

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at (millions of Canadian dollars)	Notes	June 30, 2020	December 31, 2019
Assets			
Current assets			
Accounts receivable		\$ 35.1	\$ 35.2
Prepaid expenses and other		7.2	6.3
		42.3	41.5
Non-current assets			
Deferred income tax asset	19	866.0	790.7
Exploration and evaluation assets		10.9	10.9
Property, plant and equipment	5	1,945.1	2,124.5
Investments in joint ventures	6	-	56.5
		2,822.0	2,982.6
Total assets		\$ 2,864.3	\$ 3,024.1
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 90.0	\$ 139.2
Taxes payable	19	0.9	0.9
Derivative contracts	9	19.9	8.3
Current portion of provisions	10	16.3	16.3
Contract Liability	13	-	5.9
Current portion of long-term debt	7	915.7	500.0
		1,042.8	670.6
Non-current liabilities			
Long-term debt	7,8	1,944.1	2,150.7
Long-term liability	11	57.5	52.9
Investments in joint ventures	6	23.8	-
Lease obligations	12	17.3	19.5
Non-current provisions	10	690.4	688.3
		2,733.1	2,911.4
Total liabilities		\$ 3,775.9	\$ 3,582.0
Shareholder's deficit			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus		11.3	11.3
Deficit		(5,497.4)	(5,154.6)
Accumulated other comprehensive loss	20	(18.8)	(7.9)
Total shareholder's deficit		(911.6)	(557.9)
Total liabilities and shareholder's deficit		\$ 2,864.3	\$ 3,024.1

Commitments [Note 18]

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

<i>(millions of Canadian dollars)</i>	Notes	Six Months ended June 30	
		2020	2019
Petroleum and natural gas sales	13	\$ 94.2	\$ 195.4
Royalties		(8.5)	(13.2)
Revenues		85.7	182.2
Expenses			
Operating		83.2	92.7
Cost of diluent		5.8	9.3
Transportation and marketing		14.8	16.3
General and administrative	21	14.3	16.4
Depletion, depreciation and amortization	5	74.8	88.0
Exploration and evaluation		—	0.3
Loss from joint ventures	6	73.4	5.3
Loss (gain) on disposition of assets	5	0.1	(5.0)
Finance costs	14	51.3	56.7
Derivative contract loss	9	14.3	2.0
Foreign exchange loss (gain)	15	62.9	(58.5)
Loss on onerous contract	10	0.4	—
Impairment	5	108.5	—
Net loss from operations		(418.1)	(41.3)
Income tax recovery	19	75.3	—
Net loss		\$ (342.8)	\$ (41.3)
Other comprehensive loss ("OCL")			
<i>Items that may be reclassified to net income</i>			
Loss on designated cash flow hedges, net of tax	20	10.9	15.6
Comprehensive loss		\$ (353.7)	\$ (56.9)

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

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIT
(UNAUDITED)**

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss ("AOCL")	Total Shareholder's Deficit
Balance at December 31, 2018		\$ 4,593.3	\$ 11.3	\$ (5,157.2)	\$ (7.0)	\$ (559.6)
Net loss		—	—	(41.3)	—	(41.3)
Loss on designated hedges	20	—	—	—	(15.6)	(15.6)
As at June 30, 2019		\$ 4,593.3	\$ 11.3	\$ (5,198.5)	\$ (22.6)	\$ (616.5)
Balance at December 31, 2019		\$ 4,593.3	\$ 11.3	\$ (5,154.6)	\$ (7.9)	\$ (557.9)
Net loss		—	—	(342.8)	—	(342.8)
Loss on designated hedges	20	—	—	—	(10.9)	(10.9)
As at June 30, 2020		\$ 4,593.3	\$ 11.3	\$ (5,497.4)	\$ (18.8)	\$ (911.6)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(millions of Canadian dollars)</i>	Notes	Six months ended June 30	
		2020	2019
Cash provided by (used in)			
Operating Activities			
Net loss		\$ (342.8)	\$ (41.3)
Items not requiring cash			
Loss from joint ventures	6	73.4	5.3
Depletion, depreciation and amortization	5	74.8	88.0
Non-cash finance costs	14	9.0	10.1
Unrealized loss on derivative contracts	9	14.5	2.0
Unrealized loss (gain) on foreign exchange	15	63.2	(58.9)
Non-cash exploration and evaluation costs		—	0.3
Loss (gain) on disposition of assets	5	0.1	(5.0)
Deferred income tax recovery	19	(75.3)	—
Loss on onerous contract	10	0.4	—
Impairment	5	108.5	—
Other non-cash items		(10.1)	(1.8)
Settlement of decommissioning and environmental remediation liabilities	10	(3.8)	(3.9)
Change in non-cash working capital	16	(8.3)	(42.9)
Cash used in operating activities		\$ (96.4)	\$ (48.1)
Financing Activities			
Credit facility borrowing, net	7	(5.2)	66.0
Borrowing on term facility	7	150.0	—
Payment of lease obligations	12	(2.7)	(2.6)
Payment of BlackGold liability	11	(40.1)	—
Change in non-cash working capital	16	—	—
Cash from financing activities		\$ 102.0	\$ 63.4
Investing Activities			
Additions to property, plant and equipment	5	(5.3)	(14.0)
Property dispositions, net	5	0.6	8.5
Investment in joint ventures	6	(1.3)	(9.6)
Distributions received from joint ventures	6	8.2	9.7
Change in non-cash working capital	16	(7.8)	(9.9)
Cash used in investing activities		\$ (5.6)	\$ (15.3)
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 42.3	\$ 46.6

