(1.6)	(1.3)
Gains on disposition of assets	(4.5)	(0.1)	(7.7)	(1.3)
Operating income (loss) ⁽¹⁾	12.2	(176.2)	(127.9)	(271.6)
Capital asset expenditures	13.2	30.1	56.2	65.6
Property dispositions, net ⁽⁴⁾	(1.6)	(0.4)	(2.0)	(0.4)
OPERATING				
Light to medium oil (bbl/d)	3,790	4,102	4,243	4,039
Heavy oil (bbl/d)	5,783	6,754	6,306	7,147
Natural gas liquids (bbl/d)	3,385	3,667	3,244	3,269
Natural gas (mcf/d)	63,737	68,276	65,036	72,799
Total (boe/d) ⁽³⁾	23,580	25,902	24,632	26,588

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

(2) Derivative contract losses include the settlement amounts for derivative contracts and Harvest's top-up obligation to KERR. See "Risk Management, Financing and Other" section of this MD&A for details.

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

(4) This represents the historical cost of oil and gas assets disposed net of accumulated depreciation and depletion.

Commodity Price Environment

	Three Months Ended December 31			Twelve Months Ended December		
	2018	2017	Change	2018	2017	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	59.14	55.40	7%	64.85	50.95	27%
West Texas Intermediate crude oil (\$/bbl)	78.12	70.39	11%	84.00	66.08	27%
Edmonton Light Sweet crude oil (\$/bbl)	41.39	69.01	(40%)	68.97	62.91	10%
Western Canadian Select ("WCS") crude oil (\$/bbl)	25.36	54.87	(54%)	49.68	50.60	(2%)
AECO natural gas daily (\$/mcf)	1.56	1.69	(8%)	1.50	2.16	(31%)
U.S. / Canadian dollar exchange rate	0.757	0.787	(4%)	0.772	0.771	0%
Differential Benchmarks						
EDM differential to WTI (\$/bbl)	36.73	1.38	2,562%	15.03	3.17	374%
EDM differential as a % of WTI	47.0%	2.0%	2,250%	17.9%	4.8%	273%
WCS differential to WTI (\$/bbl)	52.76	15.52	240%	34.32	15.48	122%
WCS differential as a % of WTI	67.5%	22.0%	207%	40.9%	23.4%	75%

For the three and twelve months ended December 31, 2018, the average WTI benchmark price increased 7% and 27%, respectively, as compared to the same periods in 2017. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and twelve months ended December 31, 2018, decreased 40% and increased 10%, respectively, compared to the same periods in 2017. The decrease in price for the three month period was primarily related to a widening in the Edmonton light differential, partially offset by an increase in WTI. The increase for the twelve months ended December 31, 2018 was primarily due to an increase in the WTI price, partially offset by a widening of the Edmonton Light differential.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The WCS benchmark price decreased by 54% and 2% for the three and twelve months ended December 31, 2018, respectively, as compared to the same periods in 2017. These decreases were primarily due to a widening WCS differential, partially offset by an increase in the WTI price.

Harvest's realized natural gas price is referenced to the AECO hub, which decreased by 8% and 31% for the three and twelve months ended December 31, 2018.

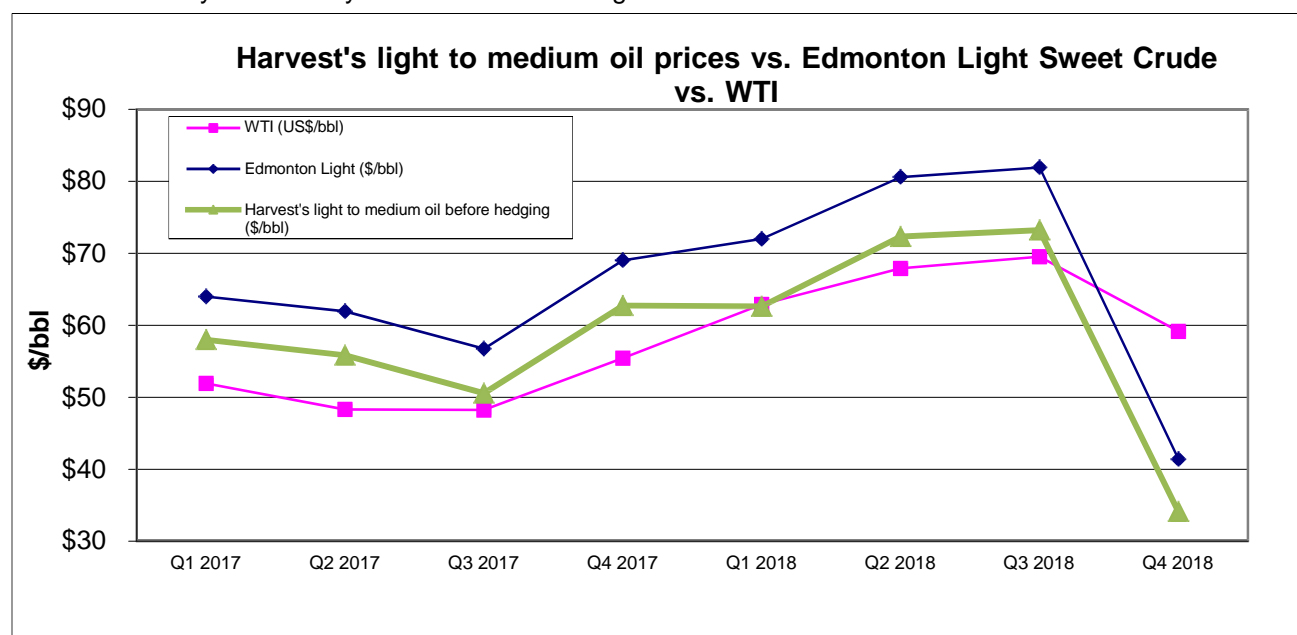
Realized Commodity Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Light to medium oil (\$/bbl)	34.10	62.72	(46%)	61.45	56.69	8%
Heavy oil prior to hedging(\$/bbl)	25.21	52.98	(52%)	51.75	47.72	8%
Natural gas liquids (\$/bbl)	27.78	41.63	(33%)	39.36	35.04	12%
Natural gas (\$/mcf)	1.67	1.78	(6%)	1.63	2.35	(31%)
Average realized price prior to hedging (\$/boe) ⁽¹⁾	22.10	35.15	(37%)	34.53	32.83	5%
Light to medium oil after hedging (\$/bbl) ⁽²⁾	54.86	62.72	(13%)	62.01	56.69	9%
Heavy oil after hedging (\$/bbl) ⁽²⁾	27.05	52.98	(49%)	51.66	47.72	8%
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	25.89	35.15	(26%)	34.60	32.83	5%

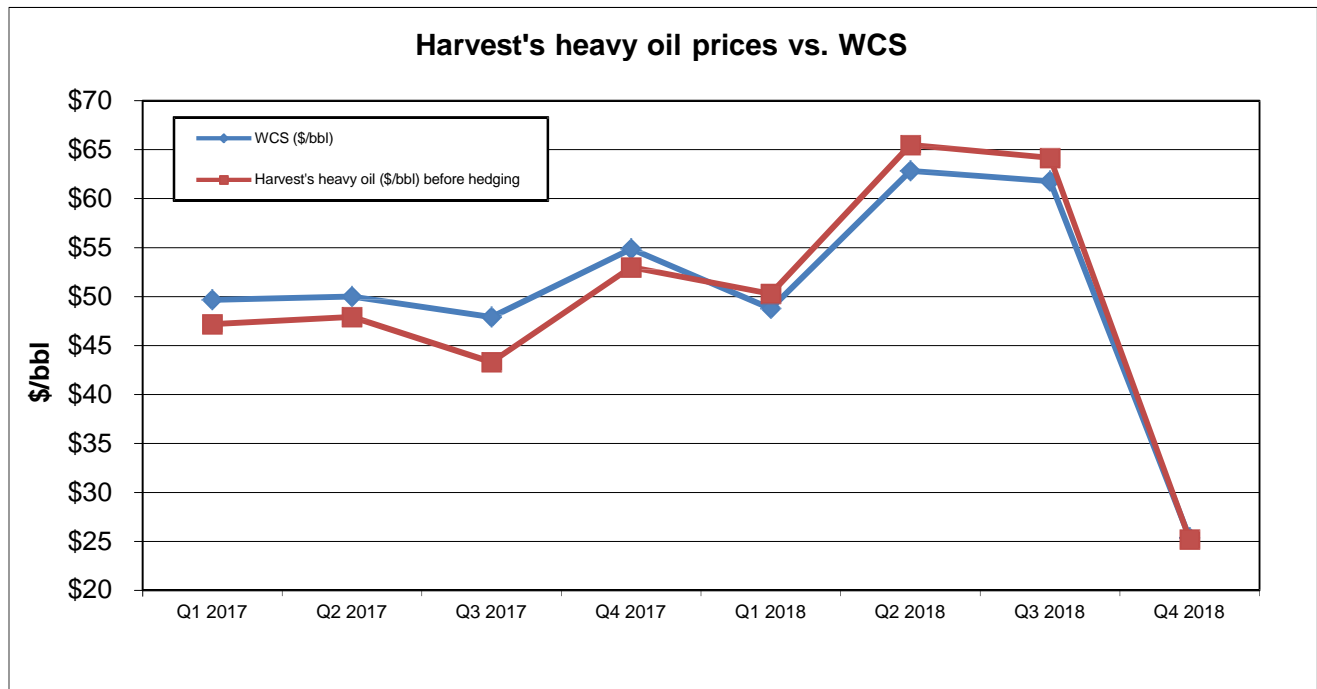
(1) Inclusive of sulphur revenue.

