



# First Quarter Report 2019

For the three month period  
ended March 31, 2019





## 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 months ended March 31, 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 May 9, 2019.

Effective January 1, 2019, Harvest adopted IFRS 16 "Leases". Prior year comparatives have not been restated. Please refer to "Critical Accounting Estimates" section of this MD&A and in note 3 of the unaudited interim consolidated financial statements for the three months ended March 31, 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 March 31	
	2019	2018
<b>Conventional</b>		
Petroleum and natural gas sales	70.1	85.2
Daily sales volumes (boe/d) <sup>(1)</sup>	24,007	25,394
Deep Basin Partnership		
Daily sales volumes (boe/d)	5,520	3,983
Harvest's share of daily sales volumes (boe/d) <sup>(3)</sup>	4,607	3,301
Average realized price <sup>(2)</sup>		
Oil and NGLs (\$/bbl)	46.78	52.29
Gas (\$/mcf)	2.76	2.27
Operating netback prior to hedging(\$/boe) <sup>(3)</sup>	12.95	14.35
Operating loss <sup>(3)</sup>	(16.8)	(19.7)
Cash contribution from operations <sup>(3)</sup>	23.3	24.1
Capital expenditures	7.8	23.9
Property dispositions, net <sup>(4)</sup>	—	0.1
Net wells drilled	0.6	6.2
<b>Oil Sands</b>		
Blended bitumen sales	27.0	—
Daily sales volumes blended bitumen (boe/d)	7,843	—
Average realized price		—
Blended bitumen (\$/bbl)	46.14	—
Operating netback prior to hedging(\$/boe) <sup>(3)</sup>	11.56	—
Operating loss <sup>(3)</sup>	(4.5)	(1.7)
Cash contribution from operations <sup>(3)</sup>	2.8	(1.6)
Capital expenditures	0.5	22.7
<b>NET LOSS</b>	<b>(19.7)</b>	<b>(88.4)</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 months ended March 31, 2019 decreased by \$15.1 million over the same period in 2018 primarily as a result of reduced oil sales volumes and decreased realized prices for oil, partially offset by an increase in natural gas and natural gas liquids sales volumes and an increase in the natural gas realized price.
- Sales volumes for the three months ended March 31, 2019 decreased by 1,387 boe/d as compared to the same period in 2018. This decrease was primarily due to natural declines and cold weather issues, which were partially offset by production resulting from new wells drilled in the fourth quarter of 2018, and asset optimization and revitalization projects in the fourth quarter of 2018.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three months ended March 31, 2019 increased 1,306 boe/d as compared to the same period in 2018. This increase was primarily due to additional production from new wells brought online during the fourth quarter of 2018.
- Operating loss for the three months ended March 31, 2019 was \$16.8 million (2018 - \$19.7 million). The decrease in the operating loss was primarily due to a decrease in operating expenses, royalties, G&A expense and depreciation, depletion and amortization expense, partially offset by lower revenues.
- Capital expenditures totaled \$7.8 million for the three months ended March 31, 2019, and were mainly related to drilling and completions for wells drilled during the fourth quarter of 2018, and asset optimization and revitalization projects in the Hay area. During the three months ended March 31, 2019, two gross wells (0.6 net) were rig-released.
- Operating netback per boe prior to hedging for the three months ended March 31, 2019 was \$12.95, a decrease of \$1.40 from the same period in 2018, primarily due to a decrease in realized price before hedging, partially offset by a decrease in operating expense and royalties per boe.
- Cash contributions from Harvest's Conventional operations for the three months ended March 31, 2019 was \$23.3 million (2018 - \$24.1 million). The decrease in cash contributions for the three months ended March 31, 2019 was mainly due to a decrease in revenues, partially offset by lower operating expenses.

**Oil Sands**

- Sales volumes of blended bitumen for the three months ended March 31, 2019 were 7,843 boe/d (2018 – nil), with 12 well pairs converted to SAGD operations by March 31, 2019.
- Operating netback per boe prior to hedging for the three months ended March 31, 2019 was \$11.56/boe (2018 – nil).
- Cash contributions from the Oil Sands segment for the three months ended March 31, 2019 was \$2.8 million (2018 - \$1.6 million deficiency). The increase in cash contributions for the three months ended March 31, 2019 was mainly due to bringing the BlackGold operations online during the second quarter of 2018, resulting in the recognition of operating revenue and expenses into the current period.
- Capital expenditures for the three months ended March 31, 2019 were \$0.5 million (2018 - \$22.7 million), mainly related to facility expenditures. The decrease in capital expenditure over the comparative period is the result of completing facility construction and commissioning during the second half of 2018.
- Operating loss for the three months ended March 31, 2019 was \$4.5 million, compared to \$1.7 million in the pre-operating phase during the three months ended March 31, 2018. The operating loss increased as a result of the capitalization period of the Oilsands project coming to an end during the fourth quarter of 2018 as the asset was operating as intended by management.

### Corporate

- The strengthening of the Canadian dollar against the U.S. dollar for the three months ended March 31, 2019 resulted in net unrealized foreign exchange gain of \$31.4 million (2018 - \$49.4 million loss) which is primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars.
- Harvest's net change to the credit facility during the three months ended March 31, 2019 was \$58.9 million net drawings (2018 - \$29.9 million). The net drawings for the three months ended March 31, 2019 were primarily related to financing Harvest's operation and capital additions. At March 31, 2019, Harvest had \$439.9 million drawn under the credit facility (December 31, 2018 - \$386.8 million) excluding letters of credit totaling \$15.0 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 in the first quarter of 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 work plan and budget program, if and as required.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONVENTIONAL

#### Summary of Financial and Operating Results

	Three Months Ended March 31	
	2019	2018
<b>FINANCIAL</b>		
Petroleum and natural gas sales	70.1	85.2
Royalties	(6.2)	(8.6)
<b>Revenues and other income</b>	<b>63.9</b>	76.6
<b>Expenses</b>		
Operating	34.0	39.1
Transportation and marketing	3.3	3.2
Operating netback after hedging <sup>(1)</sup>	26.6	34.3
General and administrative	7.4	9.3
Depreciation, depletion and amortization	35.5	43.6
Loss from joint ventures	0.5	3.1
Unrealized derivative contract losses <sup>(2)</sup>	1.6	0.8
Gains on disposition of assets	(1.6)	(2.8)
Operating loss <sup>(1)</sup>	(16.8)	(19.7)
Capital asset expenditures	7.8	23.9
Property dispositions, net <sup>(4)</sup>	—	0.1
<b>OPERATING</b>		
Light to medium oil (bbl/d)	3,434	4,397
Heavy oil (bbl/d)	5,355	6,881
Natural gas liquids (bbl/d)	3,542	3,088
Natural gas (mcf/d)	70,058	66,164
Total (boe/d) <sup>(3)</sup>	24,007	25,394

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

**Commodity Price Environment**

	Three Months Ended March 31		
	2019	2018	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	<b>54.90</b>	62.87	(13%)
West Texas Intermediate crude oil (\$/bbl)	<b>73.01</b>	79.48	(8%)
Edmonton Light Sweet crude oil (\$/bbl)	<b>66.53</b>	72.00	(8%)
Western Canadian Select ("WCS") crude oil (\$/bbl)	<b>56.65</b>	48.78	16%
AECO natural gas daily (\$/mcf)	<b>2.62</b>	2.08	26%
U.S. / Canadian dollar exchange rate	<b>0.752</b>	0.791	(5%)
<b>Differential Benchmarks</b>			
EDM differential to WTI (\$/bbl)	<b>6.48</b>	7.48	(13%)
EDM differential as a % of WTI	<b>8.9%</b>	9.4%	(5%)
WCS differential to WTI (\$/bbl)	<b>16.36</b>	30.70	(47%)
WCS differential as a % of WTI	<b>22.4%</b>	38.6%	(42%)

For the three months ended March 31, 2019, the average WTI benchmark price decreased 13% as compared to the same period in 2018.

The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three months ended March 31, 2019, decreased 8% as compared to the same period in 2018 due to a decrease in the WTI price, partially offset by the narrowing of the Edmonton Light differential and strengthening of the 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 16% increase in the WCS price for the three months ended March 31, 2019, as compared to the same period in 2018 was primarily due to a narrowing of the WCS differential to WTI and a strengthening of the U.S. dollar against the Canadian dollar, partially offset by a decrease in the WTI price. The narrowing of the WCS differential 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, which increased by 26% for the three months ended March 31, 2019, as compared to the same period in 2018.

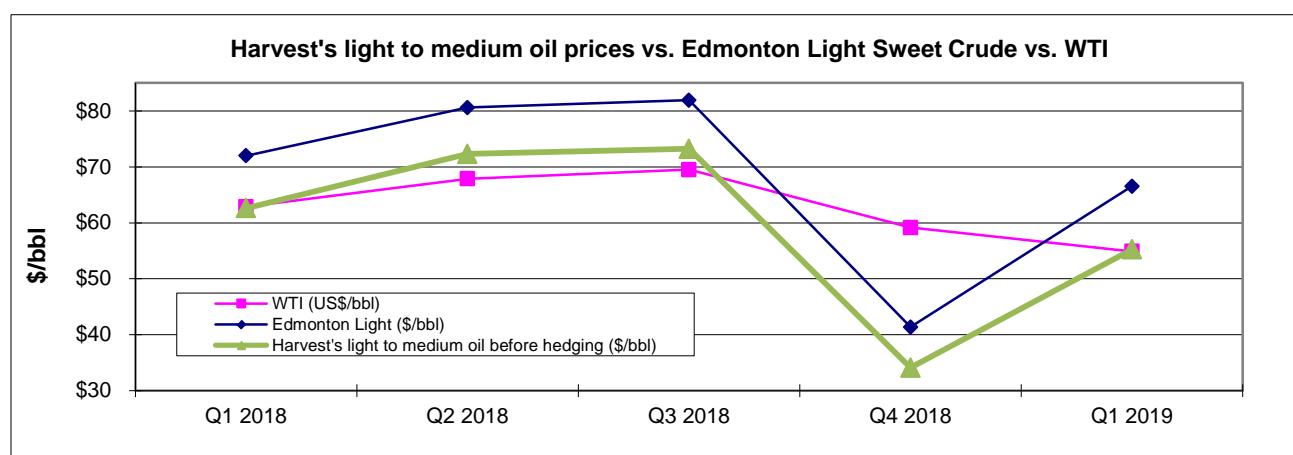
**Realized Commodity Prices**

	Three Months Ended March 31		
	2019	2018	Change
Light to medium oil (\$/bbl)	55.23	62.61	(12%)
Heavy oil prior to hedging(\$/bbl)	48.15	50.27	(4%)
Natural gas liquids (\$/bbl)	36.51	42.09	(13%)
Natural gas (\$/mcf)	2.76	2.27	22%
Average realized price prior to hedging (\$/boe) <sup>(1)</sup>	33.10	36.60	(10%)
Light to medium oil after hedging (\$/bbl) <sup>(2)</sup>	47.20	62.52	(25%)
Heavy oil after hedging (\$/bbl) <sup>(2)</sup>	44.97	50.27	(11%)
Average realized price after hedging (\$/boe) <sup>(1)(2)</sup>	31.25	36.58	(15%)

(1) Inclusive of sulphur revenue.

