



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three and nine months ended September 30, 2019 and the audited consolidated financial statements and MD&A for the year ended December 31, 2018. The information and opinions concerning the future outlook are based on information available at November 5, 2019.

Effective January 1, 2019, Harvest adopted IFRS 16 "Leases". Prior year comparatives have not been restated. Please refer to the "Critical Accounting Estimates" section of this MD&A and in note 3 of the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2019 for further information.

**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](http://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 September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<b>Conventional</b>				
Petroleum and natural gas sales	54.1	85.2	180.2	259.2
Daily sales volumes (boe/d) <sup>(1)</sup>	22,489	24,549	22,925	24,987
Deep Basin Partnership				
Daily sales volumes (boe/d)	4,566	4,058	4,867	4,010
Harvest's share of daily sales volumes (boe/d) <sup>(3)</sup>	3,811	3,384	4,062	3,331
Average realized price <sup>(2)</sup>				
Oil and NGLs (\$/bbl)	48.61	61.64	50.18	59.06
Gas (\$/mcf)	0.99	1.30	1.63	1.62
Operating netback prior to hedging(\$/boe) <sup>(3)</sup>	9.73	17.82	11.70	16.02
Operating income (loss)	(29.8)	(97.4)	35.8	(139.9)
Cash contribution from operations <sup>(3)</sup>	10.6	31.3	42.4	80.2
Capital expenditures	1.5	12.0	14.0	42.7
Property acquisitions, net of dispositions <sup>(4)</sup>	—	—	(18.8)	(0.4)
Net wells rig released	0.5	2.7	1.1	9.3
<b>Oil Sands</b>				
Blended bitumen sales	30.8	—	100.1	—
Daily sales volumes blended bitumen (bbl/d)	7,615	—	8,119	—
Average realized price				
Blended bitumen (\$/bbl)	49.20	—	51.22	—
Operating netback prior to hedging(\$/bbl) <sup>(3)</sup>	9.81	—	16.98	—
Operating loss	(6.6)	(2.5)	(6.4)	(6.0)
Cash contribution (deficiency) from operations <sup>(3)</sup>	1.6	(2.5)	18.6	(5.8)
Capital expenditures	2.0	25.7	3.5	85.4
<b>NET LOSS</b>	<b>(79.4)</b>	<b>(102.8)</b>	<b>(120.9)</b>	<b>(266.0)</b>

(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 acquisitions in the period, net of the historical net book value of oil and gas assets disposed.

### 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, natural gas liquids and natural gas production.

**Conventional**

- Petroleum and natural gas sales for the three and nine months ended September 30, 2019 decreased by \$31.1 million and \$79.0 million, respectively, over the same periods in 2018. The decrease during the three months ended September 30, 2019 was primarily a result of reduced oil sales volumes and lower realized commodity prices. The decrease during the nine months ended September 30, 2019 was primarily a result of reduced oil sales volumes and lower realized oil and NGL prices.
- Sales volumes for the three and nine months ended September 30, 2019 decreased by 2,060 boe/d and 2,062 boe/d, respectively, as compared to the same periods in 2018. The decreases are primarily due to natural declines, third party turnarounds, forest fires in Northern Alberta during May and June 2019 resulting in shut-ins and non-core asset sales during the second quarter of 2019, which were partially offset by production resulting from new wells drilled in the fourth quarter of 2018 and Harvest's participation in four gross non-operated wells in 2019.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three and nine months ended September 30, 2019 increased 508 boe/d and 857 boe/d, respectively, as compared to the same periods in 2018. These increases were primarily due to additional production from new wells brought online during the fourth quarter of 2018 and gas lift optimization activities in 2019, partially offset by downtime caused by third party fracking during the second quarter of 2019 and the annual maintenance, which occurred during the third quarter of 2019 at the HKMS gas processing plant.
- Operating loss for the three and nine months ended September 30, 2019 were \$29.8 million (2018 - \$97.4 million) and \$71.4 million (2018 - \$139.9 million), respectively. Operating losses were lower than the prior comparative period in 2018 due to lower impairment expense, lower losses from joint ventures and lower expenses partially offset by lower revenue.
- Capital expenditures totaled \$1.5 million and \$14.0 million for the three and nine months ended September 30, 2019. Capital expenditures during the three months ended September 30, 2019 were primarily related to drilling and completions for partner wells drilled during the third quarter of 2019. Capital expenditures during the nine months ended September 30, 2019 were mainly related to drilling and completions for wells drilled during the fourth quarter of 2018, the four gross partner operated wells drilled in 2019 and asset optimization and revitalization projects. During the three and nine months ended September 30, 2019, 2.0 gross wells (0.5 net) and 4.0 gross (1.1 net) wells were rig-released, respectively.
- Operating netback per boe prior to hedging for the three and nine months ended September 30, 2019 was \$9.73/boe and \$11.70/boe, respectively, a decrease of \$8.09/boe and \$4.32/boe from the same periods in 2018. The decreases are primarily due to a decrease in realized price before hedging, partially offset by a decrease in royalties, operating and transportation and marketing expense per boe.
- Cash contributions from Harvest's Conventional operations for the three and nine months ended September 30, 2019 were \$10.6 million and \$42.4 million, respectively (2018 - \$31.3 million and \$80.2 million). The decrease in cash contributions for the three and nine months ended September 30, 2019 was mainly due to a decrease in revenues, partially offset by lower royalties, operating, transportation and general and administrative expenses.

### **Oil Sands**

- Sales volumes of blended bitumen for the three and nine months ended September 30, 2019 were 7,615 bbl/d and 8,119 bbl/d, respectively (2018 – nil), with 13 well pairs converted to SAGD operations by September 30, 2019. BlackGold's first turnaround occurred during the third quarter of 2019, which resulted in lower production when compared to the second quarter of 2019. During the month of October 2019, BlackGold produced in excess of 10,000 bbl/d, surpassing the original design capacity for that period.
- Operating netback per barrel prior to hedging for the three and nine months ended September 30, 2019 were \$9.81/bbl (2018 – nil) and \$16.98/bbl (2018 – nil), respectively. Up until the fourth quarter of 2018, Oil Sands operations were capitalized.
- Cash contributions from the Oil Sands segment for the three and nine months ended September 30, 2019 were \$1.6 million and \$18.6 million, respectively (2018 - \$2.5 million and \$5.8 million cash deficiency). Up until the fourth quarter of 2018, oil sands operations were capitalized. With the project now operating as intended by management, 2019 results now reflect operating revenue and expenses in the current period, while in 2018 there were pre-operating losses.
- Capital expenditures for the three and nine months ended September 30, 2019 were \$2.0 million (2018 - \$25.7 million) and \$3.5 million (2018 - \$85.4 million), respectively. The decrease in capital expenditures over the comparative periods is the result of completing facility construction and commissioning during the first half of 2018 and continued capitalization of operating losses until the fourth quarter of 2018.
- Operating loss for the three and nine months ended September 30, 2019 were \$6.6 million (2018 - \$2.5 million) and \$6.4 million (2018 - \$6.0 million), respectively. Operating losses occurred during the third quarter of 2019 due to lower realized prices on blended bitumen, additional operating expenses incurred during the turnaround, also resulting in lower sales volumes during the month of September 2019.

### **Corporate**

- On July 29, 2019, Harvest closed the extension of the credit facility from the original maturity date of February 24, 2020 to July 29, 2022.
- Harvest's unrealized foreign exchange gains and losses are 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 as at September 30, 2019 compared to June 30, 2019, resulted in net unrealized foreign exchange loss of \$15.7 million (2018 - \$24.6 million gain). The strengthening of the Canadian dollar against the U.S. dollar as at September 30, 2019 compared to December 31, 2018 resulted in net unrealized foreign exchange gain of \$43.2 million (2018 - \$28.8 million loss).
- Harvest's net change to the credit facility during the three and nine months ended September 30, 2019 were \$15.6 million net drawings (2018 - \$48.1 million) and \$81.6 million net drawings (2018 - \$136.0 million), respectively. The net drawings were primarily related to financing Harvest's operations and capital additions. At September 30, 2019, Harvest had \$462.2 million drawn under the credit facility (December 31, 2018 - \$386.8 million) excluding letters of credit totaling \$10.2 million (December 31, 2018 - \$15.1 million).
- The Alberta Government's mandatory oil production curtailment came into effect in January 2019. Harvest's physical oil production was not impacted by the mandated production curtailment during the nine months ended September 30, 2019. Currently, the Company does not believe the production curtailment order will have a material impact for the remainder of 2019. Harvest is fully cooperating with

the Alberta Government and will be prepared to adjust its 2019 and 2020 work plan and budget program, if and as required.

### CONVENTIONAL

#### Summary of Financial and Operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<b>FINANCIAL</b>				
Petroleum and natural gas sales	54.1	85.2	180.2	259.2
Royalties	(4.9)	(9.5)	(16.0)	(26.8)
<b>Revenues and other income<sup>(1)</sup></b>	<b>49.2</b>	75.7	<b>164.2</b>	232.4
<b>Expenses</b>				
Operating	30.3	34.6	97.7	115.1
Transportation and marketing	2.7	3.9	7.4	11.7
Operating netback after hedging <sup>(1)</sup>	16.2	37.2	59.1	105.6
General and administrative	6.1	7.0	18.7	25.3
Depreciation, depletion and amortization	35.2	42.1	104.5	129.3
Loss from joint ventures	4.4	24.2	9.7	31.1
Exploration and evaluation	—	0.2	0.3	0.2
Unrealized derivative contract losses <sup>(2)</sup>	0.5	2.0	2.5	3.7
Impairment	—	59.1	—	59.1
Gains on disposition of assets	(0.2)	-	(5.2)	(3.2)
Operating loss	(29.8)	(97.4)	(71.4)	(139.9)
Capital asset expenditures	1.5	12.0	14.0	42.7
Property acquisitions, net of dispositions <sup>(4)</sup>	—	—	(18.8)	(0.4)
<b>OPERATING</b>				
Light to medium oil (bbl/d)	3,027	4,127	3,295	4,396
Heavy oil (bbl/d)	5,228	6,260	5,047	6,483
Natural gas liquids (bbl/d)	3,255	3,441	3,337	3,196
Natural gas (mcf/d)	65,880	64,323	67,478	65,474
Total (boe/d) <sup>(3)</sup>	<b>22,489</b>	24,549	<b>22,925</b>	24,987

(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 net book value of oil and gas assets disposed, net of acquisitions in the period.

**Commodity Price Environment**

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	<b>56.45</b>	69.50	(19%)	<b>57.06</b>	66.75	(15%)
West Texas Intermediate crude oil (\$/bbl)	<b>74.57</b>	90.85	(18%)	<b>75.88</b>	85.91	(12%)
Edmonton Light Sweet crude oil (\$/bbl)	<b>68.41</b>	81.92	(16%)	<b>69.59</b>	78.17	(11%)
Western Canadian Select ("WCS") crude oil (\$/bbl)	<b>58.39</b>	61.78	(5%)	<b>60.27</b>	57.79	4%
AECO natural gas daily (\$/mcf)	<b>0.91</b>	1.19	(24%)	<b>1.52</b>	1.48	3%
U.S. / Canadian dollar exchange rate	<b>0.757</b>	0.765	(1%)	<b>0.752</b>	0.777	(3%)
<b>Differential Benchmarks</b>						
EDM differential to WTI (\$/bbl)	<b>6.16</b>	8.93	(31%)	<b>6.29</b>	7.74	(19%)
EDM differential as a % of WTI	<b>8.3%</b>	9.8%	(15%)	<b>8.3%</b>	9.0%	(8%)
WCS differential to WTI (\$/bbl)	<b>16.18</b>	29.07	(44%)	<b>15.61</b>	28.12	(44%)
WCS differential as a % of WTI	<b>21.7%</b>	32.0%	(32%)	<b>20.6%</b>	32.7%	(37%)

For the three and nine months ended September 30, 2019, the average WTI benchmark price decreased 18% and 12%, respectively as compared to the same periods in 2018. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and nine months ended September 30, 2019, decreased 16% and 11%, respectively as compared to the same periods in 2018 due to a decrease in the WTI price, partially offset by the narrowing of the average Edmonton Light differential and strengthening of the average U.S. dollar against the Canadian dollar.

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 decrease in the average WCS price for the three months ended September 30, 2019 was 5% compared to the same period in 2018 primarily due to the decrease in the WTI price, which was partially offset by the narrowing of the WCS differential. The increases in the average WCS price for the nine months ended September 30, 2019 was 4%, as compared to the same period in 2018. This increase was primarily due to the narrowing of the average WCS differential to WTI and the strengthening of the average U.S. dollar against the Canadian dollar, partially offset by a decrease in the average WTI price. The narrowing of the average WCS differentials to WTI was also impacted by the production curtailment that was issued by the Alberta government in response to low crude oil prices.

Harvest's realized natural gas price is referenced to the AECO hub, the average of which decreased by 24% and increased by 3%, for the three and nine months ended September 30, 2019, respectively, as compared to the same periods in 2018.