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

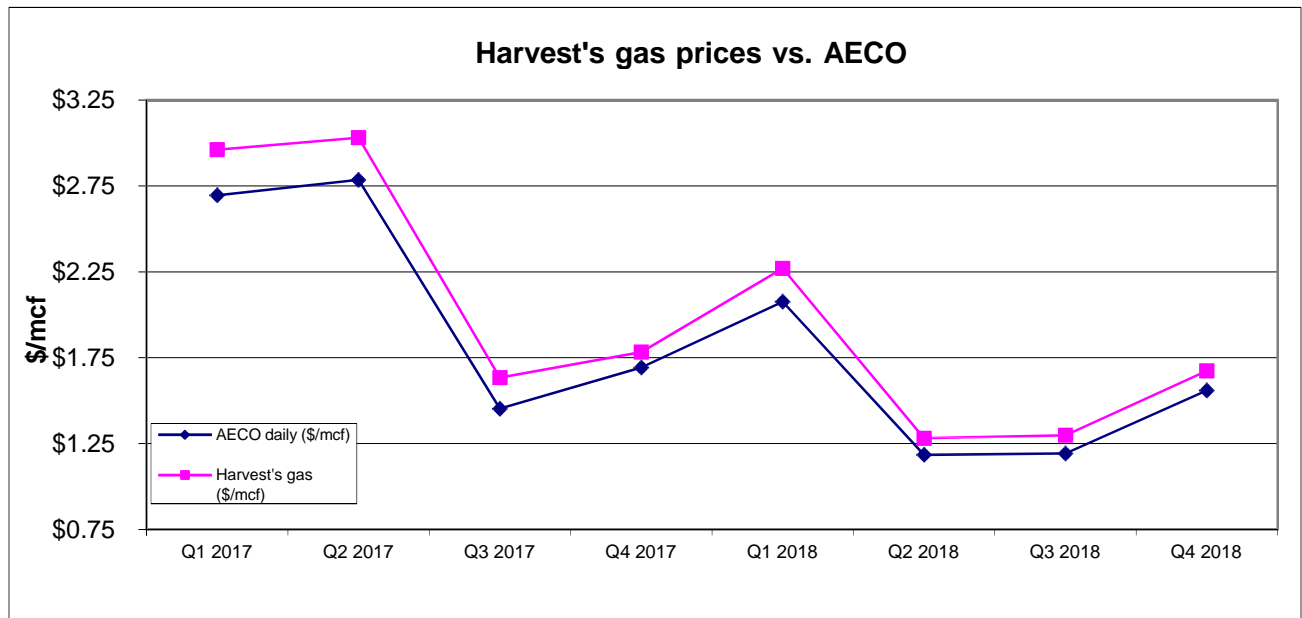
For the three and twelve months ended December 31, 2018, Harvest's realized price for light to medium oil trended relatively consistently with the Edmonton Light benchmark.



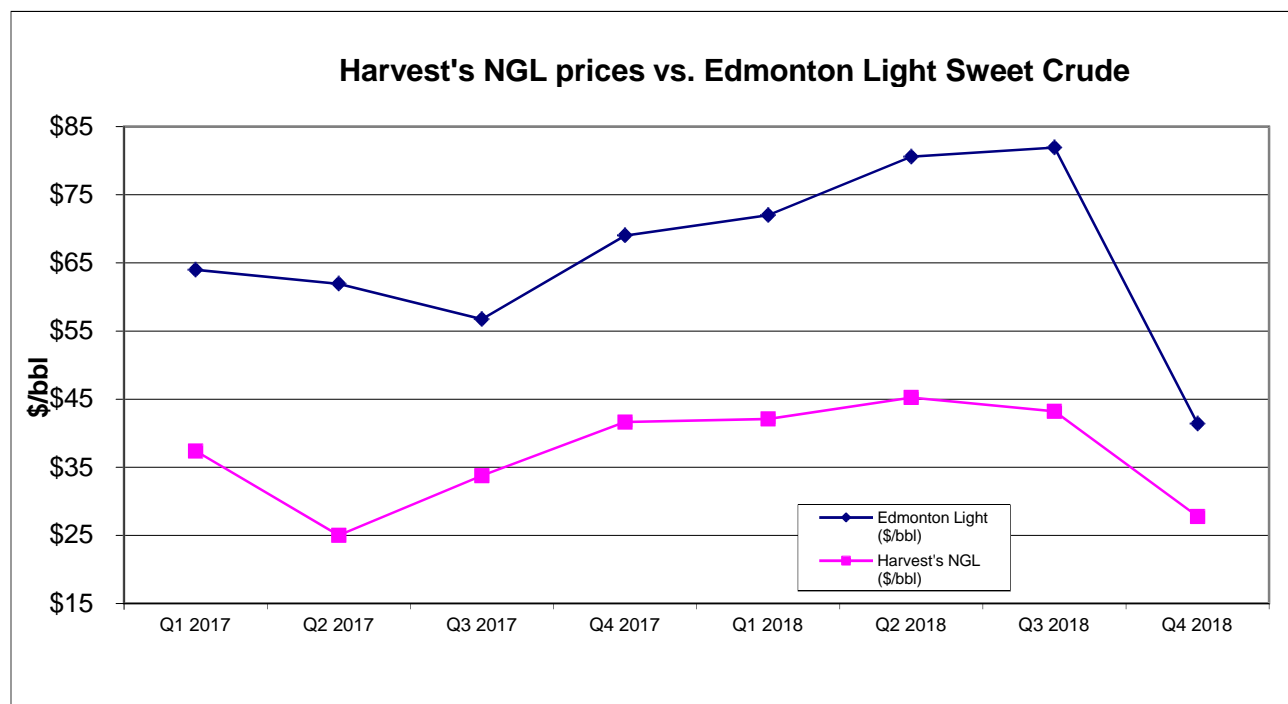
During the three months ended December 31, 2018, Harvest's realized price for heavy oil decreased relatively consistently with the WCS benchmark. For the twelve months ended December 31, 2018, Harvest's average realized price for heavy oil increased while the WCS benchmark price decreased. This was primarily the result of a portion of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which increased at a higher ratio than the WCS benchmark.



For the three and twelve months ended December 31, 2018, Harvest's realized natural gas prices fluctuated relatively consistent with the AECO benchmark.



Harvest's realized natural gas liquids prices for the three months ended December 31, 2018 decreased by less than its benchmark, Edmonton Light Sweet Crude, primarily due to condensate prices which decreased at a lower ratio than the Edmonton Light benchmark. For the twelve months ended December 31, 2018 Harvest's realized natural gas liquids prices increased relatively consistently with the Edmonton Light benchmark.



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 Mixed Sweet Blend ("MSW"), WCS and AECO derivative contracts. During the three and twelve months ended December 31, 2018, Harvest had MSW derivative contracts in place for a portion of its light oil production, and WCS derivative contracts in place for a portion of its heavy oil production.

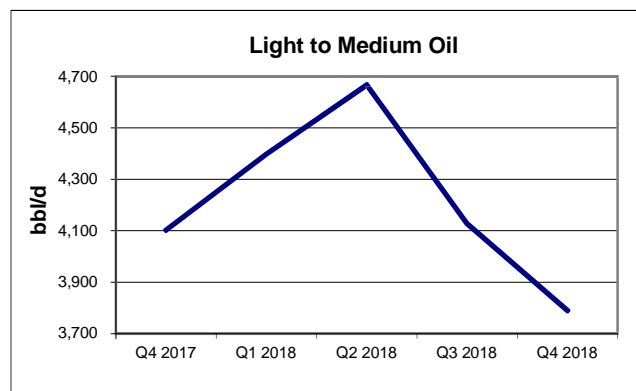
The impact from MSW hedges on Harvest's realized light to medium oil price for the three and twelve months ended December 31, 2018 were a hedging gain of \$20.76 per boe and \$0.56 per boe. The impact from WCS hedges on Harvest's realized heavy oil price for the three and twelve months ended December 31, 2018 were a hedging gain of \$1.84 per boe and loss of \$0.09 per boe. For the same periods in 2017, Harvest did not have any oil or gas derivative contracts in place. Harvest had no natural gas derivative contracts in place during the three and twelve months ended December 31, 2018 and 2017.

Please see "Cash Flow Risk Management" section in this MD&A for further discussion with respect to the cash flow risk management program, and derivative contracts Harvest has entered into.