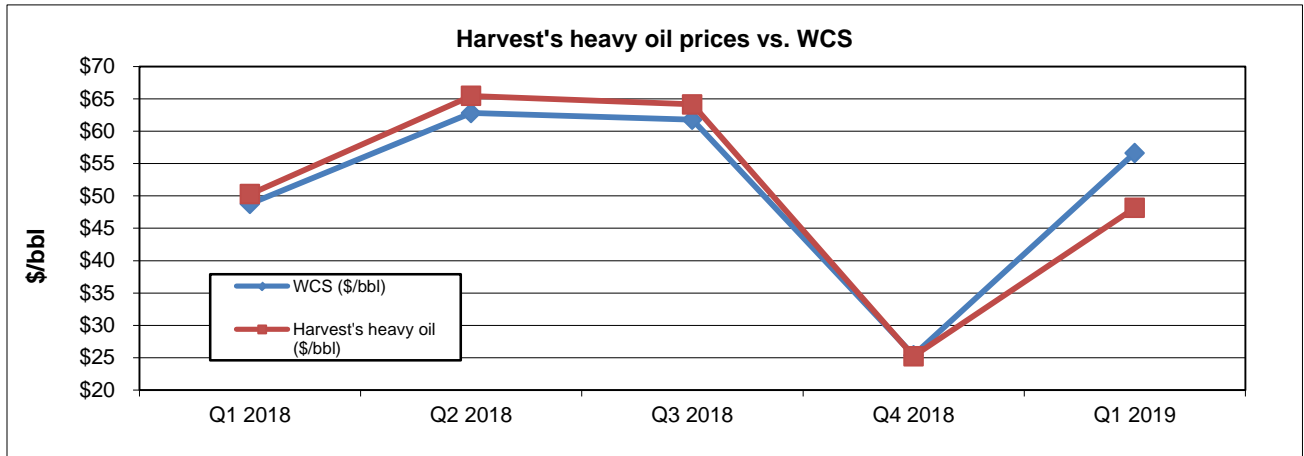
(2) Inclusive of the realized losses from contracts designated as hedges. Foreign exchange swaps are not included in the realized price.

For the three months ended March 31, 2019, Harvest's realized price for light to medium oil trended relatively consistent with the Edmonton Light benchmark price.

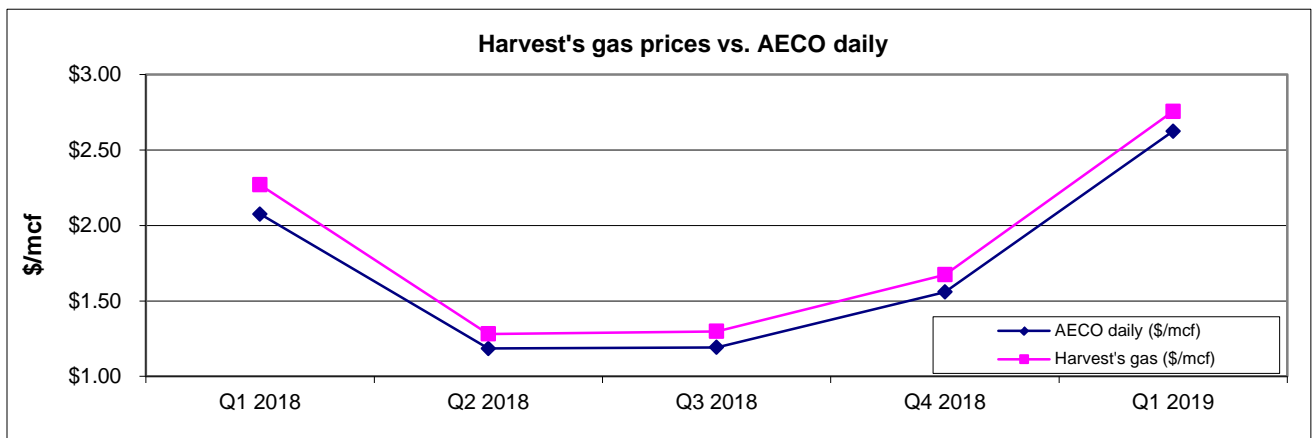




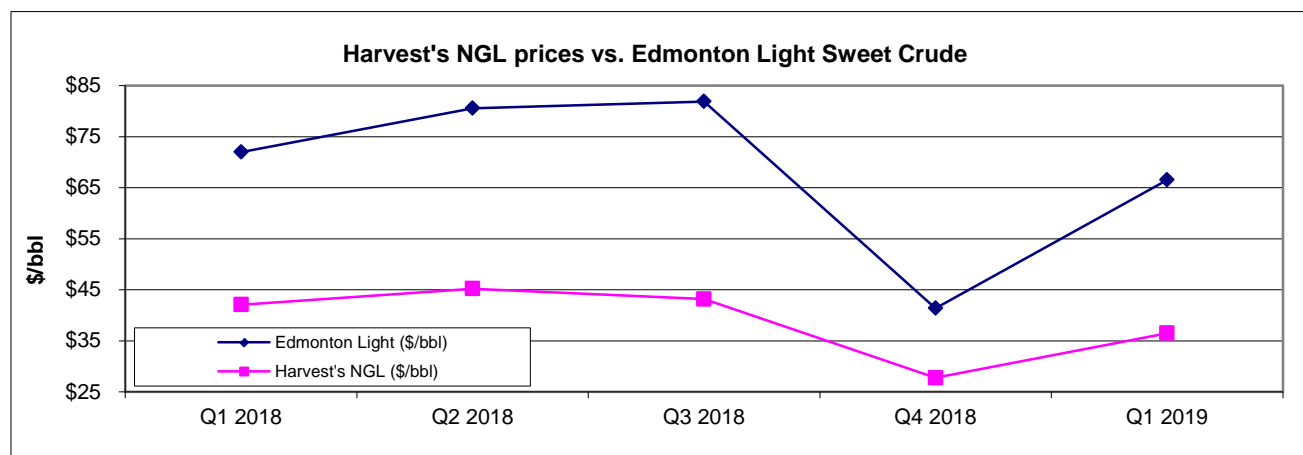
During the three months ended March 31, 2019, Harvest's realized price for heavy oil decreased by 4% in comparison to the WCS benchmark price, which increased by 16%. This is primarily due to the majority of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which did not narrow as substantially as the WCS differential during the three months ended March 31, 2019.



For the three months ended March 31, 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 months ended March 31, 2019 was relatively consistent with its benchmark price, Edmonton Light Sweet Crude.



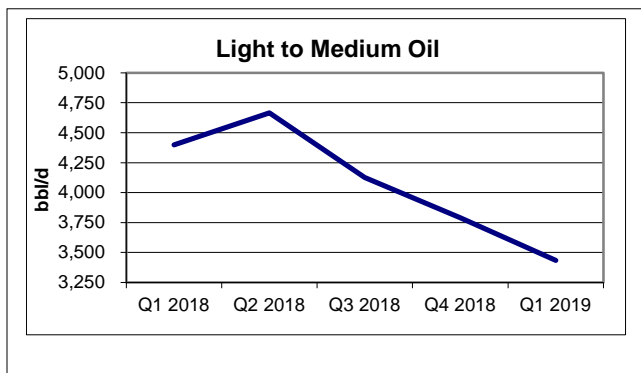
In order to partially mitigate the risk of fluctuating cash flows due to natural gas and oil pricing volatility, Harvest will periodically enter into Mixed Sweet Blend (“MSW”) and WCS and AECO derivative contracts. During the three months ended March 31, 2019, Harvest had MSW derivative contracts in 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 first quarter of 2019 was a hedging loss of \$8.02/boe (2018 - \$0.02/boe). The impact from the WCS hedge on Harvest's realized heavy oil price for the first quarter of 2019 was a hedging loss of \$3.18/boe (2018 - \$nil). Harvest had no natural gas derivative contracts in place during the three months ended March 31, 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.