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the six months ended June 30, 2020 and 2019

(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 4.

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 condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standard (“IAS”) 34 – “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with Harvest’s audited consolidated financial statements for the year ended December 31, 2019.

The Company is subject to a number of business risks. These are outlined in greater detail in the Management Discussion & Analysis (“MD&A”) and Annual Information Form for the year ended December 31, 2019, and in the MD&A for the period ended June 30, 2020. The current challenging economic climate due to the COVID-19 pandemic and supply concerns stemming from failed negotiations between OPEC countries on production curtailments, may have significant adverse impacts to the Company, including but not limited to:

- Material declines in revenue and cash flows due to reduced commodity prices
- Material decline in future revenues, which may result in potential impairment on non-financial assets

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 6, 2020.

Basis of Measurement

The condensed interim 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 condensed interim 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.

Use of Estimates and Judgment

Significant estimates and judgment used in the preparation of the financial statements are described in note 5 of the annual Consolidated Financial Statements as at and for the year ended December 31, 2019. There have been no significant changes to the use of estimates or judgments since December 31, 2019.

3. Significant Accounting Policies

- a) These condensed interim consolidated interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 4 of the Company’s annual Consolidated Financial Statements as at and for the year ended December 31, 2019 with the exception of the new policy adopted below.
- b) Government Grants

Harvest recognizes government grants as they are received or if there is reasonable assurance that the Company is in compliance with all associated conditions. The grant is recognized within the Consolidated Statements of Income (Loss) in the period in which the income is earned or the expenditures are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

4. 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 crude oil, natural gas and natural gas liquids in western Canada.
- Oil Sands, which is the BlackGold oil sands project located near Conklin, Alberta.

	Six months ended June 30, 2020					
	Conventional		Oil Sands		Total ⁽¹⁾	
	2020	2019	2020	2019	2020	2019
Petroleum and natural gas sales	\$ 69.2	\$ 126.1	\$ 25.0	\$ 69.3	\$ 94.2	\$ 195.4
Royalties	(8.3)	(11.1)	(0.2)	(2.1)	(8.5)	(13.2)
Revenues	60.9	115.0	24.8	67.2	85.7	182.2
Expenses						
Operating	60.6	67.4	22.6	25.3	83.2	92.7
Cost of diluent	—	—	5.8	9.3	5.8	9.3
Transportation and marketing	4.4	4.7	10.4	11.6	14.8	16.3
General and administrative	11.3	12.6	3.0	3.8	14.3	16.4
Depletion, depreciation and amortization	57.5	69.3	15.4	16.8	74.8	88.0
Exploration and evaluation	—	0.3	—	—	—	0.3
Losses (gains) on disposition of assets	0.1	(5.0)	—	—	0.1	(5.0)
Derivative contracts loss	14.3	2.0	—	—	14.3	2.0
Impairment	108.5	—	—	—	108.5	—
Gain on onerous contract	0.4	—	—	—	0.4	—
Loss from joint ventures	73.4	5.3	—	—	73.4	5.3
Segment Operating income (loss)	\$ (269.6)	\$ (41.6)	\$ (32.4)	\$ 0.4	\$ (303.9)	\$ (43.1)
Finance costs					51.3	56.7
Foreign exchange (gains) losses					62.9	(58.5)
Net loss					(418.1)	(41.3)
Income tax recovery					75.3	—
Net loss					\$ (342.8)	\$ (41.3)

⁽¹⁾ Leased Corporate assets included in total, see note 5.

