



Full Year and Fourth Quarter Report 2013

For the full year and three
month periods ended
December 31, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the year ended December 31, 2013 together with the accompanying notes. The information and opinions concerning the future outlook are based on information available at March 6, 2014.

Effective January 1, 2013, Harvest adopted new and amended accounting standards, described in the "Critical Accounting Estimates" section of this MD&A and in note 4 of the audited annual consolidated financial statements for the year ended December 31, 2013. The retroactive application of these standards resulted in certain restatements in the 2012 comparative financial statements. The comparative financial information in this MD&A reflect such restated amounts and are consistent with the December 31, 2013 annual financial statements.

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. All financial data has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board except where otherwise noted.

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

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

ADVISORY

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATING HIGHLIGHTS

| | Three Months Ended December 31 | | Year Ended December 31 | |
|--|-----------------------------------|----------------|---------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| UPSTREAM OPERATIONS | | | | |
| Daily sales volumes (boe/d) | 49,154 | 58,228 | 52,473 | 59,327 |
| Average realized price | | | | |
| Oil and NGLs (\$/bbl) ⁽²⁾ | 70.68 | 68.50 | 75.49 | 72.39 |
| Gas (\$/mcf) ⁽²⁾ | 3.86 | 3.44 | 3.46 | 2.58 |
| Operating netback prior to hedging (\$/boe) ⁽¹⁾ | 26.10 | 30.61 | 29.31 | 28.46 |
| Operating income (loss) | 2.3 | 36.1 | (16.6) | (12.7) |
| Cash contribution from operations ⁽¹⁾ | 119.5 | 160.4 | 518.2 | 581.9 |
| Capital asset additions (excluding acquisitions) | 108.5 | 88.2 | 322.3 | 447.5 |
| Property and business acquisitions (dispositions), net | (27.5) | (80.8) | (155.6) | (84.3) |
| Net wells drilled | 22.2 | 12.8 | 84.1 | 100.9 |
| Net undeveloped land additions (acres) ⁽³⁾ | 18,595 | 39,543 | 50,651 | 131,394 |
| BLACKGOLD OIL SANDS | | | | |
| Capital asset additions | 128.1 | 44.4 | 444.5 | 164.1 |
| Net wells drilled | – | 4.0 | – | 30.0 |
| DOWNSTREAM OPERATIONS | | | | |
| Average daily throughput (bbl/d) | 92,339 | 114,065 | 98,081 | 103,355 |
| Average refining gross margin (US\$/bbl) ⁽¹⁾ | 2.50 | 6.43 | 1.07 | 4.87 |
| Operating loss | (506.4) | (566.0) | (691.1) | (680.2) |
| Cash deficiency from operations ⁽¹⁾ | (32.3) | (3.0) | (152.4) | (41.7) |
| Capital asset additions | 18.1 | 21.5 | 53.2 | 54.2 |
| NET LOSS⁽⁴⁾ | (517.8) | (536.7) | (781.9) | (721.0) |

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

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

(3) Includes lands acquired in business combinations.

(4) Net loss includes the consolidated operating results of Harvest's operating segments.

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 ("Upstream"), an oil sands project under construction and development in northern Alberta ("BlackGold"), and a refining and marketing business focused on the operation of a medium gravity sour crude oil hydrocracking refinery and a retail and wholesale

petroleum marketing business both located in the Province of Newfoundland and Labrador ("Downstream"). Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). Our earnings and cash flow from operating activities are largely determined by the realized prices for our crude oil and natural gas production as well as refined product crack spreads.

Upstream

- Sales volumes for the fourth quarter and year ended December 31, 2013 decreased by 9,074 boe/d and 6,854 boe/d, respectively, as compared to the same periods in 2012. The decreases were primarily due to natural declines, smaller 2012 and 2013 capital drilling programs and dispositions of certain non-core producing properties in the most recent five quarters.
- Operating netback prior to hedging for the fourth quarter of 2013 was \$26.10/boe, a decrease of \$4.51/boe from 2012 mainly due to higher operating expense and royalties per boe, partially offset by higher average realized prices. Operating netback prior to hedging for the year ended December 31, 2013 was \$29.31/boe, an increase of \$0.85/boe from 2012 mainly due to higher average realized prices, partially offset by higher operating expenses per boe.
- Cash contribution from Harvest's Upstream operations for the fourth quarter and year ended December 31, 2013, decreased \$40.9 million and \$63.7 million, respectively, mainly driven by lower sales volumes and changes in operating netback per boe.
- Operating income was \$2.3 million (2012 - \$36.1 million) for the fourth quarter of 2013, a decrease of \$33.8 million mainly due to a \$24.1 asset impairment and the decrease in cash contribution described above, partially offset by the reduction in DD&A expense. Operating loss was \$16.6 million (2012 - \$12.7 million) for the year ended December 31, 2013, an increase of \$3.9 million mainly as a result of decreased cash contribution described above, partially offset by positive variances in non-cash items including DD&A expense and E&E expense.
- Capital asset additions of \$108.5 million during the fourth quarter of 2013 mainly related to the drilling, completion and tie-in of wells. Twenty-eight gross wells (22.2 net) were rig-released during the fourth quarter. Capital asset additions of \$322.3 million for the year ended December 31, 2013 mainly related to the drilling and tie-in of 96.0 gross (84.1 net) wells which were rig-released year to date.

BlackGold

- Capital asset additions were \$128.1 million and \$444.5 million for the three months and year ended December 31, 2013, respectively, and mainly related to the construction of the central processing facility ("CPF").
- As at December 31, 2013, Phase 1 of the project was approximately 92% complete. Phase 1 completion, commissioning of the CPF and first steam are expected in 2014.
- Phase 2 of the project received regulatory and environmental approval in 2013.

Downstream

- Throughput volume averaged 92,339 bbl/d (2012 - 114,065 bbl/d) and 98,081 bbl/d (2012 - 103,355 bbl/d) for the three months and year ended December 31, 2013, respectively. The decreased throughput in the current periods is due to a partial catalyst change-out in the fourth quarter and more operational outages experienced throughout 2013.
- Refining gross margin per bbl averaged US\$2.50/bbl (2012 - US\$6.43/bbl) and US\$1.07/bbl (2012 - US\$4.87/bbl) for the three months and year ended December 31, 2013, respectively. The decreases in gross margin were mainly due to lower product crack spreads and poorer yield mix.

- Cash deficiency from Harvest's Downstream operations was \$32.3 million (2012 - \$3.0 million) and \$152.4 million (2012 - \$41.7 million) for the fourth quarter and year ended December 31, 2013, respectively. The increases in Downstream's cash deficiency were mainly due to lower average refining gross margins per bbl as compared to the prior year periods.
- An impairment of PP&E of \$458.9 million (2012 - \$535.5 million) was recognized in the fourth quarter and year ended December 31, 2013.
- Operating loss totaled \$506.4 million (2012 - \$566.0 million) for the fourth quarter of 2013, a \$59.6 million decrease from 2012 primarily due to the lower impairment of PP&E. Operating loss for the year ended December 31, 2013 was \$691.1 million (2012 - \$680.2 million) reflecting a lower gross margin, partially offset by a lower impairment of PP&E.

Corporate

- Net loss was \$517.8 million and \$781.9 million for fourth quarter and year ended December 31, 2013, respectively (2012 - \$536.7 million and \$721.0 million, respectively). Net loss increased for both periods due to the changes in the operating losses of the Upstream and Downstream segments described above, as well as the unrealized foreign exchange losses and lower income tax recovery during 2013.
- Harvest extended the credit facility maturity date by one year to April 30, 2017.
- Harvest early redeemed, at par, its 7.25% Debentures Due 2014 on April 2, 2013 and its 7.25% Debentures Due 2013 on April 15, 2013. The redemptions were funded using US\$390 million of drawings on the US\$400 million senior unsecured credit facility.
- On May 14, 2013, Harvest issued 2½% US\$630 million senior unsecured notes due May 14, 2018, that are unconditionally and irrevocably guaranteed by KNOC. The proceeds were used to repay the senior unsecured credit facility and early redeem, at par, the 7.50% Debentures Due 2015.
- On October 18, 2013, the borrowing capacity of the credit facility was increased from \$800.0 million to \$1.0 billion.
- On December 30, 2013 Harvest entered into a five year \$200 million subordinated loan agreement with KNOC and borrowed \$80.0 million thereunder. On February 28, 2014, Harvest borrowed an additional \$80.0 million under the subordinated loan agreement.

GUIDANCE UPDATE

The following discussion compares Harvest's actual results for the year 2013 to the guidance previously disclosed in the interim MD&A for the three and nine months ended September 30, 2013:

Upstream

- Annual production was expected to average 53,100 boe/d as compared to the actual production of 52,473 boe/d. The 627 boe/d production shortfall is mainly due to property dispositions and third-party facility constraints occurring in the fourth quarter of 2013.
- The forecasted capital expenditure for the fourth quarter of 2013 was \$110 million and the actual amount was \$108.5 million. The capital budget for the year 2013 was increased by \$13 million on December 10, 2013 to \$357 million, \$322.3 million was utilized for various capital development projects, \$19.5 million was spent on decommissioning and environmental remediation and the unspent remainder was intended for the winter drilling program which was delayed by regulatory approvals.



MANAGEMENT'S DISCUSSION AND ANALYSIS

- Harvest expected to drill 97 gross wells in 2013 and the actual amount was 96 gross wells.
- Operating expense was targeted to be \$17.50/boe for the year 2013. The actual expense was \$18.05/boe, with the increase cost due to higher than expected well servicing, repairs and maintenance activities and processing and other fees.

BlackGold

- On December 10, 2013 the capital budget was increased to \$353 million from \$315 million for 2013. Cash additions on the project in 2013 was \$353.2 million (\$444.5 million recorded on the balance sheet, less non-cash additions of \$71.5 million and capitalized interest of \$19.8 million). Harvest's 2013 capital expenditures were greater than the initial forecast amount due to increased costs as a result of labor shortages, inclement weather and a revised completion schedule.

Downstream

- The 2013 capital budget was \$55 million and the actual amount spent was \$53.2 million.
- Throughput volume for the year 2013 was expected to average 95,000 bbl/d and the actual amount was 98,081 bbl/d. The additional 3,081 bbl/d experienced for the year is due to less refinery down-time than expected.
- Operating and purchased energy costs were expected to be below \$7.00/bbl for the year 2013. Actual costs were \$6.68/bbl.



MANAGEMENT'S DISCUSSION AND ANALYSIS

UPSTREAM OPERATIONS

Summary of Financial and Operating Results

| | Three Months Ended December 31 | | Year Ended December 31 | |
|---|-----------------------------------|--------------|---------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| FINANCIAL | | | | |
| Petroleum and natural gas sales ⁽¹⁾ | 260.7 | 291.3 | 1,101.7 | 1,193.5 |
| Royalties | (37.5) | (35.7) | (153.9) | (164.6) |
| Revenues | 223.2 | 255.6 | 947.8 | 1,028.9 |
| Expenses | | | | |
| Operating | 82.3 | 77.4 | 345.6 | 359.0 |
| Transportation and marketing | 6.4 | 5.9 | 22.6 | 22.2 |
| Realized gains on risk management contracts ⁽²⁾ | (0.6) | (2.6) | (4.9) | (1.6) |
| Operating netback after hedging ⁽³⁾ | 135.1 | 174.9 | 584.5 | 649.3 |
| General and administrative | 16.5 | 18.2 | 68.1 | 65.0 |
| Depreciation, depletion and amortization | 113.4 | 145.3 | 530.0 | 579.5 |
| Exploration and evaluation | 0.7 | 0.2 | 12.3 | 24.9 |
| Impairment of property, plant and equipment | 24.1 | — | 24.1 | 21.8 |
| Unrealized losses on risk management contracts ⁽⁴⁾ | 1.6 | 0.1 | 0.5 | 1.1 |
| Gains on disposition of property, plant and equipment | (23.5) | (25.0) | (33.9) | (30.3) |
| Operating income (loss) | 2.3 | 36.1 | (16.6) | (12.7) |
| Capital asset additions (excluding acquisitions) | 108.5 | 88.2 | 322.3 | 447.5 |
| Property and business acquisitions (dispositions), net | (27.5) | (80.8) | (155.6) | (84.3) |
| Decommissioning and environmental remediation expenditures | 7.4 | 4.3 | 19.4 | 20.2 |
| OPERATING | | | | |
| Light / medium oil (bbl/d) | 10,820 | 13,817 | 11,671 | 13,889 |
| Heavy oil (bbl/d) | 16,348 | 18,402 | 16,905 | 19,506 |
| Natural gas liquids (bbl/d) | 4,607 | 6,084 | 5,345 | 5,535 |
| Natural gas (mcf/d) | 104,269 | 119,554 | 111,313 | 122,385 |
| Total (boe/d) | 49,154 | 58,228 | 52,473 | 59,327 |

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

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

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

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

Commodity Price Environment

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|--|-----------------------------------|-------|--------|---------------------------|-------|--------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| West Texas Intermediate ("WTI") crude oil (US\$/bbl) | 97.46 | 88.18 | 11% | 97.97 | 94.21 | 4% |
| West Texas Intermediate crude oil (\$/bbl) | 102.30 | 87.42 | 17% | 100.95 | 94.12 | 7% |
| Edmonton light sweet crude oil (\$/bbl) | 86.49 | 83.98 | 3% | 93.04 | 86.15 | 8% |
| Western Canadian Select ("WCS") crude oil (\$/bbl) | 68.41 | 69.43 | (1%) | 74.97 | 73.09 | 3% |
| AECO natural gas daily (\$/mcf) | 3.53 | 3.21 | 10% | 3.17 | 2.39 | 33% |
| U.S. / Canadian dollar exchange rate | 0.953 | 1.009 | (6%) | 0.971 | 1.001 | (3%) |

Differential Benchmarks

| | | | | | | |
|----------------------------------|--------------|-------|-----|--------------|-------|-----|
| WCS differential to WTI (\$/bbl) | 33.89 | 17.99 | 88% | 25.98 | 21.03 | 24% |
| WCS differential as a % of WTI | 33.1% | 20.6% | 61% | 25.7% | 22.3% | 15% |

The average WTI benchmark price for 2013 increased 11% from the fourth quarter of 2012 and increased 4% from the year ended December 31, 2012. The average Edmonton light sweet crude oil price ("Edmonton Light") increased 3% in the fourth quarter and 8% for the year ended December 31, 2013 mainly due to the increase in the WTI price, the change in the light sweet differential and the strengthening of the U.S. dollar against the Canadian dollar as compared to the prior year periods.

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. markets and the seasonal demand for heavy oil. The WCS price changes for the fourth quarter and full year 2013 as compared to the prior year periods were mainly a result of the increase in the WTI price, the strengthening of the US dollar and the widening of the WCS differential to WTI.

Realized Commodity Prices

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|--|-----------------------------------|-------|--------|---------------------------|-------|--------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Light to medium oil prior to hedging (\$/bbl) | 79.67 | 76.42 | 4% | 85.38 | 80.17 | 6% |
| Heavy oil prior to hedging (\$/bbl) | 68.03 | 67.66 | 1% | 74.37 | 71.35 | 4% |
| Natural gas liquids (\$/bbl) | 58.97 | 53.06 | 11% | 57.44 | 56.54 | 2% |
| Natural gas prior to hedging (\$/mcf) | 3.86 | 3.44 | 12% | 3.46 | 2.58 | 34% |
| Average realized price prior to hedging (\$/boe) ⁽¹⁾ | 54.01 | 52.82 | 2% | 56.58 | 53.60 | 6% |
| Light to medium oil after hedging (\$/bbl) ⁽²⁾ | 79.67 | 82.96 | (4%) | 85.38 | 86.00 | (1%) |
| Heavy oil after hedging (\$/bbl) ⁽²⁾ | 74.51 | 67.66 | 10% | 73.84 | 71.35 | 3% |
| Natural gas after hedging (\$/mcf) ⁽²⁾ | 3.94 | 3.44 | 15% | 3.63 | 2.58 | 41% |
| Average realized price after hedging (\$/boe) ^{(1) (2) (3)} | 56.34 | 54.38 | 4% | 56.78 | 54.97 | 3% |

(1) Inclusive of sulphur revenue.

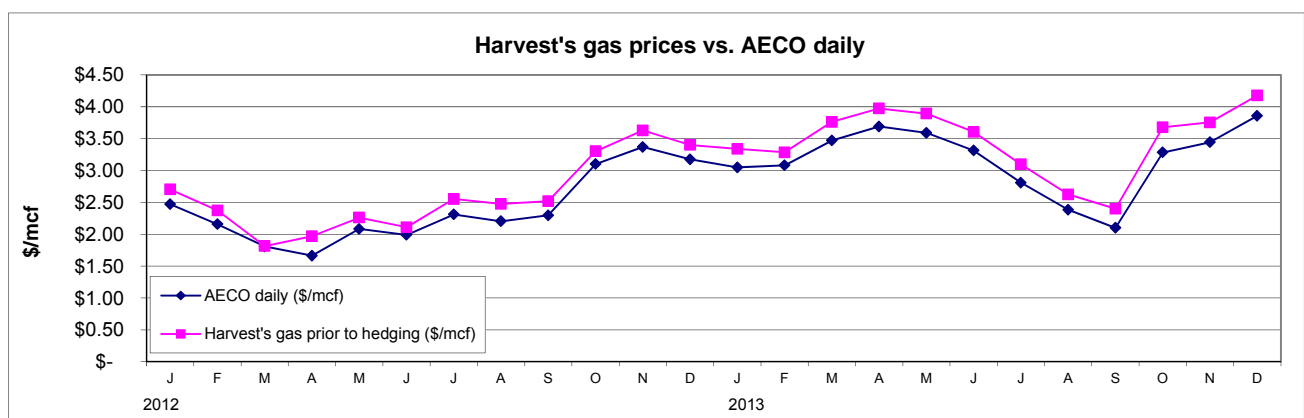
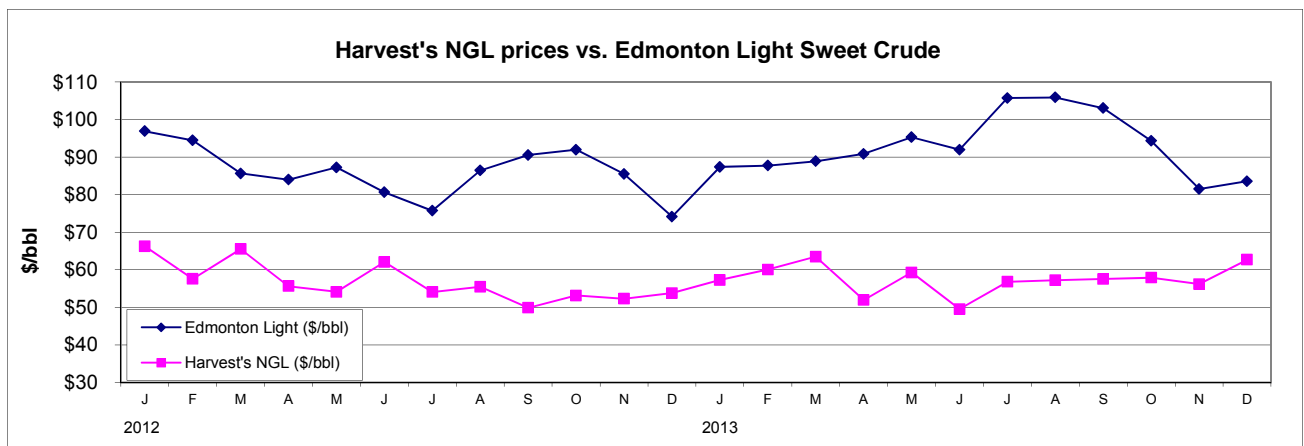
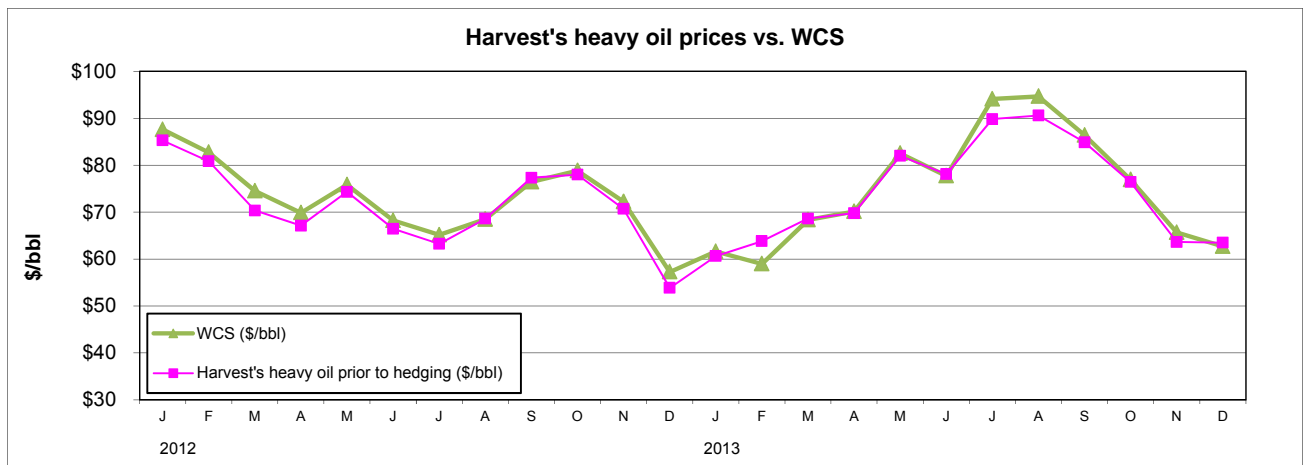
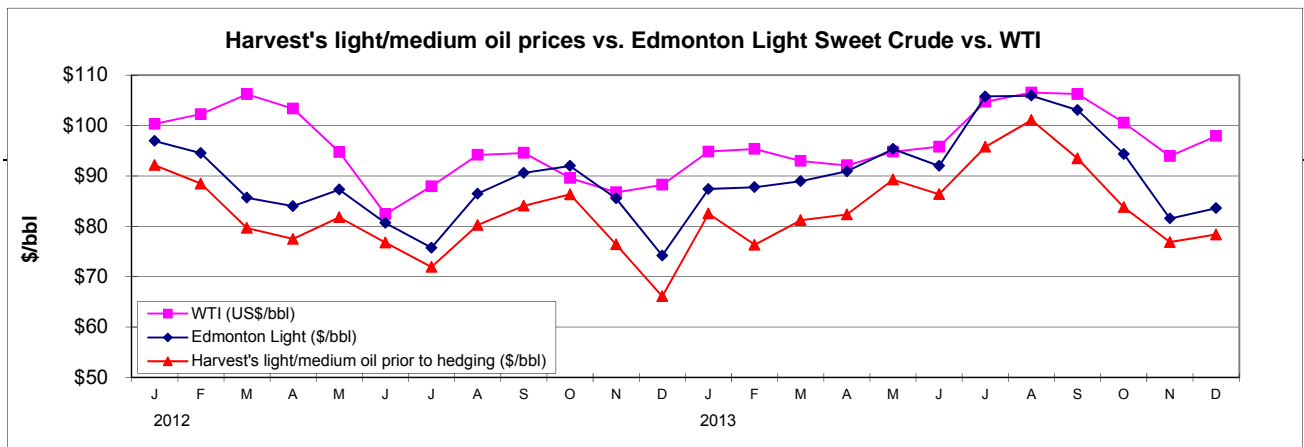
(2) Inclusive of the realized gains (losses) from contracts designated as hedges. Foreign exchange swaps and power contracts are excluded from the realized price.