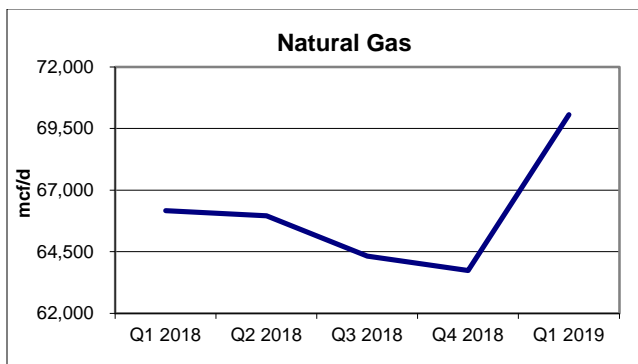
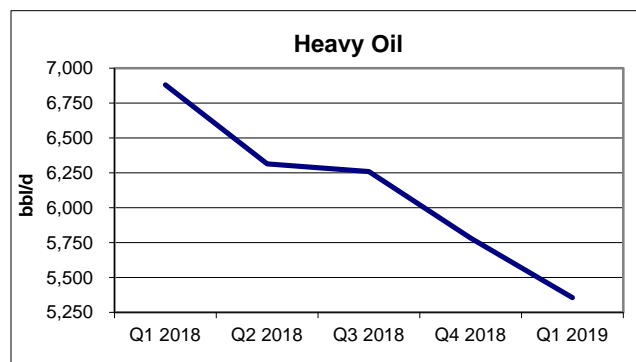
**Sales Volumes**

	Three Months Ended March 31				
	2019		2018		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	3,434	14%	4,397	17%	(22%)
Heavy oil (bbl/d)	5,355	22%	6,881	27%	(22%)
Natural gas liquids (bbl/d)	3,542	15%	3,088	12%	15%
Total liquids (bbl/d)	12,331	51%	14,366	56%	(14%)
Natural gas (mcf/d)	70,058	49%	66,164	44%	6%
Total oil equivalent (boe/d)	24,007	100%	25,394	100%	(5%)

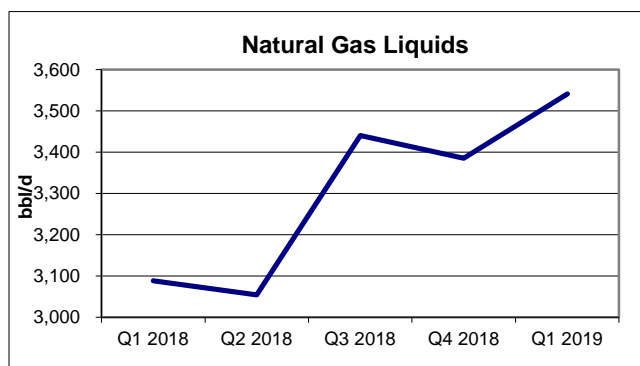


Harvest's average daily sales of light to medium oil decreased 22% in the first quarter of 2019 as compared to the same period in 2018. This decrease was primarily due to natural declines, reflecting a minimal drilling program in 2019 and cold weather issues causing increased downtime, partially offset by new wells brought on stream in the Royce and Loon Lake areas in 2018.

Heavy oil sales for the first quarter of 2019 decreased 22% as compared to the same period in 2018. The decrease was primarily due to natural declines, reflecting a minimal drilling program for 2019 and cold weather issues causing increased downtime, partially offset by asset optimization and revitalization projects



Natural gas sales during the first quarter of 2019 increased 6% as compared to the same period in 2018. This increase was primarily a result of Harvest's participation in new wells in the Rocky Mountain House and Deep Basin areas in 2018, partially offset by natural declines and cold weather issues causing increased downtime.



Natural gas liquids sales for the first quarter of 2019 increased by 15% from the same period in 2018. The increase is primarily due to Harvest's participation in new wells in the Rocky Mountain House area in 2018, partially offset by natural declines and cold weather issues causing increased downtime.

## Revenues

### Sales Revenue by Product

	Three Months Ended March 31		
	2019	2018	Change
Light to medium oil sales after hedging <sup>(1)</sup>	14.6	24.7	(41%)
Heavy oil sales after hedging <sup>(1)</sup>	21.7	31.1	(30%)
Natural gas sales	17.4	13.5	29%
Natural gas liquids sales	11.6	11.7	(1%)
Other <sup>(2)</sup>	4.8	4.2	14%
<b>Petroleum and natural gas sales</b>	<b>70.1</b>	<b>85.2</b>	<b>(18%)</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 decreased for the three months ended March 31, 2019, as compared to 2018. The decrease is primarily due to lower oil sales after hedging compared to 2018, which was caused by a decrease in oil sales volumes and prices, and the impact of hedging losses. This decrease was partially offset by an increase in gas and natural gas liquids sales volumes, and higher natural gas prices.

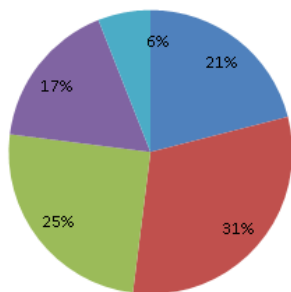
Sulphur revenue represented \$2.2 million of the total in other revenues for the first quarter of 2019 (2018 – \$2.5 million).

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

	Three Months Ended March 31	
	2019	2018
Light to medium oil sales after hedging	21%	29%
Heavy oil sales after hedging	31%	37%
Natural gas sales	25%	16%
Natural gas liquids sales	17%	14%
Other	6%	4%
<b>Total Sales Revenue</b>	<b>100%</b>	<b>100%</b>

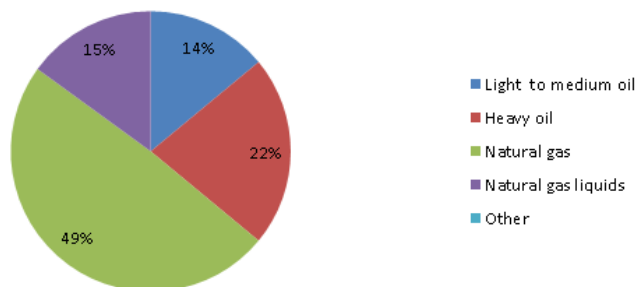
**Sales Revenue by Product**

(Three months ended March 31, 2019)



**Sales Volumes by Product**

(Three months ended March 31, 2019)



Harvest's product mix on a volumetric basis is slightly weighted heavier towards crude oil and natural gas liquids than natural gas. Revenue contribution is more heavily weighted to crude oil and liquids as shown by the charts above. Revenue contributions by product for the three months ended March 31, 2019 has fluctuated in comparison to the same period of 2018, primarily as a result of changes in commodity prices and increases in natural gas and natural gas liquids volumes.

**Royalties**

	Three Months Ended March 31	
	2019	2018
Royalties	6.2	8.6
Royalties as a percentage of revenue	8.8%	10.1%
Royalties (\$/boe)	2.85	3.74

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 months ended March 31, 2019, royalties as a percentage of gross revenue averaged 8.8% (2018 – 10.1%). 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. Royalties on a per barrel basis decreased \$0.89/boe during the three months ended March 31, 2019 as compared to the same period in 2018, primarily due to lower royalty expense, partially offset by the decrease in sales volumes.

**Operating Expenses**

	Three Months Ended March 31	
	2019	2018
Operating expense	34.0	39.1
Operating expense (\$/boe)	15.77	17.09

Operating expenses for the three months ended March 31, 2019 decreased by \$5.1 million as compared to the same period in 2018. This is primarily the result of reduced labor, processing fees, well servicing, and repairs and maintenance costs due to lower activity levels, partially offset by higher power costs. Cold weather during the month of February 2019 resulted in an increase in the average Alberta Pool price for electricity to \$109.36 MWh.

Operating expenses on a per barrel basis decreased by \$1.32 per boe for the three months ended March 31, 2019, when compared to the same period in 2018. This decrease is primarily due to lower operating expense.

### Transportation and Marketing Expense

	Three Months Ended March 31	
	2019	2018
Transportation and marketing expense	3.3	3.2
Transportation and marketing expense (\$/boe)	1.53	1.42

Transportation and marketing expenses relate primarily to the cost of delivery of natural gas and natural gas liquids, as well as trucking crude oil to pipeline or rail receipt points. Transportation and marketing expenses in the three months ended March 31, 2019 was relatively consistent with the same period in 2018.

Transportation and marketing per boe for the three months ended March 31, 2019 increased over its comparative period as a result of lower sales volumes.

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

(\$/boe)	Three Months Ended March 31		
	2019	2018	Change
Petroleum and natural gas sales prior to hedging <sup>(2)</sup>	33.10	36.60	(10%)
Royalties	(2.85)	(3.74)	24%
Operating expenses	(15.77)	(17.09)	8%
Transportation and marketing	(1.53)	(1.42)	(8%)
Operating netback prior to hedging <sup>(1)</sup>	12.95	14.35	(10%)
Hedging loss <sup>(3)</sup>	(1.86)	(0.02)	9,200%
Operating netback after hedging <sup>(1)</sup>	11.09	14.33	(23%)

(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 months ended March 31, 2019 operating netback after hedging was \$11.09 per boe, representing a 23% decrease compared to the same period in 2018. The decrease was primarily due to lower petroleum and natural gas sales and a larger loss from hedging, partially offset by lower operating expenses.

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

	Three Months Ended March 31		
	2019	2018	Change
Gross G&A expenses	8.1	10.3	(21%)
Capitalized G&A and recoveries	(0.7)	(1.0)	(28%)
Net G&A expenses	7.4	9.3	(20%)
Net G&A expenses (\$/boe)	3.38	4.05	(17%)

For the three months ended March 31, 2019, G&A expense net of capitalized G&A decreased 20% compared to the same period in 2018, primarily due to lower salary expense and the re-classification of rent payments into depletion, depreciation and amortization expense and a finance cost as a result of IFRS 16. IFRS 16 resulted in Harvest's head office lease to be put onto the balance sheet as a lease liability (\$12.0 million at March 31, 2019), with a corresponding right of use asset in the same amount. Therefore rent payments (\$0.9 million during the three months ended March 31, 2019), are applied against the lease liability and amortization expense (\$0.5 million for the three months ended March 31, 2019) is recorded on the right of use asset effective January 1, 2019. In addition to this, accretion (\$0.6 million for the three months ended March 31, 2019) is recorded on the lease liability and is included in finance costs. Also see "Critical Accounting Estimates" in this MD&A for the implications of the adoption of IFRS 16.

G&A expenses on a per boe basis decreased over the comparative period as a result of lower net G&A expense.

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 March 31	
	2019	2018
DD&A expense	36.0	43.6
DD&A expense (\$/boe)	16.67	19.12

DD&A expense for the three months ended March 31, 2019 decreased by \$7.6 million as compared to the same period 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 in the first quarter of 2019. This decrease was partially offset by the amortization of the right of use asset for the head office lease as a result of IFRS 16, discussed previously.