	Six months ended June 30					
	Conventional		Oil Sands		Total	
	2020	2019	2020	2019	2020	2019
Capital Additions						
Business acquisition						
Additions to PP&E	\$ 2.4	\$ 12.5	\$ 2.9	\$ 1.5	\$ 5.3	\$ 14.0
PP&E acquisitions, net of dispositions	(1.4)	(6.1)	—	—	(1.4)	(6.1)
Net capital additions	\$ 1.0	\$ 6.4	\$ 2.9	\$ 1.5	\$ 3.9	\$ 7.9

	Investments in Joint Ventures	PP&E	E&E	Total Assets
December 31, 2019				
Conventional	\$ 56.5	\$ 1,023.6	\$ 10.9	\$ 1,932.9
Oil Sands	—	1,080.9	—	1,091.2
Total	\$ 56.5	\$ 2,104.5	\$ 10.9	\$ 3,024.1
June 30, 2020				
Conventional	\$ (23.8)	\$ 858.6	\$ 10.9	\$ 1,715.0
Oil Sands	—	1,068.4	—	1,074.0
Total	\$ (23.8)	\$ 1,927.0	\$ 10.9	\$ 2,789.0

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

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2019	\$ 5,035.0	\$ 1,612.6	\$ 6,671.3
Additions	2.4	2.9	5.3
Additions right-of-use assets ⁽¹⁾	—	—	—
Disposals, net of acquisitions	(1.4)	—	(1.4)
As at June 30, 2020	\$ 5,036.0	\$ 1,615.5	\$ 6,675.2

Accumulated depletion, depreciation and amortization:

As at December 31, 2019	\$ 4,011.4	\$ 531.7	\$ 4,546.8
Depreciation, depletion and amortization ⁽²⁾	57.5	15.4	74.8
Impairment	108.5	—	108.5
As at June 30, 2020	\$ 4,177.4	\$ 547.1	\$ 4,730.1

Net Book Value:

As at December 31, 2019	\$ 1,023.6	\$ 1,080.9	\$ 2,124.5
As at June 30, 2020⁽³⁾	\$ 858.6	\$ 1,068.4	\$ 1,945.1

⁽¹⁾ Relates to leased corporate assets as a result of IFRS 16 adoption, included in total PP&E.

⁽²⁾ Depreciation of leased corporate assets included in total.

⁽³⁾ Includes Corporate leased assets.

The following table discloses the carrying balance and depreciation charge relating to right-of-use assets by class of underlying asset as at and for the six months ended June 30, 2020 included in the table above:

	As at December 31, 2019	Depreciation	As at June 30, 2020
Office space	\$ 19.2	\$ (1.7)	\$ 17.5
Vehicles and equipment	0.8	(0.2)	0.6
	\$ 20.0	\$ (1.9)	\$ 18.1

General and administrative costs directly attributable to PP&E addition activities of \$0.9 million have been capitalized during the six months ended June 30, 2020 (2019 - \$1.7 million).

During the six months ended June 30, 2020, Harvest recognized loss on disposals of non-core assets for \$0.1 million (June 30, 2019 – \$5.0 million gain) relating to the de-recognition of PP&E and decommissioning liabilities. The net proceeds from these disposals were \$0.6 million for the six months ended June 30, 2020.

For the six months ended June 30, 2020, Harvest evaluated its conventional and oil sands assets for indicators of impairment. A decrease in future commodity pricing was the primary trigger that indicated impairment testing was necessary for all CGUs. Fair value exceeded carrying value and no impairments were recorded for all CGUs except those noted below.

For the six months ended June 30, 2020, the carrying amount exceeded the recoverable amount and an impairment expense of \$54.2 million was recorded for the North Oil CGU. The recoverable amount for the North Oil CGU was estimated using 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. A discount rate of 11% was used to determine the recoverable amount of \$115.2 million during the quarter.

For the six months ended June 30, 2020, the carrying amount exceeded the recoverable amount and an impairment expense of \$46.9 million was recorded for the South Oil CGU. The recoverable amount for the South Oil CGU was estimated using 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. A discount rate of 16% was used to determine the recoverable amount of nil million during the quarter.