(3) Natural gas liquids prices are not hedged but are included in the average realized price after hedging.

Harvest's realized prices prior to hedging for light to medium oil, heavy oil and natural gas generally trend with the Edmonton Light, WCS and AECO benchmark prices, respectively. For the three months and year ended December 31, 2013, the period-over-period variances and movements in these realized prices were consistent with the changes in the related benchmarks.

Natural gas liquids realized prices increased by 11% for the fourth quarter of 2013 and 2% for the full year 2013 as compared to the same periods in 2012. The increases mainly reflect the changes in condensate, pentane and propane commodity prices from 2012.

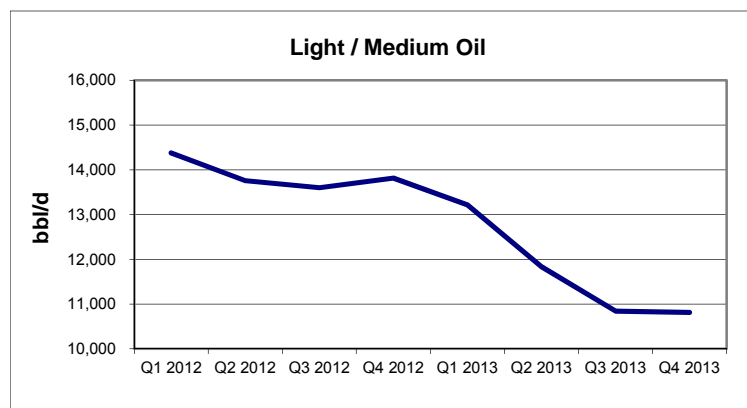
In order to mitigate the risk of fluctuating cash flows due to natural gas and crude oil price volatility, Harvest entered into AECO and WCS derivative contracts. Including the impact from the AECO hedges, Harvest's realized gas prices increased by \$0.08/mcf (2012 – \$nil) in the fourth quarter of 2013 and \$0.17/mcf (2012 – \$nil) for the full year 2013. Harvest's realized heavy oil prices increased by \$6.48/bbl (2012 – \$nil) in the fourth quarter of 2013 and decreased \$0.53/bbl (2012 – \$nil) for the full year 2013 as a result of the WCS hedges. There were no light to medium crude oil hedges during 2013, but in the prior year Harvest earned a \$6.54/bbl and \$5.83/bbl increase in realized light to medium oil price in the fourth quarter and full year 2012, respectively. Please see "Cash Flow Risk Management" section in this MD&A for further discussion with respect to the cash flow risk management program.



Sales Volumes

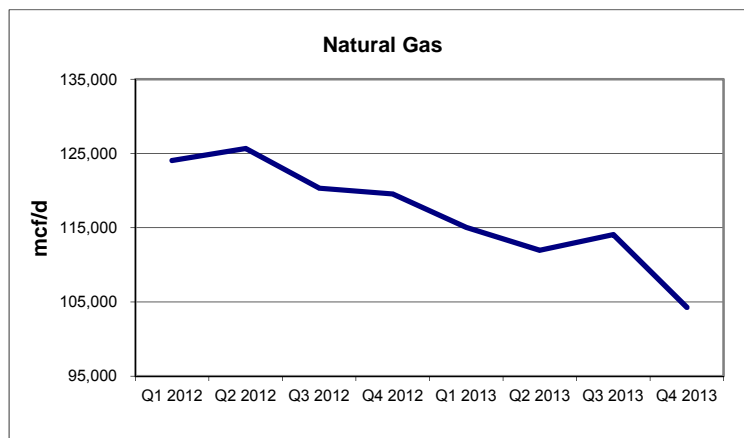
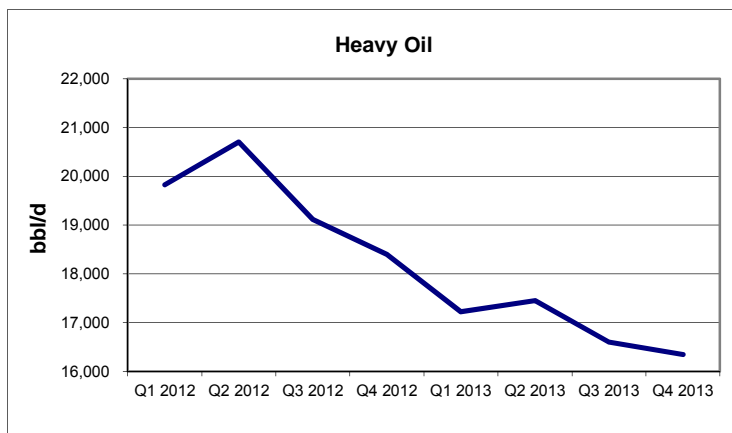
| Three Months Ended December 31 | | | | | |
|--------------------------------|---------|-----------|---------|-----------|-----------------|
| | 2013 | | 2012 | | |
| | Volume | Weighting | Volume | Weighting | % Volume Change |
| Light to medium oil (bbl/d) | 10,820 | 22% | 13,817 | 24% | (22%) |
| Heavy oil (bbl/d) | 16,348 | 33% | 18,402 | 32% | (11%) |
| Natural gas liquids (bbl/d) | 4,607 | 9% | 6,084 | 10% | (24%) |
| Total liquids (bbl/d) | 31,775 | 64% | 38,303 | 66% | (17%) |
| Natural gas (mcf/d) | 104,269 | 36% | 119,554 | 34% | (13%) |
| Total oil equivalent (boe/d) | 49,154 | 100% | 58,228 | 100% | (16%) |

| Year Ended December 31 | | | | | |
|------------------------------|---------|-----------|---------|-----------|-----------------|
| | 2013 | | 2012 | | |
| | Volume | Weighting | Volume | Weighting | % Volume Change |
| Light to medium oil (bbl/d) | 11,671 | 22% | 13,889 | 23% | (16%) |
| Heavy oil (bbl/d) | 16,905 | 32% | 19,506 | 33% | (13%) |
| Natural gas liquids (bbl/d) | 5,345 | 10% | 5,535 | 9% | (3%) |
| Total liquids (bbl/d) | 33,921 | 64% | 38,930 | 65% | (13%) |
| Natural gas (mcf/d) | 111,313 | 36% | 122,385 | 35% | (9%) |
| Total oil equivalent (boe/d) | 52,473 | 100% | 59,327 | 100% | (12%) |



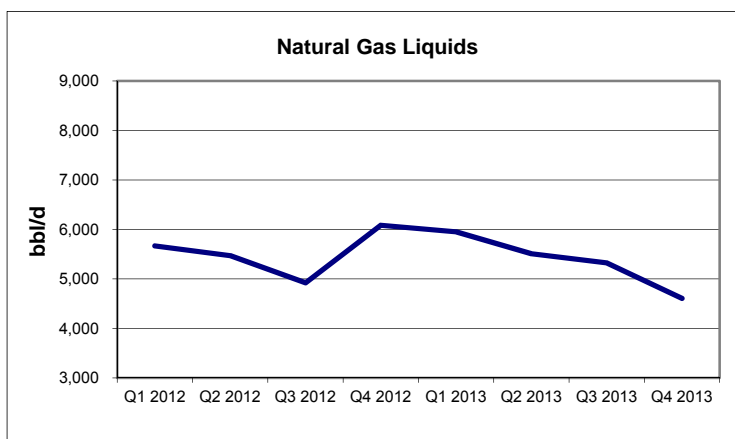
Harvest's average daily sales of light/medium oil decreased 22% and 16% for the fourth quarter and full year 2013 as compared to 2012. The decreases were due to natural declines, a lower level of drilling activity in both 2012 and 2013 and the disposition of non-core properties.

Heavy oil sales for the fourth quarter and full year 2013 decreased 11% and 13%, respectively, from the same periods in 2012 due to the same reasons as the light/medium oil, as well as an outage of a major oil battery in Alberta.



Natural gas sales during the fourth quarter and full year 2013 decreased 13% and 9%, respectively, from the same periods in 2012. The decreases were due to natural declines, property dispositions and facility turnarounds, partially offset by the results of development drilling in the liquids-rich Deep Basin area.

Natural gas liquids sales for the fourth quarter and full year 2013 decreased by 24% and 3%, respectively, from the same periods in 2012. The decreases were due to natural declines and third party facility constraints.



Revenues

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|-----------------------------------|--------|--------|---------------------------|---------|--------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Light / medium oil sales after hedging ⁽¹⁾ | 79.3 | 105.5 | (25%) | 363.7 | 437.1 | (17%) |
| Heavy oil sales after hedging ⁽¹⁾ | 112.1 | 114.6 | (2%) | 455.6 | 509.4 | (11%) |
| Natural gas sales after hedging ⁽¹⁾ | 37.8 | 37.9 | – | 147.6 | 115.7 | 28% |
| Natural gas liquids sales | 25.0 | 29.7 | (16%) | 112.1 | 114.5 | (2%) |
| Other ⁽²⁾ | 6.5 | 3.6 | 81% | 22.7 | 16.8 | 35% |
| Petroleum and natural gas sales | 260.7 | 291.3 | (11%) | 1,101.7 | 1,193.5 | (8%) |
| Royalties | (37.5) | (35.7) | 5% | (153.9) | (164.6) | (7%) |
| Revenues | 223.2 | 255.6 | (13%) | 947.8 | 1,028.9 | (8%) |

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

(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. In the fourth quarter of 2013, total petroleum and natural gas sales decreased by 11%, mainly due to the 16% decrease in sales volumes partially offset by the 3% increase in realized prices after hedging activities. For the year ended December 31, 2013, total petroleum and natural gas sales decreased by 8%, mainly due to the 12% decrease in sales volumes partially offset by the 3% increase in realized prices after hedging activities.

Sulphur revenue represented \$0.6 million (2012 - \$5.0 million) of the total in other revenues for the fourth quarter of 2013 and \$8.5 million (2012 - \$16.9 million) for the full year 2013.

Royalties

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

For the fourth quarter of 2013, royalties as a percentage of gross revenue averaged 14.4% (2012 – 12.3%). The lower royalty rates in the fourth quarter of 2012 were mainly due to receiving more prior year credits. For the year ended December 31, 2013, royalties as a percentage of gross revenue averaged 14.0% (2012 – 13.8%).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating and Transportation Expenses

| Three Months Ended December 31 | | | | | |
|--------------------------------|------|--------|------|--------|---------------|
| | 2013 | \$/boe | 2012 | \$/boe | \$/boe Change |
| Power and purchased energy | 18.6 | 4.11 | 21.7 | 4.06 | 0.05 |
| Well servicing | 11.0 | 2.44 | 7.7 | 1.43 | 1.01 |
| Repairs and maintenance | 12.6 | 2.78 | 7.1 | 1.33 | 1.45 |
| Lease rentals and property tax | 10.1 | 2.23 | 11.0 | 2.05 | 0.18 |
| Labor - internal | 7.0 | 1.54 | 7.2 | 1.35 | 0.19 |
| Labor - contract | 3.7 | 0.81 | 4.6 | 0.85 | (0.04) |
| Chemicals | 4.4 | 0.98 | 4.1 | 0.76 | 0.22 |
| Trucking | 3.0 | 0.66 | 3.4 | 0.63 | 0.03 |
| Processing and other fees | 11.2 | 2.48 | 7.4 | 1.37 | 1.11 |
| Other | 0.7 | 0.17 | 3.2 | 0.62 | (0.45) |
| Total operating expenses | 82.3 | 18.20 | 77.4 | 14.45 | 3.75 |
| Transportation and marketing | 6.4 | 1.42 | 5.9 | 1.10 | 0.32 |

| Year Ended December 31 | | | | | |
|--------------------------------|-------|--------|-------|--------|---------------|
| | 2013 | \$/boe | 2012 | \$/boe | \$/boe Change |
| Power and purchased energy | 89.1 | 4.65 | 79.6 | 3.67 | 0.98 |
| Well servicing | 49.9 | 2.60 | 56.0 | 2.58 | 0.02 |
| Repairs and maintenance | 51.6 | 2.70 | 57.0 | 2.63 | 0.07 |
| Lease rentals and property tax | 37.3 | 1.95 | 38.3 | 1.76 | 0.19 |
| Labor - internal | 31.8 | 1.66 | 31.5 | 1.45 | 0.21 |
| Labor - contract | 15.3 | 0.80 | 19.3 | 0.89 | (0.09) |
| Chemicals | 18.7 | 0.98 | 18.0 | 0.83 | 0.15 |
| Trucking | 13.9 | 0.72 | 16.3 | 0.74 | (0.02) |
| Processing and other fees | 36.8 | 1.92 | 33.4 | 1.54 | 0.38 |
| Other | 1.2 | 0.07 | 9.6 | 0.45 | (0.38) |
| Total operating expenses | 345.6 | 18.05 | 359.0 | 16.54 | 1.51 |
| Transportation and marketing | 22.6 | 1.18 | 22.2 | 1.02 | 0.16 |

Operating expenses for the fourth quarter of 2013 increased by \$4.9 million compared to the same period in 2012. The higher operating expenses were mainly attributable to the increase in well servicing, repairs and maintenance activities and processing and other fees, partially offset by the lower cost of Alberta power. Operating costs on a per barrel basis increased by 26% to \$18.20/boe for the fourth quarter of 2013 due to lower sales volumes in addition to the aforementioned factors.

Operating expenses for the full year 2013 decreased by \$13.4 million compared to the same period in 2012. The lower operating expenses for the full year 2013 were mainly attributable to the impact of asset dispositions and Harvest's implementation of a cost savings and efficiencies program, partially offset by the increase in the cost of Alberta power and higher processing and other fees. Operating costs on a per barrel basis increased by 9% to \$18.05/boe for the full year 2013.

| (\$/boe) | Three Months Ended December 31 | | | Year Ended December 31 | | |
|--|-----------------------------------|-------|---------|---------------------------|-------|--------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Power and purchased energy costs | 4.11 | 4.06 | 0.05 | 4.65 | 3.67 | 0.98 |
| Realized (gains) losses on electricity risk management contracts | 0.06 | – | 0.06 | (0.16) | – | (0.16) |
| Net power and purchased energy costs | 4.17 | 4.06 | 0.11 | 4.49 | 3.67 | 0.82 |
| Alberta Power Pool electricity price (\$/MWh) | 48.39 | 78.80 | (30.41) | 79.95 | 64.29 | 15.66 |

Power and purchased energy costs, comprised primarily of electric power costs, represented approximately 23% (2012 – 28%) of total operating expenses for the fourth quarter of 2013. The increase in power and purchased energy costs per boe in the fourth quarter of 2013 was mainly attributable to the fixed portion of power-related costs over lower sales volumes, partially offset by a lower average Alberta electricity price. The increase in power and purchased energy costs per boe for the year ended December 31, 2013 was mainly attributable to the fixed portion of power-related costs over lower sales volumes and a higher average Alberta electricity price. Harvest did not have any risk management contracts relating to electricity during 2012.

Transportation and marketing expenses relate primarily to delivery of natural gas to the Nova Gas Transmission Limited System and the cost of trucking crude oil to pipeline or rail receipt points. As a result, the total dollar amount of costs generally fluctuates in relation to sales volumes. In 2013, additional oil trucking costs were incurred in 2013 due to the outage of a major oil battery in Alberta and higher gas transportation costs were incurred in the Deep Basin area. As such, despite the lower volumes for the fourth quarter of 2013, transportation and marketing expenses increased by \$0.5 million and for the full year 2013 increased \$0.4 million as compared to the same periods in 2012.