For the three months ended March 31, 2019, DD&A per boe decreased as compared to the same period in the prior year primarily as a result of lower DD&A expense.

**Capital Expenditures**

	Three Months Ended March 31	
	2019	2018
Drilling and completion	4.8	18.0
Well equipment, pipelines and facilities	1.8	5.6
Land and seismic	—	0.1
Geological and geophysical	0.1	—
Corporate	0.1	—
Other	1.0	0.2
Total additions excluding acquisitions	7.8	23.9

Total capital expenditures were lower for the three months ended March 31, 2019 compared to 2018 mainly due to decreased capital activity, reflecting a minimal drilling program for 2019.

During the three months ended March 31, 2019, Harvest rig released two gross wells (0.6 net). The wells drilled are partner operated wells in the Rocky Mountain House area. The capital spent during the three months ended March 31, 2019 primarily related to drilling costs related to these wells and the completion of wells drilled during the fourth quarter of 2018.

During the three months ended March 31, 2019, Harvest's net undeveloped land additions were nil (2018 – 2,719 acres), and there were 2,100 acres of net undeveloped land dispositions (2018 – 247 acres).

**Decommissioning Liabilities**

Harvest's Conventional decommissioning liabilities at March 31, 2019 were \$642.7 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 as at March 31, 2019 is mainly due to the change in estimate resulting from the decrease in the discount rate. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

**Investments in Joint Ventures**

Harvest has investments in Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") joint ventures with KERR Canada Co. Ltd. ("KERR") which are accounted for as equity investments. Harvest derives its income or loss from these investments based upon Harvest's share in the change of the net assets of the joint ventures. Harvest's share of the change in the net assets does not directly correspond to its ownership interest because of contractual preference rights to KERR and changes based on contributions made by either party during the year. For the three months ended March 31, 2019, Harvest recognized a loss of \$0.5 million (2018 - \$3.1 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 months ended March 31, 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.

	March 31 2019	December 31 2018	September 30, 2018	June 30, 2018	March 31, 2018
Harvest's ownership interest	83.45%	83.45%	83.40%	82.98%	82.88%
KERR's ownership interest	16.55%	16.55%	16.60%	17.02%	17.12%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

As at March 31, 2019, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$3.8 million (December 31, 2018 - \$2.2 million).

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

	Three Months Ended March 31		
	2019	2018	Change
Natural gas liquids (\$/bbl)	<b>60.81</b>	60.79	0%
Natural gas (\$/mcf)	<b>2.83</b>	2.35	20%

For the three months ended March 31, 2019, average realized prices for natural gas liquids remained consistent with the same period in the prior year, while the Edmonton Light benchmark price decreased by 8% from the same period in 2018. This is primarily due to the increase in condensate production in the three months ended March 31, 2019 compared to the same period in 2018, which yields a higher price than other natural gas liquids produced by the DBP. DBP's condensate sales increased from 619 boe/d in the first quarter of 2018 to 1,244 boe/d in the first quarter of 2019, as a result of wells drilled during 2018. The increase in condensate sales, partially offset by the widening of the condensate differential resulted in a 0% change in the realized price of NGL during the three months ended March 31, 2019.

For the three months ended March 31, 2019, average realized prices for natural gas increased 20% over the same period which was relatively consistent with the 26% increase in the AECO benchmark price.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended March 31		
	2019	2018	Change
Natural gas (mcf/d)	23,341	17,655	32%
Natural gas liquids (bbl/d)	1,628	1,038	57%
Light to medium oil (bbl/d)	2	2	0%
Total (boe/d)	5,520	3,983	39%
Harvest's share (boe/d) <sup>(1)</sup>	4,607	3,301	40%

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

Total sales volumes for the three months ended March 31, 2019 increased by 1,537 boe/d, as compared to the same period in 2018. This increase was primarily due to additional volumes from new wells drilled in 2018.

	Three Months Ended March 31		
	2019	2018	Change
Revenues <sup>(1)</sup>	15.8	9.0	76%
Depletion, depreciation and amortization	(10.7)	(4.0)	168%
Operating and transportation expenses	(6.8)	(9.8)	(31%)
Finance costs	(1.3)	(0.7)	86%
Net loss <sup>(2)</sup>	(3.0)	(5.5)	(45%)

(1) Revenue is presented net of royalties.

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

The higher sales revenues for the three months ended March 31, 2019 primarily reflects increased sales volumes and natural gas 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 the balance sheet, using the modified retrospective approach on January 1, 2019. DBP's capital fee payments to HKMS (\$6.0 million for the three months ended March 31, 2019), 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 months ended March 31, 2019. As a result of this IFRS 16 adjustment and increased sales volumes, operating and transportation expenses decreased from \$27.75 per boe in 2018 to \$13.47 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 months ended March 31, 2019 was \$21.51 per boe (2018 - \$11.16 per boe). The increase in depletion per boe was mainly the result of the re-classification of the capital fee payments to HKMS from operating expense to amortization expense for IFRS 16, as discussed above, during the three months ended March 31, 2019. This increase was partially offset by impairments recorded in 2018 and reserve additions from new wells in 2018.

Finance costs have also increased 86% during the three months ended March 31, 2019 as compared to the same period in 2018 due to the inclusion of accretion on the lease liability for the capital fee payments to HKMS in finance costs, as a result of IFRS 16 effective January 1, 2019.

	Three Months Ended March 31	
	2019	2018
Drilling and completion	(0.6)	11.8
Well equipment, pipelines and facilities	0.3	1.3
<b>Total <sup>(1)</sup></b>	<b>(0.3)</b>	<b>13.1</b>

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

### *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.

	March 31 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Harvest's ownership interest	68.15%	68.15%	68.15%	68.14%	68.09%
KERR's ownership interest	31.85%	31.85%	31.85%	31.86%	31.92%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

At March 31, 2019, Harvest has received a total of \$60.1 million (December 31, 2018 - \$56.1 million) in distributions from the HKMS from inception of the joint venture.

	Three Months Ended March 31		
	2019	2018	Change
Revenues	6.7	6.7	0%
Operating expenses and other	(0.7)	(0.7)	0%
Depreciation and amortization	(0.9)	(0.9)	0%
Finance costs	(4.1)	(4.3)	(5%)
<b>Net income <sup>(1)</sup></b>	<b>1.0</b>	<b>0.8</b>	<b>25%</b>

(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 and previously, in 2018 as an operating expense for the DBP. Due to the implementation of the modified retrospective approach for IFRS 16, effective January 1, 2019, this payment has been bifurcated between depreciation expense and finance costs in DBP, as previously discussed. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three months ended March 31, 2019, the partnership generated revenues of \$6.7 million (2018 - \$6.7 million).

Operating expenses of the facility are recovered through charging an operating fee to users of the facility. For the three months ended March 31, 2019 the partnership operating expenses were \$0.7 million (2018 - \$0.7 million).

Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three months ended March 31, 2019, the partnership depreciation expense was \$0.9 million (2018 - \$0.9 million).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 months ended March 31, 2019 the partnership finance costs were \$4.1 million (2018 - \$4.3 million).

See note 6 of the March 31, 2019 unaudited condensed interim consolidated financial statements for discussion of the accounting implications of these joint ventures.

### OIL SANDS

#### Operating Results

	Three Months Ended March 31	
	2019	2018
Blended bitumen sales <sup>(2)</sup>	27.0	—
Cost of diluent	(3.1)	—
<b>Bitumen sales<sup>(1)</sup></b>	<b>23.9</b>	<b>—</b>
<b>Expenses</b>		
Royalties	0.6	—
Operating	13.5	1.6
Transportation and marketing	5.4	—
General and administrative	1.6	—
Depreciation and amortization	7.3	0.1
<b>Operating loss<sup>(1)</sup></b>	<b>(4.5)</b>	<b>(1.7)</b>

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

(2) Inclusive of realized losses from contract designated as hedges.

The capitalization period of the Oilsands project came to an end during the fourth quarter of 2018 as 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 months ended March 31, 2018.

#### Commodity Prices

	Three Months Ended March 31		
	2019	2018	Change
Western Canadian Select ("WCS") crude oil (\$/bbl)	56.65	48.78	16%

#### Realized Commodity Prices

	Three Months Ended March 31		
	2019	2018	Change
Blended bitumen prior to hedging (\$/bbl)	46.14	-	(100%)
Blended bitumen after hedging (\$/bbl) <sup>(1)</sup>	41.46	-	(100%)
Bitumen prior to hedging (\$/bbl) <sup>(2)</sup>	41.46	-	(100%)

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

(2) Bitumen prior to hedging is the blended bitumen price prior to hedging less the cost of diluent.

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 March 31		
	2019	2018	Change
Blended bitumen sales (bbl/d)	7,843	-	100%
Bitumen sales (bbl/d)	7,263	-	100%
Bitumen production (bbl/d)	6,515	-	100%

As at March 31, 2019, 18,832 barrels of blended bitumen was in inventory at a value of \$0.7 million (December 31, 2018 – 53,534 barrels at a value of \$nil).

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

(\$/boe)	Three Months Ended March 31		
	2019	2018	Change
Bitumen prior to hedging	41.46	—	100%
Royalties	(1.02)	—	100%
Operating expense	(20.59)	—	100%
Transportation and marketing	(8.29)	—	100%
Operating netback prior to hedging <sup>(1)</sup>	11.56	—	100%
Hedging loss <sup>(2)</sup>	(4.69)	—	100%
Operating netback after hedging <sup>(1)</sup>	6.87	—	100%

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

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

### Capital Expenditures

	Three Months Ended March 31	
	2019	2018
Well equipment, pipelines and facilities	0.1	19.2
Drilling and completion	0.2	—
Other <sup>(1)</sup>	0.2	3.5
Total Oil Sands capital expenditures	0.5	22.7

(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 months ended March 31, 2018, mainly related to construction activities to complete the CPF. During the three months ended March 31, 2019, limited capital was spent as the CPF was operating as intended by management in the fourth quarter of 2018.