For the six months ended June 30, 2020, the carrying amount exceeded the recoverable amount and an impairment expense of \$7.3 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated using 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. A discount rate of 11% was used to determine the recoverable amount of \$6.6 million during the quarter.

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
2020	39.74	45.58	31.44	2.19	0.7400
2021	48.29	57.13	42.99	2.40	0.7400
2022	54.57	65.62	51.48	2.53	0.7400
2023	59.54	72.33	58.19	2.58	0.7400
2024	64.38	78.88	64.74	2.65	0.7400
2025	66.39	81.60	67.46	2.72	0.7400
2026	69.55	85.86	71.72	2.78	0.7400
2027	72.96	90.47	76.34	2.83	0.7400
2028	76.48	95.22	81.08	2.95	0.7400
2029	79.53	99.35	85.21	3.01	0.7400
2030	82.12	102.85	88.71	3.07	0.7400
2031	84.40	105.94	91.80	3.13	0.7400
2032	87.17	109.67	95.53	3.20	0.7400
2033	90.21	113.79	99.65	3.26	0.7400
2034	92.89	117.40	103.26	3.32	0.7400
2035	96.06	121.68	107.54	3.32	0.7400
2036	98.56	125.06	110.92	3.38	0.7400
Thereafter	2%/year	2%/year	2%/year	2%/year	0.7400

6. Investment in Joint Ventures

	June 30, 2020	Ownership Interest	December 31, 2019	Ownership Interest
Deep Basin Partnership ("DBP")	\$ (57.8)	83.52%	\$ 19.6	83.47%
HK MS Partnership ("HKMS")	34.0	68.22%	36.9	68.21%
Investments in joint ventures	\$ (23.8)		\$ 56.5	

	DBP	HKMS	Total
As at December 31, 2019	\$ 19.6	\$ 36.9	\$ 56.5
Additional investments	1.1	0.2	1.3
Share of income (loss)	(78.5)	5.1	(73.4)
Distributions	—	(8.2)	(8.2)
As at June 30, 2020	\$ (57.8)	\$ 34.0	\$ (23.8)

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

	June 30, 2020		December 31, 2019	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ 0.2	\$ —	\$ —	\$ —
Other current assets	14.3	15.6	17.4	11.2
Total current assets	\$ 14.5	\$ 15.6	\$ 17.4	\$ 11.2
Non-current assets	183.4	89.2	263.0	91.0
Total assets ⁽¹⁾	\$ 197.9	\$ 104.8	\$ 280.4	\$ 102.2
Current liabilities	\$ 41.7	\$ 9.5	\$ 37.7	\$ 5.3
Non-current financial liabilities	142.6	77.4	141.2	82.0
Other non-current liabilities	73.4	6.0	84.1	6.0
Total liabilities ⁽¹⁾	\$ 257.7	\$ 92.9	\$ 263.0	\$ 93.3
Net assets ⁽¹⁾	\$ (59.8)	\$ 11.9	\$ 17.4	\$ 8.9

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

	Six months ended June 30			
	2020		2019	
	DBP	HKMS	DBP	HKMS
Revenues	\$ 12.4	\$ 13.0	\$ 22.7	\$ 12.9
Impairment	(55.7)	—	—	—
Depletion, depreciation and amortization	(24.5)	(1.8)	(20.6)	(1.7)
Operating expenses and other	(8.1)	(0.9)	(9.7)	(0.9)
Finance costs	(2.6)	(7.3)	(2.6)	(8.1)
Net income (loss) ⁽¹⁾	\$ (78.5)	\$ 3.0	\$ (10.2)	\$ 2.2

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

For the six months ended June 30, 2020, Deep Basin Partnership evaluated its assets for indicators of impairment. A decrease in commodity pricing used by our reserve evaluators was the primary trigger that indicated further testing was necessary.

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 (see note 5 – PP&E). A discount rate of 13% was used to determine the recoverable amount of \$82.3 million. The carrying amount exceeded the recoverable amount and an impairment of \$55.7 million was recorded.

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at June 30, 2020:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 155.0	\$ 155.0
Firm processing commitment	12.0	48.0	32.0	—	92.0
Decommissioning and environmental liabilities ⁽¹⁾	—	—	—	15.4	15.4
Total	\$ 12.0	\$ 48.0	\$ 32.0	\$ 170.4	\$ 262.4

⁽¹⁾ Represents the undiscounted obligation by period.