Operating Netback⁽²⁾

| (\$/boe) | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|-----------------------------------|---------|------------------|---------------------------|---------|------------------|
| | 2013 | 2012 | \$/boe Change | 2013 | 2012 | \$/boe Change |
| Petroleum and natural gas sales prior to hedging ⁽¹⁾ | 54.01 | 52.82 | 1.19 | 56.58 | 53.60 | 2.98 |
| Royalties | (8.29) | (6.66) | (1.63) | (8.04) | (7.58) | (0.46) |
| Operating expenses | (18.20) | (14.45) | (3.75) | (18.05) | (16.54) | (1.51) |
| Transportation and marketing | (1.42) | (1.10) | (0.32) | (1.18) | (1.02) | (0.16) |
| Operating netback prior to hedging ⁽²⁾ | 26.10 | 30.61 | (4.51) | 29.31 | 28.46 | 0.85 |
| Hedging gains (loss) ⁽³⁾ | 2.47 | 1.87 | 0.60 | 0.47 | 1.38 | (0.91) |
| Operating netback after hedging ⁽²⁾ | 28.57 | 32.48 | (3.91) | 29.78 | 29.84 | (0.06) |

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

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

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

General and Administrative ("G&A") Expenses

| | Three Months Ended December 31 | | Year Ended December 31 | |
|---------------|-----------------------------------|------|---------------------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| G&A | 16.5 | 18.2 | 68.1 | 65.0 |
| G&A (\$/boe) | 3.65 | 3.40 | 3.56 | 2.99 |

For the fourth quarter of 2013, G&A expenses decreased \$1.7 million from same period in the prior year. For the full year 2013, G&A expenses increased by \$3.1 million compared to the same period in the prior year, mainly due to higher consulting fees. 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 December 31 | | Year Ended December 31 | |
|---------------|-----------------------------------|-------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| DD&A | 113.4 | 145.3 | 530.0 | 579.5 |
| DD&A (\$/boe) | 25.08 | 27.12 | 27.67 | 26.69 |

DD&A expenses for the fourth quarter and year ended December 31, 2013 decreased by \$31.9 million and \$49.5 million, respectively, as compared to the same periods in 2012. The decreases are mainly due to the change in Harvest's DD&A accounting estimate, as well as lower sales volumes. See the "Critical Accounting Estimates" section of this MD&A for a description of the change in estimate affecting the depletion calculation.

Impairment of Property, Plant and Equipment

For the fourth quarter and year ended December 31, 2013, Harvest recognized an impairment loss of \$24.1 million (first quarter and year ended December 31, 2012 – \$21.8 million) against PP&E relating to certain gas properties in the South Alberta gas CGU, which was triggered by reserves write-down as a result of lower forecast development activities, a decline in the long-term gas prices and reduced estimates of recoverable NGLs from the CGU. The recoverable amount was based on the assets' value-in-use ("VIU"), estimated using the net present value of proved plus probable reserves discounted at a pre-tax rate of 8% (2012 – 10%). Please refer to note 9 of the December 31, 2013 consolidated financial statements for further discussion

Property Dispositions

During the fourth quarter of 2013, Harvest sold certain non-core oil and gas assets with approximately 600 boe/d of production in Alberta, for cash proceeds of \$53.4 million. The transactions resulted in a gain of \$23.5 million, which is recognized in the consolidated statements of comprehensive loss.

During the year ended December 31, 2013, Harvest sold certain non-core oil and gas assets with approximately 2,500 boe/d of production, for cash proceeds of \$173.9 million. The transactions resulted in a gain of \$33.9 million, which is recognized in the consolidated statements of comprehensive loss.

Harvest continues with the process of marketing non-core properties for sale, to high-grade its asset portfolio and to monetize some of its assets. The impact to future production from the future dispositions is difficult to

predict, given the occurrence and the timing of the transactions cannot be determined with a high level of certainty. The proceeds from any dispositions may be used to manage Harvest's liquidity and to fund future development of core assets.

Capital Asset Additions

| | Three Months Ended December 31 | | Year Ended December 31 | |
|--|-----------------------------------|------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Drilling and completion | 62.1 | 45.5 | 180.9 | 236.6 |
| Well equipment, pipelines and facilities | 28.8 | 32.9 | 100.8 | 159.1 |
| Geological and geophysical | 5.9 | 0.9 | 14.4 | 9.7 |
| Land and undeveloped lease rentals | 3.5 | 5.1 | 6.6 | 21.8 |
| Corporate | 2.1 | 0.2 | 4.6 | 1.5 |
| Other | 6.1 | 3.6 | 15.0 | 18.8 |
| Total additions excluding acquisitions | 108.5 | 88.2 | 322.3 | 447.5 |

Total capital additions were lower for year ended December 31, 2013 compared to 2012 due to a lower capital budget for the current year. Harvest's capital expenditures in the fourth quarter related to the remainder of the 2013 drilling program as well as the acceleration of the 2014 drilling program, including well completions, equipping and tie-ins.

The following table summarizes the wells drilled by Harvest and the related drilling and completion costs incurred in the period. A well is recorded in the table as having being drilled after it has been rig-released, however related drilling costs may be incurred in a period before a well has been spud (including survey, lease acquisition and construction costs) and related completion costs may be incurred in a period afterwards, depending on the timing of the completion work.

| | Three Months Ended December 31, 2013 | | | Year Ended December 31, 2013 | | |
|-----------------|---|------|-------------------------|---------------------------------|------|-------------------------|
| Area | Gross | Net | Drilling and completion | Gross | Net | Drilling and completion |
| Red Earth | 6.0 | 5.7 | \$ 25.3 | 13.0 | 12.7 | \$ 47.5 |
| Hay River | 2.0 | 2.0 | 4.6 | 28.0 | 28.0 | 37.0 |
| Deep Basin | 1.0 | 0.4 | 10.8 | 5.0 | 3.0 | 34.0 |
| Western Alberta | 5.0 | 0.6 | 3.9 | 13.0 | 4.6 | 18.4 |
| Heavy Oil | 9.0 | 9.0 | 9.3 | 17.0 | 17.0 | 16.6 |
| Suffield | — | — | 1.0 | 6.0 | 6.0 | 10.2 |
| SE Saskatchewan | 4.0 | 4.0 | 4.5 | 8.0 | 8.0 | 8.8 |
| Cecil | 1.0 | 0.5 | 1.8 | 4.0 | 3.5 | 7.1 |
| Other areas | — | — | 0.9 | 2.0 | 1.3 | 1.3 |
| Total | 28.0 | 22.2 | \$ 62.1 | 96.0 | 84.1 | \$ 180.9 |

During 2013, Harvest continued to concentrate its drilling activities in its five core growth areas: Cecil, Deep Basin, Hay River, Red Earth and SE Saskatchewan; supplemented with drilling in the strategic revenue generating areas in Western Alberta and the Heavy Oil area. The primary areas of focus for Harvest's Upstream drilling program are as follows:

- Cecil – targeting existing and new oil pools in both the Cecil and Royce fields in the Peace River Arch;
- Deep Basin – participating or drilling deep, horizontal multi-stage fractured wells to develop the liquids-rich Falher and Montney liquids-rich gas formations;
- Hay River – pursuing heavy gravity oil in the Bluesky formation using multi-leg horizontal oil wells;
- Red Earth – activities are spread across the Loon Lake, Gift, Evi and Golden areas targeting light oil formations primarily in the Slave Point and also the Gilwood;
- SE Saskatchewan – horizontal light oil wells pursuing the Tilston and Souris Valley formations;
- Western Alberta – activities spread across several fields with recent efforts targeting mainly the Cardium, Glauconite, Ostracod, and Notikewin formations;
- Heavy Oil area – horizontal heavy oil wells in the Lloydminster region of Alberta into the, McLaren, Lloydminster, GP and Sparky formations.

Decommissioning Liabilities

Harvest's Upstream decommissioning liabilities at December 31, 2013 were \$709.4 million (December 31, 2012 - \$709.3 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities are based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The 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.

Goodwill

Goodwill is recorded when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of that acquired business. At December 31, 2013, Harvest had \$379.8 million (December 31, 2012 - \$391.8 million) of goodwill on the balance sheet related to the Upstream segment, a decrease of \$12.0 million as a result of a disposition of certain oil and gas properties (see the "Property Dispositions" section above). The goodwill balance is assessed annually for impairment or more frequently if events or changes in circumstances occur that would reasonably be expected to reduce the fair value of the acquired business to a level below its carrying amount.

BLACKGOLD OIL SANDS

Capital Asset Additions

| | Three Months Ended December 31 | | Year Ended December 31 | |
|--|-----------------------------------|------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Drilling and completion | 5.3 | 5.5 | 13.7 | 56.6 |
| Well equipment, pipelines and facilities | 111.4 | 34.7 | 404.0 | 93.1 |
| Geological and geophysical | 0.5 | 0.1 | 0.6 | 1.1 |
| Pre-operating costs | 0.6 | — | 0.6 | — |
| Other | 10.2 | 4.1 | 25.6 | 13.3 |
| Total BlackGold additions | 128.1 | 44.4 | 444.5 | 164.1 |

During the fourth quarter of 2013, Harvest invested \$112.2 million on the CPF. As at December 31, 2013, the overall oil sands project was approximately 92% complete.

Oil Sands Project Development

Harvest is developing its BlackGold oil sands CPF under the engineering, procurement and construction ("EPC") contract. Expected total costs under the EPC contract have been revised upwards to approximately \$650 million from an earlier estimate of \$590 million due to increased costs as a result of labor shortages, inclement weather and a revised completion schedule. Under the EPC contract, a maximum of approximately \$101 million of the EPC costs will be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work in 2014. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2013, Harvest recognized a liability of \$76.2 million (December 31, 2012 - \$4.7 million) using a discount rate of 4.5% (December 31, 2012 - 4.5%). Non-cash capital additions are recognized in well equipment, pipelines and facilities as the work is performed and the related deferred EPC liability is recognized. For the fourth quarter and year-ended December 31, 2013, \$5.5 million and \$71.5 million, respectively, of non-cash additions were recorded relating to the EPC contract (2012 - \$1.3 million and \$4.7 million, respectively).

Initial drilling of 30 steam assisted gravity drainage ("SAGD") wells (15 well pairs) was completed by the end of 2012. More SAGD wells will be drilled in the future to compensate for the natural decline in production of the initial well pairs and maintain the Phase 1 production capacity of 10,000 bbl/d. Detailed engineering of Phase 1 has been completed. Preliminary construction has been substantially completed, including the building of the CPF plant site, the placement of site equipment and pipe rack module installation. Piping and cabling of the CPF are now ongoing. Commissioning of the CPF and first steam is anticipated in the fourth quarter of 2014. Phase 2 of the project, which is targeted to increase production capacity to 30,000 bbl/d, received all required regulatory approvals in 2013.

As at December 31, 2013, Harvest has incurred costs of \$551.7 million on the EPC contract. After the accounting impact of the deferred liability described above, Harvest has recorded \$531.6 million of costs for the EPC contract and has recorded \$730.9 million of costs on the entire project since acquiring the BlackGold assets in 2010.

The BlackGold project faces similar cost and schedule pressures as other oil sand projects, including shortage of skilled labor and rising costs. "See Operational and Other Business Risks."

Decommissioning Liabilities

Harvest's BlackGold decommissioning liabilities at December 31, 2013 were \$34.3 million (December 31, 2012 - \$19.8 million) relating to the future remediation, abandonment, and reclamation of the SAGD wells and CPF. 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.

DOWNSTREAM OPERATIONS

Summary of Financial and Operating Results

| | Three Months Ended December 31 | | Year Ended December 31 | |
|---|-----------------------------------|---------|---------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| FINANCIAL | | | | |
| Refined products sales ⁽¹⁾ | 1,084.2 | 1,290.3 | 4,416.9 | 4,752.1 |
| Purchased products for processing and resale ⁽¹⁾ | 1,049.2 | 1,211.1 | 4,327.4 | 4,520.3 |
| Gross margin ⁽²⁾ | 35.0 | 79.2 | 89.5 | 231.8 |
| Operating expense ⁽³⁾ | 31.3 | 32.0 | 126.4 | 121.9 |
| Purchased energy expense | 30.7 | 45.9 | 106.7 | 140.7 |
| Marketing expense | 1.8 | 1.3 | 5.4 | 4.4 |
| General and administrative | 0.1 | 0.1 | 0.6 | 0.6 |
| Depreciation and amortization | 18.6 | 30.4 | 82.8 | 108.9 |
| Gain on dispositions of PP&E | - | - | (0.2) | - |
| Impairment of property, plant and equipment | 458.9 | 535.5 | 458.9 | 535.5 |
| Operating loss ⁽²⁾ | (506.4) | (566.0) | (691.1) | (680.2) |
| Capital expenditures | 18.1 | 21.5 | 53.2 | 54.2 |
| OPERATING | | | | |
| Feedstock volume (bbl/d) ⁽⁴⁾ | 92,339 | 114,065 | 98,081 | 103,355 |
| Yield (% of throughput volume) ⁽⁵⁾ | | | | |
| Gasoline and related products | 32% | 32% | 31% | 31% |
| Ultra low sulphur diesel and jet fuel | 37% | 40% | 37% | 40% |
| High sulphur fuel oil and other | 29% | 27% | 29% | 27% |
| Total | 98% | 99% | 97% | 98% |
| Average refining gross margin (US\$/bbl) ⁽⁶⁾ | 2.50 | 6.43 | 1.07 | 4.87 |

(1) Refined product sales and purchased products for processing and resale are net of intra-segment sales of \$146.1 million and \$555.4 million for the three and twelve months ended December 31, 2013 (2012 - \$121.9 million and \$569.6 million), reflecting the refined products produced by the refinery and sold by the marketing division.

(2) These are non-GAAP measures; please refer to "Non-GAAP Measures" in this MD&A.

(3) Operating expense for the three and twelve months ended December 31, 2012 have been increased by \$0.3 million and \$1.1 million, respectively, as a result of the retroactive application of accounting standard *IAS 19R Employee Benefits*. See "Changes in Accounting Policies and Estimates" for further discussion.

(4) Barrels per day are calculated using total barrels of crude oil feedstock and purchased vacuum gas oil.

(5) Based on production volumes after adjusting for changes in inventory held for resale.

(6) Average refining gross margin is calculated based on per barrel of feedstock throughput.

Refining Benchmark Prices

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|--|-----------------------------------|--------|--------|---------------------------|--------|--------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| WTI crude oil (US\$/bbl) | 97.46 | 88.18 | 11% | 97.97 | 94.21 | 4% |
| Brent crude oil (US\$/bbl) | 109.36 | 109.98 | (1%) | 108.75 | 111.67 | (3%) |
| Argus sour crude index ("ASCI") (US\$/bbl) | 95.51 | 103.58 | (8%) | 102.02 | 106.73 | (4%) |
| Brent – WTI differential (US\$/bbl) | 11.90 | 21.80 | (45%) | 10.78 | 17.46 | (38%) |
| Brent – ASCI differential (US\$/bbl) | 13.85 | 6.40 | 116% | 6.73 | 4.94 | 36% |
| Refined product prices | | | | | | |
| Platts RBOB (US\$/bbl) | 112.11 | 116.81 | (4%) | 119.11 | 124.01 | (4%) |
| Platts Ultra Low Sulfur Diesel (US\$/bbl) | 125.49 | 131.55 | (5%) | 125.76 | 130.23 | (3%) |
| Platts High Sulphur Fuel Oil (US\$/bbl) | 91.45 | 93.67 | (2%) | 93.15 | 99.64 | (7%) |
| U.S. / Canadian dollar exchange rate | 0.953 | 1.009 | (6%) | 0.971 | 1.001 | (3%) |

Summary of Gross Margins

| | Three Months Ended December 31 | | | | | |
|--|--------------------------------|-----|------------|------------------------------|------|------------|
| | 2013 | | | 2012 | | |
| | Volumes (million bbls) | | (US\$/bbl) | Volumes (million bbls) | | (US\$/bbl) |
| Refinery | | | | | | |
| Sales | | | | | | |
| Gasoline products | 367.4 | 3.2 | 109.76 | 435.8 | 3.9 | 113.33 |
| Distillates | 444.0 | 3.4 | 125.15 | 556.3 | 4.3 | 130.21 |
| High sulphur fuel oil | 190.7 | 2.1 | 87.44 | 234.3 | 2.6 | 90.45 |
| Other ⁽¹⁾ | 48.4 | 0.4 | 110.52 | 31.5 | 0.3 | 112.92 |
| Total sales | 1,050.5 | 9.1 | 110.43 | 1,257.9 | 11.1 | 114.49 |
| Feedstock ⁽²⁾ | | | | | | |
| Crude oil | 911.1 | 8.1 | 106.57 | 1,042.9 | 9.9 | 106.76 |
| Vacuum Gas Oil ("VGO") | 38.5 | 0.4 | 105.20 | 74.6 | 0.6 | 117.99 |
| Total feedstock | 949.6 | 8.5 | 106.51 | 1,117.5 | 10.5 | 107.45 |
| Other ⁽³⁾ | 78.6 | | | 73.6 | | |
| Total feedstock and other costs | 1,028.2 | | | 1,191.1 | | |
| Refinery gross margin ⁽⁴⁾ | 22.3 | | 2.50 | 66.8 | | 6.43 |
| Marketing | | | | | | |
| Sales | 179.8 | | | 154.3 | | |
| Cost of products sold | 167.1 | | | 141.9 | | |
| Marketing gross margin ⁽⁴⁾ | 12.7 | | | 12.4 | | |
| Total gross margin ⁽⁴⁾ | 35.0 | | | 79.2 | | |

(1) Includes sales of vacuum gas oil and hydrocracker bottoms.

(2) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.

(3) Includes inventory adjustments, additives and blendstocks and purchased product for resale.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

| | Year Ended December 31 | | | | | |
|---|------------------------------|------|-------------|------------------------------|------|-------------|
| | 2013 | | | 2012 | | |
| | Volumes (million bbls) | | (US\$/bbl) | Volumes (million bbls) | | (US\$/bbl) |
| Refinery | | | | | | |
| Sales | | | | | | |
| Gasoline products | 1,446.0 | 12.3 | 113.83 | 1,529.2 | 12.8 | 119.42 |
| Distillates | 1,833.2 | 14.5 | 122.76 | 2,083.7 | 16.1 | 129.24 |
| High sulphur fuel oil | 759.3 | 8.3 | 89.28 | 899.8 | 9.5 | 95.66 |
| Other ⁽¹⁾ | 249.4 | 2.2 | 109.39 | 116.0 | 1.0 | 113.79 |
| Total sales | 4,287.9 | 37.3 | 111.60 | 4,628.7 | 39.4 | 117.62 |
| Feedstock⁽²⁾ | | | | | | |
| Crude oil | 3,645.8 | 33.4 | 105.90 | 3,858.3 | 35.5 | 108.79 |
| Vacuum Gas Oil ("VGO") | 270.5 | 2.4 | 110.81 | 274.3 | 2.3 | 117.93 |
| Total feedstock | 3,916.3 | 35.8 | 106.22 | 4,132.6 | 37.8 | 109.36 |
| Other ⁽³⁾ | 332.1 | | | 312.1 | | |
| Total feedstock and other costs | 4,248.4 | | | 4,444.7 | | |
| Refinery gross margin⁽⁴⁾ | 39.5 | | 1.07 | 184.0 | | 4.87 |
| Marketing | | | | | | |
| Sales | 684.4 | | | 693.0 | | |
| Cost of products sold | 634.4 | | | 645.2 | | |
| Marketing gross margin⁽⁴⁾ | 50.0 | | | 47.8 | | |
| Total gross margin⁽⁴⁾ | 89.5 | | | 231.8 | | |

(1) Includes sales of vacuum gas oil and hydrocracker bottoms.

(2) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.

(3) Includes inventory adjustments, additives and blendstocks and purchased product for resale.

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

Feedstock throughput averaged 92,339 bbl/d in the fourth quarter of 2013, 19% lower than the 114,065 bbl/d average feedstock in the fourth quarter of the prior year, mainly due to the planned two-week shutdown of the isomax unit to complete a partial change-out of the catalyst and the unplanned one-week shutdown of the crude unit in October to repair an exchanger leak. The average throughput rate for the year ended December 31, 2013 was 98,081 bbl/d, a 5% decrease from the 103,055 bbl/d in the prior year. The lower daily average throughput rate for 2013 is a consequence of the isomax and crude unit outages in October, the four-week sulphur recovery unit ("SRU") and hydrocracker unit outage in July to repair a leak on the SRU reactor, an unplanned two-week outage in February due to a power failure during a storm and reduced rates following this outage due to weak economic conditions in the second quarter.

In the prior year, the average daily feedstock rate was less than the nameplate capacity as a result of an unplanned three-week refinery wide outage due to a SRU operational issue as well as a two-week unplanned partial outage to repair an exchanger leak on the amine unit.