Sales Volumes

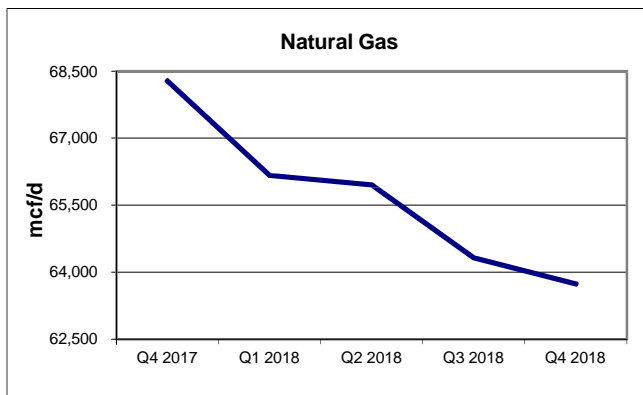
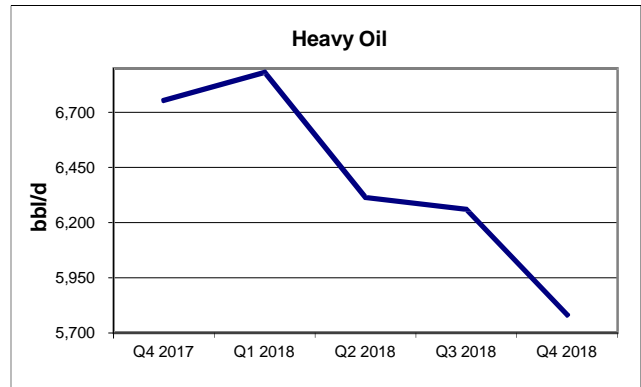
Three Months Ended December 31					
	2018		2017		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	3,790	16%	4,102	16%	(8%)
Heavy oil (bbl/d)	5,783	25%	6,754	26%	(14%)
Natural gas liquids (bbl/d)	3,385	14%	3,667	14%	(8%)
Total liquids (bbl/d)	12,958	55%	14,523	56%	(11%)
Natural gas (mcf/d)	63,737	45%	68,276	44%	(7%)
Total oil equivalent (boe/d)	23,580	100%	25,902	100%	(9%)

Twelve Months Ended December 31					
	2018		2017		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	4,243	17%	4,039	15%	5%
Heavy oil (bbl/d)	6,306	26%	7,147	27%	(12%)
Natural gas liquids (bbl/d)	3,244	13%	3,269	12%	(1%)
Total liquids (bbl/d)	13,793	56%	14,455	54%	(5%)
Natural gas (mcf/d)	65,036	44%	72,799	46%	(11%)
Total oil equivalent (boe/d)	24,632	100%	26,588	100%	(7%)



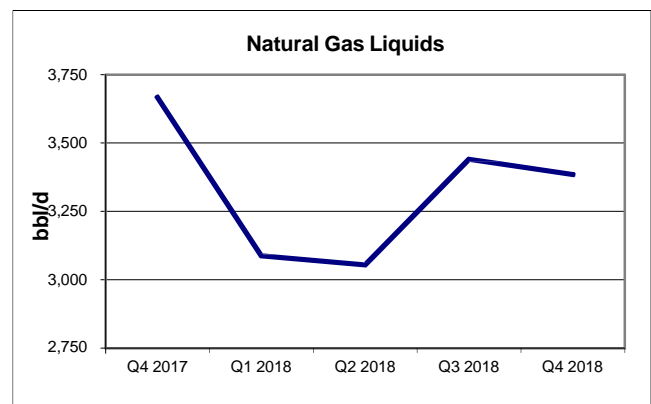
Harvest's average daily sales of light to medium oil decreased 8% in the fourth quarter of 2018 as compared to the same period in 2017. The increase from Q4 2017 to Q2 2018 was mainly due to production from new wells brought on stream in the Royce and Loon Lake areas. The decrease in production from Q2 2018 is primarily due to natural declines.

Heavy oil sales for the fourth quarter of 2018 decreased 14% as compared to the same period in 2017 mainly due to natural declines, partially offset by asset optimization and revitalization projects.



Natural gas sales during the fourth quarter of 2018 decreased 7% as compared to the same period in 2017. The decrease since Q4 2017 is primarily the result of natural declines. Declines over 2018 were partially offset by Harvest's participation in new wells in the Rocky Mountain House and Deep Basin areas.

Natural gas liquids sales for the fourth quarter of 2018 decreased by 8% from the same period in 2017. This decrease is primarily due to natural declines, partially offset by Harvest's participation in new wells in the Rocky Mountain House area.



Revenues

Sales Revenue by Product

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Light to medium oil sales after hedging ⁽¹⁾	19.1	23.7	(19%)	96.0	83.6	15%
Heavy oil sales after hedging ⁽¹⁾	14.4	32.9	(56%)	118.9	124.5	(4%)
Natural gas sales	9.8	11.2	(13%)	38.7	62.4	(38%)
Natural gas liquids sales	8.7	14.0	(38%)	46.6	41.8	11%
Other ⁽²⁾	6.6	1.4	371%	17.5	6.1	187%
Petroleum and natural gas sales	58.6	83.2	(30%)	317.7	318.4	0%

(1) Inclusive of the effective portion of realized losses from 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 for the three months ended December 31, 2018, as compared to 2017, primarily due to decreased average realized sales price and volumes. Total petroleum and natural gas sales decreased for the twelve months ended December 31, 2018, as compared to 2017, primarily due to decreased volumes, partially offset by increased realized sales prices.

Sulphur revenue for the three and twelve months ended December 31, 2018 was \$2.0 million and \$11.0 million, respectively, of the total in other revenues (2017 - \$2.0 million and \$6.3 million, respectively). The increase in sulphur revenue for the three and twelve months ended December 31, 2018 is primarily due to an increase in realized sales prices.

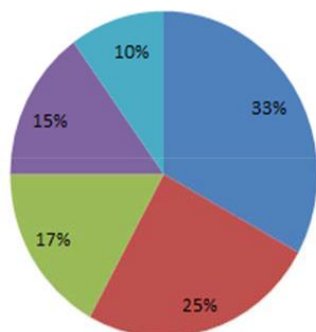
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue by Product Type as % of Total Revenue

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Light to medium oil sales after	33%	28%	30%	26%
Heavy oil sales after hedging	25%	40%	37%	39%
Natural gas sales	17%	13%	12%	20%
Natural gas liquids sales	15%	17%	15%	13%
Other	10%	2%	6%	2%
Total Sales Revenue	100%	100%	100%	100%

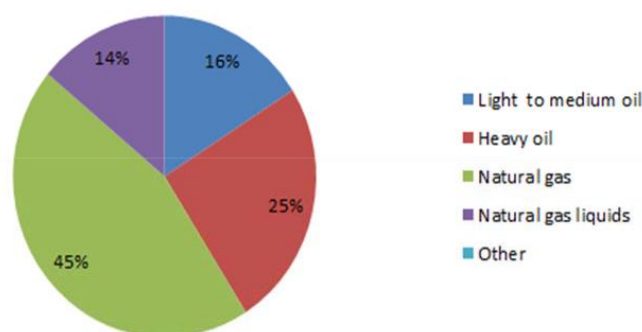
Sales Revenue by Product

(Three months ended December 31, 2018)



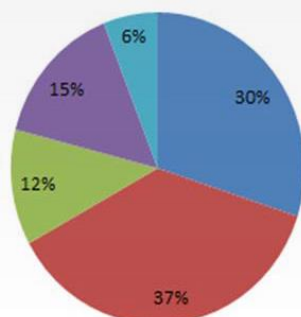
Sales Volumes by Product

(Three months ended December 31, 2018)



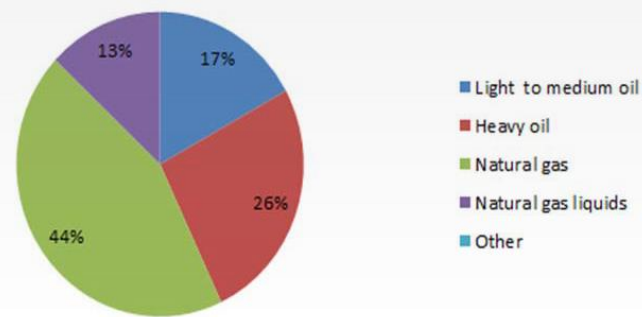
Sales Revenue by Product

(Twelve months ended December 31, 2018)



Sales Volumes by Product

(Twelve months ended December 31, 2018)



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 natural gas liquids as shown by the charts above. Revenue contributions by product for the three and twelve months ended December 31, 2018 has fluctuated in comparison to the same periods of 2017 as a result of changes in commodity prices.

Royalties

	Three Months Ended December		Twelve Months Ended December	
	2018	2017	2018	2017
Royalties	5.1	7.9	31.8	33.2
Royalties as a percentage of revenue	8.7%	9.5%	10.0%	10.4%
Royalties (\$/boe)	2.35	3.32	3.54	3.42

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 three and twelve months ended December 31, 2018, royalties as a percentage of gross revenue averaged 8.7% and 10.0%, respectively (2017 - 9.5% and 10.4%). The decrease in royalties as a percentage of gross revenue on the three month basis was primarily the result of a decrease in volumes and average realized prices. The change in royalties on the twelve month basis was relatively consistent with the comparative periods' results.