As at June 30, 2020, Harvest's top-up obligation related to the preferred distribution liability payments was estimated as \$33.3 million (December 31, 2019 - \$18.8 million), using a discount rate of 24% (December 31, 2019 - 24%). This top-up obligation has been included in the derivative contract losses in the statement of comprehensive loss and in the long-term liability at June 30, 2020 (see note 11 – Long-Term Liability). 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, royalties, operating costs and capital expenditures specific to the DBP. The cash flow forecast was updated to agree with the cash flow forecast used in the impairment test as at June 30, 2020.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at June 30, 2020:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 11.8	\$ 11.8
Total	\$ —	\$ —	\$ —	\$ 11.8	\$ 11.8

⁽¹⁾ Represents the undiscounted obligation by period.

Related party transactions

Deep Basin Partnership

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the six months ended June 30, 2020, Harvest charged DBP a marketing fee of \$0.1 million (2019 - \$0.2 million) and general and administrative expenses of \$0.3 million (2019 - \$0.4 million). As at June 30, 2020, \$6.2 million remains outstanding to DBP from Harvest (December 31, 2019 - \$6.5 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.1 million for the six months ended June 30, 2020 (2019 - \$0.2 million). As at June 30, 2020, \$8.6 million remains outstanding from HKMS to Harvest (December 31, 2019 - \$4.3 million Harvest to HKMS).

7. Long-Term Debt

	June 30, 2020		December 31, 2019	
Credit Facility ⁽²⁾	\$	452.1	\$	457.3
Term Loan due 2021		500.0		500.0
Term Facility due 2021		150.0		-
Term Loan due 2023		299.4		299.2
2½% senior notes due 2021 (US\$195.8 million)		265.7		254.2
3% senior notes due 2022 (US\$485 million)		655.4		626.5
4.2% senior notes due 2023 (US\$397.5 million)		537.2		513.5
Long-term debt outstanding	\$	2,859.8	\$	2,650.7
Less current portion⁽¹⁾		(915.7)		(500.0)
Non-current long-term debt	\$	1,944.1	\$	2,150.7

⁽¹⁾ Current portion relates to the Term Loan due 2021, Term Facility due 2021 and Senior Notes due 2021.

⁽²⁾ Excludes letters of credit issues in the amount of \$10.5 million at June 30, 2020 (December 31, 2019 - \$10.3 million).

For the six months ended June 30, 2020, interest charges on the credit facility borrowings aggregated to \$5.6 million (2019 - \$7.6 million), reflecting an effective interest rate of 2.39% (2019 – 3.40%) 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 9 – Financial Instruments.

On February 24, 2020, Harvest and a Korean based bank agreed to amend and extend the \$500 million term loan. The maturity was extended to February 24, 2021 and the interest rate on the term loan was reduced to 2.25%. The term loan continues to be guaranteed by KNOC and contains no financial covenants.

On April 1, 2020, Harvest entered into a \$150 million bilateral term loan with one of its Credit Facility lenders. The maturity of the term loan is April 1, 2021 and the interest rate on the term loan is CDOR plus 115 basis points. The term loan is guaranteed by KNOC and contains no financial covenants.

8. Shareholder's Capital & Capital Structure

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

	June 30, 2020		December 31, 2019	
Credit facility ⁽¹⁾⁽²⁾	\$	452.5	\$	457.9
Term Loan due 2021 ⁽¹⁾		500.0		500.0
Term Facility due 2021 ⁽¹⁾		150.0		-
Term Loan due 2023 ⁽¹⁾		300.0		300.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽³⁾		265.8		254.3
3% senior notes (US\$485 million) ⁽¹⁾⁽³⁾		658.4		630.0
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽³⁾		539.6		516.4
	\$	2,866.3	\$	2,658.6
Shareholder's deficit		(911.6)		(557.9)
	\$	1,954.7	\$	2,100.7

⁽¹⁾ Excludes capitalized financing fees.

⁽²⁾ Excludes letters of credit issued in the amount of \$10.5 million at June 30, 2020 (December 31, 2019 - \$10.3 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.

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. 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 and long-term debt issuances. Harvest evaluates its capital structure using the same financial covenants as the ones under the Company's debt commitments.