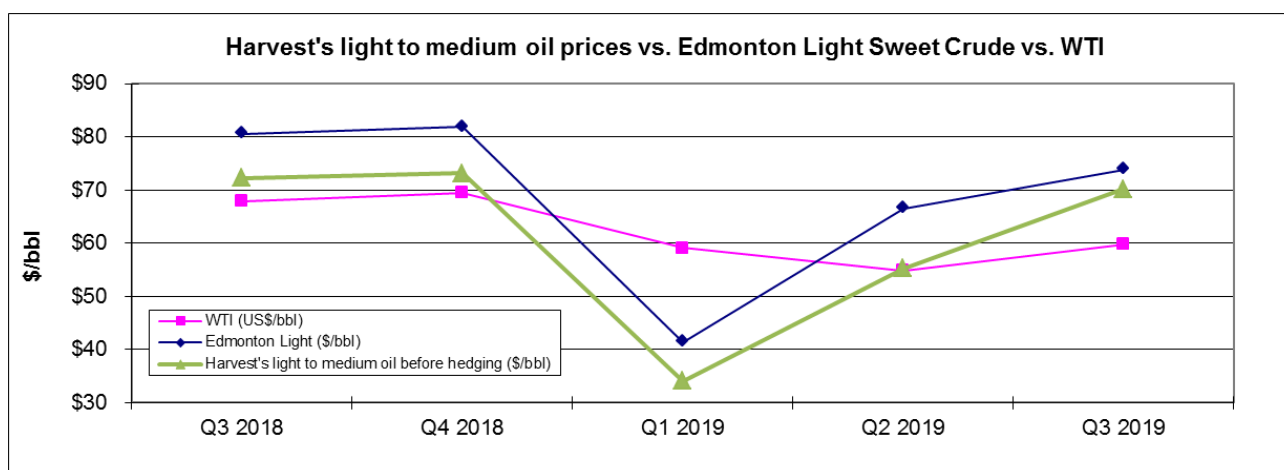
### Realized Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Light to medium oil prior to hedging (\$/bbl)	<b>60.97</b>	73.21	(17%)	<b>62.18</b>	69.39	(10%)
Heavy oil prior to hedging (\$/bbl)	<b>53.62</b>	64.15	(16%)	<b>54.21</b>	59.73	(9%)
Natural gas liquids (\$/bbl)	<b>29.06</b>	43.20	(33%)	<b>32.23</b>	43.49	(26%)
Natural gas (\$/mcf)	<b>0.99</b>	1.30	(24%)	<b>1.63</b>	1.62	1%
Average realized price prior to hedging (\$/boe) <sup>(1)</sup>	<b>28.02</b>	39.08	(28%)	<b>31.04</b>	38.50	(19%)
Light to medium oil after hedging (\$/bbl) <sup>(2)</sup>	<b>51.90</b>	64.85	(20%)	<b>51.04</b>	64.09	(20%)
Heavy oil after hedging (\$/bbl) <sup>(2)</sup>	<b>49.82</b>	63.55	(22%)	<b>49.33</b>	59.06	(16%)
Average realized price after hedging (\$/boe) <sup>(1)(2)</sup>	<b>25.91</b>	37.52	(31%)	<b>28.36</b>	37.39	(24%)

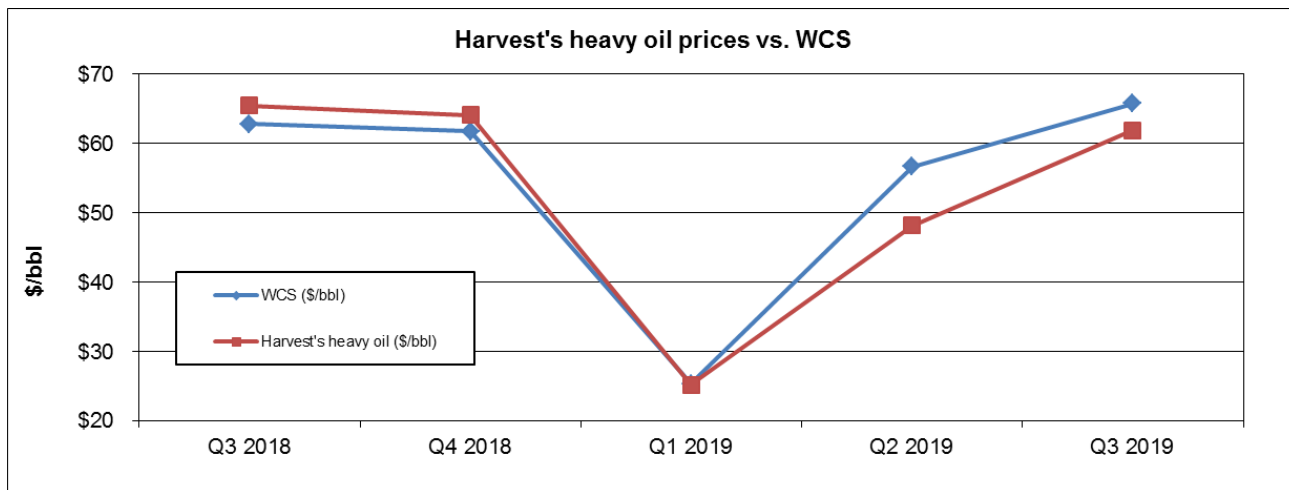
(1) Inclusive of sulphur revenue.

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

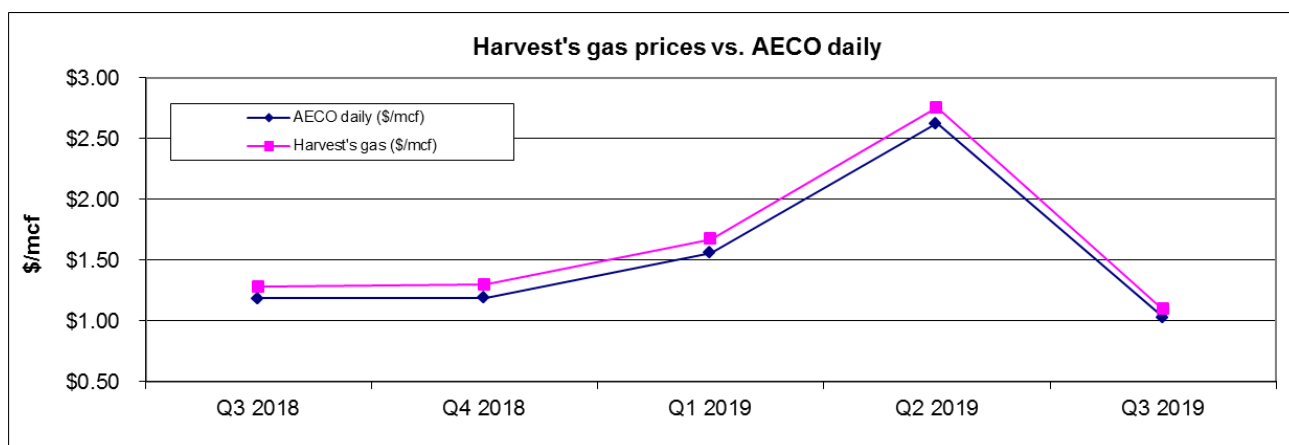
For the three and nine months ended September 30, 2019, Harvest's realized price for light to medium oil trended relatively consistent with the Edmonton Light benchmark price.



During the three months ended September 30, 2019, Harvest's realized price before hedging for heavy oil decreased by 16%, while the WCS benchmark price decreased 5%. This is primarily due to the majority of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which also decreased 16% compared to the same period in 2018. During the nine months ended September 30, 2019, Harvest's realized price for heavy oil decreased by 9%, while the WCS benchmark price increased by 4%. This is primarily due to the majority of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which did not narrow as substantially as the WCS differential during the nine months ended September 30, 2019.

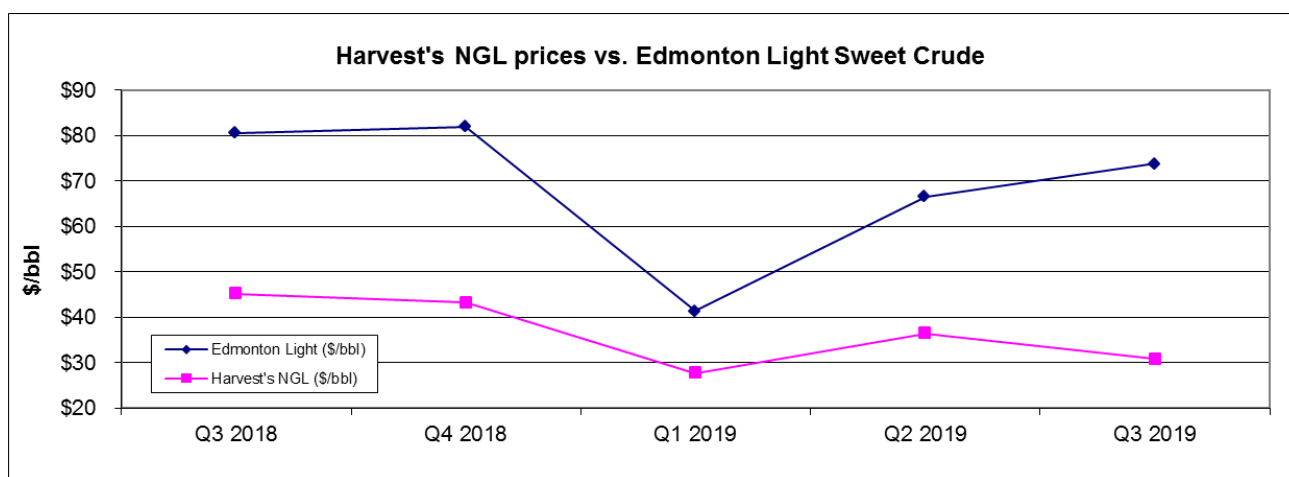


For the three and nine months ended September 30, 2019, Harvest's realized gas price was relatively consistent to the AECO benchmark.





Harvest’s decrease in the realized natural gas liquids price for the three and nine months ended September 30, 2019 were 33% and 26% respectively, while the Edmonton Light Sweet Crude benchmark decreased by 16% and 11%. The decreases in Harvest’s realized natural gas liquids price were primarily due to the decrease in propane and butane prices. For the three and nine months ended September 30, 2019, the propane price decreased 108% and 76%, respectively, as compared to 2018. The average propane price during the third quarter of 2019 was negative. For the three and nine months ended September 30, 2019, the butane price decreased 44% and 80%, respectively, as compared to 2018. As Harvest’s propane and butane sales volumes make up approximately 10% to 20%, each of total natural gas liquids sales volumes, this caused Harvest’s natural gas liquids realized price before hedging to decrease at a higher rate than the Edmonton benchmark.



In order to partially mitigate the risk of fluctuating cash flows due to natural gas and oil pricing volatility, Harvest will periodically enter into Mixed Sweet Blend (“MSW”) and WCS and AECO derivative contracts. During the three and nine months ended September 30, 2019, 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.

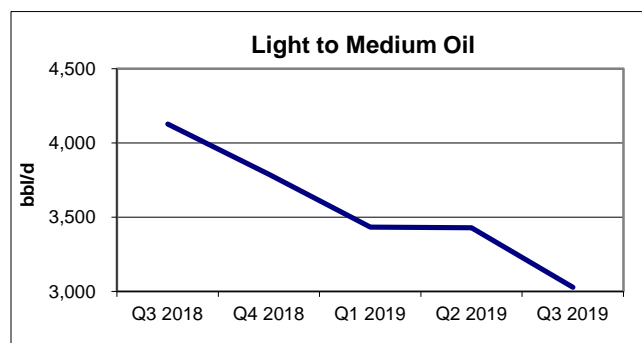
The impact from the MSW hedge on Harvest’s realized light oil price for the three and nine months ended September 30, 2019 was a hedging loss of \$9.07/bbl (2018 - \$8.36/bbl) and \$11.14/bbl (2018 - \$5.30/bbl), respectively. The impact from the WCS hedge on Harvest’s realized heavy oil price for the three and nine months ended September 30, 2019 was a hedging loss of \$3.80/bbl (2018 - \$0.60/bbl) and \$4.88/bbl (2018 - \$0.67/bbl), respectively. Harvest had no natural gas derivative contracts in place during the three and nine months ended September 30, 2019 and 2018.

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

**Sales Volumes**

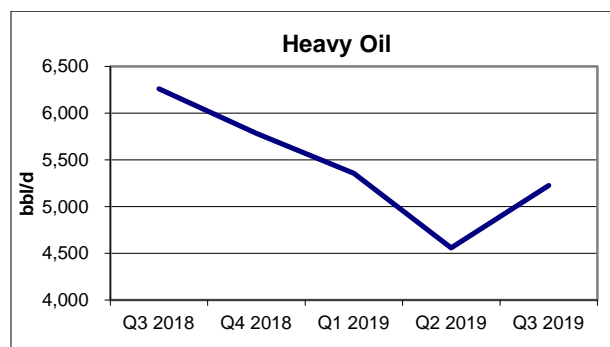
	Three Months Ended September 30				
	2019		2018		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	3,027	13%	4,127	17%	(27%)
Heavy oil (bbl/d)	5,228	23%	6,260	26%	(16%)
Natural gas liquids (bbl/d)	3,255	14%	3,441	14%	(5%)
Total liquids (bbl/d)	11,510	50%	13,828	57%	(17%)
Natural gas (mcf/d)	65,880	50%	64,323	43%	2%
Total oil equivalent (boe/d)	22,489	100%	24,549	100%	(8%)

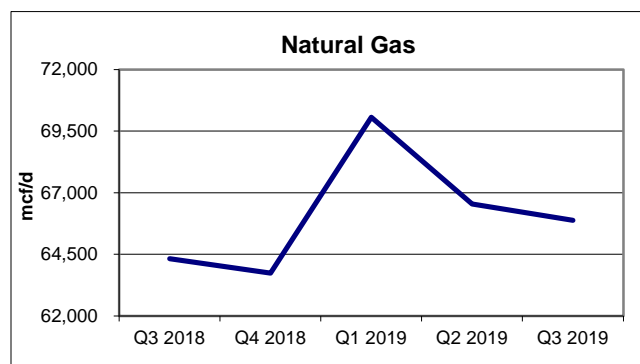
	Nine Months Ended September 30				
	2019		2018		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	3,295	14%	4,396	18%	(25%)
Heavy oil (bbl/d)	5,047	22%	6,483	26%	(22%)
Natural gas liquids (bbl/d)	3,337	15%	3,196	13%	4%
Total liquids (bbl/d)	11,679	51%	14,075	57%	(17%)
Natural gas (mcf/d)	67,478	49%	65,474	43%	3%
Total oil equivalent (boe/d)	22,925	100%	24,987	100%	(8%)



Harvest's average daily sales of light to medium oil decreased 27% in the third quarter of 2019 as compared to the same period in 2018. This decrease was primarily due to natural declines, reflecting a minimal drilling program in 2019 and the sale of non-core assets in the second quarter of 2019, partially offset by Harvest's participation in two gross wells in the Rocky Mountain House area during the third quarter of 2019.