The table below provides a comparison between the product crack spreads realized by Downstream and the benchmark crack spread for the three months and year ended December 31, with both crack spreads referring to the price of Brent crude oil.

Three Months Ended December 31

| | 2013 | | | 2012 | | |
|----------------------------------|----------|--------------------------|------------|----------|--------------------------|------------|
| | Refinery | Benchmark ⁽¹⁾ | Difference | Refinery | Benchmark ⁽¹⁾ | Difference |
| Gasoline products (US\$/bbl) | 3.25 | 2.75 ⁽²⁾ | 0.50 | 5.88 | 6.83 ⁽²⁾ | (0.95) |
| Distillates (US\$/bbl) | 18.64 | 16.13 ⁽²⁾ | 2.51 | 22.76 | 21.57 ⁽²⁾ | 1.19 |
| High Sulphur Fuel Oil (US\$/bbl) | (19.07) | (17.91) ⁽³⁾ | (1.16) | (17.00) | (16.31) ⁽³⁾ | (0.69) |

(1) Benchmark product crack is relative to Brent crude oil

(2) RBOB benchmark market price sourced from Platts.

(3) High Sulphur Fuel Oil benchmark market price sourced from Platts. Our high sulphur fuel oil normally contains higher sulphur content than the 3% content reflected in the benchmark price.

Year Ended December 31

| | 2013 | | | 2012 | | |
|----------------------------------|----------|--------------------------|------------|----------|--------------------------|------------|
| | Refinery | Benchmark ⁽¹⁾ | Difference | Refinery | Benchmark ⁽¹⁾ | Difference |
| Gasoline products (US\$/bbl) | 7.61 | 10.36 ⁽²⁾ | (2.75) | 10.06 | 12.34 ⁽²⁾ | (2.28) |
| Distillates (US\$/bbl) | 16.54 | 17.01 ⁽²⁾ | (0.47) | 19.88 | 18.56 ⁽²⁾ | 1.32 |
| High Sulphur Fuel Oil (US\$/bbl) | (17.76) | (15.60) ⁽³⁾ | (2.16) | (13.70) | (12.03) ⁽³⁾ | (1.67) |

(1) Benchmark product crack is relative to Brent crude oil

(2) RBOB benchmark market price sourced from Platts.

(3) High Sulphur Fuel Oil benchmark market price sourced from Platts. Our high sulphur fuel oil normally contains higher sulphur content than the 3% content reflected in the benchmark price.

Downstream's product crack spreads are different from the above noted benchmarks due to several factors, including the timing of actual sales and feedstock purchases differing from the calendar month benchmarks, transportation costs, sour crude differentials, quality differentials and variability in the throughput volume over a given period of time. The refinery sales also include products for which market prices are not reflected in the benchmarks. An additional differing factor in 2013 is the cost of renewable identification numbers ("RINS") that are necessary to meet blending requirements for RBOB gasoline and ultra-low sulphur diesel ("ULSD") in the US market as mandated by the US government and which such costs have increased significantly over 2012. Although the average RINs cost decreased in the fourth quarter of 2013 to approximately US\$1.20/bbl for RBOB gasoline and US\$1.50/bbl for ULSD products, second and third quarter costs ranged between US\$3.00/bbl and US\$3.50/bbl for each product. The average RINs cost for the year ended December 31, 2013 was approximately US\$2.50/bbl for RBOB gasoline and US\$3.00/bbl for ULSD products compared to US\$0.75/bbl and US\$0.55/bbl, respectively, in the prior year. Downstream's crack spreads for gasoline products and distillates in the above tables include the actual cost of RINs whereas the benchmarks do not. For more detail on RINs, see "Operational and Other Business Risks".

Refinery sales decreased by \$207.4 million in the fourth quarter of 2013 from \$1,257.9 million in the fourth quarter of 2012 as a result of lower sales volumes mainly due to outages and lower product pricing, partially offset by the strengthening of the U.S. dollar. Sales for the year ended December 31, 2013 have also decreased by \$340.8 million from \$4,628.7 million in the prior year as a consequence of lower sales volume and lower realized product prices, partially offset by the strengthening of the U.S. dollar.

The refinery gross margin for the three months ended December 31, 2013 decreased 67% as compared to the same period in the prior year. The overall decrease can be attributed to lower realized product crack spreads as a result of current market conditions, lower sales volumes and lower distillates yield in the fourth quarter of 2013 as compared to 2012. Realized product crack spreads for all product groups were lower in the quarter as compared to 2012 as a result of lower market prices and the increased cost of RINs for gasoline and distillates.

The refinery gross margin for the year ended December 31, 2013 decreased 79% as compared to the same period in the prior year. The lower gross margin is a result of decreased product crack spreads combined with lower distillates yield. The lower production and sales in 2013 is mainly the result of the unplanned unit outages during the year. Realized product crack spreads for all product groups were lower for the year due to lower market prices and the increased cost of RINs.

Crude feedstock costs in the fourth quarter of 2013 included higher priced light sweet crudes than in the prior year, partially offset by a widened sour crude differential of US\$4.77/bbl (the sour crude differential for the fourth quarter of 2012 was US\$3.22/bbl).

Crude feedstock differential for the year ended December 31, 2013 was comparable to that of 2012. Realized sour crude differential of US\$3.50/bbl for the year ended December 31, 2013 is US\$0.56/bbl higher than the sour crude differential of US\$2.94/bbl in the prior year. The widening differential has been offset by higher priced light sweet crudes which comprised 21% of the feedstock crude slate this year. The refinery did not process any sweet crude in 2012. The improved yields normally associated with processing light sweet crudes (higher yield of the high value light end products and a lower yield of the low value heavy products) have been offset by lower distillates yields arising from operational upsets and the reduced rates on the isomax unit for both the fourth quarter and year ended December 31, 2013.

The overall gross margin for the refinery is also impacted by the purchasing of blendstocks to meet summer gasoline specifications, additives to meet product specifications, the build of unfinished saleable products some of which are recorded at a value lower than cost, and inventory write-downs and reversals. These costs are included in "other costs" in the Summary of Gross Margin Table above. The increases of \$5.0 million and \$20.0 million for the three months and year ended December 31, 2013 respectively are mainly due to the sale and consumption of inventory partly offset by a decrease in purchases of product for local sales and blendstocks.

The gross margin from the marketing operations is comprised of the margin from both the retail and wholesale distribution of gasoline and home heating fuels as well as the revenues from marine services including tugboat revenues and reflects a moderate improvement for the three months and year ended December 31, 2013 as compared to the same periods in 2012.

During the three months and year ended December 31, 2013, the Canadian dollar weakened as compared to the US dollar. The weakening of the Canadian dollar in 2013 has had a positive impact to the contribution from the refinery operations relative to the prior year as substantially all of its gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

Operating Expenses

| | Three Months Ended December 31 | | | | | |
|----------------------------------|--------------------------------|-----------|-------|----------|-----------|-------|
| | 2013 | | | 2012 | | |
| | Refining | Marketing | Total | Refining | Marketing | Total |
| Operating cost | 26.0 | 5.3 | 31.3 | 26.6 | 5.4 | 32.0 |
| Purchased energy | 30.7 | - | 30.7 | 45.9 | - | 45.9 |
| | 56.7 | 5.3 | 62.0 | 72.5 | 5.4 | 77.9 |
| (\$/bbl of feedstock throughput) | | | | | | |
| Operating cost | 3.06 | - | - | 2.54 | - | - |
| Purchased energy | 3.62 | - | - | 4.37 | - | - |
| | 6.68 | - | - | 6.91 | - | - |

| | Year Ended December 31 | | | | | |
|----------------------------------|------------------------|-----------|-------|----------|-----------|-------|
| | 2013 | | | 2012 | | |
| | Refining | Marketing | Total | Refining | Marketing | Total |
| Operating cost | 104.8 | 21.6 | 126.4 | 101.7 | 20.2 | 121.9 |
| Purchased energy | 106.7 | - | 106.7 | 140.7 | - | 140.7 |
| | 211.5 | 21.6 | 233.1 | 242.4 | 20.2 | 262.6 |
| (\$/bbl of feedstock throughput) | | | | | | |
| Operating cost | 2.92 | - | - | 2.69 | - | - |
| Purchased energy | 2.98 | - | - | 3.72 | - | - |
| | 5.90 | - | - | 6.41 | - | - |

The refining operating cost per barrel of feedstock throughput increased by 20% in the fourth quarter of 2013 and 9% for the year ended as compared to the prior year mainly as a result of decreased throughput in 2013.

Purchased energy, consisting of LSFO and electricity, is required to provide heat and power to refinery operations. The purchased energy cost per barrel of feedstock throughput decreased by 17% and 20% respectively during the three months and year ended December 31, 2013 from the same periods of 2012 mainly due to a lower volume of purchased energy as a result of a higher consumption of produced fuel, combined with lower prices and lower throughput rates in 2013.

Capital Assets Additions

Capital asset additions for the three months and year ended December 31, 2013 totaled \$18.1 million and \$53.2 million respectively (2012 - \$21.5 million and \$54.2 million respectively), relating to various capital projects including the purchase of a compressor, partial change-out of the isomax catalyst, crude tank recertification and turnaround planning and preparation costs.

Depreciation and Amortization Expense

| | Three Months Ended December 31 | | Year Ended December 31 | |
|-------------------------------------|-----------------------------------|------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Refining | 17.7 | 29.5 | 79.0 | 105.3 |
| Marketing | 0.9 | 0.9 | 3.8 | 3.6 |
| Total depreciation and amortization | 18.6 | 30.4 | 82.8 | 108.9 |

Depreciation and amortization expense decreased \$11.8 million and \$26.3 million respectively for the three months and year ended December 31, 2013 as compared to 2012 because of the \$535.5 million impairment of refinery property, plant and equipment which occurred in the fourth quarter of 2012. The process units are amortized over an average useful life of 20 to 35 years and turnaround costs are amortized to the next scheduled turnaround.

Decommissioning Liabilities

Harvest's Downstream decommissioning liabilities result from the ownership of the refinery and marketing assets. At December 31, 2013, Downstream's decommissioning liabilities were \$16.7 million (December 31, 2012 – \$16.2 million) relating to the reclamation and abandonment of these assets with an expected abandonment date of 2069. Please see "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.

Impairment of Property, Plant and Equipment

During the fourth quarter of 2013, Harvest recorded an impairment of \$458.9 million (2012 – \$535.5 million) on its refinery CGU relating to the PP&E to reflect the excess of the carrying value over the assessed recoverable amount. The recoverable amount was based on the CGU's VIU, estimated using the net present value of future cash flows and using a pre-tax discount rate of 16% (2012 – 16%). See note 9 of the December 31, 2013 consolidated financial statements for further discussion.

RISK MANAGEMENT, FINANCING AND OTHER
Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. The following is a summary of Harvest's risk management contracts outstanding at December 31, 2013:

Contracts Designated as Hedges

| Contract Quantity | Type of Contract | Term | Contract Price | Fair Value |
|-------------------|------------------|----------------|----------------|------------|
| 36,750 GJ/day | AECO swap | Jan – Dec 2014 | \$3.71/GJ | \$ 0.2 |

Contracts Not Designated as Hedges

| Contract Quantity | Type of Contract | Term | Contract Price | Fair Value |
|-------------------|------------------|----------------|----------------|------------|
| 30 MWh | AESO power swap | Jan – Dec 2014 | \$55.29/MWh | \$ (0.5) |

The following is a summary of Harvest's realized and unrealized (gains) losses on risk management contracts:

Three Months Ended December 31

| | 2013 | | | | | 2012 | | |
|---|-------|-----------|----------|-------------|--------|-----------|----------|-------|
| | Power | Crude Oil | Currency | Natural Gas | Total | Crude Oil | Currency | Total |
| Realized (gains) losses recognized in: | | | | | | | | |
| Revenues | – | (9.7) | – | (0.8) | (10.5) | (8.3) | – | (8.3) |
| Risk management (gains) losses | 0.2 | (0.9) | 0.1 | – | (0.6) | (2.8) | 0.2 | (2.6) |

Unrealized (gains) losses recognized in:

| | | | | | | | | |
|--------------------------------|-----|-------|---|-----|-------|-------|---|-------|
| OCI, before tax | – | (5.8) | – | 0.8 | (5.0) | (1.5) | – | (1.5) |
| Risk management (gains) losses | 0.8 | 0.8 | – | – | 1.6 | 0.1 | – | 0.1 |

Year Ended December 31

| | 2013 | | | | | 2012 | | |
|---|-------|-----------|----------|-------------|-------|-----------|----------|--------|
| | Power | Crude Oil | Currency | Natural Gas | Total | Crude Oil | Currency | Total |
| Realized (gains) losses recognized in: | | | | | | | | |
| Revenues | – | 3.3 | – | (7.2) | (3.9) | (29.6) | – | (29.6) |
| Risk management (gains) losses | (3.1) | (0.4) | (1.4) | – | (4.9) | (2.1) | 0.5 | (1.6) |

Unrealized (gains) losses recognized in:

| | | | | | | | | |
|--------------------------------|-----|-----|---|-------|-------|--------|---|--------|
| OCI, before tax | – | 3.3 | – | (5.7) | (2.4) | (12.2) | – | (12.2) |
| Risk management (gains) losses | 0.5 | – | – | – | 0.5 | 1.1 | – | 1.1 |

Financing Costs

| | Three Months Ended December 31 | | Year Ended December 31 | |
|--|-----------------------------------|-------|---------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Credit facility | 6.3 | 4.8 | 20.3 | 17.2 |
| Convertible debentures | — | 10.8 | 14.9 | 47.7 |
| 6 $\frac{7}{8}$ % senior notes | 9.6 | 9.0 | 37.4 | 36.2 |
| 2 $\frac{1}{8}$ % senior notes ⁽¹⁾ | 4.8 | — | 11.7 | — |
| Related party loans | 2.1 | 1.9 | 8.1 | 2.9 |
| Amortization of deferred finance charges and other | 0.8 | 0.2 | 2.9 | (0.1) |
| Interest and other financing charges | 23.6 | 26.7 | 95.3 | 103.9 |
| Accretion of decommissioning and environmental remediation liabilities | 5.6 | 5.2 | 22.3 | 20.7 |
| Gain on redemption of convertible debentures | — | — | (3.6) | (0.1) |
| Less: capitalized interest | (8.7) | (3.3) | (19.8) | (13.5) |
| | 20.5 | 28.6 | 94.2 | 111.0 |

(1) Includes guarantee fee to KNOC. See note 12 c) of the December 31, 2013 annual consolidated financial statements.

Finance costs on Harvest's credit facility increased by \$1.5 million and \$3.1 million for the fourth quarter and year ended December 31, 2013 mainly due to the higher average amount of loan principal outstanding during the periods as compared to the same periods in 2012. The effective interest rates for interest charges on the credit facility for the fourth quarter and year ended December 31, 2013 were 3.3% and 3.0%, respectively (2012 – 3.0% for both periods).

Interest expense on the convertible debentures for the fourth quarter and year ended December 31, 2013 decreased by \$10.8 million and \$32.8 million, respectively, as compared to the same periods in 2012. The decreases result from two series of convertible debentures being early redeemed in April and one series of convertible debentures being redeemed in June of 2013. A \$3.6 million gain was recognized on the early redemptions of the convertible debentures in the second quarter of 2013.

In May 2013, Harvest issued US\$630 million 2 $\frac{1}{8}$ % senior notes resulting in an interest expense and other financing costs of \$4.8 million for the fourth quarter and \$11.7 million for the year ended December 31, 2013.

Interest expense on the ANKOR related party loan was \$2.1 million and \$8.1 million for the fourth quarter and year ended December 31, 2013, respectively (2012 – \$1.9 million and \$2.9 million, respectively). The \$8.1 million reflected a full year of interest expense. See the "Related Party Transactions" section of this MD&A for discussion of the related party loan.

During the fourth quarter and year ended December 31, 2013, interest expense of \$8.7 million and \$19.8 million, respectively, was capitalized to BlackGold (2012 - \$3.3 million and \$13.5 million to BlackGold and Downstream's debottlenecking project). The changes in capitalized interest for the current year were due to increased capital expenditures for the BlackGold project, partially offset by the lack of qualifying Downstream capital expenditures and a lower weighted average interest rate.

Currency Exchange

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 6 $\frac{7}{8}$ % and 2 $\frac{1}{8}$ % senior notes, the ANKOR related party loan and on any U.S. dollar denominated monetary assets or liabilities. Upon the issuance of the US\$630 million 2 $\frac{1}{8}$ % senior notes during the second quarter of 2013, Harvest has increased its sensitivity to fluctuations in the US/Canadian exchange rate. At December 31, 2013, the Canadian dollar had weakened compared to the US dollar as at September 30, 2013 resulting in an unrealized foreign exchange loss of \$24.0 million (2012 - \$3.8 million) for the fourth quarter of 2013. The Canadian dollar weakened at December 31, 2013 as compared to December 31, 2012 resulting in an unrealized foreign exchange loss of \$40.8 million (2012 - \$1.2 million gain) for the year ended December 31, 2013. Harvest recognized a realized foreign exchange loss of \$1.2 million (2012 - \$1.0 million gain) and a \$3.4 million loss (2012 - \$0.1 million gain) for the fourth quarter and year ended December 31, 2013, respectively, as a result of the settlement of U.S. dollar denominated transactions.

The cumulative translation adjustment recognized in other comprehensive income represents the translation of the Downstream operations' U.S. dollar functional currency financial statements to Canadian dollars. During the fourth quarter of 2013, Downstream operations incurred a net cumulative translation gain of \$0.8 million (2012 - gain of \$8.5 million) and for the year ended December 31, 2013 recognized a gain of \$7.9 million (2012 - loss of \$17.7 million) as a result of the changes in the Canadian dollar relative to the U.S. dollar at December 31, 2013 compared to both September 30, 2013 and December 31, 2012. As Downstream operations' functional currency is denominated in U.S. dollars, the strengthening (weakening) of the U.S. dollar would result in gains (losses) from decommissioning liabilities, pension obligations, accounts payable and other balances that are denominated in Canadian dollars, which partially offset the unrealized losses (gains) recognized on the senior notes, ANKOR loan and Upstream U.S. dollar denominated monetary items.

Deferred Income Taxes

For the three months and year ending December 31, 2013, Harvest recorded a deferred income tax recovery of \$32.0 million (2012 - \$24.7 million) and a recovery of \$64.2 million (2012 - \$81.6 million), respectively. Harvest's deferred income tax asset (liability) will fluctuate during each accounting period to reflect changes in the temporary differences between the book value and tax basis of assets as well as legislative tax rate changes. Currently, the principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the three months and year ended December 31, 2013:

Related Party Loans

- On December 30, 2013, Harvest entered into a five year subordinated loan agreement with KNOC to borrow up to \$200 million at a fixed interest rate of 5.3% per annum. The full principal and accrued interest is payable on December 30, 2018. As of December 31, 2013, Harvest has drawn \$80 million from the \$200 million available under the loan agreement (December 31, 2012 - \$nil). The loan

amount was recorded at fair value on initial recognition by discounting the future cash payments at the prevailing market interest rate of 7% for loans with similar terms. The difference between the fair value and the loan amount of \$4.3 million was recognized in contributed surplus. For the year ended December 31, 2013, interest expense of \$nil was recorded (2012 - \$nil). On February 28, 2014, Harvest borrowed an additional \$80.0 million under the subordinated loan agreement.

- On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow US\$170 million at a fixed interest rate of 4.62% per annum. The principal balance outstanding and accrued interest is revalued using the exchange rate at the end of each reporting period. At December 31, 2013, Harvest's related party loan from ANKOR included \$180.8 million (December 31, 2012 - \$169.1 million) of principal and \$3.0 million (December 31, 2012 - \$3.0 million) of accrued interest. Interest expense was \$8.1 million for the year ended December 31, 2013 (2012 - \$3.0 million; 2011 - \$nil).