9. Financial Instruments

a) Fair Values

Financial instruments of Harvest consist of accounts receivable, accounts payable and accrued liabilities, prepaid expenses and other, borrowings under the credit facility, derivative contracts, senior notes, term loans and long term liability. Derivative contracts and the top-up liability 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 June 30, 2020, all financial instruments are level 2, except for the 2½%, 3% and 4.2% senior notes, which are level 1 and \$33.3 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. As at December 31, 2019 the senior notes were classified as level 1 due to frequency and volume of trades. All of the senior notes are traded on the Singapore Stock Exchange. Also see note 6 – Investment in Joint Ventures and note 11 – Long-Term Liability.

	June 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
<u>Fair value through profit or loss</u>				
Derivative contracts	\$ 19.9	\$ 19.9	\$ 8.3	\$ 8.3
Long-term liability	33.3	33.3	18.8	18.8
<u>Amortised Cost</u>				
Credit Facility	452.1	452.5	457.3	457.9
Term Loan due 2021	500.0	500.0	500.0	500.0
Term Facility due 2021	150.0	150.0	—	—
Term Loan due 2023	299.4	300.0	299.2	300.0
2½% senior notes	265.7	269.2	254.2	254.8
3% senior notes	655.4	688.8	626.5	642.6
4.2% senior notes	537.2	588.5	513.5	547.0
Long-term liability	16.8	8.3	25.6	14.5
Total Financial Liabilities	\$ 2,929.8	\$ 3,010.5	\$ 2,703.4	\$ 2,743.9

b) Derivative Contracts

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases.

Harvest has historically entered into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. Harvest did not enter into such transactions during the six months ended June 30, 2020. Harvest entered into such swaps in the six months ended June

30, 2019 and its effective interest rate for borrowings under the credit facility during the period was 2.54%. Also see note 7 – Long-Term Debt for effective interest rates before the effect of these swaps.

Derivative contracts (gains) losses recorded to income include the top-up obligation in the current year along with derivative gains and losses in prior year:

Six months ended June 30						
2020			2019			
	Realized losses (gains)	Unrealized losses	Total	Realized losses	Unrealized losses (gains)	Total
Foreign exchange	(0.2)	—	(0.2)	—	—	—
Top-up obligation (note 6)		14.5	14.5	—	2.0	2.0
	\$ (0.2)	\$ 14.5	\$ 14.3	\$ —	\$ 2.0	\$ 2.0

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair value of asset (liability) at June 30, 2020
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	(19.8)
5,000 GJ/day	AECO Swap	May - Sep 2020	\$1.79	Cash Flow	(0.0)
5,000 GJ/day	AECO Swap	May - Sep 2020	\$1.78	Cash Flow	(0.0)
5,000 GJ/day	AECO Swap	May - Sep 2020	\$1.68	Cash Flow	(0.1)
					\$ (19.9)

10. Provisions

	Conventional (1)	Oil Sands (2)	Head Office lease (3)	Total
As at December 31, 2019	\$ 645.3	\$ 57.8	\$ 1.5	\$ 704.6
Settled during the period	(3.8)	—	(0.4)	(4.2)
Revisions (change in estimated costs and discount rate)	—	—	0.4	0.4
Disposals	(0.6)	—	—	(0.6)
Accretion	5.7	0.5	0.3	6.5
As at June 30, 2020	\$ 646.6	\$ 58.3	\$ 1.8	\$ 706.7
Current portion as at December 31, 2019	\$ 16.0	\$ —	\$ 0.3	\$ 16.3
Non-current provisions as at December 31, 2019	629.3	57.8	1.2	688.3
As at December 31, 2019	\$ 645.3	\$ 57.8	\$ 1.5	\$ 704.6
Current portion as at June 30, 2020	\$ 16.0	\$ —	\$ 0.3	\$ 16.3
Non-current provisions as at June 30, 2020	630.6	58.3	1.5	690.4
As at June 30, 2020	\$ 646.6	\$ 58.3	\$ 1.8	\$ 706.7

(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 lease.

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.1 billion at June 30, 2020 (December 31, 2019 – \$1.1 billion), which will be incurred between 2020 and 2078. A risk-free discount rate of 1.76% (December 31, 2019 – 1.76%) and inflation rate of 1.50% (December 31, 2019 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities.