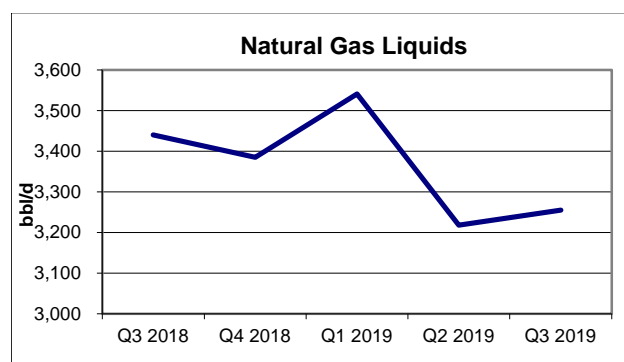
Heavy oil sales for the third quarter of 2019 decreased 16% as compared to the same period in 2018. The decrease was primarily due to natural declines, reflecting a minimal drilling program for 2019, shut-in production in May and June 2019 resulting from a third party turnaround and forest fires in Northern Alberta. The increase in sales volumes from the second to third quarter of 2019 was primarily due to the recovery of production from the turnaround and forest fires.





Natural gas sales during the third quarter of 2019 were relatively consistent with the same period in 2018. Sales volumes increased during the first quarter of 2019 due to Harvest's participation in new wells in the Rocky Mountain House and Deep Basin areas at the end of 2018, however, this was primarily offset by natural declines and additional downtime caused by various partner turnarounds during the second and third quarters of 2019.

Natural gas liquids sales for the third quarter of 2019 decreased by 5% from the same period in 2018. Sales volumes increased during the first quarter of 2019 due to Harvest's participation in new wells in the Rocky Mountain House area at the end of 2018, however, this was offset by natural declines and partner turnarounds during the second and third quarters of 2019.



## Revenues

### Sales Revenue by Product

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Light to medium oil sales after hedging <sup>(1)</sup>	14.5	24.6	(41%)	45.9	76.9	(40%)
Heavy oil sales after hedging <sup>(1)</sup>	24.0	36.6	(34%)	68.0	104.5	(35%)
Natural gas sales	6.0	7.7	(22%)	30.0	28.9	4%
Natural gas liquids sales	8.7	13.7	(36%)	29.4	37.9	(22%)
Other <sup>(2)</sup>	0.9	2.6	(65%)	6.9	11.0	(37%)
<b>Petroleum and natural gas sales</b>	<b>54.1</b>	<b>85.2</b>	<b>(37%)</b>	<b>180.2</b>	<b>259.2</b>	<b>(30%)</b>

(1) Inclusive of the effective portion of realized losses on 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 revenue decreased for the three and nine months ended September 30, 2019, as compared to 2018. The decrease during the three months ended September 30, 2019 is primarily due to lower oil sales volumes and lower realized commodity prices compared to 2018. The decrease during the nine months ended September 30, 2019 was primarily due to lower oil sales volumes and decreased oil prices after hedging and natural gas liquids prices, partially offset by an increase in natural gas sales volumes.

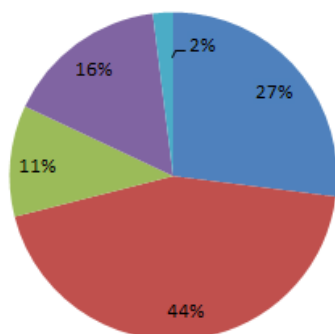
Sulphur revenue for the three and nine months ended September 30, 2019 represented \$0.5 million (2018 – \$2.2 million) and \$4.2 million (2018 – \$6.8 million), respectively, of the total in other revenues.

**Revenue by Product Type as % of Total Revenue**

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Light to medium oil sales after	27%	29%	25%	30%
Heavy oil sales after hedging	44%	43%	38%	40%
Natural gas sales	11%	9%	17%	11%
Natural gas liquids sales	16%	16%	16%	15%
Other	2%	3%	4%	4%
<b>Total Sales Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

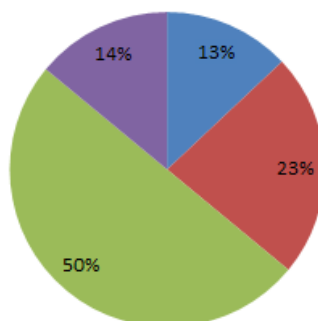
**Sales Revenue by Product**

(Three months ended September 30, 2019)



**Sales Volumes by Product**

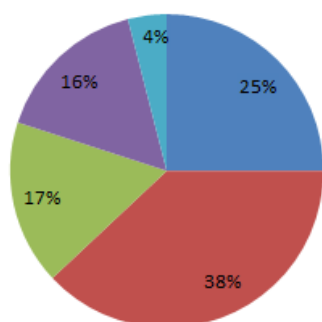
(Three months ended September 30, 2019)



- Light to medium oil
- Heavy oil
- Natural gas
- Natural gas liquids
- Other

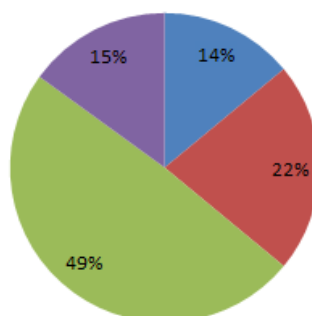
**Sales Revenue by Product**

(Nine months ended September 30, 2019)



**Sales Volumes by Product**

(Nine months ended September 30, 2019)



- Light to medium oil
- Heavy oil
- Natural gas
- Natural gas liquids
- Other



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Harvest's product mix on a volumetric basis is about half crude oil and natural gas liquids and half natural gas. Revenue contribution is more heavily weighted to crude oil and liquids as shown by the charts above. Revenue contributions by product for the three and nine months ended September 30, 2019 have fluctuated in comparison to the same periods in 2018, primarily as a result of changes in commodity prices and increases in natural gas and natural gas liquids volumes.

### Royalties

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Royalties	4.9	9.5	48%	16.0	26.8	40%
Royalties as a percentage of revenue	9.1%	11.2%	(19%)	8.9%	10.3%	(14%)
Royalties (\$/boe)	2.38	4.19	(1.81)	2.56	3.92	(1.36)

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 nine months ended September 30, 2019, royalties as a percentage of gross revenue averaged 9.1% (2018 – 11.2%) and 8.9% (2018 – 10.3%), respectively. Royalties as a percentage of gross revenue were lower than the comparative period, primarily due to a decrease in average realized prices prior to hedging for oil, natural gas and natural gas liquids. Royalties on a per barrel basis decreased \$1.81/boe and \$1.36/boe during the three and nine months ended September 30, 2019, respectively, as compared to the same periods in 2018, primarily due to lower royalty expense, partially offset by the decrease in sales volumes and the higher hedging losses in 2019, which have been included in revenues.

### Operating Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Operating expense	30.3	34.6	97.7	115.1
Operating expense (\$/boe)	14.62	15.33	15.62	16.85

Operating expenses for the three and nine months ended September 30, 2019 decreased by \$4.3 million and \$17.4 million as compared to the same periods in 2018, respectively. This is primarily the result of reduced labor, well servicing, and repairs and maintenance costs due to lower activity levels and cost reduction efforts, partially offset by an increase in processing fees due to the increase in natural gas and natural gas liquids sales volumes.

Operating expenses on a per barrel basis decreased by \$0.71 per boe and \$1.23 per boe, for the three and nine months ended September 30, 2019, respectively, when compared to the same periods in 2018. This decrease is primarily due to lower operating expense, partially offset by lower sales volumes.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Transportation and Marketing Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Transportation and marketing expense	2.7	3.9	7.4	11.7
Transportation and marketing expense (\$/boe)	1.29	1.74	1.16	1.71

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 for the three and nine months ended September 30, 2019 have decreased compared to the same periods in 2018. The decrease is a result of reducing contracted pipeline volumes as well as third parties utilizing Harvest's capacity during the first quarter of 2019 and therefore reducing the amount of the unutilized demand charges paid.

Transportation and marketing per boe for the three and nine months ended September 30, 2019 decreased over its comparative period as a result of lower transportation and marketing expense, partially offset by lower sales volumes.

### Operating Netback<sup>(1)</sup>

(\$/boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Petroleum and natural gas sales prior to royalties	28.02	39.08	(28%)	31.04	38.50	(19%)
Royalties	(2.38)	(4.19)	(43%)	(2.56)	(3.92)	(35%)
Operating expenses	(14.62)	(15.33)	(5%)	(15.62)	(16.85)	(7%)
Transportation and marketing	(1.29)	(1.74)	(26%)	(1.16)	(1.71)	(32%)
Operating netback prior to hedging <sup>(1)</sup>	9.73	17.82	(45%)	11.70	16.02	(27%)
Hedging loss <sup>(3)</sup>	(2.10)	(1.56)	35%	(2.67)	(1.11)	141%
Operating netback after hedging <sup>(1)</sup>	7.63	16.26	(53%)	9.03	14.91	(39%)

(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.

For the three and nine months ended September 30, 2019 operating netback after hedging was \$7.63 per boe and \$9.03 per boe, respectively, representing a 53% and 39% decrease, compared to the same periods in 2018. The decreases were primarily due to lower petroleum and natural gas sales and a larger hedging loss in 2019, partially offset by lower royalties, operating expenses and transportation and marketing expenses.

### General and Administrative ("G&A") Expenses

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Gross G&A expenses	6.5	7.4	(12%)	20.3	27.5	(26%)
Capitalized G&A and recoveries	(0.4)	(0.4)	0%	(1.6)	(2.2)	(27%)
Net G&A expenses	6.1	7.0	(13%)	18.7	25.3	(26%)
Net G&A expenses (\$/boe)	2.96	3.18	(7%)	2.99	3.71	(19%)

For the three and nine months ended September 30, 2019, G&A expense net of capitalized G&A decreased 13% and 26%, respectively, compared to the same periods in 2018. The decrease during the three months ended September 30, 2019, as compared to 2018 was primarily due to lower salary expenses, reserves evaluations and audit fees, and the re-classification of rent payments into depletion, depreciation and amortization expense and a finance cost as a result of IFRS 16, partially offset by higher consulting expense. Rent payments (\$1.2 million and \$3.7 million during the three and nine months ended September 30, 2019, respectively) were applied against the lease liability recognized on January 1, 2019, rather than in general and administration expenses in the comparative periods in 2018. Also see "Critical Accounting Estimates" in this MD&A for the implications of the adoption of IFRS 16. The decrease for the nine months ended September 30, 2019 was primarily due to lower salary expense, consulting fees, reserves evaluations and audit fees, and the re-classification of rent payments into depletion, depreciation and amortization expense and a finance cost as a result of IFRS 16.

G&A expenses on a per boe basis decreased over the comparative periods as a result of lower net G&A expense, partially offset by lower sales 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 expense.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
DD&A expense	<b>35.2</b>	42.1	<b>104.5</b>	129.3
DD&A expense (\$/boe)	<b>16.98</b>	18.62	<b>16.83</b>	18.95

DD&A expense for the three and nine months ended September 30, 2019 decreased by \$6.9 million and \$24.8 million, respectively, compared to the same periods in 2018. This was mainly due to impairments booked in the third quarter of 2018, a change in estimate in the decommissioning liability at December 31, 2018, lower sales volumes, as well as reserve additions in the fourth quarter of 2018, which led to reduced DD&A rates during the three and nine months ended September 30, 2019.

For the three and nine months ended September 30, 2019, DD&A per boe decreased as compared to the same periods in the prior year primarily as a result of lower DD&A expense, partially offset by lower sales volumes.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Expenditures

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Drilling and completion	0.3	7.8	8.1	27.5
Well equipment, pipelines and facilities	0.5	4.1	3.0	14.5
Land and seismic	—	—	—	0.1
Geological and geophysical	—	—	0.2	—
Corporate	—	0.1	0.3	0.2
Other	0.7	—	2.4	0.4
Total additions excluding acquisitions	1.5	12.0	14.0	42.7

Total capital expenditures were lower for the three and nine months ended September 30, 2019 compared to 2018 mainly due to decreased capital activity, reflecting a minimal capital program for 2019.

During the three and nine months ended September 30, 2019, Harvest rig released two gross (0.5 net) and four gross wells (1.1 net), respectively. All wells drilled during 2019 were partner operated wells in the Rocky Mountain House area. The capital spent during the third quarter of 2019 primarily related to drilling and completions costs for the partner operated wells drilled during the third quarter of 2019. Capital costs incurred during the nine months ended September 30, 2019 related to drilling and completions costs for the four gross partner operated wells drilled in during 2019, and in addition, completion costs incurred during the first quarter of 2019 for wells drilled at the end of 2018.

During the three and nine months ended September 30, 2019, Harvest's net undeveloped land additions were 1,425 acres and 2,092 acres, respectively (2018 – nil acres and 3,197 acres), and there were nil acres and 64,424 acres of net undeveloped land dispositions, respectively (2018 – 632 acres and 1,843 acres).

### Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at September 30, 2019 were \$642.5 million (December 31, 2018 - \$608.6 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 increase in the balance at September 30, 2019, is mainly due to the change in estimate resulting from the decrease in the risk-free discount rate as at March 31, 2019 and accretion, partially offset by abandonment work performed during the year and the disposal of assets during the second quarter of 2019. 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 nine months ended September 30, 2019, Harvest recognized a loss of \$4.4 million and \$9.7 million, respectively (2018 - \$24.2 million and \$31.1 million) from its investment in the DBP and HKMS joint ventures.

Below is an overview of operational and financial highlights of the DBP and HKMS joint ventures for the three and nine months ended September 30, 2019. 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. Harvest has made various contributions to the DBP that resulted in changes in its ownership percentage as reflected in the table below.

	September 30, 2019	June 30 2019	March 31 2019	December 31 2018	September 30, 2018
Harvest's ownership interest	83.47%	83.47%	83.45%	83.45%	83.40%
KERR's ownership interest	16.53%	16.53%	16.55%	16.55%	16.60%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at September 30, 2019, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$4.7 million (December 31, 2018 - \$2.2 million).

At September 30, 2019, Harvest has received a total of \$18.6 million (December 31, 2018 - \$17.0 million) in distributions from the DBP from inception of the joint venture.