For the three and twelve months ended December 31, 2018, royalties on a per barrel basis decreased by 29% to \$2.35 per boe and increased 4% to \$3.54 per boe, respectively, when compared to the same periods last year. The decrease in the three months ended December 31, 2018 was primarily due to decreased average realized prices which resulted in a lower royalty expense on a per barrel basis. The increase in the twelve months ended December 31, 2018, is primarily the result of increased average realized prices, which has resulted in a higher royalty expense on a per barrel basis.

Operating Expense

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Operating expense	41.0	35.8	156.1	143.5
Operating expense (\$/boe)	18.91	15.04	17.35	14.79

Operating expenses for the three months ended December 31, 2018 increased by \$5.2 million as compared to the same period in 2017. This increase is primarily the result of an increase in processing fees as a result of an unfavourable equalization adjustment in the current period. Operating expenses for the twelve months ended December 31, 2018 increased by \$12.6 million as compared to the same period in 2017. This increase is primarily the result of increased processing fees, power costs resulting from increased utility rates, and an increase in repairs and maintenance and well servicing resulting from cold weather issues and asset optimization and revitalization projects in the first quarter of 2018.

Operating expense on a per barrel basis increased by 26% to \$18.91 per boe and 18% to \$17.35 per boe, respectively, for the three and twelve months ended December 31, 2018, when compared to the same periods in 2017, mainly due to lower sales volumes and increased operating expenses.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation and Marketing Expense

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Transportation and marketing expense	4.6	4.2	16.3	12.3
Transportation and marketing expense (\$/boe)	2.12	1.75	1.81	1.27

Transportation and marketing expenses relate primarily to the cost of delivery of natural gas and natural gas liquids, as well as trucking crude oil to pipeline or rail receipt points. Transportation and marketing expenses in the three and twelve months ended December 31, 2018 increased by \$0.4 million and \$4.0 million, respectively in comparison to the same periods in 2017 primarily as a result of increased unutilized delivery charges.

Operating Netback⁽¹⁾

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$/boe)	2018	2017	Change	2018	2017	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	22.10	35.15	(37%)	34.53	32.83	5%
Royalties	(2.35)	(3.32)	29%	(3.54)	(3.42)	(4%)
Operating expenses	(18.91)	(15.04)	(26%)	(17.35)	(14.79)	(17%)
Transportation and marketing	(2.12)	(1.75)	(21%)	(1.81)	(1.27)	(43%)
Operating netback prior to hedging ⁽¹⁾	(1.28)	15.04	(109%)	11.83	13.35	(11%)
Hedging gain ⁽³⁾	3.79	—	(100%)	0.08	—	(100%)
Operating netback after hedging ⁽¹⁾	2.51	15.04	(83%)	11.91	13.35	(11%)

(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 crude oil contracts.

For the three and twelve months ended December 31, 2018, operating netback after hedging was \$2.51 per boe and \$11.91 per boe, respectively, representing a 83% and 11% decrease, respectively, compared to the same periods in 2017. The decrease in the three month period was primarily due to a decrease in commodity prices, and increased operating expense and transportation and marketing expense. The decrease in the twelve month period was mainly due to an increase in operating expenses and transportation and marketing expenses per boe.



MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative ("G&A") Expenses

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Gross G&A expenses	11.2	11.6	(3%)	38.9	41.4	(6%)
Capitalized G&A and recoveries	(1.0)	(1.1)	(9%)	(3.3)	(4.1)	(20%)
Net G&A expenses	10.2	10.5	(3%)	35.6	37.3	(5%)
Net G&A expenses (\$/boe)	4.72	4.41	7%	3.95	3.85	3%

For the three and twelve months ended December 31, 2018, G&A expenses net of capitalized G&A were relatively consistent with the comparative periods.

On a per boe basis, G&A expenses for the three and twelve months ended December 31, 2018, were higher than comparative periods as a result of lower volumes.

Harvest does not have a stock option program, however there is a long-term incentive program which is a cash settled plan that has been included in the G&A expenses.

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
DD&A expense	37.8	43.2	167.1	188.0
DD&A expense (\$/boe)	17.43	18.14	18.59	19.36

DD&A expense for the three and twelve months ended December 31, 2018 decreased by \$5.4 million and \$20.9 million, respectively, as compared to the same periods in 2017, mainly due to impairments booked in the third quarter of 2018, as well as reserve additions in the fourth quarter of 2018, which led to reduced DD&A rates per boe in the fourth quarter of 2018.

For the three and twelve months ended December 31, 2018, DD&A per boe decreased as compared to the same periods in the prior year. This is primarily the result of third quarter impairments, and fourth quarter reserve additions, which reduced DD&A on a comparative basis for the current periods.

Impairment Expense

Impairment is recognized when the carrying value of a Cash Generating Unit ("CGU") exceeds its recoverable amount, defined as the higher of its value in use ("VIU") or fair value less costs of disposal ("FVLCD"). The Company uses a risk adjusted discount rate that varies based on the nature of the assets held in each of its CGUs to determine the fair value at the measurement date.

For the year ended December 31, 2018, Harvest evaluated its conventional assets for indicators of impairment. A decrease in natural gas pricing and an increase in reserve value were the primary triggers that indicated further testing was necessary for the West Gas and South Gas Conventional CGUs.

For the year ended December 31, 2018, an impairment expense of \$44.2 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 16% was applied to calculate the recoverable amount of \$40.1 million.

For the year ended December 31, 2018, nil impairment was recorded for the South Gas CGU. The recoverable amount for the South Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 12% was applied to calculate the recoverable amount of \$260.2 million which matched the carrying amount and no impairment was recorded

For the twelve months ended December 31, 2018, as a result of changes in future development plans and lease expirations, exploration and evaluation assets were impaired by \$2.1 million (2017 - \$0.1 million).

For the three and twelve months ended December 31, 2017, Harvest tested all of its Conventional CGUs for impairment as a result of changes in the outlook of future commodity prices. The recoverable amounts were based on the assets' FVLCD, which is classified as a level 3 fair value measurement based on net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate in the range of 11% to 15% was used to determine the recoverable amount for the Conventional CGUs for the year ended December 31, 2017. As a result, the West Gas CGU recorded impairment in the amount of \$28.4 million. Changes in timing and amount of cash flows from the reserve report were deemed to be the main triggers indicating impairment reversals. Previously recognized impairment charge on the Conventional assets was reversed in the amounts of \$22.6 million and \$39.5 million in the North Oil and South Gas CGUs, respectively. The net effect of the impairment and reversals to Harvest's Conventional assets was an impairment reversal of \$33.7 million for the three and twelve months ended December 31, 2017.

The results of the impairment assessments conducted during the twelve months ended December 31, 2018, and December 31, 2017 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.

At December 31, 2017, an impairment test of goodwill concluded that the carrying amount exceeded the estimated recoverable amount. The full balance of goodwill was not recoverable and an impairment loss of \$100.3 million was recorded.

Capital Expenditures

	<u>Three Months Ended December 31</u>		<u>Twelve Months Ended December 31</u>	
	2018	2017	2018	2017
Drilling and completion	4.8	13.4	32.3	29.8
Well equipment, pipelines and facilities	7.7	15.2	22.2	30.2
Land and seismic	—	—	0.1	—
Geological and geophysical	—	—	—	0.7
Corporate	0.1	—	0.3	—
Other	0.6	1.5	1.3	4.9
Total additions excluding acquisitions	13.2	30.1	56.2	65.6

Total capital expenditures were lower for the three and twelve months ended December 31, 2018 compared to 2017 mainly due to decreased capital activity for the current year as a result of the drilling and completion of fewer wells.

During the three months ended December 31, 2018, Harvest rig released seven gross wells (2.1 net). These wells included three gross (0.9 net) partner operated horizontal wells in the Rocky Mountain House area, and four gross (1.2 net) horizontal wells in the Royce area. During the twelve months ended December 31, 2018, Harvest rig released twenty four gross wells (11.6 net). The wells rig released included eight (4.2 net) horizontal wells in the Royce area, ten (3.8 net) partner operated horizontal wells in the Rocky Mountain House area, five (2.7 net) partner operated horizontal wells in the Deep Basin area and one horizontal well in the Loon area.

During the three and twelve months ended December 31, 2018, Harvest's net undeveloped land additions were 796 acres and 3,993 acres, respectively (2017 – 158 acres and 10,439 acres, respectively), and there were 316 acres and 2,159 acres, respectively, of net undeveloped land dispositions (2017 - nil acres and nil acres, respectively).

Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at December 31, 2018 were \$608.6 million (December 31, 2017 - \$632.8 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities is based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The decrease in the balance as at December 31, 2018 is mainly due to changes to the decommissioning liabilities cost estimates and costs incurred in the period, partially offset by a decrease in the estimated discount rate. 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 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 these investments based upon Harvest's share in the change of the net assets of the joint ventures. 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 three and twelve months ended December 31, 2018, Harvest recognized a loss of \$1.9 million and \$33.0 million, respectively (2017 - \$65.4 million and \$84.9 million, respectively) from its investment in the DBP and HKMS joint ventures.

Below is an overview of the operational and financial highlights of the DBP and HKMS joint ventures for the three and twelve months ended December 31, 2018. Unless otherwise noted, the following discussion relates to 100% of the joint venture results.

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 the three and twelve month periods ended December 31, 2018 Harvest made various contributions to DBP that resulted in an increase in its ownership percentage as reflected in the table below.

	December 31 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Harvest's ownership interest	83.45%	83.40%	82.98%	82.88%	82.59%
KERR's ownership interest	16.55%	16.60%	17.02%	17.12%	17.41%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at December 31, 2018, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$2.2 million (December 31, 2017 - \$33.4 million). The decrease over prior year is a result of an increased discount rate of 20% (2017 - 12%), and increased projected future cash flows.

At December 31, 2018, Harvest received a total of \$17.0 million (December 31, 2017 - \$17.0 million) in distributions from DBP from inception of the joint venture. No distributions were paid to partners during 2018.

	<u>Three Months Ended December 31</u>			<u>Twelve Months Ended December 31</u>		
	2018	2017	Change	2018	2017	Change
Natural gas liquids (\$/bbl)	42.03	56.89	(26%)	55.01	51.76	6%
Natural gas (\$/mcf)	1.76	1.88	(6%)	1.69	2.55	(34%)
Average realized price(\$/boe)	21.90	23.35	(6%)	23.61	25.50	(7%)

For the three and twelve months ended December 31, 2018, average realized prices for natural gas liquids decreased 26% and increased 6% over the same periods in the prior year primarily as a result of changes in benchmark prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and twelve months ended December 31, 2018, average realized prices for natural gas decreased 6% and 34% over the same periods in the prior year primarily as a result of a drop in its benchmark price.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Natural gas (mcf/d)	23,802	19,339	23%	19,172	24,981	(23%)
Natural gas liquids (bbl/d)	2,237	1,153	94%	1,366	1,612	(15%)
Light to medium oil (bbl/d)	2	5	(60%)	3	3	0%
Total (boe/d)	6,207	4,381	42%	4,563	5,779	(21%)
Harvest's share (boe/d) ⁽¹⁾	5,180	3,618	43%	3,797	4,769	(20%)

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

Total sales volumes for the three months ended December 31, 2018 increased by 1,826 boe/d as compared to the same period in 2017. This increase was primarily due to additional volumes from new wells tied in during the quarter, which were rig released in prior quarters. Total sales volumes for the twelve months ended December 31, 2018 decreased by 1,216 boe/d per day as compared to the same period in 2017. This decrease was primarily due to natural declines, partially offset by additional volumes from five new gross wells (4.1 net) rig released in the year.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Revenues ⁽¹⁾	12.4	9.0	38%	39.9	51.0	(22%)
Impairment	—	(58.7)	(100%)	(22.2)	(59.6)	(63%)
)Depletion, depreciation and amortization	(5.7)	(8.1)	(30%)	(17.7)	(42.7)	(59%)
Operating and transportation expenses	(10.1)	(9.5)	6%	(39.7)	(40.8)	(3%)
Finance costs	(0.7)	(0.7)	0%	(2.9)	(2.8)	4%
Loss on disposition of assets	—	—	—	—	0.1	(100%)
Net loss ⁽²⁾	(4.1)	(68.0)	(94%)	(42.6)	(94.8)	(55%)

(1) Revenue is presented net of royalties.

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

The increased sales revenues for the three months ended December 31, 2018 reflect higher natural gas liquids volumes, partially offset by reduced sales prices. The decreased revenues for the twelve months ended December 31, 2018 reflect reduced sales volumes and lower natural gas prices.

Operating and transportation expenses for the three and twelve months ended December 31, 2018 were \$17.67 per boe and \$23.84 per boe, respectively, a decrease of \$6.01 and increase of \$1.30 per boe, respectively, from the same periods in 2017. The decrease for the three month period was primarily the result of reduced fees charged from HKMS as a result of an increase in DBP and third party volumes at the Bilbo processing plant. The increase for the twelve month period was primarily the result of lower volumes.

Depletion for the three and twelve months ended December 31, 2018 were \$10.06 per boe and \$10.62 per boe, respectively (2017 - \$20.08 per boe and \$20.23 per boe). The decrease in depletion per boe for the three and twelve months ended December 31, 2018 was mainly the result of impairments recorded in the

third quarter of 2018, and fourth quarter of 2017 which decreased the asset base for depletion in 2018, and reserve additions from new wells in 2018.

For the twelve months ended December 31, 2018, DBP recognized an impairment loss of \$22.2 million. DBP tested for impairment, as a result of changes in the outlook of future commodity prices for natural gas. The recoverable amounts were based on the assets' FVLCD, which is classified as a level 3 fair value measurement based on net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate of 12% was used to determine the recoverable amount.

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Drilling and completion	0.6	1.4	33.8	9.0
Well equipment, pipelines and facilities	1.6	0.3	5.9	2.4
Geological and geophysical	0.2	—	0.2	—
Total ⁽¹⁾	2.4	1.7	39.9	11.4

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

Capital expenditures of \$2.4 million and \$39.9 million, respectively, for the three and twelve months ended December 31, 2018 were primarily related to new wells rig released in 2018.

HKMS Partnership

HKMS was established for owning and operating a gas plant in the Deep Basin area in Northwest Alberta. During the three and twelve month periods ended December 31, 2018 Harvest made various contributions to HKMS that resulted in changes in its ownership percentage as reflected in the table below.

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Harvest's ownership interest	68.15%	68.15%	68.14%	68.09%	70.47%
KERR's ownership interest	31.85%	31.85%	31.86%	31.92%	29.53%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At December 31, 2018, Harvest has received a total of \$56.1 million (December 31, 2017 - \$40.2 million) in distributions from HKMS from inception of the joint venture.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Revenues	6.5	6.4	2%	26.6	27.7	(4%)
Operating expenses and other	(0.8)	(0.7)	14%	(2.9)	(4.2)	(31%)
Depreciation and amortization	(0.9)	(0.9)	—	(3.5)	(3.4)	0.0
Finance costs	(4.2)	(4.8)	(13%)	(17.0)	(19.1)	(11%)
Net income ⁽¹⁾	0.6	—	100%	3.2	1.0	220%

(1) Balances represent 100% share of the 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, which equates to a minimum monthly capital fee that is currently at \$1.9 million. This capital fee is accounted for as revenue for HKMS and an operating expense for DBP, reduced by fees charged to third party users of the HKMS plant. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and twelve months ended December 31, 2018 the partnership generated revenues of \$6.5 million and \$26.6 million, respectively (2017 - \$6.4 million and \$27.7 million).

Operating expenses of the facility are recovered through charging an operating fee to the users. For the three and twelve months ended December 31, 2018 the partnership operating expenses were \$0.8 million and \$2.9 million, respectively, (2017 - \$0.7 million and \$4.2 million). Operating expenses for the three months ended December 31, 2018 increased as a result of processing third party volumes. Operating expenses for the twelve months ended December 31, 2018 decreased over the comparative periods as a result of lower sales volumes.

Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and twelve months ended December 31, 2018 the partnership depreciation expense were \$0.9 million and \$3.5 million, respectively (2017 - \$0.9 million and \$3.4 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. For the three and twelve months ended December 31, 2018 the partnership finance costs were \$4.2 million and \$17.0 million, respectively (2017 - \$4.8 million and \$19.1 million).

See note 10 of the December 31, 2018 audited consolidated financial statements for discussion of the accounting implications of these joint ventures.

OIL SANDS

Operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Blended bitumen sales	—	—	—	—
Cost of diluent	(2.8)	—	(2.8)	—
Bitumen sales⁽¹⁾	(2.8)	—	(2.8)	—
Expenses				
Operating	9.2	2.3	15.0	10.5
Transportation and marketing	2.4	—	2.4	—
General and administrative	0.9	0.4	0.9	1.8
Depreciation and amortization	3.5	—	3.8	0.3
Operating loss⁽¹⁾	(18.8)	(2.7)	(24.9)	(12.6)

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

The capitalization period of the Oilsands project came to an end during the fourth quarter of 2018 as the asset is now operating as intended by management. Therefore, there are no comparable numbers for operating results for prior periods.

G&A expenses for the three months ended December 31, 2018 increased over comparative quarter due to the capitalization period ending, and due to increased expenses as a result of the startup of the project. G&A expenses for the twelve month period ended December 31, 2018 decreased over the same period in 2017 due to the capitalization of G&A expenses during pre-commissioning to startup.

Depreciation and amortization commenced in the fourth quarter of 2018 for the CPF and well pairs. Comparative period results related to depreciation of head office assets.