### **Decommissioning Liabilities**

Harvest's Oil Sands decommissioning liabilities at March 31, 2019 was \$59.6 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 March 31, 2019 is mainly due to a change in estimate resulting from a decrease in discount rate. 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 March 31, 2019, 12 well pairs had been converted to full SAGD operation.

Since inception, Harvest has incurred over \$1 billion of costs on this project which was originally acquired in 2010. This amount includes certain Phase 2 pre-investment costs which are expected to improve the capital efficiency over the project lifecycle. Under the EPC contract, \$94.9 million of the EPC costs will be paid in equal installments, without interest, over 10 years. Payments commenced during the second quarter of 2015 with two payments made on April 30, 2015. Harvest withheld the third, fourth, and fifth deferred payments due April 30, 2016, April 30, 2017, and April 20, 2018 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at March 31 2019, Harvest recognized a liability of \$71.8 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 March 31, 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 March 31, 2019</b>
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	\$ (11.2)
US\$315 Million	FX Swap	April 2019	CDN/US \$1.33	Fair Value	1.0
2,800 bbl/d	MSW price swap	April - Dec 2019	CDN \$57.50/bbl	Cash Flow	(9.9)
1,000 bbl/d	MSW price swap	April - June 2019	CDN \$64.25/bbl	Cash Flow	(1.1)
4,100 bbl/d	WCS price swap	April - Dec 2019	CDN \$45.00/bbl	Cash Flow	(19.5)
1,300 bbl/d	WCS price swap	April - June 2019	CDN \$54.10/bbl	Cash Flow	(1.9)
1,000 bbl/d	WCS price swap	April - Dec 2019	CDN \$55.10/bbl	Cash Flow	(1.2)
1,000 bbl/d	WCS price swap	April - Aug 2019	CDN \$63.75/bbl	Cash Flow	—
					<b>\$ (43.8)</b>

**Contracts Designated as Hedges Subsequent to March 31, 2019**

<b>Contract Quantity</b>	<b>Type of Contract</b>	<b>Term</b>	<b>Contract Price</b>
800 bbl/d	MSW price swap	May - August 2019	CDN \$72.00/bbl
US\$315 Million	FX Swap	May 2019	CDN/US \$1.332

Harvest has entered into U.S. dollar currency swap transactions related to a LIBOR borrowing, which results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three months ended March 31, 2019 was 2.5% (2018 – 2.2%). These effective interest rates include 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Realized (gains) losses recognized in:	2019				2018			
	Crude		Top-Up		Crude		Top-Up	
	Oil	Interest	Obligation	Total	Oil	Currency	Obligation	Total
Revenues	7.1	—	—	7.1	—	—	—	—
Finance costs	—	0.5	—	0.5	—	—	—	—
Derivative contract (gains) losses <sup>(1)</sup>	—	—	—	—	—	3.3	—	3.3
<b>Unrealized (gains) losses recognized in:</b>								
OCI, before tax	29.1	3.9	—	33.0	3.2	—	—	3.2
Derivative contract (gains) losses <sup>(1)</sup>	—	—	1.6	1.6	—	(5.1)	0.8	(4.3)

(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 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 March 31	
	2019	2018
Credit facility <sup>(1)</sup>	3.3	1.4
Term loan facility - due 2020 <sup>(1)</sup>	3.3	3.1
Term loan facility - due 2023 <sup>(1)</sup>	2.8	—
2½% senior notes <sup>(1)</sup>	—	5.6
2⅓% senior notes <sup>(1)</sup>	1.8	1.7
3% senior notes <sup>(1)</sup>	5.7	5.4
4.2% senior notes <sup>(1)</sup>	6.2	—
Amortization of deferred finance charges and other	0.8	0.6
Interest and other financing charges	23.9	17.8
Accretion of decommission and environmental remediation liabilities	3.6	3.9
Accretion of long-term liability	0.5	0.6
Accretion on onerous contract	0.3	—
Accretion of lease liability	0.6	—
<b>Total finance costs</b>	<b>28.9</b>	<b>22.3</b>

(1) Includes guarantee fee to KNOC.

### Currency Exchange

	Three Months Ended March 31	
	2019	2018
Realized (gains) losses on foreign exchange	0.4	(2.9)
Unrealized (gains) losses on foreign exchange	(31.4)	49.4
<b>Total (gains) losses on foreign exchange</b>	<b>(31.0)</b>	<b>46.5</b>

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. For the three months ended March 31, 2019, the Canadian dollar had strengthened compared to the US dollar resulting in an unrealized





## MANAGEMENT'S DISCUSSION AND ANALYSIS

foreign exchange gain of \$31.4 million (2018 - \$49.4 million loss). Harvest recognized realized foreign exchange losses of \$0.4 million for the three months ended March 31, 2019 (2018 - \$2.9 million gain) on settlement of U.S. dollar denominated transactions.

### Income Taxes

For the three months ended March 31, 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.

### Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the quarter ended March 31, 2019:

	Transactions		Balance Outstanding	
	Three Months Ended		Accounts Payable as at	
	March 31		March 31	December 31
	2019	2018	2019	2018
<b>Diluent Expenses</b>				
DBP <sup>(1)</sup>	0.6	-	0.3	0.2
<b>G&amp;A Expenses</b>				
KNOC <sup>(2)</sup>	0.1	0.1	0.1	0.5
<b>Finance costs</b>				
KNOC <sup>(3)</sup>	2.8	3.7	5.6	4.7

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

<sup>(2)</sup> Amounts relate to the payments to (reimbursement from) KNOC for secondees salaries.

<sup>(3)</sup> Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 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.

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 6, "Investment in Joint Ventures" in the March 31, 2019 unaudited condensed interim consolidated financial statements for details of related party transactions with DBP and HKMS.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CAPITAL RESOURCES

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

	March 31, 2019	December 31, 2018
Credit facility <sup>(1)(3)</sup>	439.9	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>	261.3	267.0
3% senior notes (US\$485.0 million) <sup>(1)(2)</sup>	647.4	661.4
4.2% senior notes (US\$397.5 million) <sup>(1)(2)</sup>	530.6	542.1
	<b>2,679.2</b>	2,657.3
<b>Shareholder's deficit</b>		
458,766,467 common shares issued	<b>(612.3)</b>	(559.6)
	<b>2,066.9</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 \$15.0 million at March 31, 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.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly and indirectly invested and provided financial support to Harvest since 2009 and as at the date of preparation of this management discussion and analysis, it is the Company's expectation that such support will continue. KNOC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company's Credit Facility, Term Loans and Senior Notes. The Company's capital structure and liquidity needs are met through cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility, long-term debt issuances and capital injections by KNOC.

### LIQUIDITY

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Cash flows used in operating activities for the three months ended March 31, 2019 were \$39.2 million (2018 - \$1.8 million). The increase in the cash flows used in operating activities is primarily due to increased working capital requirements.

Cash contributions from Harvest's Conventional operations for the three months ended March 31, 2019 was \$23.3 million (2018 - \$24.1 million). The decrease in cash contributions for the three months ended March 31, 2019 was mainly due to a decrease revenues, partially offset by lower operating expenses.

Harvest funded capital expenditures for the three months ended March 31, 2019 of \$8.3 million (2018 - \$46.6 million) with the borrowings under the credit facility.

Harvest's net change to the credit facility was \$58.9 million net drawings during the three months ended March 31, 2019 (2018 - \$29.9 million).

Harvest had a working capital deficiency of \$1,088.5 million as at March 31, 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 credit facility and term loan facility due 2020 to current liabilities on the balance sheet. 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 March 31, 2019, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments <sup>(1)</sup>	939.9	261.3	1,573.5	—	2,774.7
Debt interest payments <sup>(1) (2)</sup>	91.4	126.3	72.5	—	290.2
Purchase commitments <sup>(3)</sup>	38.2	19.1	19.0	10.5	86.8
Operating leases	8.1	16.2	14.9	10.6	49.8
Firm processing commitments	11.1	19.0	18.0	8.9	57.0
Firm transportation agreements	19.6	29.5	22.6	24.8	96.5
Employee benefits <sup>(4)</sup>	0.7	0.2	—	—	0.9
Decommissioning and environmental liabilities <sup>(5)</sup>	9.9	101.2	36.0	1,017.1	1,164.2
<b>Total</b>	<b>1,118.9</b>	<b>572.8</b>	<b>1,756.5</b>	<b>1,071.9</b>	<b>4,520.1</b>

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at March 31, 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 6, "Investment in Joint Ventures" in the March 31, 2019 unaudited condensed interim consolidated financial statements.

**SUMMARY OF QUARTERLY RESULTS**

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

	2019	2018			2017			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>FINANCIAL</b>								
Revenue and other income, Conventional	63.9	53.5	75.7	80.0	76.7	75.3	63.4	69.3
Bitumen sales	23.9	—	—	—	—	—	—	—
Total Revenues and other income <sup>(2)</sup>	87.8	53.5	75.7	80.0	76.7	75.3	63.4	69.3
Net loss from operations <sup>(1)</sup>	(19.7)	(114.2)	(102.8)	(75.0)	(88.4)	(207.3)	(17.6)	(26.5)
Operating netback prior to hedging, Conventional (\$/boe) <sup>(2)</sup>	12.95	12.60	17.82	15.87	14.35	15.04	10.84	13.04
Operating netback prior to hedging, Oil Sands (\$/boe) <sup>(2)</sup>	11.56	—	—	—	—	—	—	—
<b>OPERATIONS</b>								
Daily sales volumes (boe/d), Conventional	24,007	23,580	24,549	25,027	25,394	25,902	26,912	26,324
Realized price prior to hedging (\$/boe), Conventional	33.10	22.10	39.08	39.82	36.60	35.15	27.80	33.59
Daily sales volumes blended bitumen (boe/d), Oil Sands	7,843	3,120	—	—	—	—	—	—
Realized price prior to hedging (\$/boe), Oil Sands	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 fourth quarter of 2018 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 onerous contracts, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized

gains and losses on derivative contracts impact net loss from period to period. For these reasons, the net loss may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to. Significant items that impacted net loss include:

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

### **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 \$13.4 million increase to right-of-use assets (included in PP&E) with a corresponding increase to lease obligations (non-current portion of \$9.9 million recorded in "Long term Liability" and the current portion of \$3.5 million recorded in "Accounts Payable and Accrued Liabilities"). The average incremental borrowing rate used to determine the lease obligation at adoption was 20% for head office and 4.6% for 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 \$13.4 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 first quarter of 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 income (loss)" and "pre-operating loss"** is a non-GAAP measure which Harvest uses as a performance measure to provide comparability of financial performance between periods excluding non-operating items. Harvest also uses this measure to assess and compare the performance of its operating segments. The amounts disclosed in the MD&A reconcile to segmented information in the financial statements.