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Natural gas liquids (\$/bbl)	<b>51.32</b>	63.02	(19%)	<b>56.42</b>	64.14	(12%)
Natural gas (\$/mcf)	<b>0.96</b>	1.27	(24%)	<b>1.72</b>	1.67	3%
Average realized price(\$/boe)	<b>19.53</b>	23.39	(17%)	<b>23.40</b>	24.51	(5%)

For the three and nine months ended September 30, 2019, average realized prices for natural gas liquids decreased 19% and 12%, respectively, as compared to the same periods in 2018, while the Edmonton Light benchmark price decreased by 16% and 11%. The decreases in the realized natural gas liquids price were primarily due to the decrease in propane and butane prices. For the three and nine months ended September 30, 2019, the propane price decreased 108% and 76%, respectively, as compared to 2018, reflecting a negative average price during the third quarter of 2019. For the three and nine months ended September 30, 2019, the butane price decreased 44% and 80%, respectively, as compared to 2018.

For the three and nine months ended September 30, 2019, average realized prices for natural gas decreased 24% and increased 3%, respectively over the same periods in 2018. These changes were consistent with the 24% decrease and 3% increase in the AECO benchmark price for the three and nine months ended September 30, 2019, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Natural gas (mcf/d)	<b>19,128</b>	17,422	10%	<b>20,909</b>	17,611	19%
Natural gas liquids (bbl/d)	<b>1,378</b>	1,153	20%	<b>1,381</b>	1,072	29%
Light to medium oil (bbl/d)	—	1	(100%)	<b>1</b>	3	(67%)
Total (boe/d)	<b>4,566</b>	4,058	13%	<b>4,867</b>	4,010	21%
Harvest's share (boe/d) <sup>(1)</sup>	<b>3,811</b>	3,384	13%	<b>4,062</b>	3,331	22%

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

Total sales volumes for the three and nine months ended September 30, 2019 increased by 508 boe/d and 857 boe/d, as compared to the same periods in 2018. These increases were primarily due to additional volumes from wells drilled in the latter part of 2018, partially offset by natural declines, shut-ins, in response to third party fracking during the second quarter of 2019 and the annual maintenance, which occurred during the third quarter of 2019 at the HKMS gas processing plant.

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Revenues <sup>(1)</sup>	<b>8.3</b>	8.8	(6%)	<b>31.0</b>	27.5	13%
Impairment	—	(22.2)	100%	—	(22.2)	100%
Depletion, depreciation and amortization	<b>(10.0)</b>	(3.7)	170%	<b>(30.6)</b>	(11.9)	157%
Operating and transportation expenses	<b>(3.9)</b>	(9.0)	(57%)	<b>(13.6)</b>	(29.6)	(54%)
Finance costs	<b>(1.3)</b>	(0.7)	86%	<b>(3.9)</b>	(2.1)	86%
Net loss <sup>(2)</sup>	<b>(6.9)</b>	(26.8)	(74%)	<b>(17.1)</b>	(38.3)	(55%)

(1) Revenue is presented net of royalties.

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

Sales revenues for the three months ended September 30, 2019, as compared to the same period in 2018 was relatively consistent, due to the increase in sales volumes being offset by lower realized prices. The higher sales revenues for the nine months ended September 30, 2019 primarily reflects the higher sales volumes in 2019 and slightly stronger gas prices, partially offset by the decrease in natural gas liquids prices.

As a result of applying IFRS 16 to the gas processing agreement between DBP and HKMS (as discussed in the "HKMS Partnership" section below), a lease liability and right of use asset were put onto DBP's balance sheet, using the modified retrospective approach on January 1, 2019. DBP's capital fee payments to HKMS (\$6.0 million and \$18.0 million for the three and nine months ended September 30, 2019, respectively), which were previously included in "operating and transportation expense", were applied against the lease liability effective January 1, 2019. Therefore these lease payments were bifurcated between amortization expense on the right of use asset and finance costs for the accretion of the lease liability during the three and nine months ended September 30, 2019. As a result of this IFRS 16 adjustment and increased sales volumes, operating and transportation expenses decreased from \$23.98 per boe and \$27.05 per boe for the three and nine months ended September 30, 2018, respectively to \$9.28 per boe and \$10.25 per boe in 2019. This decrease was partially offset by an increase in processing fees paid to non-affiliate third parties.

Depletion for the three and nine months ended September 30, 2019 was \$23.76 per boe and \$23.01 per boe, respectively (2018 - \$9.94 per boe and \$10.91 per boe). The increase in depletion per boe was mainly the result of the partial re-classification of the capital fee payments to HKMS from operating expense to

amortization expense for IFRS 16, as discussed above, during the three and nine months ended September 30, 2019. This increase was partially offset by the impact of impairments recorded in 2018 and reserve additions from new wells in 2018.

Finance costs have also increased 86% during the three and nine months ended September 30, 2019 as compared to the same periods in 2018 due to the inclusion of accretion on the lease liability on a portion of the capital fee payments to HKMS in finance costs, as a result of IFRS 16 effective January 1, 2019.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Drilling and completion	—	19.7	—	36.2
Well equipment, pipelines and facilities	—	0.3	0.4	1.3
Total <sup>(1)</sup>	—	20.0	0.4	37.5

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

Capital expenditures for the nine months ended September 30, 2019 focused primarily on gas lift optimization activity during 2019.

#### *HKMS Partnership*

HKMS was established for owning and operating a gas plant in the Deep Basin area in Northwest Alberta. Harvest has made various contributions to HKMS that has resulted in changes in its ownership percentage as reflected in the table below.

	September 30, 2019	June 30 2019	March 31 2019	December 31, 2018	September 30, 2018
Harvest's ownership interest	68.19%	68.15%	68.15%	68.15%	68.15%
KERR's ownership interest	31.81%	31.85%	31.85%	31.85%	31.85%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At September 30, 2019, Harvest has received a total of \$68.4 million (December 31, 2018 - \$56.1 million) in distributions from the HKMS from inception of the joint venture.

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Revenues	6.6	6.9	(4%)	19.6	20.1	(2%)
Operating expenses and other	(0.6)	(0.8)	(25%)	(1.5)	(2.1)	(29%)
Depreciation and amortization	(0.9)	(0.9)	0%	(2.6)	(2.6)	—
Finance costs	(3.9)	(4.2)	(7%)	(12.0)	(12.8)	(6%)
Net income <sup>(1)</sup>	1.2	1.0	20%	3.5	2.6	35%

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

The Gas Processing Agreement between the 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 \$2.0 million. This capital fee is accounted for as revenue for HKMS. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and

nine months ended September 30, 2019, the partnership generated revenues of \$6.6 million and \$19.6 million, respectively (2018 - \$6.9 million and \$20.1 million).

Operating expenses of the facility are recovered through charging an operating fee to users of the facility. For the three and nine months ended September 30, 2019 the partnership operating expenses were \$0.6 million and \$1.5 million, respectively (2018 - \$0.8 million and \$2.1 million). Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and nine months ended September 30, 2019 and 2018, the partnership depreciation expense was \$0.9 million and \$2.6 million, respectively.

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 nine months ended September 30, 2019 the partnership finance costs were \$3.9 million and \$12.0 million, respectively, (2018 - \$4.2 million and \$12.8 million).

See note 7 of the September 30, 2019 unaudited condensed interim consolidated financial statements for discussion of the accounting implications of these joint ventures.

## OIL SANDS

### Operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Blended bitumen sales <sup>(1)(2)</sup>	<b>30.8</b>	—	<b>100.1</b>	—
Cost of diluent	<b>(5.5)</b>	—	<b>(14.8)</b>	—
<b>Bitumen sales<sup>(1)</sup></b>	<b>25.3</b>	—	<b>85.3</b>	—
<b>Expenses</b>				
Royalties	<b>0.8</b>	—	<b>2.9</b>	-
Operating	<b>14.3</b>	2.5	<b>39.6</b>	5.8
Transportation and marketing	<b>7.0</b>	—	<b>18.7</b>	—
General and administrative	<b>1.6</b>	—	<b>5.5</b>	-
Depreciation and amortization	<b>8.2</b>	—	<b>25.0</b>	0.2
<b>Operating loss</b>	<b>(6.6)</b>	(2.5)	<b>(6.4)</b>	(6.0)

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

(2) Inclusive of realized losses from crude oil contracts designated as hedges.

The capitalization period of the Oilsands project came to an end during the fourth quarter of 2018 once the asset was operating as intended by management. Therefore, there are no comparable numbers for operating results for prior periods. Prior period results relate to costs during the pre-commissioning startup period, the majority of which were capitalized during the three and nine months ended September 30, 2018. During the third quarter of 2019, BlackGold underwent its first turnaround, therefore additional repairs and maintenance costs of \$2.5 million were incurred.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Western Canadian Select ("WCS") crude oil (\$/bbl)	<b>58.39</b>	61.78	(5%)	<b>60.27</b>	57.79	4%

### Realized Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Blended bitumen prior to hedging (\$/bbl)	<b>49.20</b>	-	(100%)	<b>51.22</b>	-	(100%)
Blended bitumen after hedging (\$/bbl) <sup>(1)</sup>	<b>43.99</b>	-	(100%)	<b>45.15</b>	-	(100%)
Bitumen prior to hedging (\$/bbl) <sup>(2)</sup>	<b>41.40</b>	-	(100%)	<b>44.57</b>	-	(100%)

(1) Inclusive of the realized losses from crude oil contracts designated as hedges.

(2) Bitumen prior to hedging is the blended bitumen price prior to hedging less the cost of diluent used at the Central Processing Facility ("CPF").

Bitumen produced by Harvest must be blended with 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.

### Volumes

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Blended bitumen sales (bbl/d)	<b>7,615</b>	-	100%	<b>8,119</b>	-	100%
Bitumen sales (bbl/d)	<b>7,077</b>	-	100%	<b>7,539</b>	-	100%
Bitumen production (bbl/d)	<b>7,011</b>	-	100%	<b>7,257</b>	-	100%

Sales volumes in the third quarter of 2019 were lower than the nine months ended September 30, 2019 sales volumes due to the turnaround during that period. As at September 30, 2019, 23,911 barrels of blended bitumen was in inventory at a value of \$0.8 million (December 31, 2018 – 53,534 barrels at a value of \$nil).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Netback<sup>(1)</sup>

(\$/boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Bitumen prior to hedging	41.40	—	100%	44.57	—	100%
Royalties	(1.13)	—	100%	(1.30)	—	100%
Operating expense	(20.41)	—	100%	(17.85)	—	100%
Transportation and marketing	(10.05)	—	100%	(8.44)	—	100%
Operating netback prior to hedging <sup>(1)</sup>	9.81	—	100%	16.98	—	100%
Hedging loss <sup>(2)</sup>	(5.21)	—	100%	(6.06)	—	100%
Operating netback after hedging <sup>(1)</sup>	4.60	—	100%	10.92	—	100%

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

(2) Inclusive of realized losses from crude oil contracts designated as hedges.

Operating expenses on a per barrel basis for the three months ended September 30, 2019 were higher than previous quarters in 2019, primarily due to additional repairs and maintenance costs incurred during BlackGold's first turnaround.

### Capital Expenditures

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Well equipment, pipelines and facilities	0.4	8.5	0.6	56.6
Pre-operating costs	—	—	—	—
Drilling and completion	1.2	3.3	2.0	3.5
Other <sup>(1)</sup>	0.3	13.9	0.9	25.3
Total Oil Sands capital expenditures	2.0	25.7	3.5	85.4

(1) This includes capitalized general and administration and operating expenses incurred to bring the CPF to its intended use in 2018.

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 for the three and nine months ended September 30, 2018, mainly related to construction activities to complete and commission the CPF. During the three and nine months ended September 30, 2019, limited capital was spent as the CPF was operating as intended by management in the fourth quarter of 2018. The majority of the capital spent during the three and nine months ended September 30, 2019, primarily related to the installation of a new electrical submersible pump ("ESP") on the thirteenth well pair and injector retrofit installations.

### Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at September 30, 2019 was \$60.2 million (December 31, 2018 - \$53.7 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 September 30, 2019 is mainly due to a change in estimate resulting from a decrease in the risk-free discount rate as at March 31, 2019. 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 by September 30, 2019, 13 well pairs had been converted to full SAGD operation. On May 1, 2019, BlackGold produced 10,000 bbl/d, achieving its original design capacity for Phase 1.

BlackGold underwent its first turnaround during the third quarter of 2019. Operations have since re-commenced and BlackGold continues to troubleshoot issues on ESPs, which are expected after a turnaround. During the month of October 2019, BlackGold produced in excess of 10,000 bbl/d, surpassing the original design capacity for that period.

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, fifth and sixth deferred payments due April 30, 2016, 2017, 2018 and 2019 as it was in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor while negotiating a settlement with the Contractor. Following an arbitration hearing on the matter, a deposit of \$10 million on the withheld deferred payments was paid in September 2019, which was partially offset by additional interest owed on the withheld payments and legal fees arising from the settlement. 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 September 30 2019, Harvest recognized a liability of \$68.3 million (December 31, 2018 - \$71.4 million) using a discount rate of 4.5% (December 31, 2018 - 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.

**RISK MANAGEMENT, FINANCING AND OTHER**

**Cash Flow Risk Management**

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and 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 additionally enters into foreign exchange swaps to mitigate currency exchange risk by swapping the U.S. dollar notional value of concurrent U.S. dollar denominated borrowings back to Harvest's functional currency, the Canadian dollar. The following is a summary of Harvest's risk management contracts outstanding at September 30, 2019:

**Contracts Designated as Hedges**

<b>Contract Quantity</b>	<b>Type of Contract</b>	<b>Term</b>	<b>Contract Price</b>	<b>Hedge Classification</b>	<b>Fair Value of asset (liability) at September 30, 2019</b>
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	\$ (11.4)
2,800 bbl/d	MSW price swap	Oct - Dec 2019	CDN \$57.50/bbl	Cash Flow	(3.1)
4,100 bbl/d	WCS price swap	Oct - Dec 2019	CDN \$45.00/bbl	Cash Flow	(5.2)
1,000 bbl/d	WCS price swap	Oct - Dec 2019	CDN \$55.10/bbl	Cash Flow	(0.1)
1,000 bbl/d	WCS price swap	Oct - Dec 2019	CDN \$50.15/bbl	Cash Flow	(0.6)
					<b>\$ (20.4)</b>

Harvest periodically enters into U.S. dollar currency swap transactions related to a LIBOR borrowing, which results in fixing an exchange rate for the amount drawn. This results in an offset between the LIBOR loan and the asset (liability) on the balance sheet, and therefore results in a fair value hedge.