Other Related Party Transactions

| | Transactions | | | | Balance Outstanding | | | |
|--|--------------------------------|-------|------------------------|-------|---------------------------------------|------|------------------------------------|------|
| | Three Months Ended December 31 | | Year Ended December 31 | | Accounts Receivable as at December 31 | | Accounts Payable as at December 31 | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | | | | | |
| KNOC ⁽¹⁾⁽²⁾ | – | – | 4.1 | 0.1 | – | – | – | – |
| Other KNOC Subsidiaries ⁽²⁾ | 0.2 | 0.3 | 0.8 | 0.8 | – | 0.1 | – | – |
| Operating Expenses | | | | | | | | |
| Other KNOC Subsidiaries ⁽³⁾ | 0.2 | 0.1 | 0.5 | 0.4 | – | – | – | 0.3 |
| G&A Expenses | | | | | | | | |
| KNOC ⁽⁴⁾ | (1.2) | (4.1) | (3.5) | (5.6) | – | 1.6 | 0.5 | – |
| Finance Costs | | | | | | | | |
| KNOC ⁽⁵⁾ | 1.1 | – | 2.8 | – | – | – | 0.5 | – |

⁽¹⁾ Global Technology and Research Centre ("GTRC") is used as a training and research facility for KNOC. In 2013, the amount is related to a geological study performed by GTRC on behalf of KNOC.

⁽²⁾ KNOC Trading Corporation ("KNOC Trading") is a wholly owned subsidiary of North Atlantic. KNOC Trading bills KNOC, Ankora E&P Holdings Corp. ("ANKOR") and Dana Petroleum plc ("Dana") for oil marketing services, such as the sale of products, performed on behalf of KNOC, ANKOR and Dana. Both ANKOR and Dana are wholly owned subsidiaries of KNOC.

⁽³⁾ Billing from Ankora for office rent and salaries and benefits related to KNOC Trading.

⁽⁴⁾ Reimbursement from KNOC for general and administrative expenses incurred by GTRC. Also included is Harvest's reimbursement to KNOC for secondees salaries paid by KNOC on behalf of Harvest.

⁽⁵⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½% senior notes and the senior unsecured credit facility. A guarantee fee of 52 basis points per annum is charged by KNOC.

- On February 28, 2014 KNOC purchased 100% of the shares of KNOC Trading Corporation for US\$0.4 million.

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.

CAPITAL RESOURCES

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

| | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Debts | | |
| Credit facility ⁽¹⁾ | 788.5 | 494.2 |
| 6% senior notes (US\$500 million) ⁽²⁾ | 531.8 | 497.5 |
| 2% senior notes (US\$630 million) ⁽²⁾ | 670.1 | — |
| Related party loans (US\$170 million and CAD\$80 million) ⁽²⁾ | 260.8 | 169.1 |
| Convertible debentures, at principal amount | — | 627.2 |
| | 2,251.2 | 1,788.0 |
| Shareholder's Equity | | |
| 386,078,649 common shares issued ⁽³⁾ | 1,939.2 | 2,691.9 |
| | 4,190.4 | 4,479.9 |
| Financial Ratios ^{(4) (5)} | | |
| Senior debt to annualized EBITDA | 2.41 | 1.10 |
| Annualized EBITDA to annualized interest expense | 3.62 | n/a |
| Senior debt to total capitalization | 22% | 14% |
| Total debt to total capitalization | 54% | 41% |

(1) The credit facility net of deferred financing costs is \$785.2 million (2012 - \$491.3 million).

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

(3) As at March 6, 2014, the number of common shares issued is 386,078,649.

(4) Calculated based on Harvest's credit facility covenant requirements (see note 12 of the December 31, 2013 annual consolidated financial statements).

(5) The financial ratios and their components are non-GAAP measures; please refer to the "Non-GAAP Measures" section of this MD&A.

Effective April 1, 2013, the financial covenants for the credit facility agreement were amended to remove the total debt to annualized EBITDA ratio and to add an interest coverage ratio (annualized EBITDA to annualized interest expense). The interest coverage ratio cannot be less than 2.50:1.

LIQUIDITY

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

Cash flow from operating activities for the three and twelve months ended December 31, 2013 were \$6.1 million and \$200.6 million, respectively (2012 - \$133.0million and \$442.8 million, respectively).

Cash contribution from Harvest's Upstream operations was \$119.5 million for the fourth quarter of 2013, a \$40.9 million decrease from the same period in 2012 mainly due to lower sales volumes and operating netback per boe. For the year ended December 31, 2013, cash contribution from Upstream operations was

\$518.2 million, a \$63.7 million decrease from the same period in 2012 mainly driven by lower sales volumes, partially offset by higher operating netback per boe. Cash deficiency from Harvest's Downstream operations was \$32.3 million (2012 - \$3.0 million) and \$152.4 million (2012 - \$41.7 million) for the fourth quarter and twelve months ended December 31, 2013, respectively. The increases in Downstream's cash deficiency were mainly due to lower average refining gross margins per bbl and poorer yield mix, partially offset by decreases in throughput volumes as compared to the prior year periods. See the "Cash Contribution (Deficiency) from Operations" section of this MD&A for further detail.

Harvest's net borrowing from the credit facility was \$124.8 million during the fourth quarter of 2013 (2012 - \$80.2 million net repayment). For the twelve months ending December 31, 2013, Harvest had \$293.8 million of net borrowings under the credit facility (2012 - \$135.1 million).

Harvest funded \$249.7 million and \$758.1 million of capital expenditures for the three and twelve months ending December 31, 2013, respectively, (2012 - \$152.7 million and \$661.2 million respectively) with cash generated from operating activities, property dispositions and borrowings under the credit facility.

Harvest had a working capital deficiency of \$75.4 million as at December 31, 2013, as compared to a \$441.9 million deficiency at December 31, 2012. The change in the working capital position in 2013 was primarily related to the redemption of the 7.25% Debentures Due 2013 which had been classified as \$331.8 million current liabilities as at December 31, 2012. Harvest's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility, as required.

The following liquidity-related events occurred in 2013:

- Effective March 14, 2013, Harvest entered into a senior unsecured credit facility. Draws under the senior unsecured credit facility were made for an aggregate amount of US\$390 million and were used to fund the early redemptions of Harvest's 7.25% Debentures Due 2014 on April 2, 2013 and its 7.25% Debentures Due 2013 on April 15, 2013. The facility was fully repaid and cancelled during the second quarter.
- Harvest extended the credit facility maturity date by one year to April 30, 2017.
- On May 14, 2013, Harvest issued US\$630 million senior unsecured notes due May 14, 2018 for net proceeds of US\$626.1 million. The notes bear a coupon rate of 2½%, with interest paid semi-annually on May 14 and November 14 of each year. The notes are unconditionally and irrevocably guaranteed by Harvest's parent company KNOC. Harvest used the proceeds from the senior unsecured notes towards the full repayment of the draws under the senior unsecured credit facility and on June 13, 2013 early redeemed, at par, the 7.50% Debentures Due 2015.
- On October 18, 2013, the borrowing capacity of the credit facility was increased from \$800 million to \$1.0 billion.
- On December 30, 2013 Harvest entered into a five year \$200 million subordinated loan agreement with KNOC and borrowed \$80 million thereunder. On February 28, 2014, Harvest borrowed an additional \$80.0 million under the subordinated loan agreement. See "Related Party Transactions" for more detail.

- With the full redemption of its convertible debentures during 2013, issuance of the 2½% senior notes and both the extension and increased capacity of the credit facility, Harvest successfully improved its short-term liquidity and lowered future interest expenses.

Harvest ensures its liquidity through the management of its capital structure, seeking to balance the amount of debt and equity used to fund investment in each of our operating segments. Harvest evaluates its capital structure using the same financial covenant ratios as the ones externally imposed under the Company's credit facility (see note 12a of the December 31, 2013 annual consolidated financial statements). 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, to ensure compliance. Harvest was in compliance with all debt covenants at December 31, 2013 and the prior period.

If Harvest had fully drawn down the \$200 million available under the KNOC subordinated loan agreement and applied the proceeds against its borrowings under the credit facility, the "total debt to total capitalization" covenant ratio would have decreased to 51% as at December 31, 2013. Harvest had \$211.5 million and 120.0 million of borrowing room under the credit facility and KNOC subordinated loan agreement, respectively as at December 31, 2013; Harvest expects to meet its future cash requirements and financial obligations with cash from operations and these undrawn borrowings.

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at the end of December 31, 2013, Harvest has the following significant contractual obligations and estimated commitments:

| | Payments Due by Period | | | | |
|--|------------------------|--------------|----------------|----------------|----------------|
| | 1 year | 2-3 years | 4-5 years | After 5 years | Total |
| Debt repayments ⁽¹⁾ | 12.3 | — | 2,243.3 | — | 2,255.6 |
| Debt interest payments ^{(1) (2)} | 76.8 | 153.3 | 121.6 | — | 351.7 |
| Purchase commitments ⁽³⁾ | 75.5 | 20.0 | 70.0 | — | 165.5 |
| Operating leases | 11.8 | 8.6 | 6.2 | 2.8 | 29.4 |
| Firm processing commitments | 9.0 | 32.2 | 27.0 | 97.7 | 165.9 |
| Firm transportation agreements | 9.6 | 38.8 | 49.9 | 92.2 | 190.5 |
| Feedstock and other purchase commitments ⁽⁴⁾ | 927.8 | — | — | — | 927.8 |
| Employee benefits ⁽⁵⁾ | 2.6 | 5.2 | 1.2 | 3.8 | 12.8 |
| Decommissioning and environmental liabilities ⁽⁶⁾ | 35.6 | 60.7 | 42.9 | 1,485.7 | 1,624.9 |
| Total | 1,161.0 | 318.8 | 2,562.1 | 1,682.2 | 5,724.1 |

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at December 31, 2013 will be applicable to future interest payments.

(3) Relates to drilling commitments, BlackGold oil sands project commitment and Downstream capital commitments.

(4) Includes commitments to purchase refinery crude stock and refined products for resale under the supply and offtake agreement with Macquarie Energy Canada Ltd. ("Macquarie"). The amount will be net settled against any product sales to Macquarie as per the master netting arrangement.

(5) Relates to the expected contributions to employee benefit plans and long-term incentive plan payments.

(6) Represents the undiscounted obligation by period.

Off Balance Sheet Arrangements

As at December 31, 2013, Harvest has no off balance sheet arrangements in place.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the fourth quarter of 2013 results relative to the preceding 7 quarters:

| | 2013 | | | | 2012 | | | |
|---|----------------|---------|---------|---------|---------|---------|---------|---------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| FINANCIAL | | | | | | | | |
| Revenues | 1,307.3 | 1,299.9 | 1,399.3 | 1,358.2 | 1,546.0 | 1,275.1 | 1,533.8 | 1,426.1 |
| Net loss | (517.8) | (79.5) | (89.2) | (95.4) | (536.7) | (38.5) | (73.5) | (72.3) |
| Cash from operating activities | 6.1 | 50.6 | 77.3 | 66.6 | 133.0 | 153.9 | 70.8 | 85.1 |
| Total financial debt ⁽¹⁾ , non-current | 2,232.6 | 1,989.0 | 1,920.6 | 1,511.2 | 1,450.0 | 1,519.4 | 1,770.7 | 1,652.4 |
| Total assets | 5,289.9 | 5,626.1 | 5,606.6 | 5,672.1 | 5,654.6 | 6,162.9 | 6,277.5 | 6,322.3 |
| OPERATIONS | | | | | | | | |
| Upstream | | | | | | | | |
| Daily sales volumes (boe/d) | 49,154 | 51,783 | 53,461 | 55,571 | 58,228 | 57,686 | 60,874 | 60,550 |
| Realized price prior to hedges (\$/boe) | 54.01 | 60.62 | 58.22 | 53.43 | 52.82 | 51.86 | 51.42 | 58.07 |
| Downstream | | | | | | | | |
| Average daily throughput (bbl/d) | 92,339 | 93,798 | 106,245 | 100,074 | 114,065 | 84,889 | 114,552 | 100,000 |
| Average refining gross margin (loss) (US\$/bbl) | 2.50 | (1.43) | 0.74 | 2.51 | 6.43 | 6.03 | 2.71 | 4.58 |

(1) 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 Upstream sales volumes, realized prices and operating expenses and Downstream throughput volumes, cost of feedstock and refined product prices. Significant items that impacted Harvest's quarterly revenues include:

- Revenues were highest in the fourth and second quarters of 2012, as a result of the refinery operating at near capacity during those periods.
- The decline in Upstream's sales volumes since 2012 were mainly due to natural declines, asset dispositions and a reduced capital program since 2012.
- Downstream's average daily throughput was lower in the third quarter of 2012 as compared to the other reported quarters due to a two-week partial outage of some process units and a three-week unplanned shutdown of all process units while repairs were completed to the SRU. The average daily throughput was lower in the third quarter of 2013 due to repairs on the SRU reactor and lower in the fourth quarter of 2013 due to repairs and maintenance of the isomax and crude units.
- Downstream's refining gross margin/bbl was highest in the fourth quarter of 2012, reflecting the higher global refining crack spreads during these periods. However the weaker margins experienced in the following quarters reflect poorer yield and the decrease in the sour-crude differential from the

Brent benchmark price for crude oil. The refining gross margin was negatively impacted by increased RINs costs since the second quarter of 2013.

Net loss reflects both cash and non-cash items. Changes in non-cash items including deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on risk management 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. Net losses in the fourth quarters of 2013 and 2012 were mainly due to the \$458.9 million and \$535.5 million impairments, respectively, of Downstream PP&E. Total assets also decreased significantly in the fourth quarters of 2013 and 2012 as a result.

Cash from operating activities is lowest in the fourth quarter of 2013. This is mainly due to a \$55 million change in non-cash working capital as compared to the third quarter of 2013, as Harvest significantly reduced its accounts payable balance.

The increase in long-term financial debt in the second quarter of 2013 was a result of the issuance of the US\$630 million 2½% senior notes due 2018 which were used to early redeem Harvest's convertible debentures, a portion of which had been classified as short-term debt. The \$243.6 million increase in long-term financial debt in fourth quarter of 2013 as compared to the third quarter of 2013 was mainly a result of \$125 million of further draws on our credit facility, receiving \$80 million under the KNOC subordinated loan agreement and the \$44 million impact of the weakening Canadian dollar on our U.S. dollar denominated debt.

SELECTED ANNUAL INFORMATION

| | Year Ended December 31 | | |
|--|------------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| FINANCIAL | | | |
| Revenues ⁽¹⁾ | 5,364.7 | 5,781.0 | 4,393.7 |
| Cash from operating activities | 200.6 | 442.8 | 560.5 |
| Net loss | (781.9) | (721.0) | (105.4) |
| Total financial liabilities, non-current | 2,301.8 | 1,454.7 | 1,593.3 |
| Total assets | 5,289.9 | 5,654.6 | 6,284.4 |

(1) Revenues are net of royalties and the effective portion of Harvest's realized crude oil hedges.

2014 OUTLOOK

The following guidance is provided as general information for stakeholders regarding management's expectations for 2014 for the Upstream, BlackGold and Downstream business segments. The guidance information provided is consistent with Harvest's most recent budget information. Readers are cautioned that the guidance information provided within this Outlook may not be appropriate for other purposes and the actual results may differ materially from those anticipated.

Harvest's capital expenditure budget for 2014 is \$620 million, comprised of \$350 million for Upstream oil & gas operations, \$131 million the BlackGold oil sands project, and \$139 million for the Downstream refining and marketing business.

Upstream

Production volume is targeted at approximately 48,800 boe/d reflecting natural declines and assets dispositions during 2013 and our 2014 operating costs are expected to average \$17.80/boe.

Harvest has not budgeted for asset acquisitions or dispositions. The Company has identified non-core properties for disposition representing approximately 2,400 boe/d of production. Proceeds from dispositions would be used to manage Harvest's liquidity, fund development of core assets and for the acquisition of strategic assets.

BlackGold

Due to extreme winter conditions the project scaled back construction activities during the first quarter of 2014. Harvest anticipates resuming full construction activities in the second quarter of 2014 and has revised the project schedule accordingly.

Harvest anticipates construction completion of the 10,000 bbl/d Phase 1 CPF in the second half of 2014 with first steam expected in the fourth quarter of 2014.

Downstream

A turnaround is scheduled for the second half of 2014 and will utilize approximately 60% of the capital budget with the remainder allocated to sustaining and reliability improvement projects.

For the full year 2014, throughput is anticipated to average approximately 92,500 bbl/d, with operating costs and purchased energy costs aggregating to approximately \$8.00/bbl.

Harvest continues to evaluate various business opportunities pertaining to the Downstream business including, but not limited to introduction of joint venture partners, disposition in whole or in part as well as multiple economic scenarios for future operations. An outcome or recommendation arising out of this review has not been determined to date.

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. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(a) Joint arrangements

Judgment is required to determine when Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The

considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 4 of the December 31, 2013 consolidated financial statements for more details.

(b) Reserves

The provision for depletion and depreciation of Upstream assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Upstream and BlackGold's decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to Upstream and BlackGold may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets. Revisions or changes in the reserve estimates can have either a positive or a negative impact on net income and PP&E.

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

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

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

(c) Impairment of long-lived assets

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

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCS. To determine the recoverable amounts, Harvest uses reserve estimates for both the Upstream and BlackGold operating segments and expected future cash flows for the Downstream

operations. The estimates of reserves, future commodity prices, refining margins, forecast refinery utilization and yields, discount rates, operating expenses and sustaining capital expenditures require significant judgments. FVLCS is determined using significant judgments, see notes 5(i) and 9 of the December 31, 2013 consolidated financial statements for further discussion.

(d) Provisions

In the determination of provisions, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, risk-free discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E.

(e) Employee benefits

Harvest's Downstream operations maintains a defined benefit pension plan and provides certain post-retirement health care benefits, which cover the majority of its Downstream employees and their surviving spouses. An independent actuary determines the costs of the Company's employee future benefit programs using certain management assumptions and estimates such as, the expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, employee turnover and discount rates. The obligation and expense recorded related to Harvest's employee future benefit plans could increase or decrease if there were to be a change in these estimates.

The Company also maintains a long-term incentive plan which is a performance-based program. As a result, the compensation costs accrued for the plan are subject to the estimation of what the ultimate payout will be and are subject to management's judgment as to whether or not the performance criteria will be met.

(f) Fair value of acquired assets and liabilities

Business acquisitions are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of the acquisition. In determining the fair value of the assets and liabilities, Harvest is often required to make assumptions and estimates, such as reserves, future commodity prices, fair value of undeveloped land, discount rates, decommissioning liabilities and possible outcome of any assumed contingencies. Changes in any of these assumptions would impact amounts assigned to assets and liabilities and goodwill in the consideration transferred allocation and as a result, future net income.

(g) Risk management contracts

Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income. For risk management contracts designated as

hedges, changes in the above mentioned assumptions may impact hedge effectiveness assessment and Harvest's ability to continue applying hedge accounting.

(h) Income taxes

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

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(i) Fair value measurements

Significant judgment is required to determine what assumptions market participants would use to price an asset or a liability, such as forward prices, foreign exchange rates and discount rates. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. To determine "highest and best use" requires further judgment. Changes in estimates and assumptions about these inputs could affect the reported fair value. Refer to note 16 of the December 31, 2013 consolidated financial statements for further discussion.

(j) Contingencies

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Change in accounting estimate

Up to September 30, 2013, Harvest calculated depletion expense using a unit-of-production method where all unamortized PP&E costs were depleted based on proved developed oil and gas reserves.

As at October 1, 2013, a change in estimate was prospectively applied to the depletion calculation whereby costs related to developed oil and gas properties continue to be depleted based on proved developed reserves. Depletion of costs related to undeveloped oil and gas properties will start once such properties are developed. The costs relating to undeveloped oil and gas assets are transferred to the depletable pool as the underlying reserves are developed through drilling activities. The method of depleting oil and gas assets using the unit-of-production method over proved developed reserves remains unchanged.