Commodity Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Western Canadian Select ("WCS") crude oil (\$/bbl)	25.36	54.87	(54%)	49.68	50.60	(2%)

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Blended bitumen(\$/bbl)	(0.43)	-	(100%)	(0.43)	-	(100%)
Bitumen (\$/bbl)	(0.48)	-	(100%)	(0.48)	-	(100%)

Bitumen produced by Harvest must be blended with a diluent in order to reduce its viscosity and allow for transportation to the final point of sale. The Blended Bitumen sales price represents the total value of the blended bitumen and diluent product sold. Harvest's bitumen sales price represents the theoretical price received for bitumen sales, after the deduction of costs and revenues from the diluent required to be added. The costs of diluent include the costs associated with the transportation of diluent to the CPF.

As a result of increases in the price differential from WCS to bitumen, Harvest's average realized sales price was negative for the current period.

Volumes

	Three Months Ended December 31			Twelve Months Ended December 31		
	2018	2017	Change	2018	2017	Change
Blended bitumen sales (bbl/day) ⁽¹⁾	3,120	-	100%	3,120	-	100%
Bitumen sales (bbl/day) ⁽¹⁾	2,783	-	100%	2,783	-	100%
Bitumen production (bbl/day) ⁽¹⁾	3,176	-	100%	3,176	-	100%

(1) Twelve month production based on 2018 days subsequent to BlackGold reaching management's intended use.

As at December 31, 2018, 53,534 barrels of blended bitumen was in inventory at a value of \$nil.

Capital Expenditures

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Well equipment, pipelines and facilities	1.0	3.0	57.5	3.8
Drilling and completion	0.7	—	4.2	—
Other ⁽¹⁾	7.1	0.8	32.4	0.8
Total Oil Sands capital expenditures	8.8	3.8	94.1	4.6

(1) This includes capitalized general and administration and operating expenses incurred to bring the CPF to its intended use.

On December 21, 2017, Harvest announced its decision to re-sanction and complete construction of its 10,000 bbl/d BlackGold facility. The capital expenditures until the fourth quarter of 2018 relate to completing the CPF and well pairs to operate as intended by management.

Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at December 31, 2018 was \$53.7 million (December 31, 2017 - \$50.5 million) relating to the future remediation, abandonment, and reclamation of the steam assisted gravity drainage ("SAGD") wells and CPF. The increase in balance as at December 31, 2018 is mainly due to a decrease in the estimated discount rate, and accretion. 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 and 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 design 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 but activities were suspended with the decline in bitumen pricing. Construction activities were recommenced in the fourth quarter of 2017 with more optimistic bitumen pricing forecasts. Formal commissioning began on May 21, 2018, and first steam into the well pairs commenced June 19, 2018. After first steam, twelve well pairs were circulated in preparation for conversion to SAGD. First oil was achieved on September 3, 2018. By December 31, 2018, ten well pairs had been converted to full SAGD operation, and production during the month of December averaged 5,604 bbl/d.

Since inception, Harvest has incurred over \$1 billion of costs on this project which was originally acquired in 2010. This amount includes certain Phase 2 pre-investment costs which are 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, fourth, and fifth deferred payments due April 30, 2016, April 30, 2017, and April 20, 2018 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,

2018, Harvest recognized a liability of \$71.4 million (December 31, 2017 - \$69.4 million) using a discount rate of 4.5% (December 31, 2017 - 4.5%).

Harvest uses the unit of production method for depletion. Capitalization of pre-operating costs stopped, and depletion on the Oil Sands property, plant and equipment commenced in the fourth quarter of 2018, when the CPF was deemed to be operating in the manner intended by management. Minor depreciation has been recorded during the three and twelve months ended December 31, 2018 on administrative assets.

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity, interest rate and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales, purchases, and interest payments and when allowable, will designate these contracts as hedges. Harvest's crude oil price swaps mitigate crude oil price risk by fixing a certain dollar price per barrel on certain crude oil volumes. Harvest periodically enters into foreign exchange swaps to mitigate currency exchange risk by swapping the U.S. dollar notional value of U.S. dollar denominated borrowings back to Harvest's functional currency, the Canadian dollar. During 2018, Harvest entered into crude oil swaps and has also entered into an interest rate swap to exchange its floating interest rate on a term loan facility to a fixed rate of interest.

The following is a summary of Harvest's risk management contracts outstanding as at December 31, 2018:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair Value of asset at December 31, 2018
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	\$ (7.3)
US\$248 Million	FX Swap	Jan 2019	CDN/US \$1.34	Cash Flow	6.7
880 bbl/d	MSW price swap	Oct - Dec 2018	CDN \$71.75/bbl	Cash Flow	1.1
1,166 bbl/d	MSW price swap	Oct - Dec 2018	CDN \$70.73/bbl	Cash Flow	1.6
1,175 bbl/d	MSW price swap	Oct - Dec 2018	CDN \$73.00/bbl	Cash Flow	1.8
487 bbl/d	WCS price swap	Oct - Dec 2018	CDN \$52.85/bbl	Cash Flow	0.5
					\$ 4.4

Contracts Designated as Hedges Subsequent to December 31, 2018

Contract Quantity	Type of Contract	Term	Contract Price
4,100 bbl/d	WCS price swap	Dec 2019	CDN \$45.00/bbl
2,800 bbl/d	MSW price swap	Dec 2019	CDN \$57.50/bbl
1,300 bbl/d	WCS price swap	Mar - Jun 2019	CDN \$54.10/bbl
1,000 bbl/d	MSW price swap	Mar - Jun 2019	CDN \$64.25/bbl
US\$300 Million	FX Swap	Feb 2019	CDN/US \$1.335

Harvest periodically enters into U.S. dollar currency swap transactions related to LIBOR borrowings, which results in a reduction of interest expense paid on Harvest's borrowings on its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and

MANAGEMENT'S DISCUSSION AND ANALYSIS

twelve months ended December 31, 2018 was 2.8% and 2.5%, respectively (2017 – 1.8% and 1.6%, respectively).

Three Months Ended December 31								
Realized (gains) losses recognized in:	2018					2017		
	Crude Oil	Currency	Interest	Top-Up Obligation	Total	Currency	Top-Up Obligation	Total
Revenues	(8.2)	—	—	—	(8.2)	—	—	—
Finance costs	—	—	0.6	—	0.6	—	—	—
Derivative contract (gains) losses ⁽¹⁾	—	—	—	—	—	(14.4)	—	(14.4)
Unrealized (gains) losses recognized in:								
OCI, before tax	(1.4)	—	5.2	—	3.8	—	—	—
Derivative contract (gains) losses ⁽¹⁾	—	—	—	(35.0)	(35.0)	10.9	26.1	37.0

Twelve Months Ended December 31								
Realized (gains) losses recognized in:	2018					2017		
	Crude Oil	Currency	Interest	Top-Up Obligation	Total	Currency	Top-Up Obligation	Total
Revenues	(0.7)	—	—	—	(0.7)	—	—	—
Finance costs	—	—	1.7	—	1.7	—	—	—
Derivative contract (gains) losses ⁽¹⁾	—	3.2	—	—	3.2	11.2	—	11.2
Unrealized (gains) losses recognized in:								
OCI, before tax	—	—	7.0	—	7.0	—	—	—
Derivative contract (gains) losses ⁽¹⁾	—	(5.1)	—	(31.2)	(36.3)	5.1	26.8	31.9

(1) Derivative contract losses are the result of foreign exchange hedges that have been entered into in order to eliminate foreign exchange fluctuations on Harvest's US dollar denominated LIBOR borrowings. Harvest enters into U.S. dollar denominated LIBOR borrowings instead of other Canadian denominated borrowing options in order to realize lower interest rates on its revolving credit facility. During a portion of the first quarter of 2018, Harvest did not designate these financial instruments as a hedging relationship. The offsetting foreign exchange (gains) losses resulting from this relationship were therefore classified as realized and unrealized (gains) losses on foreign exchange during this period. Refer to "Currency Exchange" in this MD&A for further details.

Finance Costs

	Three Months Ended December 31		Twelve Months Ended December 31	
	2018	2017	2018	2017
Credit facility ⁽¹⁾	3.0	2.0	8.6	10.8
Term loan facility - due 2020 ⁽¹⁾	3.4	3.3	13.0	11.6
Term loan facility - due 2023 ⁽¹⁾	3.3	—	8.3	—
6 $\frac{7}{8}$ % senior notes	—	-	—	20.4
2 $\frac{1}{8}$ % senior notes ⁽¹⁾	—	5.6	8.3	23.1
2 $\frac{1}{3}$ % senior notes ⁽¹⁾	1.8	1.7	7.0	7.0
3% senior notes ⁽¹⁾	5.7	5.6	22.3	5.9
4.2% senior notes ⁽¹⁾	6.2	—	16.4	—
Amortization of deferred finance charges and other	0.7	0.6	2.2	2.1
Interest and other financing charges	24.1	18.8	86.1	80.9
Accretion of decommission and environmental remediation liabilities	4.0	3.9	15.9	15.4
Accretion of long-term liability	0.5	0.5	2.0	2.3
Total finance costs	28.6	23.2	104.0	98.6

(1) Includes guarantee fee to KNOG.