The swap also results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and nine months ended September 30, 2019 was 2.8% and 2.6%, respectively (2018 – 2.6% and 2.4%).

	Three Months Ended September 30								
	2019				2018				
	Crude	Oil Interest	Top-Up Obligation	Total	Crude Oil	Currency	Interest	Top-Up Obligation	Total
<b>Realized (gains) losses recognized in:</b>									
Revenues	8.0	—	—	8.0	3.5	—	—	—	3.5
Finance costs	—	0.6	—	0.6	—	—	0.7	—	0.7
<b>Unrealized (gains) losses recognized in:</b>									
OCI, before tax	(4.7)	(1.3)	—	(6.0)	(7.2)	—	(3.6)	—	(10.8)
Derivative contract (gains) losses <sup>(1)</sup>	—	—	0.5	0.5	—	—	—	2.0	2.0





## MANAGEMENT'S DISCUSSION AND ANALYSIS

Realized (gains) losses recognized in:	Nine Months Ended September 30								
	2019				2018				
	Crude Oil	Interest	Top-Up Obligation	Total	Crude Oil	Currency	Interest	Top-Up Obligation	Total
Revenues	30.2	—	—	30.2	7.6	—	—	—	7.6
Finance costs	—	1.7	—	1.7	—	—	1.1	—	1.1
Derivative contract (gains) losses <sup>(1)</sup>	—	—	—	—	—	3.2	—	—	3.2
<b>Unrealized (gains) losses recognized in:</b>									
OCI, before tax	5.5	4.1	—	9.6	1.4	—	1.8	—	3.2
Derivative contract (gains) losses <sup>(1)</sup>	—	—	2.5	2.5	—	(5.1)	—	3.7	(1.4)

(1) Derivative contract (gains) 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 periodically 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 September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Credit facility <sup>(1)</sup>	3.0	2.3	9.2	5.6
Term loan facility - due 2020 <sup>(1)</sup>	1.8	3.1	8.5	9.6
Term loan facility - due 2023 <sup>(1)</sup>	1.8	3.3	9.0	5.1
2½% senior notes <sup>(1)</sup>	—	—	—	8.3
2⅓% senior notes <sup>(1)</sup>	1.0	1.8	4.5	5.2
3% senior notes <sup>(1)</sup>	3.7	5.6	15.1	16.5
4.2% senior notes <sup>(1)</sup>	4.6	6.1	16.9	10.2
Amortization of deferred finance charges and other	6.5	0.7	7.3	1.6
Interest and other financing charges	22.4	22.9	70.5	62.1
Accretion of decommission and environmental remediation liabilities	3.3	4.0	10.3	11.9
Accretion of long-term liability	0.4	0.5	1.3	1.5
Accretion on onerous contract	0.1	—	0.2	—
Accretion of lease liability	0.2	—	0.8	—
<b>Total finance costs</b>	<b>26.4</b>	<b>27.4</b>	<b>83.1</b>	<b>75.5</b>

(1) Includes guarantee fee to KNOC in 2018. On July 29, 2019, KNOC and Harvest entered into an agreement, effective January 1, 2019 to reduce the Guarantee Fee charged by KNOC on all of Harvest's Long-term Debt from 0.37% to zero. The accrued amounts were reversed during the third quarter of 2019.

**Currency Exchange**

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Realized losses on foreign exchange	0.1	0.1	0.5	17.7
Unrealized (gains) losses on foreign exchange	15.7	(24.6)	(43.2)	28.8
Total (gains) losses on foreign exchange	15.8	(24.5)	(42.7)	46.5

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 2½% (matured in 2018), 2⅓%, 3% and 4.2% senior notes, Libor loan and on any U.S. dollar denominated monetary assets or liabilities. As at September 30, 2019, the Canadian dollar had weakened compared to the US dollar at June 30, 2019, resulting in an unrealized foreign exchange loss of \$15.7 million for the three months ended September 30, 2019 (2018 - \$24.6 million gain). As at September 30, 2019, the Canadian dollar had strengthened compared to the US dollar at December 31, 2018, resulting in an unrealized foreign exchange gain of \$43.2 million for the nine months ended September 30, 2019 (2018 - \$28.8 million loss). Harvest recognized realized foreign exchange losses of \$0.1 and \$0.5 million for the three and nine months ended September 30, 2019 (2018 - \$0.1 million and \$17.7 million losses) on settlement of U.S. dollar denominated transactions.

**Income Taxes**

For the three and nine months ended September 30, 2019 Harvest did not record a deferred income tax provision (2018 - \$nil). 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.

During the second quarter of 2019 the Government of Alberta's Bill 3 received royal assent. The Bill reduces Alberta corporate tax rate from 12% to 8% from July 1, 2019 to January 1, 2022. The impact of the decrease in the tax rate has been offset by improved risk adjusted cash flows of the Oil Sands segment. Operational and financial performance of the Oil Sands segment has exceeded budget and what was originally forecasted in the December 31, 2018 reserve report. Therefore the deferred tax asset remains unchanged at September 30, 2019.

**Related Party Transactions**

The following provides a summary of the related party transactions between Harvest and KNOC for the three and nine months ended September 30, 2019:



## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Transactions				Balance Outstanding	
	Three Months Ended		Nine Months Ended		Accounts Payable as at	
	September 30		September 30		September 30	December 31
	2019	2018	2019	2018	2019	2018
<b>Diluent Expenses</b>						
DBP <sup>(1)</sup>	0.6	—	3.1	—	—	0.2
<b>G&amp;A Expenses</b>						
KNOC <sup>(2)</sup>	0.2	0.1	0.4	0.2	0.4	0.5
<b>Finance costs</b>						
KNOC <sup>(3)</sup>	—	3.3	—	6.7	2.7	4.7

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

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

(3) Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 2⅓%, 3% and 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum was charged by KNOC on the senior notes, 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 7, "Investment in Joint Ventures" in the September 30, 2019 unaudited condensed interim consolidated financial statements for details of related party transactions with DBP and HKMS.

On July 29, 2019, KNOC and Harvest entered into an agreement, effective January 1, 2019 to reduce the Guarantee Fee charged by KNOC on all of Harvest's Long-term Debt from 0.37% to zero. The accrued amounts were reversed during the third quarter of 2019.

### CAPITAL RESOURCES

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

	September 30, 2019	December 31, 2018
Credit facility <sup>(1)(3)</sup>	462.2	386.8
Term loan facility - due 2020 <sup>(1)</sup>	500.0	500.0
Term loan facility - due 2023 <sup>(1)</sup>	300.0	300.0
2½% senior notes (US\$195.8 million) <sup>(1)(2)</sup>	259.2	267.0
3% senior notes (US\$485.0 million) <sup>(1)(2)</sup>	642.2	661.4
4.2% senior notes (US\$397.5 million) <sup>(1)(2)</sup>	526.3	542.1
	<b>2,689.9</b>	2,657.3
<b>Shareholder's deficit</b>		
458,766,467 common shares issued	<b>(690.1)</b>	(559.6)
	<b>1,999.8</b>	2,097.7

(1) Excludes capitalized financing fees

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

(3) Excludes letters of credit in the amount of \$10.2 million at September 30, 2019 (December 31, 2018 - \$15.1 million)

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future operating and capital activities. Harvest 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 this management discussion and analysis, it is the Company's expectation that such support will continue. 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 and long-term debt issuances.

### 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 nine months ended September 30, 2019 were \$11.7 million and \$59.7 million, respectively (2018 – cash flows generated of \$4.7 million and \$8.1 million). The increase in the cash flows used in operating activities is primarily due to increased working capital requirements in 2019.

Cash contributions from Harvest's Conventional operations for the three and nine months ended September 30, 2019 were \$12.2 million and \$61.0 million, respectively (2018 - \$28.8 million and 74.4 million). The decrease in cash contributions for the three and nine months ended September 30, 2019 was mainly due to a decrease in the Conventional cash contribution compared to the same periods in 2018, partially offset by the increase in cash contribution from the Oil Sands segment. The decrease in the Conventional cash contributions were primarily due to lower revenues, partially offset by lower royalties, operating, transportation and general and administrative expenses. The increase in the Oil Sands cash contribution was primarily due to BlackGold commencing production during the fourth quarter of 2018.

Harvest funded capital expenditures for the three and nine months ended September 30, 2019 of \$3.5 million and \$17.5 million, respectively (2018 - \$37.7 million and \$128.1 million) with the borrowings under the credit facility.

Harvest's net change to the credit facility was \$15.6 million and \$81.6 million net drawings during the three and nine months ended September 30, 2019, respectively (2018 - \$48.1 million and \$136.0 million net drawings).

Harvest had a working capital deficiency of \$622.0 million as at September 30, 2019, as compared to a \$148.7 million deficiency at December 31, 2018. The increase in the working capital deficiency from December 31, 2018 is primarily due to the re-classification of the term loan facility due 2020 to current liabilities on the balance sheet and the presence of a derivative liability on the balance sheet at September 30, 2019. On July 29, 2019, Harvest closed the extension of the credit facility from the original maturity date of February 24, 2020 to July 29, 2022, therefore it is now included in long-term debt. 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 covenants and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating covenants 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 September 30, 2019, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt repayments <sup>(1)</sup>	500.0	1,360.2	921.9	—	2,782.1
Debt interest payments <sup>(1) (2)</sup>	79.7	141.1	33.4	—	254.2
Purchase commitments <sup>(3)</sup>	43.6	19.0	9.5	12.0	84.1
Operating leases	8.4	15.9	14.9	6.9	46.1
Firm processing commitments	10.2	18.7	17.9	4.4	51.2
Firm transportation agreements	15.0	21.0	19.5	19.1	74.6
Employee benefits <sup>(4)</sup>	0.4	0.2	—	—	0.6
Decommissioning and environmental liabilities <sup>(5)</sup>	9.9	97.8	36.0	1,017.2	1,160.9
<b>Total</b>	<b>667.2</b>	<b>1,673.9</b>	<b>1,053.1</b>	<b>1,059.6</b>	<b>4,453.8</b>

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at September 30, 2019 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 7, "Investment in Joint Ventures" in the September 30, 2019 unaudited condensed interim consolidated financial statements.

**SUMMARY OF QUARTERLY RESULTS**

The following table and discussion highlights the third quarter of 2019 results relative to the preceding 7 quarters:

	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>FINANCIAL</b>								
Revenue and other income, Conventional	49.2	51.2	63.9	53.5	75.7	80.0	76.7	75.3
Bitumen sales	25.3	36.0	23.9	—	—	—	—	—
Total Revenues and other income <sup>(2)</sup>	74.5	87.2	87.8	53.5	75.7	80.0	76.7	75.3
Net loss <sup>(1)</sup>	(79.4)	(21.5)	(19.7)	(114.2)	(102.8)	(75.0)	(88.4)	(207.3)
Operating netback prior to hedging, Conventional (\$/boe) <sup>(2)</sup>	9.73	12.41	12.95	(1.28)	17.82	15.87	14.35	15.04
Operating netback prior to hedging, Oil Sands (\$/boe) <sup>(2)</sup>	9.81	28.68	11.56	—	—	—	—	—
<b>OPERATIONS</b>								
Daily sales volumes (boe/d), Conventional	22,489	22,296	24,007	23,580	24,549	25,027	25,394	25,902
Realized price prior to hedging (\$/boe), Conventional	28.02	31.91	33.10	22.10	39.08	39.82	36.60	35.15
Daily sales volumes blended bitumen	7,615	8,902	7,843	3,120	—	—	—	—
Realized price prior to hedging (\$/boe), Oil Sands	49.20	60.35	46.14	(0.43)	—	—	—	—

(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 first quarter of 2019, as a result of revenue from Harvest's Oil Sands segment. Revenue from the Conventional segment was the highest in the second quarter of 2018 as a result of increased realized commodity prices and lowest in the third quarter of 2019 due to reduced commodity prices and low sales volumes.
- Conventional sales volumes have declined since 2017 due to asset dispositions and drilling programs that did not offset natural declines, 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 lease obligations, 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.

### **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 the basis of preparation and significant accounting policies and estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2018. Since the December 31, 2018 consolidated financial statements, Harvest has adopted the following IFRS accounting standards:

#### **New Standards Adopted**

Harvest adopted IFRS 16 with a date of initial application as of January 1, 2019. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that meet the requirements of a lease.

Harvest used the modified retrospective method approach, whereby the cumulative effect of initially applying the standard was recognized as a \$23.7 million increase to right-of-use assets (included in PP&E) with a corresponding increase to lease obligations (non-current portion of \$23.8 million recorded in "Long term Liability" and the current portion of \$5.1 million recorded in "Accounts Payable and Accrued Liabilities"). The difference between the lease liability and right of use asset relates to the onerous contract using the IFRS 16 practical expedient. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was 3.6% for head office and vehicles. The right-of-use assets and lease obligations relate primarily to the company's head office lease and vehicles leases.

The adoption of IFRS 16 included the following elections:

- Harvest elected to use hindsight in determining the lease term
- Harvest elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of initial application.
- Certain short-term and low value leases that have been identified at January 1, 2019, will not be recognized.

- Harvest elected to not perform an impairment test at January 1, 2019 and instead to rely on its assessment of an onerous contract to adjust the right-to-use asset for the company's Head Office lease for \$5.3 million.

As at December 31, 2018, Harvest disclosed operating lease commitments of \$52.2 million, which would have resulted in a lease obligation of \$28.9 million when discounted at the incremental borrowing rates used in the adoption of IFRS 16. The decrease is due to the present value calculation of the future operating commitments.