Harvest's reserves profile has been trending towards a greater weighting of undeveloped reserves as a proportion of total reserves which triggered management to review the historical capital expenditures, reserves profile, and expected production profile of the Company. This change in estimate was made after the review and management concluded that the new estimation method would provide better matching of PP&E costs against the economic benefits from the periodic consumption of developed and undeveloped oil and gas assets of the Company.

If the new estimation method had been applied for the full year 2013, then the annual depreciation and depletion expense would be \$83.4 million lower than if the previous estimation method remained applicable for the full year. Harvest expects a similar magnitude of decrease to the depletion and depreciation expense for 2014. Harvest could not determine the effect of the change in estimate for future periods beyond 2014 as the information will not be meaningful since reserves estimates, production profile and capital expenditures for future periods are subject to high level of uncertainty.

Changes in accounting policies

Effective January 1, 2013, Harvest has adopted the following new IFRS standards and amendments:

- IAS 19, "Employee Benefits", changes the recognition and measurement of defined benefit pension expense and termination benefits and expands disclosure requirements for all employee benefit plans. The amendments to the standard include the requirement to recognize changes in the defined benefit obligation and in the fair value of the plan assets as they occur, thus eliminating the corridor approach that was previously permitted under the standard. All actuarial gains and losses must be recognized immediately through other comprehensive income and the net pension liability or asset must be recognized at the full amount of the plan deficit or surplus. An additional change to the standard is the elimination of the concept of expected return on plan assets that was previously recognized in net earnings and the introduction of the concept of net interest cost. The net interest cost is required to be recognized in net earnings and is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset. As well under IAS 19R unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to IAS 19R impacted Harvest's retained earnings and accumulated other comprehensive income as a result of the recognition of the net interest cost in profit or loss and the elimination of expected return on plan assets. The impacts as at December 31, 2012, January 1, 2012 and January 1, 2011, respectively, were an increase in the cumulative prior periods' pre-tax pension expense of \$2.7 million, \$1.6 million, and \$0.7 million (\$2.2 million, \$1.3 million and \$0.6 million after-tax, respectively) and a corresponding decrease in actuarial gains and losses recognized in accumulated other comprehensive income.

For the year ended December 31, 2012, operating expense increased by \$1.1 million (2011 - increased by \$0.9 million), as a result of increased pension expense and net actuarial losses on defined benefit plans recognized in other comprehensive income decreased by \$1.1 million or \$0.9 million after-tax (2011 - decreased by \$0.9 million or \$0.7 million after tax).

Harvest has also reviewed the classification of its accrual for the long term incentive program and reclassified the portion that will not be paid within the next 12 months to the line item "long-term liability and other" on the balance sheet. The balance of \$3.0 million as at December 31, 2012 and \$1.9 million as at January 1, 2012 were reclassified to long-term liabilities.

The rest of the amendments within IAS 19R did not have any financial impact to Harvest.

- IFRS 10, "Consolidated Financial Statements", replaces the consolidation requirements in SIC-12, "Consolidation - Special Purpose Entities" and a portion of IAS 27. IFRS 10 changes the definition of control under IFRS. The retrospective application of this standard does not have any impact on Harvest's financial statements.
- IFRS 11, "Joint Arrangements", focuses on the rights and obligations of the joint arrangement, rather than its legal form and requires joint arrangements to be classified either as joint operations or joint ventures. The retrospective application of this standard does not have any impact on Harvest's financial statements as substantially all assets are held in joint operations.
- IFRS 12, "Disclosure of Interest in Other Entities", is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structure entities and other off balance sheet interests. The retrospective application of this standard does not have any impact on Harvest's financial statements other than additional annual disclosures.
- IFRS 13, "Fair Value Measurement", provides a single source of guidance for fair value measurement and enhances disclosure requirements for information regarding fair value measurements. The adoption of this standard does not have any impact on Harvest's financial statements, other than increasing the level of disclosures provided in note 16 of the December 31, 2013 consolidated financial statements.
- The amendments to IFRS 7 "Financial Instruments: Disclosures" enhanced the disclosure requirements related to offsetting of financial assets and financial liabilities. The adoption of these amendments does not have any impact to Harvest's financial statements, other than increasing the level of annual disclosures provided in note 16 of the December 31, 2013 consolidated financial statements.
- In May 2013, the IASB released an amendment to IAS 36, "Impairment of Assets". This amendment requires an entity to disclose the recoverable amount of a cash generating unit for which the entity has recognized or reversed an impairment loss during the reporting period. If the recoverable amount was determined using fair value less costs of disposal, detailed disclosure of how it has been measured will be required. The amendment requires retrospective application and is effective for annual periods beginning on or after January 1, 2014. As allowed by the standard, Harvest early adopted the amendment in the current period. Refer to note 9 of the December 31, 2013 consolidated financial statements for the amended disclosure.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 27, 2013, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" regarding hedge accounting and novation of derivatives. The amendment provides a relief

from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The amendments are effective for annual periods beginning on or after January 1, 2014. Harvest does not expect material impact to its consolidated financial statements from this amendment.

IFRS 9 "Financial Instruments" is a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". In November 2009, the IASB issued the first phase of IFRS 9, which addresses classification and measurement of financial assets. In October 2010, IFRS 9 was updated to include guidance on financial liabilities and derecognition of financial instruments. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, IFRS 9 was amended to include guidance on hedge accounting and allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI. In addition, the previous mandatory effective date of January 1, 2015 was removed but the standard is still available for early adoption. As the standard is still under development by the IASB, the full impact of this standard on Harvest's consolidated financial statements will not be known until the project is complete. Harvest will continue to monitor the changes to this standard as they arise and will assess the impact accordingly.

In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" to clarify the requirements for offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. Harvest does not expect material impact to its consolidated financial statements from this amendment.

OPERATIONAL AND OTHER BUSINESS RISKS

Harvest's Upstream, BlackGold and Downstream operations are conducted in the same business environment as most other operators in the respective businesses and the business risks are very similar. Harvest has a risk management committee that meets on a regular basis to assess and manage operational and business risks and has a corporate Environment, Health and Safety ("EH&S") policy. The following summarizes the significant risks:

Risks Associated with Commodity Prices

Upstream

- Prices received for petroleum and natural gas have fluctuated widely in recent years. Natural gas prices have experienced significant declines since 2010. Crude oil differentials continue to be volatile. Decreases in commodity prices could reduce Harvest's earnings and cash flow and have resulted in shut-in of certain natural gas properties. Low commodity prices and/or wide crude oil differentials may also result in asset impairment. Harvest manages commodity price risks by entering into various commodity price risk management contracts. Refer to the "Cash Flow Risk Management" section of this MD&A for further information.

Downstream

- The market prices for crude oil feedstock and refined products have fluctuated significantly, the direction of the fluctuations may not match and the relative magnitude may be different resulting in volatile refining margins.

Risks Associated with Operations

Upstream

- The markets for petroleum and natural gas produced in western Canada are dependent upon available capacity to refine crude oil and process natural gas as well as pipeline or other methods to transport the products to consumers.
- Exploration and development activities may not yield anticipated production, and the associated cost outlay may not be recovered.
- Pipeline capacity and natural gas liquids fractionation capacity in Alberta has not kept pace with the drilling of liquid rich gas properties in some areas of the province which may limit production periodically.
- The production of petroleum and natural gas may involve a significant use of electrical power and since deregulation of the electric system in Alberta, electrical power prices in Alberta have been volatile. Increases in power prices reduce our cash flow and earnings. From time to time, Harvest may enter into electricity price swaps to manage our exposure to power price volatility.

Downstream

- Fluctuations in global demand and supply for crude oil and refined products could impact the refinery margins.
- Crude oil feedstock is delivered to the refinery via waterborne vessels which could experience delays due to weather, accidents, government regulations or third party actions.
- Downstream's refinery is a single train, integrated, interdependent facility which could experience a major interruption caused by an accident or severe weather damage. These potential interruptions may reduce or eliminate our cash flow.
- The refinery utilizes a supply and offtake agreement ("SOA") to facilitate the supply of crude feedstock to the refinery and the offtake of refined products. This agreement has termination rights and replacement arrangements may not be as favorable and may result in an increase in costs.
- There are risks and uncertainties affecting construction or planned maintenance schedules and costs, including the availability of materials, equipment, qualified personnel, impacts of competing projects drawing on the same resources during the same time period; and the potential for disruptions to operations and construction projects. Accordingly, actual costs can be materially different from estimates and could have a material adverse effect on our costs, results of operations and cash flows. In addition, maintenance activities may not improve operational performance or the outputs of related facilities and construction projects may not deliver anticipated results.
- Collective agreements with the employees and the United Steel Workers of America may not prevent a strike or work stoppage and future agreements may result in an increase in operating costs.
- The market prices for Renewable Identification Numbers ("RINs") have increased significantly in 2013 in response to fears of a shortage of renewable fuels to meet future demand resulting in aggressive buying efforts by refiners. The Renewable Fuels Standard ("RFS") was established in the US Energy Policy Act of 2005 ("EPA") and significantly expanded in the Energy Independence and Security Act

of 2007 ("EISA"). The EISA set mandated levels for various types of renewable fuels that are to be blended with US gasoline and diesel fuel with such levels scheduled to increase progressively each year from 2008 until 2022. The compliance obligation rests with the producers and importers of the fuels.

In order to ensure compliance with mandated levels of blending, the EPA established a tracking system called RINs. RINs are a complex mechanism and are issued at the point of biofuels production or import. When biofuels change ownership, the RINs are also transferred to the refiners, importers, and blenders of the fuel. These RINs are submitted to regulators to confirm blending requirements have been met. The EPA is responsible for overseeing and enforcing blending mandates and developing regulations for RINs.

The uncertainty surrounding the availability of sufficient renewable fuels to meet the increasing mandated levels during future years will continue to play havoc on the cost of RINs as supply and demand will dictate the price at any given time. The market should respond to these increased costs by reflecting higher New York Harbour market selling prices for gasoline and diesel fuel, however, the increase in market prices may not necessarily correspond to the same level of increase in the cost of RINs. The market response may not always be immediate and will normally trail the change in RINs cost. The RINs increase volatility to Downstream's refining margins, which may negatively impact its operating results and cash flows.

Risks Associated with Reserve Estimates

- The reservoir and recovery information in reserve reports prepared by independent reserve evaluators are estimates and actual production and recovery rates may vary from the estimates and the variations may be significant.
- Prices paid for acquisitions are based in part on reserve report estimates and the assumptions made preparing the reserve reports are subject to change as well as geological and engineering uncertainty. The actual reserves acquired may be lower than expected, which could adversely impact our cash flow and earnings.

Risks Associated with the Oil Sands Project

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

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

- The operations of petroleum and natural gas properties involves a number of operating and natural hazards which may result in health and safety incidents, environmental damage and other unexpected and/or dangerous conditions.
- Decommissioning liabilities are calculated using estimated costs and timelines based upon current operational plans, technology and reclamation practices, and environmental regulations. These

factors are subject to change and such changes may impact the actual timing and amount of Harvest's decommissioning costs.

- The operations of petroleum and natural gas properties as well as the refinery are subject to environmental regulation pursuant to local, provincial and federal legislation. Changes in these regulations could have a material adverse effect as regards to operating costs and capital costs. A breach of such legislation may result in the imposition of fines as well as higher operating standards that may increase costs.
- The production of aviation fuels in the Downstream operations subjects us to liability should contaminants in the fuel result in aircraft engines being damaged which could result in aircraft incidents.
- Downstream's refining operations, which include the transportation and storage of a significant amount of crude oil and refined products, are adjacent to environmentally sensitive coastal waters, and are subject to hazards such as fires, explosions, spills and mechanical failures, any of which may result in personal injury, damage to Downstream's property and/or the property of others along with significant other liabilities in connection with a discharge of materials. Harvest regularly performs stack sampling, soil, vegetation, and fresh and ocean water tests, and we have monitoring stations to record the air quality in three adjacent communities, as well as at the refinery perimeter.
- Harvest's corporate EH&S program has a number of specific policies and practices to minimize the risk of safety hazards and environmental incidents. It also includes an emergency response program should an incident occur. If areas of higher risk are identified, Harvest will undertake to analyze and recommend changes to reduce the risk including replacement of specific infrastructure. In addition, our business units conduct emergency response training on a regular basis in all of our operating fields to ensure a high level of response capability when placed in a challenging situation. Harvest also performs safety and environmental audits of our operating facilities. In addition to the above, Harvest maintains business interruption insurance, commercial general liability insurance as well as specific environmental liability insurance, in amounts consistent with industry standards.
- Harvest carries industry standard property and liability insurance on its Upstream and Downstream operations. Losses associated with potential incidents described above could exceed insurance coverage limits.

Risks Associated with Liquidity

- Absent capital reinvestment or acquisition, Harvest's reserves and production levels from petroleum and natural gas properties will decline over time as a result of natural declines. As a result, cash generated from operating these properties may decline.
- Fluctuations in interest rates and the U.S./Canada exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.
- Harvest is required to comply with covenants under the credit facility and the senior notes. In the event that the Company does not comply with the covenants, its access to capital may be restricted or repayment may be required.
- Although the Company monitors the credit worthiness of third parties it contracts with through a formal risk management policy, there can be no assurance that the Company will not experience a loss for nonperformance by any counterparty with whom it has a commercial relationship. Such events may result in material adverse consequences on the business of the Company.

- Downstream operations are relying on the creditworthiness of Macquarie, the counter party to our SOA, for the purchase of feedstock and should their creditworthiness deteriorate, crude oil suppliers may restrict the sale of crude oil to Macquarie.
- Harvest's ability to make scheduled repayments or refinance its debt obligations will depend upon its financial and operating performance and continued support from KNOC, which in turn will partially depend upon prevailing industry and general economic conditions, KNOC's financial performance, and KNOC's support from the government of South Korea, which are beyond Harvest's control. There can be no assurance that our operating performance, cash flow and capital resources will be sufficient to service and/or repay the Company's debt in the future, in which case the Company may sell assets, enter into joint ventures with 3rd parties to support current and future capital projects, defer capital expenditures, and/or raise additional debt or equity from KNOC, to the extent available.

Harvest monitors its cash flow projections and covenants on a routine basis and will adjust its development plans accordingly in response to changes in commodity prices and cash flows.

General Business Risks

- The operation of petroleum and natural gas properties as well as the refinery requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- Skilled labor is necessary to run operations (both those employed directly by Harvest and by our contractors) and there is a risk that we may have difficulty in sourcing skilled labor which could lead to increased operating and capital costs.
- The loss of a member of our senior management team and/or key technical operations employee could result in a disruption to either our Upstream or Downstream operations.
- Upstream's crude oil sales, a large portion of Harvest's long-term debt and refining margins are denominated in US dollars while the Company incurs operating and capital costs in Canadian dollars which results in a currency exchange exposure.
- The operations of Harvest, including the refinery, operate under permits issued by the federal and provincial governments and these permits must be renewed periodically. The federal and provincial governments may make operating requirements more stringent which may require additional spending.
- Income tax laws, other laws or government incentive programs relating to the oil and gas industry, may in the future be changed or interpreted in a manner that affects Harvest or its stakeholders.

CHANGES IN REGULATORY ENVIRONMENT

The oil and gas industry is subject to extensive regulations imposed by many levels of government in Canada. Harvest currently operates in Alberta, British Columbia, Saskatchewan, and Newfoundland, all of which have different legislations and royalty programs which may be amended from time to time. A change in the royalty programs or legislations may have adverse impacts on Harvest's future earnings and cash flows. The following summarizes some of the changes to Harvest's regulatory environment during 2013:

Alberta

The Alberta Government revamped its regulatory framework developing a single regulatory body, the Alberta Energy Regulator ("AER"). This body will encompass responsibilities that were previously divided between Alberta Environment ("AENV"), Alberta Sustainable Resources Development ("SRD") and the Energy Resources Conservation Board ("ERCB"). Final changes in the regulatory process will cause companies to apply for applications in one Department commonly referred to as the "Super Board" and is planned for June 1, 2014.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2013 as defined under the rules adopted by the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2013, the disclosure controls and procedures were effective to ensure that information required to be disclosed by Harvest in reports that it files or submits to Canadian and U.S. securities authorities was recorded, processed, summarized and reported within the time period specified in Canadian and U.S. securities laws and was accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. The Company's DC&P are designed to provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS as issued by IASB. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operation of the Company's DC&P and ICFR as of December 31, 2013. The evaluation was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on the evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

There were no significant changes in internal controls over financial reporting for the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Because of its inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well

conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

ADDITIONAL GAAP MEASURE

Harvest uses "operating income (loss)", an additional GAAP measure that is not defined under IFRS hereinafter also referred to as "GAAP". The measure is commonly used for comparative purposes in the petroleum and natural gas and refining industries to reflect operating results before items not directly related to operations. Harvest uses this measure to assess and compare the performance of its operating segments.

NON-GAAP MEASURES

Throughout this MD&A, the Company has referred to certain measures of financial performance that are not specifically defined under GAAP such as "operating netbacks", "operating netback prior to/after hedging", "gross margin (loss)", "cash contribution (deficiency) from operations", "total debt", "total financial debt", "total capitalization", "Annualized EBITDA", "senior debt to Annualized EBITDA", "total debt to Annualized EBITDA", "senior debt to total capitalization", and "total debt to total capitalization".

"Operating netbacks" are reported on a per boe basis and used extensively in the Canadian energy sector for comparative purposes. "Operating netbacks" include revenues, operating expenses, transportation and marketing expenses, and realized gains or losses on risk management contracts. "Gross margin (loss)" is commonly used in the refining industry to reflect the net funds received from the sale of refined products after considering the cost to purchase the feedstock and is calculated by deducting purchased products for resale and processing from total revenue. "Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of the each segment of Harvest to generate the cash from operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. "Total debt", "total financial debt", "total capitalization", and "Annualized EBITDA" are used to assist management in assessing liquidity and the Company's ability to meet financial obligations. "Senior debt to Annualized EBITDA", "total debt to Annualized EBITDA", "senior debt to total capitalization" and "total debt to total capitalization" are terms defined in Harvest's credit facility agreement for the purpose of calculation of financial covenants. The non-GAAP measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other issuers. 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 Annualized EBITDA and cash contribution (deficiency) which are shown below.

Annualized EBITDA

The measure of Consolidated EBITDA (herein referred to as "Annualized EBITDA") used in Harvest's credit facility agreement is defined as earnings before finance costs, income tax expense or recovery, DD&A, exploration and evaluation costs, impairment of assets, unrealized gains or losses on risk management contracts, unrealized gains or losses on foreign exchange, gains or losses on disposition of assets and other non-cash items. The following is a reconciliation of Annualized EBITDA to the nearest GAAP measure net loss:

| | December 31, 2013 | December 31, 2012 |
|---|--------------------------|-------------------|
| Net loss | (781.9) | (721.0) |
| DD&A | 612.8 | 688.4 |
| Finance costs | 94.2 | 111.0 |
| Income tax recovery | (64.2) | (81.6) |
| EBITDA | (139.1) | (3.2) |
| Unrealized losses on risk management contracts | 0.5 | 1.1 |
| Unrealized (gains) losses on foreign exchange | 40.8 | (1.2) |
| Unsuccessful exploration and evaluation costs | 11.5 | 22.0 |
| Impairment of PP&E | 483.0 | 557.3 |
| Gains on disposition of PP&E | (34.1) | (30.3) |
| Other non-cash items | (1.7) | (5.6) |
| Adjustments on acquisitions and dispositions ⁽¹⁾ | (15.0) | (13.4) |
| Less earnings from non-restricted subsidiaries ⁽¹⁾ | (0.4) | (0.8) |
| Annualized EBITDA ⁽¹⁾ | 345.5 | 525.9 |

(1) Annualized EBITDA is on a consolidated basis for any period, the aggregate of the last four quarters of the earnings (calculated in accordance with GAAP) and accordingly is a twelve month rolling measure which, as well, is required to be adjusted to the net income impact from acquisitions or dispositions (with net proceeds over \$20 million) as if the transaction had been effected at the beginning of the period and excludes earnings attributable to the BlackGold assets and non-restricted subsidiaries.