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

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

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

**"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.

**"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





## MANAGEMENT'S DISCUSSION AND ANALYSIS

gains or losses, impairment and other charges, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included in operating income (loss). The measure demonstrates the ability of Harvest's Conventional segment to generate cash from operations and is calculated before changes in non-cash working capital. The most directly comparable additional GAAP measure is operating income (loss). Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below.

	Three Months Ended March 31					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating loss	<b>(16.8)</b>	(19.7)	<b>(4.5)</b>	(1.7)	<b>(21.3)</b>	(21.4)
Adjustments:						
Loss from joint ventures	<b>0.5</b>	3.1	—	—	<b>0.5</b>	3.1
Operating, non-cash	<b>0.2</b>	—	—	—	<b>0.2</b>	—
General and administrative, non-cash	<b>3.9</b>	(0.9)	—	—	<b>3.9</b>	(0.9)
Exploration and evaluation, non-cash	—	—	—	—	—	—
Depletion, depreciation and amortization	<b>35.5</b>	43.6	<b>7.3</b>	0.1	<b>42.8</b>	43.7
Gains on disposition of assets	<b>(1.6)</b>	(2.8)	—	—	<b>(1.6)</b>	(2.8)
Unrealized derivative contract losses	<b>1.6</b>	0.8	—	—	<b>1.6</b>	0.8
<b>Cash contribution (deficiency) from operations</b>	<b>23.3</b>	24.1	<b>2.8</b>	(1.6)	<b>26.1</b>	22.5
Inclusion of items not attributable to segments:						
Net cash interest expense					<b>(23.2)</b>	(16.7)
Realized derivative contract gains					—	(3.3)
Realized foreign exchange gains (losses) from operations					<b>(0.4)</b>	2.9
Consolidated cash contribution from (used in) operations					<b>2.5</b>	5.4
Other non-cash items					<b>(2.8)</b>	(2.9)
Change in non-cash working capital					<b>(38.9)</b>	(4.3)
Cash used in operating activities					<b>(39.2)</b>	(1.8)

### FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three months ended March 31, 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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at (millions of Canadian dollars)	Notes	March 31, 2019	December 31, 2018
<b>Assets</b>			
Current assets			
Accounts receivable		\$ 50.7	\$ 19.2
Prepaid expenses and other		8.6	6.6
Derivative contracts	9	—	4.4
		59.3	30.2
Non-current assets			
Deferred income tax asset		711.5	711.5
Exploration and evaluation assets		11.2	11.2
Property, plant and equipment	5	2,233.9	2,216.5
Investments in joint ventures	6	4.0	—
		2,960.6	2,939.2
<b>Total assets</b>		<b>\$ 3,019.9</b>	<b>\$ 2,969.4</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 152.0	\$ 166.3
Taxes payable		0.9	0.9
Derivative contracts	9	43.8	—
Current portion of provisions	10	11.7	11.7
Current portion of long-term debt	7	939.4	—
		1,147.8	178.9
Non-current liabilities			
Long-term debt	7,8	1,730.1	2,646.5
Long-term liability	11	47.4	46.1
Investments in joint ventures	6	—	0.1
Lease obligations	12	9.7	—
Non-current provisions	10	697.2	657.4
		2,484.4	3,350.1
<b>Total liabilities</b>		<b>\$ 3,632.2</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		(5,176.9)	(5,157.2)
Accumulated other comprehensive loss	19	(40.0)	(7.0)
<b>Total shareholder's deficit</b>		<b>(612.3)</b>	<b>(559.6)</b>
<b>Total liabilities and shareholder's deficit</b>		<b>\$ 3,019.9</b>	<b>\$ 2,969.4</b>

Commitments [Note 18]

Subsequent Event [Note 9]

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 March 31	
		2019	2018
Petroleum and natural gas sales	13	\$ 97.1	\$ 85.2
Royalties		(6.8)	(8.6)
<b>Revenues</b>		<b>90.3</b>	<b>76.6</b>
<b>Expenses</b>			
Operating		47.5	40.7
Cost of diluent		3.1	—
Transportation and marketing		8.7	3.2
General and administrative		9.0	9.3
Depletion, depreciation and amortization	5	43.3	43.7
Loss from joint ventures	6	0.5	3.1
Gain on disposition of assets	5	(1.6)	(2.8)
Finance costs	14	28.9	22.3
Derivative contract (gain) loss	9	1.6	(1.0)
Foreign exchange loss (gain)	15	(31.0)	46.5
<b>Net loss from operations</b>		<b>(19.7)</b>	<b>(88.4)</b>
<b>Other comprehensive loss ("OCL")</b>			
<i>Items that may be reclassified to net income</i>			
Loss on designated cash flow hedges, net of tax	19	(33.0)	(3.2)
<b>Comprehensive loss</b>		<b>\$ (52.7)</b>	<b>\$ (91.6)</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 ("AOCI")	Total Shareholder's Deficit
Balance at December 31, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ —	\$ (172.4)
Net loss		—	—	(88.4)	—	(88.4)
Loss on designated hedges	19	—	—	—	(3.2)	(3.2)
<b>As at March 31, 2018</b>		<b>\$ 4,593.3</b>	<b>\$ 11.3</b>	<b>\$ (4,865.4)</b>	<b>\$ (3.2)</b>	<b>\$ (264.0)</b>
Balance at December 31, 2018		\$ 4,593.3	\$ 11.3	\$ (5,157.2)	\$ (7.0)	\$ (559.6)
Net loss		—	—	(19.7)	—	(19.7)
Loss on designated hedges	19	—	—	—	(33.0)	(33.0)
<b>As at March 31, 2019</b>		<b>\$ 4,593.3</b>	<b>\$ 11.3</b>	<b>\$ (5,176.9)</b>	<b>\$ (40.0)</b>	<b>\$ (612.3)</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	Three months ended March 31	
		<b>2019</b>	2018
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net loss		\$ (19.7)	\$ (88.4)
Items not requiring cash			
Loss from joint ventures	6	0.5	3.1
Depletion, depreciation and amortization	5	43.3	43.7
Non-cash finance costs	14	5.8	5.6
Unrealized loss (gain) on derivative contracts	9	1.6	(4.3)
Unrealized loss (gain) on foreign exchange	15	(31.4)	49.4
Gain on disposition of assets	5	(1.6)	(2.8)
Other non-cash items		4.0	(0.8)
Settlement of decommissioning and environmental remediation liabilities	10	(2.8)	(3.0)
Change in non-cash working capital	16	(38.9)	(4.3)
Cash used in operating activities		\$ (39.2)	\$ (1.8)
<b>Financing Activities</b>			
Credit facility borrowing, net	7	58.9	29.9
Cash from financing activities		\$ 58.9	\$ 29.9
<b>Investing Activities</b>			
Additions to property, plant and equipment	5	(8.3)	(46.6)
Property dispositions, net	5	2.0	2.1
Payment of lease obligations	12	(1.0)	—
Investment in joint ventures	6	(8.6)	(1.0)
Distributions received from joint ventures	6	4.0	3.9
Change in non-cash working capital	16	(7.8)	13.5
Cash used in investing activities		\$ (19.7)	\$ (28.1)
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 23.7	\$ 18.0

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 months ended March 31, 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 May 9, 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 \$13.4 million increase to right-of-use assets (included in PP&E) with a corresponding increase to lease obligations (non-current portion of \$9.9 million recorded in “Lease Obligations” and the current portion of \$3.5 million recorded in “Accounts Payable and Accrued Liabilities”) at January 1, 2019. The average incremental borrowing rate used to determine the lease obligation at adoption was 20% for head office and 4.6% for 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 \$13.4 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 March 31					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 70.1	\$ 85.2	\$ 27.0	\$ —	\$ 97.1	\$ 85.2
Royalties	(6.2)	(8.6)	(0.6)	—	(6.8)	(8.6)
<b>Revenues</b>	<b>63.9</b>	<b>76.6</b>	<b>26.4</b>	<b>—</b>	<b>90.3</b>	<b>76.6</b>
<b>Expenses</b>						
Operating	34.0	39.1	13.5	1.6	47.5	40.7
Cost of diluent	—	—	3.1	—	3.1	—
Transportation and marketing	3.3	3.2	5.4	—	8.7	3.2
General and administrative	7.4	9.3	1.6	—	9.0	9.3
Depletion, depreciation and amortization	35.5	43.6	7.3	0.1	43.3	43.7
Gains on disposition of assets	(1.6)	(2.8)	—	—	(1.6)	(2.8)
Derivative contracts loss	1.6	0.8	—	—	1.6	0.8
Loss from joint ventures	0.5	3.1	—	—	0.5	3.1
Operating loss	\$ (16.8)	\$ (19.7)	\$ (4.5)	\$ (1.7)	\$ (21.8)	\$ (21.4)
Finance costs					28.9	22.3
Foreign exchange (gain) loss					(31.0)	46.5
Derivative contract losses					—	(1.8)
<b>Net Loss</b>					<b>\$ (19.7)</b>	<b>\$ (88.4)</b>