### **OPERATIONAL AND OTHER BUSINESS RISKS FOR CONTINUING OPERATIONS**

Harvest's operational and other business risks remain unchanged from those discussed in the annual MD&A and AIF for the year ended December 31, 2018 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **CHANGES IN REGULATORY ENVIRONMENT**

Harvest's regulatory environment remains unchanged from that discussed in the annual MD&A and AIF for the year ended December 31, 2018 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Harvest is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The certificate requires that Harvest disclosure in the interim MD&A includes any significant changes or material weaknesses in Harvest's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect Harvest's internal controls over financial reporting. In connection with the adoption of IFRS 16, Harvest has established additional controls over financial reporting, as necessary, in regards to lease contracts that fall within the scope of this new guidance. Harvest confirms that no other significant changes, and no weaknesses, were identified in Harvest's internal controls over financial reporting during the three and nine months ended September 30, 2019, as described in the annual MD&A for the year ended December 31, 2018 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

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 unaudited condensed interim 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 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.

**"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.

**"Blended bitumen sales"** represents Harvest's sales of diluted bitumen and is included in the segmented information in the financial statements in petroleum and natural gas sales in the Oil Sands segment.

**"Bitumen sales"** represents Harvest's blended bitumen sales as defined above less the cost of diluent from its Oil Sands segment in the financial statements.

**"Total revenues and other income"** represents the total of revenues from the Conventional segment in the financial statements and the bitumen sales as defined above from the Oil Sands segment.

“**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. Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below.

	Three Months Ended September 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating loss	<b>(29.8)</b>	(97.4)	<b>(6.6)</b>	(2.5)	<b>(36.4)</b>	(99.9)
Adjustments:						
Loss from joint ventures	<b>4.4</b>	24.2	—	—	<b>4.4</b>	24.2
Operating, non-cash	—	—	—	—	—	—
General and administrative, non-cash	<b>0.5</b>	1.1	—	—	<b>0.5</b>	1.1
Exploration and evaluation, non-cash	—	0.2	—	—	—	0.2
Depletion, depreciation and amortization	<b>35.2</b>	42.1	<b>8.2</b>	—	<b>43.4</b>	42.1
Gains on disposition of assets	<b>(0.2)</b>	—	—	—	<b>(0.2)</b>	—
Unrealized derivative contract losses	<b>0.5</b>	2.0	—	—	<b>0.5</b>	2.0
Impairment and other charges, non-cash	—	59.1	—	—	—	59.1
<b>Cash contribution (deficiency) from operations</b>	<b>10.6</b>	31.3	<b>1.6</b>	(2.5)	<b>12.2</b>	28.8
Inclusion of items not attributable to segments:						
Lease liability amortization					<b>0.8</b>	—
Net cash interest expense					<b>(21.6)</b>	(21.9)
Realized foreign exchange gains (losses) from operations					<b>(0.1)</b>	(0.1)
Consolidated cash contribution from (used in) operations					<b>(8.7)</b>	6.8
Other non-cash items					<b>(4.1)</b>	(3.6)
Change in non-cash working capital					<b>1.1</b>	1.5
Cash from (used in) operating activities					<b>(11.7)</b>	4.7



## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Nine Months Ended September 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating loss	<b>35.8</b>	(139.9)	<b>(6.4)</b>	(6.0)	<b>29.4</b>	(145.9)
Adjustments:						
Loss from joint ventures	<b>9.7</b>	31.1	—	—	<b>9.7</b>	31.1
Operating, non-cash	<b>0.3</b>	—	—	—	<b>0.3</b>	—
General and administrative, non-cash	<b>1.7</b>	(0.1)	—	—	<b>1.7</b>	(0.1)
Exploration and evaluation, non-cash	<b>0.3</b>	0.2	—	—	<b>0.3</b>	0.2
Depletion, depreciation and amortization	<b>(2.7)</b>	129.3	<b>25.0</b>	0.2	<b>22.3</b>	129.5
(Gains) losses on disposition of assets	<b>(5.2)</b>	(3.2)	—	—	<b>(5.2)</b>	(3.2)
Unrealized derivative contract losses	<b>2.5</b>	3.7	—	—	<b>2.5</b>	3.7
Impairment and other charges, non-cash	—	59.1	—	—	—	59.1
<b>Cash contribution (deficiency) from operations</b>	<b>42.4</b>	80.2	<b>18.6</b>	(5.8)	<b>61.0</b>	74.4
Inclusion of items not attributable to segments:						
Lease liability amortization					<b>2.7</b>	—
Net cash interest					<b>(68.2)</b>	(59.0)
Realized derivative contract losses					—	(3.2)
Realized foreign exchange gains (losses) from operations					<b>(0.5)</b>	2.1
Consolidated cash contribution from (used in) operations					<b>(5.0)</b>	14.3
Other non-cash items					<b>(12.9)</b>	(6.0)
Change in non-cash working capital					<b>(41.8)</b>	(0.2)
Cash from (used in) operating activities					<b>(59.7)</b>	8.1

### FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three and nine months ended September 30, 2019, 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](http://www.sedar.com) or at [www.harvestenergy.ca](http://www.harvestenergy.ca). Information can also be found by contacting our Investor Relations department at (403) 265-1178 or at 1-866-666-1178.



## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Harvest Operations Corp (“the Company”) have been prepared by and are the responsibility of the Company’s management. The Board of Directors of the Company has approved and authorized for issue these condensed interim consolidated financial statements.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

As at (millions of Canadian dollars)	Notes	September 30, 2019		December 31, 2018	
<b>Assets</b>					
Current assets					
Accounts receivable		\$	39.2	\$	19.2
Prepaid expenses and other			11.4		6.6
Derivative contracts	10		—		4.4
			<b>50.6</b>		<b>30.2</b>
Non-current assets					
Deferred income tax asset			711.5		711.5
Exploration and evaluation assets	6		10.9		11.2
Property, plant and equipment	5		2,157.7		2,216.5
			<b>2,880.1</b>		<b>2,939.2</b>
<b>Total assets</b>		\$	<b>2,930.7</b>	\$	<b>2,969.4</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable and accrued liabilities	13	\$	141.1	\$	166.3
Taxes payable			0.9		0.9
Derivative contracts	10		20.4		—
Current portion of provisions	11		10.3		11.7
Current portion of long-term debt	8		499.9		—
			<b>672.6</b>		<b>178.9</b>
Non-current liabilities					
Long-term debt	8,9		2,181.3		2,646.5
Long-term liability	12		38.4		46.1
Investments in joint ventures	7		14.0		0.1
Lease obligations	13		20.6		—
Non-current provisions	11		693.9		657.4
			<b>2,948.2</b>		<b>3,350.1</b>
<b>Total liabilities</b>		\$	<b>3,620.8</b>	\$	<b>3,529.0</b>
<b>Shareholder's deficit</b>					
Shareholder's capital			4,593.3		4,593.3
Contributed surplus			11.3		11.3
Deficit			(5,278.1)		(5,157.2)
Accumulated other comprehensive loss	20		(16.6)		(7.0)
<b>Total shareholder's deficit</b>			<b>(690.1)</b>		<b>(559.6)</b>
<b>Total liabilities and shareholder's deficit</b>		\$	<b>2,930.7</b>	\$	<b>2,969.4</b>

Commitments [Note 19]

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	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Petroleum and natural gas sales	14	\$ 84.9	\$ 85.2	\$ 280.3	\$ 259.2
Royalties		(5.7)	(9.5)	(18.9)	(26.8)
<b>Revenues</b>		<b>79.2</b>	<b>75.7</b>	<b>261.4</b>	<b>232.4</b>
<b>Expenses</b>					
Operating		44.6	37.1	137.3	120.9
Cost of diluent		5.5	—	14.8	—
Transportation and marketing		9.7	3.9	26.1	11.7
General and administrative		7.7	7.0	24.2	25.3
Depletion, depreciation and amortization	5	44.2	42.1	132.2	129.5
Exploration and evaluation	6	—	0.2	0.3	0.2
Loss from joint ventures	7	4.4	24.2	9.7	31.1
Gain on disposition of assets	5	(0.2)	—	(5.2)	(3.2)
Finance costs	15	26.4	27.4	83.1	75.5
Derivative contract loss	10	0.5	2.0	2.5	1.8
Foreign exchange loss (gain)	16	15.8	(24.5)	(42.7)	46.5
Impairment	5	—	59.1	—	59.1
<b>Net loss from operations</b>		<b>(79.4)</b>	<b>(102.8)</b>	<b>(120.9)</b>	<b>(266.0)</b>
<b>Other comprehensive loss ("OCL")</b>					
<i>Items that may be reclassified to net income</i>					
Loss (gain) on designated cash flow hedges, net of tax	20	(6.0)	(10.8)	9.6	3.2
<b>Comprehensive loss</b>		<b>\$ (73.4)</b>	<b>\$ (92.0)</b>	<b>\$ (130.5)</b>	<b>\$ (269.2)</b>

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, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ —	\$ (172.4)
Net loss		—	—	(266.0)	—	(266.0)
Loss on designated hedges	20	—	—	—	(3.2)	(3.2)
<b>As at September 30, 2018</b>		<b>\$ 4,593.3</b>	<b>\$ 11.3</b>	<b>\$ (5,043.0)</b>	<b>\$ (3.2)</b>	<b>\$ (441.6)</b>
Balance at December 31, 2018		\$ 4,593.3	\$ 11.3	\$ (5,157.2)	\$ (7.0)	\$ (559.6)
Net loss		—	—	(120.9)	—	(120.9)
Loss on designated hedges	20	—	—	—	(9.6)	(9.6)
<b>As at September 30, 2019</b>		<b>\$ 4,593.3</b>	<b>\$ 11.3</b>	<b>\$ (5,278.1)</b>	<b>\$ (16.6)</b>	<b>\$ (690.1)</b>

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	Nine months ended September 30	
		<b>2019</b>	2018
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net loss		\$ (120.9)	\$ (266.0)
Items not requiring cash			
Loss from joint ventures	7	9.7	31.1
Depletion, depreciation and amortization	5	132.2	129.5
Non-cash finance costs	15	14.9	16.5
Unrealized loss (gain) on derivative contracts	10	2.5	(1.4)
Unrealized loss (gain) on foreign exchange	16	(43.2)	28.8
Non-cash exploration and evaluation costs	6	0.3	0.2
Gain on disposition of assets	5	(5.2)	(3.2)
Impairment	5	—	59.1
Other non-cash items		(1.9)	0.2
Realized foreign exchange loss on senior notes repayment		—	19.7
Settlement of decommissioning and environmental remediation liabilities	11	(6.3)	(6.3)
Change in non-cash working capital	17	(41.8)	(0.2)
Cash used in operating activities		\$ (59.7)	\$ 8.1
<b>Financing Activities</b>			
Credit facility borrowing, net	8	81.6	136.0
Issuance of senior notes		—	512.2
Repayment of senior notes		—	(811.7)
Borrowings from term loan		—	298.9
Senior notes transaction costs		—	(4.1)
Payment of lease obligations	13	(4.0)	—
Change in non-cash working capital	17	(4.0)	—
Cash from financing activities		\$ 73.6	\$ 131.3
<b>Investing Activities</b>			
Additions to property, plant and equipment	5	(17.5)	(128.1)
Property dispositions, net	5	9.2	2.6
Investment in joint ventures	7	(9.6)	(17.7)
Distributions received from joint ventures	7	13.8	11.7
Change in non-cash working capital	17	(9.8)	(7.9)
Cash used in investing activities		\$ (13.9)	\$ (139.4)
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 68.2	\$ 59.2

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

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2019 and 2018

*(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 – 2<sup>nd</sup> 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, 2018.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 5, 2019.

**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, 2018. There have been no significant changes to the use of estimates or judgments since December 31, 2018.

**3. Significant Accounting Policies**

These condensed interim condensed 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, 2018, with the exception of the ‘Leases’ policies which are amended below.

**IFRS 16 - Leases:**

Harvest adopted IFRS 16 with a date of initial application as of January 1, 2019. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that meet the requirements of a lease.

Harvest used the modified retrospective method approach, whereby the cumulative effect of initially applying the standard was recognized as a \$23.7 million increase to right-of-use assets (included in PP&E) with a corresponding increase to lease obligations (non-current portion of \$23.8 million recorded in “Lease Obligations” and the current portion of \$5.1 million recorded in “Accounts Payable and Accrued Liabilities”) at January 1, 2019. The difference of \$5.3 million relates to the use of the practical expedient to account for the onerous contract described below. The right-of-use assets and lease obligations relate primarily to the company’s head office lease and vehicles leases. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was 3.64%.

The adoption of IFRS 16 included the following elections:

- Harvest elected to use hindsight in determining the lease term

- Harvest elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of initial application.
- Certain short-term and low value leases that have been identified at January 1, 2019, will not be recognized.
- Harvest elected to use the practical expedient to not perform an impairment test at January 1, 2019 and instead to rely on its assessment of an onerous contract under IAS 37 to adjust the right-to-use asset for the company's Head Office lease for \$5.3 million.

As at December 31, 2018, Harvest disclosed operating lease commitments of \$52.2 million, which would have resulted in a lease obligation of \$28.9 million when discounted at the incremental borrowing rates used in the adoption of IFRS 16. The decrease is due to the present value calculation of the future operating commitments.

The following accounting policy is applicable from January 1, 2019:

**Lease Accounting Policy**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of the future lease payments, using the applicable incremental borrowing rate. A corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Harvest does not recognize leases for short-term leases with a lease term of 12 months or less, or for low-value assets. Payments are applied against the lease obligation and interest expense is recognized on the lease obligations using the effective interest rate method. Depreciation on the right-of-use asset is recognized on a straight line basis over the life of the lease.