Currency Exchange

	Three Months Ended December 31		Twelve Months Ended December	
	2018	2017	2018	2017
Realized (gains) losses on foreign exchange	0.2	(19.5)	17.8	(44.4)
Unrealized (gains) losses on foreign exchange	78.6	28.2	107.5	(72.5)
Total (gains) losses on foreign exchange	78.8	8.7	125.3	(116.9)

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 $\frac{1}{8}$ %, 2 $\frac{1}{3}$ %, 3% and 4.2% senior notes and on any U.S. dollar denominated monetary assets or liabilities. For the three months ended December 31, 2018, the Canadian dollar had weakened compared to the US dollar resulting in an unrealized foreign exchange loss of \$78.6 million (2017 - \$28.2 million). For the twelve months ended December 31, 2018 the Canadian dollar had weakened, leading to an unrealized foreign exchange loss of \$107.5 million (2017 - \$72.5 million gain). Harvest recognized realized foreign exchange losses of \$0.2 million and \$17.8 million for the three and twelve months ended December 31, 2018 (2017 - \$19.5 million and \$44.4 million gains) on settlement of U.S. dollar denominated transactions, including the repayment of 2 $\frac{1}{8}$ % senior notes which resulted in a \$19.7 million realized loss.

Income Taxes

For the three and twelve months ended December 31, 2018 Harvest did not record a deferred income tax recovery (2017 - \$nil and \$nil, respectively). Harvest's deferred income tax asset will fluctuate from time to time to reflect changes in the temporary differences between the book value and tax basis of assets and liabilities. 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 three and twelve months ended December 31, 2018:

	Transactions				Balance Outstanding	
	Three Months Ended		Twelve Months Ended		Accounts Payable as at	
	December 31		December 31		December 31	December 31
	2018	2017	2018	2017	2018	2017
G&A Expenses						
KNOC ⁽¹⁾	0.1	0.4	0.5	0.7	0.5	0.3
Finance costs						
KNOC ⁽²⁾	2.9	2.9	12.9	10.2	4.7	2.9

⁽¹⁾ Amounts relate to the payments to KNOC for secondees salaries.

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's senior notes, the credit facility and term loans. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes, 37 basis points per annum on the 2½%, 3% and 4.2% senior notes. A guarantee fee of 37 basis points per annum is charged by KNOC on the credit facility and term loans.

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 10, "Investment in Joint Ventures" in the December 31, 2018 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, 2018	December 31, 2017
Credit facility ⁽¹⁾⁽³⁾	386.8	190.6
Term loan facility - due 2020 ⁽¹⁾	500.0	500.0
Term loan facility - due 2023 ⁽¹⁾	300.0	—
2½% senior notes (US\$630 million) ⁽¹⁾⁽²⁾	—	792.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽²⁾	267.0	246.1
3% senior notes (US\$485.0 million) ⁽¹⁾⁽²⁾	661.4	609.7
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽²⁾	542.1	—
	2,657.3	2,338.4
Shareholder's deficit		
458,766,467 common shares issued	(559.6)	(172.4)
	2,097.7	2,166.0

(1) Excludes capitalized financing fees

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

(3) Excludes letters of credit in the amount of \$15.1 million at December 31, 2018 (December 31, 2017 - \$14.9 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 investing activities. Harvest prepares annual operational and capital budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production levels, the success of the capital expenditures program and other

general industry conditions. 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.

On May 1, 2018, Harvest issued US\$397.5 million 4.2% senior notes for net proceeds of US\$395.8 million. The 4.2% senior notes are unsecured and mature on June 1, 2023, with interest payable semi-annually. The notes are unconditionally and irrevocably guaranteed by KNOC. On May 11, 2018, Harvest entered into an agreement to borrow \$300 million through a five year term loan at a variable rate. The term loan is guaranteed by KNOC and contains no financial covenants. On May 11, 2018, the loan was fully drawn. Proceeds from the senior notes and term loan were used to repay the 2½% senior notes that matured and were repaid on May 14, 2018. On May 15, 2018, Harvest entered into an interest rate swap agreement on the term loan that results in an all-in fixed interest rate of 3.971% for the duration of the term loan.

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 this management discussion and analysis, it is the Company's expectation that such support will continue. KNOC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company's Credit Facility, Term Loans and Senior Notes. 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, long-term debt issuances and capital injections by KNOC.

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 flows used in operating activities for the three and twelve months ended December 31, 2018 were \$16.7 million and \$8.3 million, respectively, (2017 - \$21.3 million and \$5.2 million, respectively). The decrease in the three month period is primarily the result of a decrease in cash contribution from operations, partially offset by an increase in change in non-cash working capital. The increase for the twelve month period is mainly a result of a reduction in cash contribution from operations, partially offset by a decrease in realized foreign exchange gains.

Cash contributions from Harvest's Conventional operations for the three and twelve months ended December 31, 2018 were a deficiency of \$1.1 million and contribution of \$79.2 million, respectively (2017 - \$24.5 million and \$84.3 million, contributions). The decrease in cash contributions for the three months ended December 31, 2018 was primarily due to decreased petroleum and natural gas sales as a result of a decrease in average realized sales prices. The decrease in cash contributions for the twelve months ended December 31, 2018 was mainly due to an increase in operating expenses.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Harvest funded capital expenditures for the three and twelve months ended December 31, 2018 of \$22.0 million and \$150.3 million, respectively (2017 - \$33.9 million and \$70.2 million) with the borrowings under the credit facility.

Harvest's net change to the credit facility was \$48.3 million and \$184.3 million net drawings, respectively, during the three and twelve months ended December 31, 2018 (2017 - \$227.7 million and \$199.3 million net repayments, respectively).

Harvest had a working capital deficiency of \$148.7 million as at December 31, 2018, as compared to a \$918.3 million deficiency at December 31, 2017. The working capital deficiency at December 31, 2017 included the 2½% senior notes which were repaid on May 14, 2018. Harvest's working capital, excluding senior notes, 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. Refer to "Capital Resources" section of this MD&A for further discussion of Harvest's liquidity management of senior notes.

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. The Company continually monitors its credit facility terms and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating credit facility terms as and when required.

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, 2018, 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⁾	—	1,153.8	1,197.9	300.0	2,651.7
Debt interest payments ^{(1) (2)}	85.0	156.4	108.9	0.4	350.7
Purchase commitments ⁽³⁾	38.2	19.1	19.0	6.4	82.7
Operating leases	8.4	16.5	14.9	12.4	52.2
Firm processing commitments	10.7	18.3	17.6	10.8	57.4
Firm transportation agreements	13.5	24.8	15.7	27.4	81.4
Employee benefits ⁽⁴⁾	1.1	0.5	—	—	1.6
Decommissioning and environmental liabilities ⁽⁵⁾	9.9	101.5	33.6	1,038.6	1,183.6
Total	166.8	1,490.9	1,407.6	1,396.0	4,461.3

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at December 31, 2018 will be applicable to future interest payments.

(3) Relates to the Oil Sands deferred payment under the EPC contract (see "Oil Sands Oil Sands" section of this MD&A for details) and the top-up obligation to KERR.

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

(5) Represents the undiscounted obligation by period cash flow.

Off Balance Sheet Arrangements

See "Investments in Joint Ventures" section in this MD&A and note 10, "Investment in Joint Ventures" in the December 31, 2018 audited consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the fourth quarter of 2018 results relative to the preceding 7 quarters:

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Revenue and other income, Conventional	53.5	75.7	80.0	76.7	75.3	63.4	69.3	77.2
Net loss from operations ⁽¹⁾	(114.2)	(102.8)	(75.0)	(88.2)	(207.3)	(17.6)	(26.5)	(30.8)
Operating netback prior to hedging, Conventional (\$/boe) ⁽²⁾	(1.28)	17.82	15.87	14.35	15.04	10.84	13.04	14.61
OPERATIONS								
Daily sales volumes (boe/d),	23,580	24,549	25,027	25,394	25,902	26,912	26,324	27,226
Realized price prior to hedging (\$/boe),	22.10	39.08	39.82	36.60	35.15	27.80	33.59	34.91

(1) Includes Conventional and Oil Sands segments

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

The quarterly revenues and cash from operating activities are mainly impacted by the Conventional sales volumes, realized prices and operating expenses, which are the primary drivers of Harvest's operating netback prior to hedging. Significant items that impacted Harvest's quarterly revenues include:

- Total revenues were highest in the second quarter of 2018, as a result of increased realized commodity prices and lowest in the fourth quarter of 2018 due to reduced commodity prices and low sales volumes.
- Harvest began reinvesting in the drilling of new wells in the fourth quarter of 2016, resulting in an increase in volumes for the first quarter of 2017, which have shown a natural decline to the fourth quarter of 2018 partially offset by new wells and asset optimization and revitalization projects.