	Three months ended March 31					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
<b>Capital Additions</b>						
Additions to PP&E	\$ 7.8	\$ 23.9	\$ 0.5	\$ 22.7	\$ 8.3	\$ 46.6
PP&E acquisitions, net of dispositions	—	0.1	—	—	—	0.1
<b>Net capital additions</b>	<b>\$ 7.8</b>	<b>\$ 24.0</b>	<b>\$ 0.5</b>	<b>\$ 22.7</b>	<b>\$ 8.3</b>	<b>\$ 46.7</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>March 31, 2019</b>				
Conventional	\$ 4.0	\$ 1,116.0	\$ 11.2	\$ 1,902.8
Oil Sands	—	1,105.0	—	1,117.1
<b>Total</b>	<b>\$ 4.0</b>	<b>\$ 2,221.0</b>	<b>\$ 11.2</b>	<b>\$ 3,019.9</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	7.8	0.5	8.3
Additions right-of-use assets <sup>(1)</sup>	—	—	13.4
Change in decommissioning liabilities	33.4	5.6	39.0
<b>As at March 31, 2019</b>	<b>\$ 5,036.7</b>	<b>\$ 1,608.5</b>	<b>\$ 6,658.6</b>

**Accumulated depletion, depreciation and amortization:**

As at December 31, 2018	\$ 3,885.2	\$ 496.2	\$ 4,381.4
Depreciation, depletion and amortization <sup>(2)</sup>	35.5	7.3	43.3
<b>As at March 31, 2019</b>	<b>\$ 3,920.7</b>	<b>\$ 503.5</b>	<b>\$ 4,424.7</b>

**Net Book Value:**

As at December 31, 2018	\$ 1,110.3	\$ 1,106.2	\$ 2,216.5
<b>As at March 31, 2019</b>	<b>\$ 1,116.0</b>	<b>\$ 1,105.0</b>	<b>\$ 2,233.9</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.

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 quarter ended March 31, 2019 included in the table above:

	Depreciation	Balance
Office space	\$ 0.4	\$ 11.9
Vehicles and equipment	0.1	1.0
	<b>\$ 0.5</b>	<b>\$ 12.9</b>

General and administrative costs directly attributable to PP&E addition activities of \$0.7 million have been capitalized during the three months ended March 31, 2019 (2018 - \$1.6 million). No borrowing costs relating to the development of Oil Sands assets have been capitalized within PP&E during the three months ended March 31, 2019 and 2018.

During the three months ended March 31, 2019, Harvest recognized gains on disposals of non-core assets of \$1.6 million (March 31, 2018 - \$2.8 million) relating to the de-recognition of decommissioning liabilities.

**6. Investment in Joint Ventures**

	March 31, 2019		Ownership Interest	December 31, 2018		Ownership Interest
Deep Basin Partnership ("DBP")	\$	(37.8)	83.45%	\$	(43.4)	83.45%
HK MS Partnership ("HKMS")		41.8	68.15%		43.3	68.15%
<b>Investments in joint ventures</b>	<b>\$</b>	<b>4.0</b>		<b>\$</b>	<b>(0.1)</b>	

	DBP		HKMS		Total
As at December 31, 2018	\$	(43.4)	\$	43.3	\$ (0.1)
Additional investments		8.6		—	8.6
Share of income (loss)		(3.0)		2.5	(0.5)
Distributions		—		(4.0)	(4.0)
<b>As at March 31, 2019</b>	<b>\$</b>	<b>(37.8)</b>	<b>\$</b>	<b>41.8</b>	<b>\$ 4.0</b>

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

	March 31, 2019				December 31, 2018			
	DBP		HKMS		DBP		HKMS	
Cash and cash equivalents	\$	—	\$	—	\$	—	\$	—
Other current assets		21.4		7.8		18.5		7.8
Total current assets	\$	21.4	\$	7.8	\$	18.5	\$	7.8
Non-current assets		213.1		209.0		102.2		210.4
Total assets <sup>(1)</sup>	\$	234.5	\$	216.8	\$	120.7	\$	218.2
Current liabilities	\$	35.2	\$	1.8	\$	20.7	\$	1.9
Non-current financial liabilities		139.4		204.3		138.7		207.4
Other non-current liabilities		99.8		5.4		6.9		4.7
Total liabilities <sup>(1)</sup>	\$	274.4	\$	211.5	\$	166.3	\$	214.0
Net assets (liabilities) <sup>(1)</sup>	\$	(39.9)	\$	5.3	\$	(45.6)	\$	4.2

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

	Three months ended March 31							
	2019				2018			
	DBP		HKMS		DBP		HKMS	
Revenues	\$	15.8	\$	6.7	\$	9.0	\$	6.7
Depletion, depreciation and amortization		(10.7)		(0.9)		(4.0)		(0.9)
Operating expenses and other		(6.8)		(0.7)		(9.8)		(0.7)
Finance costs		(1.3)		(4.1)		(0.7)		(4.3)
Net income (loss) <sup>(1)</sup>	\$	(3.0)	\$	1.0	\$	(5.5)	\$	0.8

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

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at March 31, 2019:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 156.0	\$ 156.0
Firm processing commitment	18.0	48.0	48.0	8.0	122.0
Decommissioning and environmental liabilities <sup>(1)</sup>	0.1	—	—	17.6	17.7
<b>Total</b>	<b>\$ 18.1</b>	<b>\$ 48.0</b>	<b>\$ 48.0</b>	<b>\$ 181.6</b>	<b>\$ 295.7</b>

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

As at March 31, 2019, Harvest's top-up obligation related to the preferred distribution liability payments was estimated as \$3.8 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 March 31, 2019 (see note 11 – Long-Term Liability). This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP (level 3 fair value inputs). The cash flow forecast is based on management's internal assumptions of the volumes, commodity prices, royalties, operating costs and capital expenditures specific to the DBP. 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 March 31, 2019:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
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 months ended March 31, 2019, Harvest charged DBP a marketing fee of \$0.2 million (2018 - \$0.2 million) and general and administrative expenses of \$0.2 million (2018 - \$0.3 million). As at March 31, 2019, \$15.1 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 for the three months ended March 31, 2019 (2018 - \$0.1 million). As at March 31, 2019, \$1.1 million remains outstanding to Harvest from HKMS (December 31, 2018 - \$0.9 million).

## 7. Long-Term Debt

	March 31, 2019		December 31, 2018	
Credit Facility	\$	439.6	\$	386.4
Term Loan due 2020		499.8		499.7
Term Loan due 2023		299.1		299.0
2½% senior notes due 2021 (US\$195.8 million)		261.2		266.8
3% senior notes due 2022 (US\$485 million)		642.7		656.3
4.2% senior notes due 2023 (US\$397.5 million)		527.1		538.3
<b>Long-term debt outstanding</b>	<b>\$</b>	<b>2,669.5</b>	<b>\$</b>	<b>2,646.5</b>
<b>Less current portion<sup>(1)</sup></b>		<b>(939.4)</b>		<b>-</b>
<b>Non-current long-term debt</b>	<b>\$</b>	<b>1,730.1</b>	<b>\$</b>	<b>2,646.5</b>

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

For the three months ended March 31, 2019, interest charges on the credit facility borrowings aggregated to \$3.8 million (2018 - \$1.3 million), reflecting an effective interest rate of 3.5% (2018 – 2.6%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings, which result in a reduction of interest expense paid on Harvest’s borrowings related to its credit facility. See note 9 – Financial Instruments.

**8. Shareholder’s Capital & Capital Structure**

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

	<b>March 31, 2019</b>		<b>December 31, 2018</b>	
Credit facility <sup>(1)(2)</sup>	\$	<b>439.9</b>	\$	386.8
Term Loan due 2020 <sup>(1)</sup>		<b>500.0</b>		500.0
Term Loan due 2023 <sup>(1)</sup>		<b>300.0</b>		300.0
2½% senior notes (US\$195.8 million) <sup>(1)(3)</sup>		<b>261.3</b>		267.0
3% senior notes (US\$485 million) <sup>(1)(3)</sup>		<b>647.4</b>		661.4
4.2% senior notes (US\$397.5 million) <sup>(1)(3)</sup>		<b>530.6</b>		542.1
	\$	<b>2,679.2</b>	\$	2,657.3
Shareholder's deficit		<b>(612.3)</b>		(559.6)
	\$	<b>2,066.9</b>	\$	2,097.7

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

<sup>(2)</sup> Excludes letters of credit issued in the amount of \$15.0 million at March 31, 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.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly and indirectly invested and provided financial support to Harvest since 2009 and as at the date of preparation of these financial statements, it is the Company’s expectation that such support will continue. KNOC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company’s credit facility, term loans and senior notes. The Company’s capital structure and liquidity needs are met through cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility, long-term debt issuances and capital injections by KNOC. Harvest evaluates its capital structure using the same financial covenants as the ones under the Company’s debt commitments.

**9. Financial Instruments**

**a) Fair Values**

Financial instruments of Harvest consist of accounts receivable, accounts payable and accrued liabilities, prepaid expenses and other, borrowings under the credit facility, derivative contracts, senior notes, term loans and long term liability. Derivative contracts 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 March 31, 2019, all financial instruments are level 2, except for the 2½%, 3% and 4.2% senior notes, which are level 1 and \$3.8 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. As at three months ended March 31, 2018 and 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 6 – Investment in Joint Ventures and note 11 – Long-Term Liability.

	March 31, 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	\$ 43.8	\$ 43.8	\$ —	\$ —
Long-term liability	3.8	3.8	2.2	2.2
<u>Amortised Cost</u>				
Credit Facility	439.6	439.9	386.4	386.8
Term Loan due 2020	499.8	500.0	499.7	500.0
Term Loan due 2023	299.1	300.0	299.0	300.0
2½% senior notes	261.2	257.4	266.8	259.8
3% senior notes	642.7	648.5	656.3	650.2
4.2% senior notes	527.1	554.8	538.3	556.4
Long-term liability	34.1	24.7	33.9	24.9
<b>Total Financial Liabilities</b>	<b>\$ 2,751.2</b>	<b>\$ 2,772.9</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 months ended March 31, 2019 were lowered to 2.5% (2018 – lowered to 2.2%). Also see note 7 – Long-Term Debt for effective interest rates before the effect of these swaps.