**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.

	Three months ended September 30					
	Conventional		Oil Sands		Total <sup>(1)</sup>	
	2019	2018	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 54.1	\$ 85.2	\$ 30.8	\$ —	\$ 84.9	\$ 85.2
Royalties	(4.9)	(9.5)	(0.8)	—	(5.7)	(9.5)
<b>Revenues</b>	<b>49.2</b>	<b>75.7</b>	<b>30.0</b>	<b>—</b>	<b>79.2</b>	<b>75.7</b>
<b>Expenses</b>						
Operating	30.3	34.6	14.3	2.5	44.6	37.1
Cost of diluent	—	—	5.5	—	5.5	—
Transportation and marketing	2.7	3.9	7.0	—	9.7	3.9
General and administrative	6.1	7.0	1.6	—	7.7	7.0
Depletion, depreciation and amortization	35.2	42.1	8.2	—	44.2	42.1
Exploration and evaluation	—	0.2	—	—	—	0.2
Gains on disposition of assets	(0.2)	—	—	—	(0.2)	—
Derivative contracts loss	0.5	2.0	—	—	0.5	2.0
Impairment, net of reversals	—	59.1	—	—	—	59.1
Loss from joint ventures	4.4	24.2	—	—	4.4	24.2
Segment Operating loss	\$ (29.8)	\$ (97.4)	\$ (6.6)	\$ (2.5)	\$ (37.2)	\$ (99.9)
Finance costs					26.4	27.4
Foreign exchange (gain) loss					15.8	(24.5)
<b>Net Loss</b>					<b>\$ (79.4)</b>	<b>\$ (102.8)</b>

<sup>(1)</sup> Leased Corporate assets included in total, see note 5.

	Nine months ended September 30					
	Conventional		Oil Sands		Total <sup>(1)</sup>	
	2019	2018	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 180.2	\$ 259.2	\$ 100.1	\$ —	\$ 280.3	\$ 259.2
Royalties	(16.0)	(26.8)	(2.9)	—	(18.9)	(26.8)
<b>Revenues</b>	<b>164.2</b>	<b>232.4</b>	<b>97.2</b>	<b>—</b>	<b>261.4</b>	<b>232.4</b>
<b>Expenses</b>						
Operating	97.7	115.1	39.6	5.8	137.3	120.9
Cost of diluent	—	—	14.8	—	14.8	—
Transportation and marketing	7.4	11.7	18.7	—	26.1	11.7
General and administrative	18.7	25.3	5.5	—	24.2	25.3
Depletion, depreciation and amortization	104.5	129.3	25.0	0.2	132.2	129.5
Exploration and evaluation	0.3	0.2	—	—	0.3	0.2
Gains on disposition of assets	(5.2)	(3.2)	—	—	(5.2)	(3.2)
Derivative contracts loss	2.5	3.7	—	—	2.5	3.7
Impairment	—	59.1	—	—	—	59.1
Loss from joint ventures	9.7	31.1	—	—	9.7	31.1
Segment Operating loss	\$ (71.4)	\$ (139.9)	\$ (6.4)	\$ (6.0)	\$ (80.5)	\$ (145.9)
Finance costs					83.1	75.5
Foreign exchange (gains) losses					(42.7)	46.5
Derivative contract gains					—	(1.9)
<b>Net loss</b>					<b>(120.9)</b>	<b>(266.0)</b>

<sup>(1)</sup> Leased Corporate assets included in total, see note 5.

	Three months ended September 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
<b>Capital Additions</b>						
Additions to PP&E	\$ 1.5	\$ 12.0	\$ 2.0	\$ 25.7	\$ 3.5	\$ 37.7
PP&E & E&E acquisitions, net of dispositions	—	—	—	—	—	—
<b>Net capital additions</b>	<b>\$ 1.5</b>	<b>\$ 12.0</b>	<b>\$ 2.0</b>	<b>\$ 25.7</b>	<b>\$ 3.5</b>	<b>\$ 37.7</b>

	Nine months ended September 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
<b>Capital Additions</b>						
Additions to PP&E	\$ 14.0	\$ 42.7	\$ 3.5	\$ 85.4	\$ 17.5	\$ 128.1
PP&E acquisitions, net of dispositions	(5.4)	(0.4)	—	—	(5.4)	(0.4)
<b>Net capital additions</b>	<b>\$ 8.6</b>	<b>\$ 42.3</b>	<b>\$ 3.5</b>	<b>\$ 85.4</b>	<b>\$ 12.1</b>	<b>\$ 127.7</b>

	Investments in Joint Ventures	PP&E	E&E	Total Assets
<b>December 31, 2018</b>				
Conventional	\$ (0.1)	\$ 1,110.3	\$ 11.2	\$ 1,863.3
Oil Sands	—	1,106.2	—	1,106.0
<b>Total</b>	<b>\$ (0.1)</b>	<b>\$ 2,216.5</b>	<b>\$ 11.2</b>	<b>\$ 2,969.3</b>
<b>September 30, 2019</b>				
Conventional	\$ (14.0)	\$ 1,046.4	\$ 10.9	\$ 1,831.3
Oil Sands	—	1,090.3	—	1,099.4
<b>Total</b>	<b>\$ (14.0)</b>	<b>\$ 2,136.7</b>	<b>\$ 10.9</b>	<b>\$ 2,930.7</b>

**5. Property, Plant and Equipment (“PP&E”)**

	Conventional	Oil Sands	Total
<b>Cost:</b>			
As at December 31, 2018	\$ 4,995.5	\$ 1,602.4	\$ 6,597.9
Additions	14.0	3.5	17.5
Additions right-of-use assets <sup>(1)</sup>	—	—	23.7
Disposals, net of acquisitions	(18.8)	—	(18.8)
Change in decommissioning liabilities	33.4	5.6	39.0
<b>As at September 30, 2019</b>	<b>\$ 5,024.1</b>	<b>\$ 1,611.5</b>	<b>\$ 6,659.3</b>
<b>Accumulated depletion, depreciation and amortization:</b>			
As at December 31, 2018	\$ 3,885.2	\$ 496.2	\$ 4,381.4
Depreciation, depletion and amortization <sup>(2)</sup>	104.5	25.0	132.2
Disposals	(12.0)	—	(12.0)
<b>As at September 30, 2019</b>	<b>\$ 3,977.7</b>	<b>\$ 521.2</b>	<b>\$ 4,501.6</b>
<b>Net Book Value:</b>			
As at December 31, 2018	\$ 1,110.3	\$ 1,106.2	\$ 2,216.5
<b>As at September 30, 2019 <sup>(3)</sup></b>	<b>\$ 1,046.4</b>	<b>\$ 1,090.3</b>	<b>\$ 2,157.7</b>

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

<sup>(2)</sup> Depreciation of leased corporate assets included in total.

<sup>(3)</sup> 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 nine months ended September 30, 2019 included in the table above:

	As at January 1, 2019	Depreciation	As at September 30, 2019
Office space	\$ 22.6	\$ (2.5)	\$ 20.1
Vehicles and equipment	1.1	(0.2)	0.9
	<b>\$ 23.7</b>	<b>\$ (2.7)</b>	<b>\$ 21.0</b>

General and administrative costs directly attributable to PP&E addition activities of \$0.7 million and \$2.2 million have been capitalized during the three and nine months ended September 30, 2019 (2018 - \$2.7 million and \$4.6 million).

During the three and nine months ended September 30, 2019, Harvest recognized gains on disposals of non-core assets for \$0.2 million and \$5.2 million (September 30, 2018 - nil and \$3.2 million) relating to the de-recognition of PP&E and decommissioning liabilities. The net proceeds from these disposals were \$0.7 million for the three and \$9.2 million for the nine months ended September 30, 2019.

**6. Exploration and Evaluation Assets ("E&E")**

As at December 31, 2018	\$	11.2
Impairment		(0.3)
<b>As at September 30, 2019</b>	<b>\$</b>	<b>10.9</b>

During the nine months ended September 30, 2019, \$0.3 million (2018 – \$0.2 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 nine months ended September 30, 2019 and 2018.

**7. Investment in Joint Ventures**

	September 30, 2019	Ownership Interest	December 31, 2018	Ownership Interest
Deep Basin Partnership ("DBP")	\$ (52.5)	83.47%	\$ (43.4)	83.45%
HK MS Partnership ("HKMS")	38.5	68.19%	43.3	68.15%
<b>Investments in joint ventures</b>	<b>\$ (14.0)</b>		<b>\$ (0.1)</b>	

	DBP	HKMS	Total
As at December 31, 2018	\$ (43.4)	\$ 43.3	\$ (0.1)
Additional investments	9.6	—	9.6
Share of income (loss)	(17.1)	7.4	(9.7)
Distributions	(1.6)	(12.2)	(13.8)
<b>As at September 30, 2019</b>	<b>\$ (52.5)</b>	<b>\$ 38.5</b>	<b>\$ (14.0)</b>

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

	September 30, 2019		December 31, 2018	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —
Other current assets	17.7	10.7	18.5	7.8
Total current assets	\$ 17.7	\$ 10.7	\$ 18.5	\$ 7.8
Non-current assets	193.7	196.5	102.2	210.4
Total assets <sup>(1)</sup>	\$ 211.4	\$ 207.2	\$ 120.7	\$ 218.2
Current liabilities	\$ 36.5	\$ 4.7	\$ 20.7	\$ 1.9
Non-current financial liabilities	140.5	189.3	138.7	207.4
Other non-current liabilities	89.0	5.5	6.9	4.7
Total liabilities <sup>(1)</sup>	\$ 266.0	\$ 199.5	\$ 166.3	\$ 214.0
<b>Net assets (liabilities)<sup>(1)</sup></b>	<b>\$ (54.6)</b>	<b>\$ 7.7</b>	<b>\$ (45.6)</b>	<b>\$ 4.2</b>

<sup>(1)</sup> Balances represent 100% share of DBP and HKMS

	Three months ended September 30							
	2019			2018				
	DBP		HKMS	DBP		HKMS		
Revenues	\$	8.3	\$	6.6	\$	8.8	\$	6.9
Impairment		—		—		(22.2)		—
Depletion, depreciation and amortization		(10.0)		(0.9)		(3.7)		(0.9)
Operating expenses and other		(3.9)		(0.6)		(9.0)		(0.8)
Finance costs		(1.3)		(3.9)		(0.7)		(4.2)
<b>Net income (loss)<sup>(1)</sup></b>	<b>\$</b>	<b>(6.9)</b>	<b>\$</b>	<b>1.2</b>	<b>\$</b>	<b>(26.8)</b>	<b>\$</b>	<b>1.0</b>

<sup>(1)</sup> Balances represent 100% share of DBP and HKMS

	Nine months ended September 30							
	2019			2018				
	DBP		HKMS	DBP		HKMS		
Revenues	\$	31.0	\$	19.6	\$	27.5	\$	20.1
Impairment		—		—		(22.2)		—
Depletion, depreciation and amortization		(30.6)		(2.6)		(11.9)		(2.6)
Operating expenses and other		(13.6)		(1.5)		(29.6)		(2.1)
Finance costs		(3.9)		(12.0)		(2.1)		(12.8)
<b>Net income (loss)<sup>(1)</sup></b>	<b>\$</b>	<b>(17.1)</b>	<b>\$</b>	<b>3.5</b>	<b>\$</b>	<b>(38.3)</b>	<b>\$</b>	<b>2.6</b>

<sup>(2)</sup> Balances represent 100% share of DBP and HKMS

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at September 30, 2019:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 155.0	\$ 155.0
Firm processing commitment	24.0	48.0	38.0	—	110.0
Decommissioning and environmental liabilities <sup>(1)</sup>	0.1	—	—	17.5	17.6
<b>Total</b>	<b>\$ 24.1</b>	<b>\$ 48.0</b>	<b>\$ 38.0</b>	<b>\$ 172.5</b>	<b>\$ 282.6</b>

<sup>(1)</sup> Represents the undiscounted obligation by period.

As at September 30, 2019, Harvest's top-up obligation related to the preferred distribution liability payments was estimated as \$4.7 million (December 31, 2018 - \$2.2 million), using a discount rate of 20% (December 31, 2018 - 20%). 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 September 30, 2019 (see note 12 – 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. There have been no changes to significant inputs of this calculation since December 31, 2018.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at September 30, 2019:

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

<sup>(1)</sup> 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 three and nine months ended September 30, 2019, Harvest charged DBP a marketing fee of \$0.1 million and \$0.3 million (2018 - \$0.2 million and \$0.5 million) and general and administrative expenses of \$0.1 million and \$0.5 million (2018 - \$0.7 million and \$1.3 million). As at September 30, 2019, \$11.1 million remains outstanding to DBP from Harvest (December 31, 2018 - \$11.6 million).

**HKMS Partnership**

Harvest charged HKMS general and administrative expenses of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2019 (2018 - \$0.1 million and \$0.3 million). As at September 30, 2019, \$3.9 million remains outstanding from HKMS to Harvest (December 31, 2018 - \$0.9 million Harvest to HKMS).

**8. Long-Term Debt**

	September 30, 2019	December 31, 2018
Credit Facility <sup>(2)</sup>	\$ 461.5	\$ 386.4
Term Loan due 2020	499.9	499.7
Term Loan due 2023	299.2	299.0
2½% senior notes due 2021 (US\$195.8 million)	259.1	266.8
3% senior notes due 2022 (US\$485 million)	638.2	656.3
4.2% senior notes due 2023 (US\$397.5 million)	523.3	538.3
<b>Long-term debt outstanding</b>	<b>\$ 2,681.2</b>	<b>\$ 2,646.5</b>
<b>Less current portion<sup>(1)</sup></b>	<b>(499.9)</b>	<b>-</b>
<b>Non-current long-term debt</b>	<b>\$ 2,181.3</b>	<b>\$ 2,646.5</b>

<sup>(1)</sup> Current portion relates to the Term Loan due 2020.

<sup>(2)</sup> Excludes letters of credit issues in the amount of \$10.2 million at September 30, 2019 (December 31, 2018 - \$15.1 million).

For the three and nine months ended September 30, 2019, interest charges on the credit facility borrowings aggregated to \$3.9 million and \$11.5 million respectively (2018 - \$2.2 million and \$5.3 million), reflecting an effective interest rate of 3.30% and 3.37% (2018 - 2.78% and 2.78%). 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 10 – Financial Instruments.

On July 29, 2019, Harvest closed the extension of the credit facility from the Original maturity date of February 24, 2020 to July 29, 2022. Also, on July 29, 2019, KNOC and Harvest entered into an agreement, effective January 1, 2019 to reduce the Guarantee Fee charged by KNOC on all of Harvest's Long-term Debt from 0.37% to zero.