Cash Contribution (Deficiency) from Operations

Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: general and administrative, exploration and evaluation, depletion, depreciation and amortization, gains on disposition of PP&E, risk management contracts gains or losses, impairment on PP&E, 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 the Upstream and Downstream segments of Harvest to generate cash from their operations and is calculated before changes in non-cash working capital. There are no operating activities to report for the BlackGold segment as it is under development. 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 December 31 | | | | | |
|---|--------------------------------|--------------|---------------|--------------|-------------|--------------|
| | Upstream | | Downstream | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Operating income (loss) | 2.3 | 36.1 | (506.4) | (566.0) | (504.1) | (529.9) |
| Adjustments: | | | | | | |
| Operating | 0.3 | 0.4 | (3.4) | (2.9) | (3.1) | (2.5) |
| General and administrative | 0.6 | 3.4 | — | — | 0.6 | 3.4 |
| Exploration and evaluation | 0.7 | 0.1 | — | — | 0.7 | 0.1 |
| Depletion, depreciation and amortization | 113.4 | 145.3 | 18.6 | 30.4 | 132.0 | 175.7 |
| Gains on disposition of PP&E | (23.5) | (25.0) | — | — | (23.5) | (25.0) |
| Unrealized losses on risk management contracts | 1.6 | 0.1 | — | — | 1.6 | 0.1 |
| Impairment on PP&E | 24.1 | — | 458.9 | 535.5 | 483.0 | 535.5 |
| Cash contribution (deficiency) from operations | 119.5 | 160.4 | (32.3) | (3.0) | 87.2 | 157.4 |
| Inclusion of items not attributable to segments: | | | | | | |
| Net cash interest paid | | | | | 11.7 | 20.6 |
| Realized foreign exchange losses (gains) | | | | | 1.1 | (1.0) |
| Consolidated cash contribution from operations | | | | | 74.4 | 137.8 |

| | Year Ended December 31 | | | | | |
|---|------------------------|--------------|----------------|---------------|--------------|--------------|
| | Upstream | | Downstream | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Operating loss | (16.6) | (12.7) | (691.1) | (680.2) | (707.7) | (692.9) |
| Adjustments: | | | | | | |
| Operating | 0.9 | 1.6 | (2.8) | (5.9) | (1.9) | (4.3) |
| General and administrative | 1.7 | (1.1) | – | – | 1.7 | (1.1) |
| Exploration and evaluation | 11.5 | 22.0 | – | – | 11.5 | 22.0 |
| Depletion, depreciation and amortization | 530.0 | 579.5 | 82.8 | 108.9 | 612.8 | 688.4 |
| Gains on disposition of PP&E | (33.9) | (30.3) | (0.2) | – | (34.1) | (30.3) |
| Unrealized losses on risk management contracts | 0.5 | 1.1 | – | – | 0.5 | 1.1 |
| Impairment on PP&E | 24.1 | 21.8 | 458.9 | 535.5 | 483.0 | 557.3 |
| Cash contribution (deficiency) from operations | 518.2 | 581.9 | (152.4) | (41.7) | 365.8 | 540.2 |
| Inclusion of items not attributable to segments: | | | | | | |
| Net cash interest paid | | | | | 72.9 | 87.9 |
| Realized foreign exchange losses (gains) | | | | | 3.4 | (0.1) |
| Consolidated cash contribution from operations | | | | | 289.5 | 452.4 |

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three months and year ended December 31, 2013 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 refining and marketing 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, the forward looking statements made in the "Outlook" section as well as statements made throughout with reference to the following items to future periods: production volumes, refinery throughput volumes, royalty rates, operating costs, commodity prices, general and administrative costs, 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 Upstream and BlackGold drilling programs, the ability to achieve the maximum capacity from the BlackGold central processing facilities, refinery utilization and reliability rates, availability of the credit facility, access and ability to raise capital, ability to maintain debt covenants, debt levels, recovery of long-lived assets, the timing and amount of decommission and environmental related costs, income taxes, cash from operating activities, regulatory approval of development projects and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "target", "plan", "potential", "intend", and similar expressions.

All of the forward-looking statements in this MD&A are qualified by the assumptions that are stated or inherent in such forward-looking statements. Although Harvest believes that these assumptions are reasonable based on the information available to us on the date such assumptions were made, this list is not exhaustive of the factors that may affect any of the forward-looking statements and the reader should not place an undue reliance on these assumptions and such forward-looking statements. The key assumptions that have been made in connection with the forward-looking statements include the following: that the Company will conduct its operations and achieve results of operations as anticipated; that its development plans and sustaining maintenance programs will achieve the expected results; the general continuance of current or, where applicable, assumed industry conditions; the continuation of assumed tax, royalty and regulatory regimes; the accuracy of the estimates of the Company's reserve volumes; commodity price, operation level, and cost assumptions; the continued availability of adequate cash flow and debt and/or equity financing to fund the Company's capital and operating requirements as needed; and the extent of Harvest's liabilities. Harvest believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

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

ADDITIONAL INFORMATION

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



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To the Shareholder and Directors of Harvest Operations Corporation

We have audited the accompanying consolidated financial statements of Harvest Operations Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and the consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Harvest Operations Corporation as at December 31, 2013 and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Comparative Information

Without modifying our opinion, we draw attention to Notes 2 and 3 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2012 and 2011, has been restated and that the comparative information presented as at January 1, 2012, has been derived from the consolidated financial statements as at and for the year ended December 31, 2011.

The consolidated financial statements of Harvest Operations Corp. as at and for the years ended December 31, 2012, and December 31, 2011, (from which the statement of financial position as January 1, 2012, has been derived), excluding the restatements described in Notes 2 and 3 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 28, 2013.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2013, we audited the restatements described in Notes 2 and 3 to the consolidated financial statements that was applied to restate the comparative information presented as at and for the year ended December 31, 2012 and as at January 1, 2012, (derived from the consolidated financial statements as at and for the year ended December 31, 2011). In our opinion, the restatements are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the December 31, 2012, consolidated financial statements, the December 31, 2011, consolidated financial statements (not presented herein) or the January 1, 2012, consolidated statement of financial position, other than with respect to the restatements described in Notes 2 and 3 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Accountants

March 6, 2014
Calgary, Canada



Ernst & Young LLP
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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
Harvest Operations Corp.:

We have audited, before the effects of the retrospective adjustments (1) for the adoption of International Accounting Standard 19: Employee Benefits (Revised), and (2) for reclassifications to certain financial statement amounts discussed in Notes 3 and 2, respectively, to the consolidated financial statements, the accompanying consolidated financial statements of Harvest Operations Corp. which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above, prior to the adjustments to record the impact of adopting the change in accounting policy for employee benefits and the reclassifications described in Notes 3 and 2, respectively, to the consolidated financial statements, present fairly, in all material respects, the financial position of Harvest Operations Corp. as at December 31, 2012 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the adoption of IAS 19 and for reclassifications to certain financial statement amounts, discussed in Notes 3 and 2, respectively, to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Ernst + Young LLP

Chartered Accountants

Calgary, Canada
February 28, 2013

MANAGEMENT'S REPORT

In management's opinion, the accompanying consolidated financial statements of Harvest Operations Corp. (the "Company") have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Since a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to March 6, 2014. Management is responsible for the consistency, therewith, of all other financial and operating data presented in Management's Discussion and Analysis for the year ended December 31, 2013.

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

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

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

The consolidated financial statements have been examined in 2013 by our auditors, KPMG LLP and in 2012 and 2011 by Ernst & Young LLP. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements prepared in accordance with IFRS as issued by the IASB. The Auditors' Report outlines the scope of their examination and sets forth their opinion on our consolidated financial statements.

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

(Signed)

Myunghuhn Yi
President and Chief Executive Officer

(Signed)

Chang-Koo Kang
Chief Financial Officer

Calgary, Alberta
March 6, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As At (millions of Canadian dollars) | Notes | December 31, 2013 | December 31, 2012 (Restated)* | January 1, 2012 (Restated)* |
|---|-------|-------------------|----------------------------------|--------------------------------|
| Assets | | | | |
| <i>Current assets</i> | | | | |
| Cash | 16 | \$ — | \$ 7.6 | \$ 6.6 |
| Accounts receivable | 16 | 168.9 | 175.6 | 212.3 |
| Inventories | 27 | 51.6 | 80.8 | 61.0 |
| Prepaid expenses | | 14.1 | 20.2 | 18.5 |
| Risk management contracts | 16 | 0.3 | 1.8 | 20.2 |
| Asset held for sale | 8 | — | 16.9 | — |
| | | 234.9 | 302.9 | 318.6 |
| <i>Non-current assets</i> | | | | |
| Long-term deposit | | 5.0 | 5.0 | 24.9 |
| Investment tax credits and other | 19 | 0.6 | 28.5 | 54.0 |
| Deferred income tax asset | 19 | 148.8 | 61.1 | — |
| Exploration and evaluation assets | 11 | 59.4 | 73.4 | 74.5 |
| Property, plant and equipment | 9 | 4,461.4 | 4,791.9 | 5,407.5 |
| Goodwill | 10 | 379.8 | 391.8 | 404.9 |
| | | 5,055.0 | 5,351.7 | 5,965.8 |
| Total assets | | \$ 5,289.9 | \$ 5,654.6 | \$ 6,284.4 |
| Liabilities | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable and accrued liabilities | 16 | \$ 258.3 | \$ 373.0 | \$ 462.2 |
| Current portion of long-term debt | 12,16 | 12.3 | 331.8 | 107.1 |
| Current portion of provisions | 17 | 39.1 | 28.1 | 17.1 |
| Risk management contracts | 16 | 0.6 | — | — |
| Liabilities associated with assets held for sale | 8 | — | 11.9 | — |
| | | 310.3 | 744.8 | 586.4 |
| <i>Non-current liabilities</i> | | | | |
| Long-term debt | 12,16 | 1,973.0 | 1,277.9 | 1,486.2 |
| Related party loans | 16,28 | 259.6 | 172.1 | — |
| Long-term liability | 16,18 | 69.5 | 8.2 | 2.7 |
| Non-current provisions | 17 | 731.5 | 727.3 | 674.5 |
| Post-employment benefit obligations | 26 | 6.8 | 32.4 | 26.0 |
| Deferred income tax liability | 19 | — | — | 54.9 |
| | | 3,040.4 | 2,217.9 | 2,244.3 |
| Total liabilities | | \$ 3,350.7 | \$ 2,962.7 | \$ 2,830.7 |
| Shareholder's equity | | | | |
| Shareholder's capital | 14 | 3,860.8 | 3,860.8 | 3,860.8 |
| Contributed surplus | 28 | 4.3 | — | — |
| Deficit | | (1,893.2) | (1,111.3) | (390.3) |
| Accumulated other comprehensive loss | 25 | (32.7) | (57.6) | (16.8) |
| Total shareholder's equity | | 1,939.2 | 2,691.9 | 3,453.7 |
| Total liabilities and shareholder's equity | | \$ 5,289.9 | \$ 5,654.6 | \$ 6,284.4 |

*See Note 3

Commitments [Note 29]

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

On behalf of the Board of Directors:

(Signed)

Randall Henderson, Director

(Signed)

Allan Buchignani, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31,

| <i>(millions of Canadian dollars)</i> | Notes | 2013 | 2012 <i>(Restated)*</i> | 2011 <i>(Restated)*</i> |
|---|-------|-------------------|----------------------------|----------------------------|
| Petroleum, natural gas, and refined products sales | | \$ 5,518.6 | \$ 5,945.6 | \$ 4,589.2 |
| Royalties | | (153.9) | (164.6) | (195.5) |
| Revenues | 20 | 5,364.7 | 5,781.0 | 4,393.7 |
| Expenses | | | | |
| Purchased products for processing and resale | 27 | 4,327.4 | 4,520.3 | 3,118.1 |
| Operating | 21 | 578.7 | 621.6 | 577.0 |
| Transportation and marketing | | 28.0 | 26.6 | 35.9 |
| General and administrative | 21 | 68.7 | 65.6 | 62.6 |
| Depletion, depreciation and amortization | 9 | 612.8 | 688.4 | 626.7 |
| Exploration and evaluation | 11 | 12.3 | 24.9 | 18.3 |
| Gains on disposition of property, plant and equipment | 8,9 | (34.1) | (30.3) | (7.9) |
| Finance costs | 22 | 94.2 | 111.0 | 109.1 |
| Risk management contracts gains | 16 | (4.4) | (0.5) | (6.7) |
| Foreign exchange (gains) losses | 23 | 44.2 | (1.3) | (4.0) |
| Impairment on property, plant and equipment | 9 | 483.0 | 557.3 | — |
| Loss before income tax | | (846.1) | (802.6) | (135.4) |
| Income tax recovery | 19 | (64.2) | (81.6) | (30.0) |
| Net loss | | \$ (781.9) | \$ (721.0) | \$ (105.4) |
| Other comprehensive loss ("OCL") | | | | |
| <i>Items that may be reclassified to net income</i> | | | | |
| (Losses) gains on designated cash flow hedges, net of tax | 16,25 | (1.1) | (13.2) | 19.4 |
| Gains (losses) on foreign currency translation | 25 | 7.9 | (17.7) | 21.5 |
| <i>Items that will not be reclassified to net income</i> | | | | |
| Actuarial gains (losses), net of tax | 25,26 | 18.1 | (9.9) | (4.2) |
| Comprehensive loss | | \$ (757.0) | \$ (761.8) | \$ (68.7) |

*See Note 3

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

| <i>(millions of Canadian dollars)</i> | Notes | Shareholder's Capital | Contributed Surplus | Deficit | Accumulated Other Comprehensive Loss | Total Shareholder's Equity |
|---|-------|--------------------------|------------------------|---------------------|---|----------------------------------|
| Balance at December 31, 2012 <i>(Restated)*</i> | | \$ 3,860.8 | \$ – | \$ (1,111.3) | \$ (57.6) | \$ 2,691.9 |
| Losses on derivatives designated as cash flow hedges, net of tax | 25 | – | – | – | (1.1) | (1.1) |
| Gains on foreign currency translation | 25 | – | – | – | 7.9 | 7.9 |
| Actuarial gains, net of tax | 25 | – | – | – | 18.1 | 18.1 |
| Shareholder loan | 28 | – | 4.3 | – | – | 4.3 |
| Net loss | | – | – | (781.9) | – | (781.9) |
| Balance at December 31, 2013 | | \$ 3,860.8 | \$ 4.3 | \$ (1,893.2) | \$ (32.7) | \$ 1,939.2 |
| Balance at December 31, 2011 <i>(Restated)*</i> | | \$ 3,860.8 | \$ – | \$ (390.3) | \$ (16.8) | \$ 3,453.7 |
| Losses on derivatives designated as cash flow hedges, net of tax | 25 | – | – | – | (13.2) | (13.2) |
| Losses on foreign currency translation | 25 | – | – | – | (17.7) | (17.7) |
| Actuarial losses, net of tax | 25 | – | – | – | (9.9) | (9.9) |
| Net loss | | – | – | (721.0) | – | (721.0) |
| Balance at December 31, 2012 <i>(Restated)*</i> | | \$ 3,860.8 | \$ – | \$ (1,111.3) | \$ (57.6) | \$ 2,691.9 |
| Balance at January 1, 2011 <i>(Restated)*</i> | | \$ 3,355.4 | \$ – | \$ (284.9) | \$ (53.5) | \$ 3,107.0 |
| Issued for cash | 7 | 505.4 | – | – | – | 505.4 |
| Gains on derivatives designated as cash flow hedges, net of tax | 25 | – | – | – | 19.4 | 19.4 |
| Gains on foreign currency translation | 25 | – | – | – | 21.5 | 21.5 |
| Actuarial losses, net of tax | 25 | – | – | – | (4.2) | (4.2) |
| Net loss | | – | – | (105.4) | – | (105.4) |
| Balance at December 31, 2011 <i>(Restated)*</i> | | \$ 3,860.8 | \$ – | \$ (390.3) | \$ (16.8) | \$ 3,453.7 |

*See Note 3

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Year Ended December 31 | | |
|---|-------|------------------------|--------------------|--------------------|
| | | 2013 | 2012 | 2011 |
| <i>(millions of Canadian dollars)</i> | | | <i>(Restated)*</i> | <i>(Restated)*</i> |
| | | Notes | | |
| Cash provided by (used in) | | | | |
| Operating Activities | | | | |
| Net loss | | \$ (781.9) | \$ (721.0) | \$ (105.4) |
| Items not requiring cash | | | | |
| Depletion, depreciation and amortization | | 612.8 | 688.4 | 626.7 |
| Accretion of decommissioning and environmental remediation liabilities | 17,22 | 22.3 | 20.7 | 23.6 |
| Unrealized (gains) losses on risk management contracts | 16 | 0.5 | 1.1 | (0.7) |
| Unrealized (gains) losses on foreign exchange | 23 | 40.8 | (1.2) | 2.6 |
| Unsuccessful exploration and evaluation costs | 11 | 11.5 | 22.0 | 17.8 |
| Impairment on property, plant and equipment | 9 | 483.0 | 557.3 | – |
| Gains on disposition of property, plant and equipment | 9 | (34.1) | (30.3) | (7.9) |
| Gains on redemption of convertible debentures | 12,22 | (3.6) | (0.1) | – |
| Deferred income tax recovery | 19 | (64.2) | (81.6) | (30.1) |
| Other non-cash items | | 2.4 | (3.1) | 4.9 |
| Realized foreign exchange loss on senior unsecured credit facility | 13 | 1.3 | – | – |
| Settlement of decommissioning and environmental remediation liabilities | 17 | (19.6) | (20.4) | (22.1) |
| Change in non-cash working capital | 24 | (70.6) | 11.0 | 51.1 |
| | | \$ 200.6 | \$ 442.8 | \$ 560.5 |
| Financing Activities | | | | |
| Issuance of common shares, net of issuance costs | 7,14 | – | – | 505.4 |
| Bank borrowing, net | 12 | 293.8 | 135.1 | 343.3 |
| Borrowings from related party loans | 28 | 80.0 | 168.0 | – |
| Borrowing on senior unsecured credit facility | 13 | 395.4 | – | – |
| Repayment of senior unsecured credit facility | 13 | (396.7) | – | – |
| Repayment of promissory note | 12 | (11.9) | – | – |
| Issuance of senior notes, net of issuance costs | 12 | 634.4 | – | – |
| Redemption of convertible debentures | 12 | (627.2) | (106.8) | – |
| Other cash items | | – | (0.3) | – |
| | | \$ 367.8 | \$ 196.0 | \$ 848.7 |
| Investing Activities | | | | |
| Additions to property, plant and equipment | 9 | (741.4) | (620.1) | (974.1) |
| Additions to exploration and evaluation assets | 11 | (16.7) | (41.1) | (50.9) |
| Business acquisitions | 7 | – | – | (509.8) |
| Property dispositions, net | 8,9 | 160.5 | 87.2 | 4.5 |
| Change in non-cash working capital | 24 | 21.6 | (63.8) | 108.7 |
| | | \$ (576.0) | \$ (637.8) | \$ (1,421.6) |
| Change in cash | | (7.6) | 1.0 | (12.4) |
| Effect of exchange rate changes | | – | – | 0.1 |
| Cash, beginning of period | | 7.6 | 6.6 | 18.9 |
| Cash, end of period | | \$ – | \$ 7.6 | \$ 6.6 |
| Interest paid | | \$ 78.4 | \$ 83.9 | \$ 75.9 |
| Income taxes paid | | \$ – | \$ – | \$ 0.1 |

*See Note 3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013, 2012 and 2011

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

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. ("Harvest" 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 with a petroleum refining and marketing business located in the Province of Newfoundland and Labrador. Harvest has three reportable segments: Upstream, BlackGold oil sands ("BlackGold") and Downstream. For further information regarding these reportable segments, see note 6.

Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). The Company is incorporated and domiciled in Canada. Harvest's principal place of business is located at 2100, 330 – 5th Avenue SW, Calgary, Alberta, Canada T2P 0L4.