11. Long-Term Liability

	June 30, 2020	December 31, 2019
BlackGold liability ⁽¹⁾	\$ 26.3	\$ 69.1
Less: current portion of BlackGold liability ⁽¹⁾	(9.5)	(43.5)
Deferred rent and other ⁽²⁾	7.4	8.5
Top-up obligation ⁽³⁾	33.3	18.8
	\$ 57.5	\$ 52.9

⁽¹⁾ Calculated using a discount rate of 4.5% at six months ended June 30, 2020 and December 31, 2019. The current portion of the liability has been included with accounts payable and accrued liabilities.

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

⁽³⁾ See note 6 – Investment in Joint Ventures.

12. Lease Obligation

Harvest had the following associated with lease obligations:

	June 30, 2020	December 31, 2019
Less than 1 year	\$ 5.5	\$ 5.4
1 - 3 years	9.3	9.9
4 - 5 years	9.6	8.9
After 5 years	-	2.9
Total lease payments	24.4	27.1
Amounts representing interest	(2.1)	(2.5)
Present value of net lease payments	22.3	24.6
Current portion of lease obligations ⁽¹⁾	(5.0)	(5.1)
Non-current portion of lease obligations	\$ 17.3	\$ 19.5

⁽¹⁾ Included in Accounts payable and accrued liabilities

For the six months ended June 30, 2020, Harvest had interest expense of \$0.4 million and cash outflow of \$2.7 million related to lease obligations (June 30, 2019 \$0.6 million and \$2.6 million)

13. Petroleum and natural gas sales

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 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, bitumen, 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 and oil sands segments:

	Six months ended June 30			
		2020		2019
Light to medium oil sales after hedging ⁽¹⁾	\$	15.3	\$	31.5
Heavy oil sales after hedging ⁽¹⁾		22.0		44.0
Bitumen sales after hedging ⁽¹⁾		25.0		69.3
Natural gas sales		19.7		24.0
Natural gas liquids sales		11.8		20.7
Other ⁽²⁾		0.4		5.9
Petroleum and natural gas sales	\$	94.2	\$	195.4

⁽¹⁾ Inclusive of 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 June 30, 2020 is \$23.4 million (June 30, 2019 – \$34.5 million) of accrued oil and gas sales related to June sales. The decrease in the amount of accrued revenue is related primarily to lower commodity prices and decreased volumes year over year.

Harvest has \$ nil contract liability at June 30, 2020 (December 31, 2019 - \$5.9 million). The prior year balance related to a prepayment for a portion of January 2020 BlackGold bitumen sales that were settled in the six month period.

14. Finance Costs

	Six months ended June 30			
		2020		2019
Interest and other financing charges	\$	44.0	\$	48.4
Lease interest expense		0.4		0.6
Accretion of decommissioning and environmental remediation liabilities (note 10)		6.2		7.0
Accretion of BlackGold long-term liability (note 11)		0.7		0.7
	\$	51.3	\$	56.7

15. Foreign Exchange

	Six months ended June 30			
		2020		2019
Realized loss (gain) on foreign exchange	\$	(0.3)	\$	0.4
Unrealized loss (gain) on foreign exchange		63.2		(58.9)
	\$	62.9	\$	(58.5)

16. Supplemental Cash Flow Information

	Six months ended June 30	
	2020	2019
Source (use) of cash:		
Accounts receivable	\$ 0.1	\$ (20.9)
Prepaid expenses, long-term deposit and other	(0.9)	(7.3)
Accounts payable and accrued liabilities	(49.2)	(17.8)
Net changes in non-cash working capital	\$ (50.0)	\$ (46.0)
Changes relating to operating activities	\$ (8.3)	\$ (42.9)
Changes relating to investing activities	(7.8)	(9.9)
Reclass of long-term liability to accounts payable	9.5	9.5
Payment of BlackGold liability	(40.1)	—
Add: Other non-cash changes	(3.3)	(2.7)
	\$ (50.0)	\$ (46.0)

17. Related Party Transactions

	Six months ended June 30		Accounts Payable	
	2020	2019	as at June 30, 2020	as at December 31, 2019
Diluent Expenses				
DBP ⁽¹⁾	\$ —	2.5	\$ —	\$ —
G&A Expenses				
KNOC ⁽²⁾	\$ 0.2	\$ 0.2	\$ 0.7	\$ 0.5
Finance costs				
KNOC ⁽³⁾	\$ —	\$ 5.6	\$ 2.7	\$ 2.7

⁽¹⁾ Amounts relate to diluent purchased by BlackGold from the Deep Basin Partnership for the purposes of treating and diluting bitumen for sale.