**9. Shareholder's Capital & Capital Structure**

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

	September 30, 2019	December 31, 2018
Credit facility <sup>(1)(2)</sup>	\$ 462.2	\$ 386.8
Term Loan due 2020 <sup>(1)</sup>	500.0	500.0
Term Loan due 2023 <sup>(1)</sup>	300.0	300.0
2½% senior notes (US\$195.8 million) <sup>(1)(3)</sup>	259.2	267.0
3% senior notes (US\$485 million) <sup>(1)(3)</sup>	642.2	661.4
4.2% senior notes (US\$397.5 million) <sup>(1)(3)</sup>	526.3	542.1
	<b>\$ 2,689.9</b>	<b>\$ 2,657.3</b>
Shareholder's deficit	<b>(690.1)</b>	<b>(559.6)</b>
	<b>\$ 1,999.8</b>	<b>\$ 2,097.7</b>

<sup>(1)</sup> Excludes capitalized financing fees.

<sup>(2)</sup> Excludes letters of credit issued in the amount of \$10.2 million at September 30, 2019 (December 31, 2018 - \$15.1 million).

<sup>(3)</sup> 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.

## 10. 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 September 30, 2019, all financial instruments are level 2, except for the 2½%, 3% and 4.2% senior notes, which are level 1 and \$4.7 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. As at December 31, 2018 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 7 – Investment in Joint Ventures and note 12 – Long-Term Liability.

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Derivative contracts	—	\$ —	\$ 4.4	\$ 4.4
<b>Total Financial Assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4.4</b>	<b>\$ 4.4</b>
<b>Financial Liabilities</b>				
<u>Fair value through profit or loss</u>				
Derivative contracts	\$ 20.4	\$ 20.4	\$ —	\$ —
Long-term liability	4.7	4.7	2.2	2.2
<u>Amortised Cost</u>				
Credit Facility	461.5	462.2	386.4	386.8
Term Loan due 2020	499.9	500.0	499.7	500.0
Term Loan due 2023	299.2	300.0	299.0	300.0
2½% senior notes	259.1	258.6	266.8	259.8
3% senior notes	638.2	654.4	656.3	650.2
4.2% senior notes	523.3	560.9	538.3	556.4
Long-term liability	24.9	19.6	33.9	24.9
<b>Total Financial Liabilities</b>	<b>\$ 2,731.2</b>	<b>\$ 2,780.8</b>	<b>\$ 2,682.6</b>	<b>\$ 2,680.3</b>

**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 entered into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and nine months ended September 30, 2019 were lowered to 2.84% and 2.64% respectively (2018 – 2.59% and 2.36%). Also see note 8 – 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:

	Three months ended September 30					
	2019			2018		
	Realized losses	Unrealized losses	Total	Realized losses	Unrealized losses	Total
Top-up obligation (note 7)	—	0.5	0.5	—	2.0	2.0
	\$ —	\$ 0.5	\$ 0.5	\$ —	\$ 2.0	\$ 2.0

	Nine months ended September 30					
	2019			2018		
	Realized losses	Unrealized losses	Total	Realized losses	Unrealized losses (gains)	Total
Foreign exchange	—	—	—	3.2	—	3.2
Derivative contract	—	—	—	—	(5.1)	(5.1)
Top-up obligation (note 7)	—	2.5	2.5	—	3.7	3.7
	\$ —	\$ 2.5	\$ 2.5	\$ 3.2	\$ (1.4)	\$ 1.8

**Contracts Designated as Hedges**

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair value of asset (liability) at September 30, 2019
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	(11.4)
2,800 bbl/d	MSW price swap	Oct - Dec 2019	CDN \$57.50/bbl	Cash Flow	(3.1)
4,100 bbl/d	WCS price swap	Oct - Dec 2019	CDN \$45.00/bbl	Cash Flow	(5.2)
1,000 bbl/d	WCS price swap	Oct - Dec 2019	CDN \$55.10/bbl	Cash Flow	(0.1)
1,000 bbl/d	WCS price swap	Oct - Dec 2019	CDN \$50.15/bbl	Cash Flow	(0.6)
					\$ (20.4)

11. Provisions

	Conventional (1)	Oil Sands (2)	Head Office lease (3)	Total
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1
January 1, 2019 adoption of IFRS 16 adjustment	—	—	(5.3)	(5.3)
Settled during the period	(6.3)	—	(0.3)	(6.6)
Revisions (change in estimated costs and discount rate)	34.0	5.6	—	39.6
Disposals	(3.2)	—	—	(3.2)
Accretion	9.4	0.9	0.3	10.6
<b>As at September 30, 2019</b>	<b>\$ 642.5</b>	<b>\$ 60.2</b>	<b>\$ 1.5</b>	<b>\$ 704.2</b>
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
Current portion as at September 30, 2019	\$ 10.0	\$ —	\$ 0.3	\$ 10.3
Non-current provisions as at September 30, 2019	632.5	60.2	1.2	693.9
<b>As at September 30, 2019</b>	<b>\$ 642.5</b>	<b>\$ 60.2</b>	<b>\$ 1.5</b>	<b>\$ 704.2</b>

(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 \$1.2 billion at September 30, 2019 (December 31, 2018 – \$1.2 billion), which will be incurred between 2019 and 2078. A risk-free discount rate of 1.90% (December 31, 2018 – 2.18%) and inflation rate of 1.50% (December 31, 2018 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities.

On January 1, 2019, as a result of the adoption of IFRS 16, Harvest adjusted the opening balance of the onerous contract while recognizing the lease liability on the balance sheet in accordance with the new standard. See notes 3 and 13 for additional details.

At September 30, 2019, Harvest had an onerous contract provision of \$1.5 million (December 31, 2018 - \$6.8 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 operating costs that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate. Nil gain was recorded from changes in the discount rate during the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – nil).

12. Long-Term Liability

	September 30, 2019	December 31, 2018
BlackGold liability <sup>(1)</sup>	\$ 68.3	\$ 71.4
Less: current portion of BlackGold liability <sup>(1)</sup>	(43.4)	(37.9)
Deferred rent and other <sup>(2)</sup>	8.8	10.4
Top-up obligation <sup>(3)</sup>	4.7	2.2
	<b>\$ 38.4</b>	<b>\$ 46.1</b>

(1) Calculated using a discount rate of 4.5% at three months ended September 30, 2019 and December 31, 2018. The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third, fourth, fifth and sixth deferred payments due April 30, 2019, 2018, 2017 and 2016 while negotiating a settlement with the contractor. Following an arbitration hearing on the matter, a deposit of \$10 million on the withheld deferred payments was paid in September 2019 which was partially offset by additional interest owed on the withheld payments and legal fees arising from the settlement.

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

(3) See note 7 – Investment in Joint Ventures.

### 13. Lease Obligation

Harvest had the following associated with lease obligations:

	September 30, 2019		January 1, 2019	
Less than 1 year	\$	5.3	\$	5.3
1 - 3 years		10.2		10.7
4 - 5 years		8.8		9.0
After 5 years		4.1		7.4
<b>Total lease payments</b>		<b>28.4</b>		<b>32.4</b>
Amounts representing interest		(2.7)		(3.5)
Present value of net lease payments		25.7		28.9
Current portion of lease obligations <sup>(1)</sup>		(5.1)		(5.1)
<b>Non-current portion of lease obligations</b>	<b>\$</b>	<b>20.6</b>	<b>\$</b>	<b>23.8</b>

<sup>(1)</sup> Included in Accounts payable and accrued liabilities

The increase in lease obligations relates to the adoption of IFRS 16 effective January 1, 2019. Please refer to note 3 for additional information. For the nine months ended September 30, 2019, Harvest had interest expense of \$0.9 million and cash outflow of \$4.0 million related to lease obligations.

### 14. 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:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Light to medium oil sales after hedging <sup>(1)</sup>	\$ 14.5	\$ 24.6	\$ 45.9	\$ 76.9
Heavy oil sales after hedging <sup>(1)</sup>	24.0	36.6	68.0	104.5
Bitumen sales after hedging <sup>(1)</sup>	30.8	-	100.1	-
Natural gas sales	6.0	7.7	30.0	28.9
Natural gas liquids sales	8.7	13.7	29.4	37.9
Other <sup>(2)</sup>	0.9	2.6	6.9	11.0
<b>Petroleum and natural gas sales</b>	<b>\$ 84.9</b>	<b>\$ 85.2</b>	<b>\$ 280.3</b>	<b>\$ 259.2</b>

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

<sup>(2)</sup> Inclusive of sulphur revenue and pipeline arbitrage.

Included in accounts receivable at September 30, 2019 is \$31.5 million (September 30, 2018 – \$32.3 million for September 2018 production) of accrued oil and gas sales related to September 2019 production.

**15. Finance Costs**

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest and other financing charges <sup>(1)</sup>	\$ 22.4	\$ 22.9	\$ 70.8	\$ 62.1
Lease interest expense	0.3	-	0.9	-
Accretion of decommissioning and environmental remediation liabilities (note 11)	3.3	4.0	10.3	11.9
Accretion of BlackGold long-term liability (note 12)	0.4	0.5	1.1	1.5
	\$ 26.4	\$ 27.4	\$ 83.1	\$ 75.5

<sup>(1)</sup> Includes \$0.1 million and \$0.2 million of accretion on the onerous contract during the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – \$0.3 million and \$0.8 million).

**16. Foreign Exchange**

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Realized loss on foreign exchange	\$ 0.1	\$ 0.1	\$ 0.5	\$ 17.7
Unrealized loss (gain) on foreign exchange	15.7	(24.6)	(43.2)	28.8
	\$ 15.8	\$ (24.5)	\$ (42.7)	\$ 46.5

**17. Supplemental Cash Flow Information**

	Nine months ended September 30	
	2019	2018
Source (use) of cash:		
Accounts receivable	\$ (20.0)	\$ 9.2
Prepaid expenses, long-term deposit and other	(4.8)	(2.9)
Accounts payable and accrued liabilities	(25.2)	(1.6)
Net changes in non-cash working capital	\$ (50.0)	\$ 4.7
Changes relating to operating activities	\$ (41.8)	\$ (0.2)
Changes relating to financing activities	(4.0)	—
Changes relating to investing activities	(9.8)	(7.9)
Reclass of long-term liability to accounts payable	9.5	9.5
Add: Other non-cash changes	(3.9)	3.3
	\$ (50.0)	\$ 4.7

**18. Related Party Transactions**

	Three months ended September 30		Nine months ended September 30		Accounts Payable	
	2019	2018	2019	2018	as at September 30, 2019	as at December 31, 2018
<b>Diluent Expenses</b>						
DBP <sup>(1)</sup>	\$ 0.6	—	\$ 3.1	\$ —	\$ —	0.2
<b>G&amp;A Expenses</b>						
KNOC <sup>(2)</sup>	\$ 0.2	\$ 0.1	\$ 0.4	\$ 0.4	\$ 0.4	0.5
<b>Finance costs</b>						
KNOC <sup>(3)</sup>	\$ —	\$ 3.3	\$ —	\$ 10.0	\$ 2.7	4.7

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

<sup>(2)</sup> Amounts relate to payments to KNOC for secondee salaries.

<sup>(3)</sup> Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2¼%, 2½%, 3% and 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 senior notes, credit facility and term loans. See note 8 – Long Term Debt. Guarantee fees were not charged by KNOC during 2019.

**19. Commitments**

The following is a summary of Harvest's estimated commitments as at September 30, 2019:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Purchase commitments <sup>(1)</sup>	\$ 43.6	\$ 19.0	\$ 9.5	\$ 12.0	\$ 84.1
Operating leases <sup>(2)</sup>	8.3	16.0	14.9	6.9	46.1
Firm processing commitments	10.2	18.7	17.9	4.4	51.2
Firm transportation agreements	14.3	21.7	19.5	19.1	74.6
Employee benefits <sup>(3)</sup>	0.4	0.2	—	—	0.6
Total <sup>(4)</sup>	\$ 76.8	\$ 75.6	\$ 61.8	\$ 42.4	\$ 256.6

<sup>(1)</sup> Relates to BlackGold oil sands project commitment and the DBP top-up obligation (see note 7 - Investment in Joint Ventures).

<sup>(2)</sup> Relates to future cash payments for leases for vehicles and head office

<sup>(3)</sup> Relates to the long-term incentive plan payments.

<sup>(4)</sup> See note 8 - Long Term Debt, note 9 – Shareholder's Capital & Capital Structure and note 18 – Related Party Transactions for Harvest's debt obligations.

**20. Accumulated Other Comprehensive Loss (“AOCL”)**

	Designated Cash Flow Hedges, Net of Tax		Total
As at December 31, 2018	\$	(7.0)	\$ (7.0)
Reclassification to net loss of losses on cash flow hedges		31.9	31.9
Loss on derivatives designated as cash flow hedges, net of tax		(41.5)	(41.5)
<b>As at September 30, 2019</b>	<b>\$</b>	<b>(16.6)</b>	<b>\$ (16.6)</b>

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

	Three months ended September 30				Nine months ended September 30			
	After-tax		Pre-tax		After-tax		Pre-tax	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>(Losses) Gains re-classified from OCL</b>	<b>\$</b>							
Interest Rate Risk	(0.6)	(0.7)	(0.6)	(0.7)	(1.7)	(1.1)	(1.7)	(1.1)
Commodity Price Risk	(8.0)	(3.5)	(8.0)	(3.5)	(30.2)	(7.5)	(30.2)	(7.5)
<b>Losses (Gains) recognized in OCL</b>								
Interest Rate Risk	(0.7)	(2.9)	(0.7)	(2.9)	5.8	2.9	5.8	2.9
Commodity Price Risk	3.3	(3.7)	3.3	(3.7)	35.7	8.9	35.7	8.9
<b>Total</b>	<b>\$ (6.0)</b>	<b>\$ (10.8)</b>	<b>\$ (6.0)</b>	<b>\$ (10.8)</b>	<b>\$ 9.6</b>	<b>\$ 3.2</b>	<b>\$ 9.6</b>	<b>\$ 3.2</b>