Net loss reflects both cash and non-cash items. Changes in non-cash items include 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. Significant items that impacted net loss include:

- Net loss in the fourth quarter of 2018 included unrealized foreign exchange losses of \$78.6 million.
- Net loss in the third quarter of 2018 includes an impairment of \$59.1 million, and a loss from joint ventures of \$24.2 million which was primarily the result of a \$22.2 million impairment in DBP.
- Net loss in the fourth quarter of 2017 includes a \$100.3 million impairment of goodwill, and a loss from joint-ventures of \$64.5 million primarily resulting from a \$52.9 million impairment in DBP.

SELECTED ANNUAL INFORMATION

	Twelve Months Ended December 31		
	2018	2017	2016
Revenue	285.9	285.2	287.3
Net loss from continuing operations	(380.2)	(282.2)	(348.2)
Total assets	2,969.4	3,115.9	3,374.9
Total financial liabilities, non-current ⁽²⁾	3,350.1	2,315.2	1,847.9

(1) Total financial liabilities, non-current, consists of the non-current portion of long-term debt and long-term liability.

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 annual 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 annual 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 10 of the audited annual 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, 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 (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 annual 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.

CHANGES IN ACCOUNTING POLICIES**New Standards Adopted**

On January 1, 2018 Harvest adopted IFRS 15 and IFRS 9.

IFRS 15 – Revenue from Contracts with Customers:

Harvest adopted IFRS 15 with a date of initial application as of January 1, 2018. Harvest used the cumulative effect method to adopt the new standard. Under this method, prior years' financial statements have not been restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. Management reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no material changes to net earnings or timing of revenue recognized or in the gross vs. net presentation.

IFRS 9 – Financial Instruments:

Harvest adopted IFRS 9 with a date of initial application as of January 1, 2018, this is the date in which all IFRS 9 classification and measurement is required to be implemented. The Company retrospectively adopted the standard and elected not to restate comparative information. There were no material changes in the

measurement and carrying values of the Company's financial instruments as a result of the adoption. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). IFRS 9 eliminates the previous IFRS 39 categories of 'held to maturity investments, loans and receivables and other financial liabilities' and 'available for sale financial assets'. The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and the nature of its contractual cash flow characteristics. Embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9; the entire hybrid contract is assessed for classification and measurement.

IFRS 9 replaces the 'incurred credit loss model' in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract. Under IFRS 9, credit losses are recognized earlier than under IAS 39; it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities. The Company has no contract assets or financial instruments measured at FVOCI. The transition to IFRS 9 did not result in changes to the original carrying amount of the following financial instruments as compared to IAS 39.

Financial Instrument	Measurement Category	
	IAS 39	IFRS 9
Cash and cash equivalents	Fair value on a recurring basis	Amortised cost
Accounts receivable	Amortised cost	Amortised cost
Accounts payable and accrued liabilities	Amortised cost	Amortised cost
Long-term debt	Amortised cost	Amortised cost
Long-term liability		
Top-up obligation ⁽¹⁾	Fair value	FVTPL
Blackgold liability	Amortised cost	Amortised cost
Derivative contracts	Fair value	FVTPL

⁽¹⁾ Harvest's Top-up obligation is a derivative financial liability

RECENT ACCOUNTING PRONOUNCEMENTS

Future Accounting Policy Changes

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 of adoption on its consolidated financial statements. IFRS 16 is required to be adopted either retrospectively or using a

modified retrospective approach. Harvest's parent company has not yet selected which adoption approach the company will follow. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on Harvest's 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 been depressed since 2014. Crude oil differentials continue to be volatile due to supply and demand fluctuations in the local, North American, and world market for oil. Further or prolonged 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.

Risks Associated with Refinancing

- Harvest currently has a \$500 million fixed rate term loan with a Korean based bank and a \$500 million revolving credit facility with a syndicate of banks, both of which mature in February 2020. In addition, Harvest has a \$300 million term loan that matures in 2023. Both the term loans and new syndicated revolving credit facility are guaranteed by KNOC. The 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 \$1,470.5 million of senior notes outstanding with required repayments in 2021 through to 2023. These notes are unconditionally guaranteed by Harvest's parent company, KNOC. 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 both the commodities and 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 development of crude oil and drilling of liquid rich gas properties in some areas of the province which may limit production and depress sales prices.
- 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.
- Timing of Oil sands project activities including timing of the ramp-up production to nameplate capacity, and future expansion.

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 is 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 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's debt is guaranteed by KNOC. If KNOC's credit rating materially declines, it could restrict or impair Harvest's ability to refinance its debt or access to capital markets to raise debt.
- 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.

Risks Associated with Investment in Joint Arrangement

- As KERR has the ability to cause DBP 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 fund 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 Harvest's future operational and financial conditions being adversely affected.
- Conventional 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, 2018 as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of December 31, 2018, 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 securities authorities was recorded, processed, summarized and reported within the time period specified in Canadian 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 CEO and 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, 2018. 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, 2018.

In connection with the adoption of IFRS 9 and IFRS 15, Harvest has established additional controls over financial reporting, as necessary, in regards to financial instruments and revenue contracts that fall within the scope of this new guidance for the year ended December 31, 2018.

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 others to analyze the operating performance of its oil and natural gas assets.

"Operating netbacks prior to hedging" is calculated on a per boe basis and presents Harvest's operating netback, as defined above, prior to realized commodity hedging gains or losses. Operating netback prior to hedging is utilized by Harvest and others in conjunction with operating netbacks after hedging to analyze the performance of its oil and natural gas assets.

"Operating netbacks after hedging" is calculated on a per boe basis and presents Harvest's operating netback, as defined above, after realized commodity hedging gains or losses. Operating netback after hedging is utilized by Harvest and others in conjunction with operating netbacks prior to hedging to analyze the performance of its oil and natural gas assets.

"Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of 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.

"Harvest's share of daily sales volume" represents DBP's total daily production times Harvest's quarterly economic interest in DBP. This is used by Harvest and others in assessing the performance of Harvest's investment in DBP to determine Harvest's total daily production.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended December 31					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Operating loss	12.2	(176.2)	(18.8)	(2.7)	(6.6)	(178.9)
Adjustments:						
Loss from joint ventures	1.9	65.4	—	—	1.9	65.4
Operating, non-cash	—	0.2	—	—	—	0.2
General and administrative, non-cash	2.4	(0.5)	—	—	2.4	(0.5)
Exploration and evaluation, non-cash	1.7	—	—	—	1.7	—
Depletion, depreciation and amortization	37.8	43.2	3.5	—	41.3	43.2
Gains on disposition of assets	(4.5)	(0.1)	—	—	(4.5)	(0.1)
Unrealized derivative contract (gains) losses	(34.9)	26.1	—	—	(34.9)	26.1
Loss (gain) on onerous contract	(1.6)	(0.2)	—	—	(1.6)	(0.2)
Impairment and other charges, non-cash	(14.9)	66.6	—	—	(14.9)	66.6
Cash contribution (deficiency) from operations	0.1	24.5	(15.3)	(2.7)	(15.2)	21.8
Inclusion of items not attributable to segments:						
Net cash interest expense					(23.0)	(17.6)
Realized derivative contract gains					—	14.4
Realized foreign exchange losses from operations					(0.2)	(8.6)
Consolidated cash contribution from (used in) operations					(38.4)	10.0
Other non-cash items					(14.6)	(3.5)
Change in non-cash working capital					36.6	(27.1)
Cash from (used in) operating activities					(16.4)	(20.6)

	Twelve Months Ended December 31					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Operating loss	(127.9)	(271.6)	(24.9)	(12.6)	(152.8)	(284.2)
Adjustments:						
Loss from joint ventures	33.0	84.9	—	—	33.0	84.9
Operating, non-cash	—	(0.1)	—	—	—	(0.1)
General and administrative, non-cash	2.3	(7.7)	—	—	2.3	(7.7)
Exploration and evaluation, non-cash	2.1	0.1	—	—	2.1	0.1
Depletion, depreciation and amortization	167.1	188.0	3.8	0.3	170.9	188.3
(Gains) losses on disposition of assets	(7.7)	(1.3)	—	—	(7.7)	(1.3)
Unrealized derivative contract losses	(31.2)	26.7	—	—	(31.2)	26.7
Gain on onerous contract	(1.6)	(1.3)	—	—	(1.6)	(1.3)
Impairment and other charges, non-cash	44.2	66.6	—	—	44.2	66.6
Cash contribution (deficiency) from operations	80.3	84.3	(21.1)	(12.3)	59.2	72.0
Inclusion of items not attributable to segments:						
Net cash interest					(82.0)	(75.9)
Realized derivative contract losses					(3.2)	(11.1)
Realized foreign exchange gains from operations					1.9	16.3
Consolidated cash contribution from (used in) operations					(24.1)	1.3
Other non-cash items					(20.5)	(5.9)
Change in non-cash working capital					36.3	(0.6)
Cash from (used in) operating activities					(8.3)	(5.2)

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three and twelve months ended December 31, 2018 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.harvestoperations.com. Information can also be found by contacting our Investor Relations department at (403) 265-1178 or at 1-866-666-1178.