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

	Three months ended March 31					
	2019			2018		
	Realized losses	Unrealized gains	Total	Realized losses	Unrealized losses	Total
Derivative contract	—	—	—	3.3	(5.1)	(1.8)
Top-up obligation (note 6)	—	1.6	1.6	—	0.8	0.8
	<b>\$ —</b>	<b>\$ 1.6</b>	<b>\$ 1.6</b>	<b>\$ 3.3</b>	<b>\$ (4.3)</b>	<b>\$ (1.0)</b>

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair value of asset (liability) at March 31, 2019
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	(11.2)
US\$315 Million	FX Swap	April 2019	CDN/US \$1.33	Cash Flow	1.0
2,800 bbl/d	MSW price swap	April - Dec 2019	CDN \$57.50/bbl	Cash Flow	(9.9)
1,000 bbl/d	MSW price swap	April - June 2019	CDN \$64.25/bbl	Cash Flow	(1.1)
4,100 bbl/d	WCS price swap	April - Dec 2019	CDN \$45.00/bbl	Cash Flow	(19.5)
1,300 bbl/d	WCS price swap	April - June 2019	CDN \$54.10/bbl	Cash Flow	(1.9)
1,000 bbl/d	WCS price swap	April - Dec 2019	CDN \$55.10/bbl	Cash Flow	(1.2)
1,000 bbl/d	WCS price swap	April - Aug 2019	CDN \$63.75/bbl	Cash Flow	—
					<b>\$ (43.8)</b>

Contracts Designated as Hedges Subsequent to March 31, 2019

Contract Quantity	Type of Contract	Term	Contract Price
800 bbl/d	MSW price swap	May-Aug 2019	CDN \$72.00/bbl
US\$315 Million	FX Swap	May 2019	CDN/US \$1.332

10. Provisions

	Conventional (1)	Oil Sands (2)	Head Office lease (3)	Total
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1
Liabilities incurred	0.2	—	—	0.2
Settled during the period	(2.8)	—	(0.5)	(3.3)
Revisions (change in estimated costs and discount rate)	33.4	5.6	—	39.0
Accretion	3.3	0.3	0.3	3.9
<b>As at March 31, 2019</b>	<b>\$ 642.7</b>	<b>\$ 59.6</b>	<b>\$ 6.6</b>	<b>\$ 708.9</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 March 31, 2019	\$ 10.0	\$ —	\$ 1.7	\$ 11.7
Non-current provisions as at March 31, 2019	632.7	59.6	4.9	697.2
<b>As at March 31, 2019</b>	<b>\$ 642.7</b>	<b>\$ 59.6</b>	<b>\$ 6.6</b>	<b>\$ 708.9</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 March 31, 2019 (December 31, 2018 – \$1.2 billion), which will be incurred between 2018 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.

At March 31, 2019, Harvest recognized an onerous contract provision of \$6.6 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 lease payments that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate of 20% (December 31, 2018 –

20%), specific to the liability. Nil gain was recorded from changes in the discount rate during the three months ended March 31, 2019 (three months ended March 31, 2018 – nil).

### 11. Long-Term Liability

	March 31, 2019		December 31, 2018	
BlackGold liability <sup>(1)</sup>	\$	71.8	\$	71.4
Less: current portion of BlackGold liability <sup>(1)</sup>		(37.9)		(37.9)
Deferred rent and other <sup>(2)</sup>		9.7		10.4
Top-up obligation <sup>(3)</sup>		3.8		2.2
	\$	47.4	\$	46.1

<sup>(1)</sup> Calculated using a discount rate of 4.5% at three months ended March 31, 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 and fifth deferred payments due April 30, 2018, 2017 and 2016 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work.

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

<sup>(3)</sup> See note 6 – Investment in Joint Ventures.

### 12. Lease Obligation

Harvest had the following associated with lease obligations:

	March 31, 2019		January 1, 2019	
Less than 1 year	\$	3.8	\$	3.8
1 - 3 years		7.6		7.7
4 - 5 years		6.3		6.4
After 5 years		4.4		5.2
<b>Total lease payments</b>		<b>22.1</b>		<b>23.1</b>
Amounts representing interest		(9.2)		(9.7)
Present value of net lease payments		12.9		13.4
Current portion of lease obligations		3.2		3.5
<b>Non-current portion of lease obligations</b>	\$	<b>9.7</b>	\$	<b>9.9</b>

The increase in lease obligations as at March 31, 2019 relates to the adoption of IFRS 16 effective January 1, 2019.

Please refer to note 3 for additional information. For the quarter ended March 31, 2019, Harvest had interest expense of \$0.7 million and cash outflow of \$1.0 million related to lease obligations.

### 13. Revenue

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

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

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

	Three months ended March 31			
		2019		2018
Light to medium oil sales after hedging <sup>(1)</sup>	\$	14.6	\$	24.7
Heavy oil sales after hedging <sup>(1)</sup>		21.7		31.1
Bitumen sales after hedging <sup>(1)</sup>		27.0		-
Natural gas sales after hedging <sup>(1)</sup>		17.4		13.5
Natural gas liquids sales		11.6		11.7
Other <sup>(2)</sup>		4.8		4.2
<b>Petroleum and natural gas sales</b>	<b>\$</b>	<b>97.1</b>	<b>\$</b>	<b>85.2</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 March 31, 2019 is \$42.8 million (March 31, 2018 – \$43.0 million for March 2018 production) of accrued oil and gas sales related to March 2019 production.

#### 14. Finance Costs

	Three months ended March 31			
		2019		2018
Interest and other financing charges <sup>(1)</sup>	\$	24.1	\$	17.8
Lease interest expense		0.7		-
Accretion of decommissioning and environmental remediation liabilities (note 10)		3.6		3.9
Accretion of BlackGold long-term liability (note 11)		0.5		0.6
	<b>\$</b>	<b>28.9</b>	<b>\$</b>	<b>22.3</b>

<sup>(1)</sup> Includes \$0.3 million of accretion on the onerous contract during the three months ended March 31, 2019 (three months ended March 31, 2018 – \$0.3 million).

#### 15. Foreign Exchange

	Three months ended March 31			
		2019		2018
Realized loss (gain) on foreign exchange	\$	0.4	\$	(2.9)
Unrealized loss (gain) on foreign exchange		(31.4)		49.4
	<b>\$</b>	<b>(31.0)</b>	<b>\$</b>	<b>46.5</b>



**16. Supplemental Cash Flow Information**

	Quarter ended March 31			
	2019		2018	
Source (use) of cash:				
Accounts receivable	\$	(31.5)	\$	(8.0)
Prepaid expenses, long-term deposit and other		(2.2)		(1.6)
Accounts payable and accrued liabilities		(14.3)		20.0
Net changes in non-cash working capital	\$	(48.0)	\$	10.4
Changes relating to operating activities	\$	(38.9)	\$	(4.3)
Changes relating to investing activities		(7.8)		13.5
Add: Other non-cash changes		(1.3)		1.2
	\$	(48.0)	\$	10.4

**17. Related Party Transactions**

	Three months ended March 31				Accounts Payable			
	2019		2018		as at March 31, 2019		as at December 31, 2018	
<b>Diluent Expenses</b>								
DBP <sup>(3)</sup>	\$	0.6	\$	—	\$	0.3	\$	0.2
<b>G&amp;A Expenses</b>								
KNOC <sup>(1)</sup>	\$	0.1	\$	0.1	\$	0.1	\$	0.5
<b>Finance costs</b>								
KNOC <sup>(2)</sup>	\$	2.8	\$	3.7	\$	5.6	\$	4.7

<sup>(1)</sup> Amounts relate to payments to KNOC for secondee salaries.

<sup>(2)</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 7 – Long Term Debt.

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

**18. Commitments**

The following is a summary of Harvest's estimated commitments as at March 31, 2019:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Purchase commitments <sup>(1)</sup>	\$ 38.2	\$ 19.1	\$ 19.0	\$ 10.5	\$ 86.8
Operating leases <sup>(4)</sup>	8.1	16.2	14.9	10.6	49.8
Firm processing commitments	11.1	19.0	18.0	8.9	57.0
Firm transportation agreements	19.6	29.5	22.6	24.8	96.5
Employee benefits <sup>(2)</sup>	0.7	0.2	—	—	0.9
Total <sup>(3)</sup>	\$ 77.7	\$ 84.0	\$ 74.5	\$ 54.8	\$ 291.0

<sup>(1)</sup> Relates to BlackGold oil sands project commitment and the DBP top-up obligation (see note 6 - Investment in Joint Ventures).

<sup>(2)</sup> Relates to the long-term incentive plan payments.

<sup>(3)</sup> See note 7 - Long Term Debt, note 8 – Shareholder's Capital & Capital Structure and note 17 – Related Party Transactions for Harvest's debt obligations.

<sup>(4)</sup> Relates to future cash payments for leases for vehicles and head office

**19. Accumulated Other Comprehensive Income (“AOCI”)**

	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		7.6	7.6
Loss on derivatives designated as cash flow hedges, net of tax		(40.6)	(40.6)
<b>As at March 31, 2019</b>	<b>\$</b>	<b>(40.0)</b>	<b>\$ (40.0)</b>

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

	Three months ended March 31			
	After-tax		Pre-tax	
	2019	2018	2019	2018
<b>(Losses) Gains re-classified from OCL</b>	<b>\$</b>			
Interest Rate Risk	(0.5)	—	(0.5)	—
Commodity Price Risk	(7.1)	—	(7.1)	—
<b>Losses (Gains) recognized in OCL</b>				
Interest Rate Risk	4.4	(3.2)	4.4	(3.2)
Commodity Price Risk	36.2	—	36.2	—
<b>Total</b>	<b>\$ 33.0</b>	<b>\$ (3.2)</b>	<b>\$ 33.0</b>	<b>\$ (3.2)</b>