⁽²⁾ Amounts relate to payments to KNOC for secondee salaries.

⁽³⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 3% and 4.2% senior notes, the credit facility and term loans. See note 7 – Long Term Debt. Guarantee fees were not charged by KNOC during 2019 or 2020.

18. Commitments

The following is a summary of Harvest's estimated commitments as at June 30, 2020:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Firm processing commitments	84.3	127.8	13.7	—	225.8
Firm transportation agreements	9.7	19.0	—	54.3	83.0
Total	\$ 94.0	\$ 146.8	\$ 13.7	\$ 54.3	\$ 308.8

19. Income Tax

Income tax recovery recognized in net loss from continuing operations:

	Six Months Ended June 30	
	2020	2019
Deferred income tax ("DIT") recovery	75.3	—
Income tax recovery from continuing operations	\$ 75.3	\$ —

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 tax as follows:

	Six Months Ended June 30	
	2020	2019
Loss before income tax from continuing operations	\$ (418.1)	\$ —
Combined Canadian federal and provincial statutory income tax rate	25.04%	26.51%
Computed income tax recovery at statutory rates	\$ (104.7)	\$ —
Increased expense (recovery) resulting from the following:		
Difference between current and expected tax rates	6.5	—
Foreign exchange impact not recognized in income	7.3	—
Change in unrecognized deferred tax asset	11.0	—
Non-deductible expenses	4.6	—
Income tax recovery	\$ (75.3)	\$ —

The tax rate is comprised of the Federal and Provincial statutory rates for the Company and its subsidiaries for the six months ended June 30, 2020 and 2019.

Movements in the DIT asset are as follows:

	PP&E	Decommissioning liabilities	Non-capital tax losses	Other	Total deferred asset
As at December 31, 2018	\$ 522.6	\$ 130.7	\$ 53.1	\$ 5.1	\$ 711.5
Recognized in profit or loss	(74.0)	34.0	114.9	4.3	79.2
As at December 31, 2019	\$ 448.6	\$ 164.7	\$ 168.0	\$ 9.4	\$ 790.7
Recognized in profit or loss	55.6	0.7	14.4	4.6	75.3
As at June 30, 2020	\$ 504.2	\$ 165.4	\$ 182.4	\$ 14.0	\$ 866.0

As at June 30, 2020, Harvest had approximately \$833 million (December 31, 2019 - \$755 million) of carry-forward tax losses and approximately \$4.2 billion (December 31, 2019 - \$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 2038. 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 June 30, 2020 Harvest has not recognized approximately \$241 million (December 31, 2019 - \$209 million) of temporary difference arising from foreign exchange, \$89 million (December 31, 2019 - \$73 million) of non-capital losses, \$Nil (December 31, 2019 - \$Nil) arising from asset retirement obligation and \$753 million (December 31, 2019 - \$796 million) of capital losses.

As at June 30, 2020 a balance of \$0.9 million was recorded in taxes payable, relating to amounts owing to the Canada Revenue Agency (December 31, 2019 - \$0.9 million).

20. Accumulated Other Comprehensive Loss (“AOCL”)

	Designated Cash Flow Hedges, Net of Tax	Total
As at December 31, 2019	\$ (7.9)	\$ (7.9)
Reclassification to net loss of losses on cash flow hedges	2.0	2.0
Loss on derivatives designated as cash flow hedges, net of tax	(12.9)	(12.9)
As at June 30, 2020	\$ (18.8)	\$ (18.7)

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

	Six months ended June 30	
	After-tax ⁽¹⁾	
	2020	2019
(Losses) Gains re-classified from OCL	\$	
Interest Rate Risk	(1.9)	(1.0)
Commodity Price Risk	(0.1)	(22.2)
Losses (Gains) recognized in OCL		
Interest Rate Risk	12.7	6.4
Commodity Price Risk	0.2	32.4
Total	\$ 10.9	\$ 15.6

⁽¹⁾ Net of nil tax paid for the six months ended June 2020 and 2019.

21. Government grants

The Company has received payment for the first four periods of the Canadian Emergency Wage Subsidy (“CEWS”). The CEWS allows eligible companies to receive a subsidy of up to 75 percent of employee wages, subject to a maximum. For the first six months of 2020, this resulted in a benefit to the Company of approximately \$2.7 million and resulted in a reduction to general and administrative costs.