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Comparative information in respect of the previous period is provided.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 6, 2014.

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements as follows:

- As at December 31, 2013, Harvest reclassified the property, plant and equipment balance to include other long-term assets. Comparative amounts in the statement of financial position were restated. As a result, \$8.6 million was reclassified from "other long-term assets" to "property, plant and equipment" as at December 31, 2012 (January 1, 2012 - \$7.1 million). The reclassifications had no impact to "total assets".
- In addition, to conform to the 2013 presentation of the write-down of investment tax credits ("ITCs") which has been included in income tax recovery, Harvest reclassified the write-down of the ITCs from the year ended December 31, 2012 of \$27.7 million from "impairment on property, plant and equipment" to "income tax recovery". The reclassification had no impact to "net loss".

In addition, Harvest presents an additional statement of financial position at the beginning of the earliest period presented when there is a retroactive application of an accounting policy that has a material impact to the Company. Please also refer to note 3a for the effects of the application of IAS 19R on the comparative periods.

Basis of Measurement

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

Functional and Presentation Currency

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

3. Changes in Accounting Policies and Estimates

(a) Change in accounting estimate

Up to September 30, 2013, Harvest calculated depletion expense using a unit-of-production method where all unamortized PP&E costs were depleted based on proved developed oil and gas reserves.

As at October 1, 2013, a change in estimate was prospectively applied to the depletion calculation whereby costs related to developed oil and gas properties continue to be depleted based on proved developed reserves. Depletion of costs related to undeveloped oil and gas properties will start once such properties are

developed. The costs relating to undeveloped oil and gas assets are transferred to the depletable pool as the underlying reserves are developed through drilling activities. The method of depleting oil and gas assets using the unit-of-production method over proved developed reserves remains unchanged.

Harvest's reserves profile has been trending towards a greater weighting of undeveloped reserves as a proportion of total reserves which triggered management to review the historical capital expenditures, reserves profile, and expected production profile of the Company. This change in estimate was made after the review and management concluded that the new estimation method would provide better matching of PP&E costs against the economic benefits from the periodic consumption of developed and undeveloped oil and gas assets of the Company.

If the new estimation method had been applied for the full year 2013, then the annual depreciation and depletion expense would be \$83.4 million lower than if the previous estimation method remained applicable for the full year. Harvest expects a similar magnitude of decrease to the depletion and depreciation expense for 2014. Harvest could not determine the effect of the change in estimate for future periods beyond 2014 as the information will not be meaningful since reserves estimates, production profile and capital expenditures for future periods are subject to high level of uncertainty.

(b) Changes in accounting policies

Effective January 1, 2013, Harvest has adopted the following new IFRS standards and amendments:

- IAS 19, "Employee Benefits", changes the recognition and measurement of defined benefit pension expense and termination benefits and expands disclosure requirements for all employee benefit plans. The amendments to the standard include the requirement to recognize changes in the defined benefit obligation and in the fair value of the plan assets as they occur, thus eliminating the corridor approach that was previously permitted under the standard. All actuarial gains and losses must be recognized immediately through other comprehensive income ("OCI") and the net pension liability or asset must be recognized at the full amount of the plan deficit or surplus. An additional change to the standard is the elimination of the concept of expected return on plan assets that was previously recognized in net earnings and the introduction of the concept of net interest cost. The net interest cost is required to be recognized in net earnings and is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset. As well under IAS 19R unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to IAS 19R impacted Harvest's retained earnings and accumulated other comprehensive loss as a result of the recognition of the net interest cost in profit or loss and the elimination of expected return on plan assets. The impacts as at December 31, 2012, January 1, 2012 and January 1, 2011, were an increase in the cumulative prior periods' pre-tax pension expense of \$2.7 million, \$1.6 million, and \$0.7 million, respectively (\$2.2 million, \$1.3 million and \$0.6 million after-tax, respectively) and a corresponding decrease in actuarial gains and losses recognized in accumulated other comprehensive loss.

For the year ended December 31, 2012, operating expense increased by \$1.1 million (2011 – increased by \$0.9 million), as a result of increased pension expense and net actuarial losses on defined benefit plans recognized in other comprehensive loss decreased by \$1.1 million pre-tax or \$0.9 million after-tax (2011 – decreased by \$0.9 million pre-tax or \$0.7 million after-tax).

Harvest has also reviewed the classification of its accrual for the long term incentive program and reclassified the portion that will not be paid within the next 12 months to the line item "long-term liability" on the balance sheet. The balance of \$3.0 million as at December 31, 2012 and \$1.9 million as at January 1, 2012 were reclassified to long-term liabilities.

The rest of the amendments within IAS 19R did not have any financial impact to Harvest.

- IFRS 10, "Consolidated Financial Statements", replaces the consolidation requirements in SIC-12, "Consolidation – Special Purpose Entities" and a portion of IAS 27. IFRS 10 changes the definition of

control under IFRS. The retrospective application of this standard does not have any impact on Harvest's financial statements.

- IFRS 11, "Joint Arrangements", focuses on the rights and obligations of the joint arrangement, rather than its legal form and requires joint arrangements to be classified either as joint operations or joint ventures. The retrospective application of this standard does not have any impact on Harvest's financial statements as substantially all assets are held in joint operations.
- IFRS 12, "Disclosure of Interest in Other Entities", is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structure entities and other off balance sheet interests. The retrospective application of this standard does not have any impact on Harvest's financial statements other than additional annual disclosures.
- IFRS 13, "Fair Value Measurement", provides a single source of guidance for fair value measurement and enhances disclosure requirements for information regarding fair value measurements. The adoption of this standard does not have any impact on Harvest's financial statements, other than increasing the level of disclosures provided in note 16, Financial Instruments.
- The amendments to IFRS 7 "Financial Instruments: Disclosures" enhanced the disclosure requirements related to offsetting of financial assets and financial liabilities. The adoption of these amendments does not have any impact to Harvest's financial statements, other than increasing the level of annual disclosures provided in note 16, Financial Instruments.
- In May 2013, the IASB released an amendment to IAS 36, "Impairment of Assets". This amendment requires an entity to disclose the recoverable amount of a cash generating unit for which the entity has recognized or reversed an impairment loss during the reporting period. If the recoverable amount was determined using fair value less costs of disposal, detailed disclosure of how it has been measured will be required. The amendment requires retrospective application and is effective for annual periods beginning on or after January 1, 2014. As allowed by the standard, Harvest early adopted the amendment in the current period. Refer to note 9, Property, Plant and Equipment for the amended disclosure.

(c) Accounting pronouncements

- On June 27, 2013, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" regarding hedge accounting and novation of derivatives. The amendment provides a relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The amendments are effective for annual periods beginning on or after January 1, 2014. Harvest does not expect material impact to its consolidated financial statements from this amendment.
- IFRS 9 "Financial Instruments" is a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". In November 2009, the IASB issued the first phase of IFRS 9, which addresses classification and measurement of financial assets. In October 2010, IFRS 9 was updated to include guidance on financial liabilities and derecognition of financial instruments. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, IFRS 9 was amended to include guidance on hedge accounting and allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI. In addition, the previous mandatory effective date of January 1, 2015 was removed but the standard is still available for early adoption. As the standard is still under development by the IASB, the full impact of this standard on Harvest's consolidated financial statements will not be known until the project is complete. Harvest will continue to monitor the changes to this standard as they arise and will assess the impact accordingly.

- In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" to clarify the requirements for offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify that the right to offset must be available on the current date and cannot be contingent on a

future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. Harvest does not expect material impact to its consolidated financial statements from this amendment.

4. Significant Accounting Policies

(a) Consolidation

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

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

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

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

(b) Interests in Joint Arrangements

Harvest conducts substantially all of its Upstream petroleum and natural gas production activities through joint operations. Joint operation is a type of joint arrangement over which two or more parties have joint control and rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. Harvest does not have any joint arrangements that are material to the Company, or that are structured using separate vehicles. In relation to its interests in joint operations, Harvest recognizes in the consolidated financial statements its share of assets, liabilities, revenues and expenses of the arrangements.

(c) Revenue Recognition

Revenues associated with the sale of crude oil, natural gas, natural gas liquids and refined products are recognized when title passes to customers and payment has either been received or collection is reasonably certain. Revenues for retail services are recorded when the services are provided. Revenues are measured at the fair value of the consideration received or receivable.

(d) Inventories

Inventories are carried at the lower of cost or net realizable value. The costs of petroleum product inventory are determined using the weighted average cost method in Downstream and the first in, first out method in Upstream. Inventory costs include all cost of production such as the cost of purchased crude oil and other feedstocks, other related operating costs and purchased products for resale. The valuation of inventory is reviewed at the end of each month. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down. The costs of parts and supplies inventories are determined under the average cost method.

(e) Property, Plant, and Equipment ("PP&E") and Exploration and Evaluation ("E&E") Assets

(i) Upstream and BlackGold

Exploration and evaluation expenditures

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

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

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

Development costs

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

Major capital maintenance projects such as well work-overs, major overhauls and turnarounds are capitalized but general maintenance and repair costs are charged against income. Where a major part of an asset is replaced, it is capitalized within PP&E and the carrying amount of the replaced component is derecognized immediately. The capitalized major capital maintenance projects and replacement parts are amortized as separate components if their useful lives are different from the associated assets. The costs of the day-to-day servicing of PP&E are recognized in net income as incurred.

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

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

Depletion, Depreciation and Amortization

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

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

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

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

(ii) *Downstream*

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

Depreciation

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

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

(iii) *Disposal of assets*

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

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

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

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

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

(f) *Capitalized Interest*

Interest on major development projects is capitalized until the project is complete using the weighted-average interest rate on Harvest's general borrowings. In situations where Harvest borrows funds specifically to

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

(g) Assets Held for Sale

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

The assets or disposal groups classified as held for sale are measured at the lower of the carrying amount and FVLCS, with impairments recognized in the consolidated statement of comprehensive loss. Non-current assets held for sale are presented in current assets and liabilities within the consolidated statement of financial positions. Assets held for sale are not depreciated, depleted or amortized.

(h) Business Combinations and Goodwill

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

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

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

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

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

(i) Provisions

(i) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expenses relating to provisions are generally presented in the income statement net of any reimbursement except for decommissioning liabilities. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Decommissioning Liabilities

Harvest recognizes the present value of any decommissioning liabilities as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result

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

(iii) Environmental Remediation Liabilities

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

(iv) Contingencies

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

(j) Income Taxes

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

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

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

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

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

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

Harvest is entitled to certain investment tax credits on qualifying manufacturing capital expenditures relating to its Downstream operations. At each period end, Harvest reviews and if appropriate reduces the balance to the extent that it is no longer probable that the investment tax credit will be realized. Any reduction is recorded under "income tax expense (recovery)" in the statement of comprehensive loss.

(k) Post-Employment Benefits

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

The cost of providing the defined pension benefits and other post-retirement benefits is actuarially determined by an independent financial security firm using the projected unit credit method reflecting management's best

estimates of discount rates, rate of compensation increase, retirement ages of employees, and expected health care costs. The benefit plan expenses include the current service costs and the net interest expense on the net obligation. Net interest expense is calculated by applying the discount rate to the net defined benefit asset or liability. Harvest recognizes its benefit plan expenses under operating expenses in the statement of comprehensive loss. Harvest does not have any past service costs arising from plan amendments, curtailment or restructuring.

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

(l) Currency Translation

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

Harvest's Downstream operations' functional currency is the U.S. dollar, while Harvest's presentation currency is the Canadian dollar. Therefore, the Downstream operations' assets and liabilities are translated at the period-end exchange rates, while revenues and expenses are translated using monthly average rates. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income as a separate component of shareholder's equity.

(m) Financial Instruments

Harvest recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. Financial liabilities are removed from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability. Financial assets are derecognized when (1) the rights to receive cash flows from the assets have expired or (2) the Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the assets, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Harvest initially measures all financial instruments at fair value. Subsequent measurement of the financial instruments is based on their classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. Harvest has not designated any financial asset or liability at fair value through profit or loss.

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

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as either held-to-maturity or loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair values with changes in those fair values recognized in other comprehensive income.

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

Transaction costs relating to financial instruments classified as held for trading are expensed in net income in the period that they are incurred. For transaction costs that are directly attributable to the acquisition or issuance of financial instruments not classified as held for trading, they are included in the costs of the financial instruments upon initial recognition.

Harvest assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired, as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For loans and receivables, the carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of comprehensive loss.

(n) Hedges

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

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

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

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

(o) Leases

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

(p) Fair Value Measurement

Harvest measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses FVLCS to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in note 16.

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

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

5. Use of Estimates and Judgments

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. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(a) Joint arrangements

Judgment is required to determine when Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 4 for more details.

(b) Reserves

The provision for depletion and depreciation of Upstream assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Upstream and BlackGold's decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to Upstream and BlackGold may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets. Revisions or changes in the reserve estimates can have either a positive or a negative impact on net income and PP&E.

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

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

- future development costs.

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

Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production calculation and the matching of capitalized costs with the benefit of production.

(c) Impairment of long-lived assets

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

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCS. To determine the recoverable amounts, Harvest uses reserve estimates for both the Upstream and BlackGold operating segments and expected future cash flows for the Downstream operations. The estimates of reserves, future commodity prices, refining margins, forecast refinery utilization and yields, discount rates, operating expenses and sustaining capital expenditures require significant judgments. FVLCS is determined using significant judgments, see note 5(i) below for further discussion.

(d) Provisions

In the determination of provisions, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, risk-free discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E.

(e) Employee benefits

Harvest's Downstream operations maintains a defined benefit pension plan and provides certain post-retirement health care benefits, which cover the majority of its Downstream employees and their surviving spouses. An independent actuary determines the costs of the Company's employee future benefit programs using certain management assumptions and estimates such as, the expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, employee turnover and discount rates. The obligation and expense recorded related to Harvest's employee future benefit plans could increase or decrease if there were to be a change in these estimates.

The Company also maintains a long-term incentive plan which is a performance-based program. As a result, the compensation costs accrued for the plan are subject to the estimation of what the ultimate payout will be and are subject to management's judgment as to whether or not the performance criteria will be met.

(f) Fair value of acquired assets and liabilities

Business acquisitions are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of the acquisition. In determining the fair value of the assets and liabilities, Harvest is often required to make assumptions and estimates, such as reserves, future commodity prices, fair value of undeveloped land, discount rates, decommissioning liabilities and possible outcome of any assumed contingencies. Changes in any of these assumptions would impact amounts assigned to assets and liabilities and goodwill in the consideration transferred allocation and as a result, future net income.

(g) Risk management contracts

Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income. For risk management contracts designated as hedges, changes in the above mentioned assumptions may impact hedge effectiveness assessment and Harvest's ability to continue applying hedge accounting.

(h) Income taxes

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

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(i) Fair value measurements

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

(j) Contingencies

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

6. Segment Information

Harvest's operating segments are determined based on the nature of the products and services. The following summary describes the operations in each of the segments:

- Upstream operations consist of exploration, development, production and subsequent sale of petroleum, natural gas and natural gas liquids in western Canada.
- The BlackGold Oil sands project is located near Conklin, Alberta. Phase 1 of the project that is designed to produce 10,000 barrels of bitumen per day is currently under construction and development. BlackGold will use steam assisted gravity drainage technology to recover bitumen.
- Downstream operations include the purchase and refining of crude oil at a medium gravity sour crude oil hydrocracking refinery, and the sale of the refined products to commercial, wholesale and retail customers. Downstream is located in the Province of Newfoundland and Labrador.

| | Year Ended December 31 ⁽³⁾ | | | | | | | | |
|--|---------------------------------------|-----------|-----------|---------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|
| | Upstream ⁽²⁾ | | | Downstream ⁽²⁾ | | | Total | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 (Restated)* | 2011 (Restated)* | 2013 | 2012 (Restated)* | 2011 (Restated)* |
| Petroleum, natural gas and refined products sales ⁽¹⁾ | \$1,101.7 | \$1,193.5 | \$1,286.9 | \$4,416.9 | \$4,752.1 | \$3,302.3 | \$5,518.6 | \$5,945.6 | \$4,589.2 |
| Royalties | (153.9) | (164.6) | (195.5) | — | — | — | (153.9) | (164.6) | (195.5) |
| Revenues | \$ 947.8 | \$1,028.9 | \$1,091.4 | \$4,416.9 | \$4,752.1 | \$3,302.3 | \$5,364.7 | \$5,781.0 | \$4,393.7 |
| Expenses | | | | | | | | | |
| Purchased products for resale and processing | — | — | — | 4,327.4 | 4,520.3 | 3,118.1 | 4,327.4 | 4,520.3 | 3,118.1 |
| Operating | 345.6 | 359.0 | 350.4 | 233.1 | 262.6 | 226.6 | 578.7 | 621.6 | 577.0 |
| Transportation and marketing | 22.6 | 22.2 | 29.6 | 5.4 | 4.4 | 6.3 | 28.0 | 26.6 | 35.9 |
| General and administrative | 68.1 | 65.0 | 60.8 | 0.6 | 0.6 | 1.8 | 68.7 | 65.6 | 62.6 |
| Depletion, depreciation and amortization | 530.0 | 579.5 | 535.7 | 82.8 | 108.9 | 91.0 | 612.8 | 688.4 | 626.7 |
| Exploration and evaluation | 12.3 | 24.9 | 18.3 | — | — | — | 12.3 | 24.9 | 18.3 |
| Gains on disposition of PP&E | (33.9) | (30.3) | (7.9) | (0.2) | — | — | (34.1) | (30.3) | (7.9) |
| Risk management contracts gains | (4.4) | (0.5) | (6.7) | — | — | — | (4.4) | (0.5) | (6.7) |
| Impairment on PP&E | 24.1 | 21.8 | — | 458.9 | 535.5 | — | 483.0 | 557.3 | — |
| Operating income (loss) | \$ (16.6) | \$ (12.7) | \$ 111.2 | \$ (691.1) | \$ (680.2) | \$ (141.5) | \$ (707.7) | \$(692.9) | \$ (30.3) |
| Finance costs | | | | | | | 94.2 | 111.0 | 109.1 |
| Foreign exchange gains (losses) | | | | | | | 44.2 | (1.3) | (4.0) |
| Loss before income tax | | | | | | | \$ (846.1) | \$(802.6) | \$ (135.4) |
| Income tax recovery | | | | | | | (64.2) | (81.6) | (30.0) |
| Net loss | | | | | | | \$ (781.9) | \$(721.0) | \$ (105.4) |

*See Note 3.

(1) Of the total Downstream revenue, one customer represents sales of \$3.7 billion for the year ended December 31, 2013 (2012- one customer with sales of \$4.0 billion; 2011 – two customers with sales of \$1.6 billion and \$586 million). No other single customer within either segment represents greater than 10% of Harvest's total revenue.

(2) There is no intersegment activity.

(3) The BlackGold segment is under development, as such, there are no operating activities to report.

| Year Ended December 31, 2013 | | | | |
|---|-------------------|-------------------|----------------|-----------------|
| Capital Additions | Upstream | BlackGold | Downstream | Total |
| Additions to PP&E | \$ 305.6 | \$ 444.5 | \$ 53.2 | \$ 803.3 |
| Additions to E&E | 16.7 | — | — | 16.7 |
| Property acquisitions (dispositions), net | (155.6) | 0.7 | (0.2) | (155.1) |
| Total expenditures | \$ 166.7 | \$ 445.2 | \$ 53.0 | \$ 664.9 |
| Year Ended December 31, 2012 | | | | |
| Capital Additions | Upstream | BlackGold | Downstream | Total |
| Additions to PP&E | \$ 406.4 | \$ 164.1 | \$ 54.2 | \$ 624.7 |
| Additions to E&E | 41.1 | — | — | 41.1 |
| Property acquisitions (dispositions), net | (84.3) | — | — | (84.3) |
| Total expenditures | \$ 363.2 | \$ 164.1 | \$ 54.2 | \$ 581.5 |
| Year Ended December 31, 2011 | | | | |
| Capital Additions | Upstream | BlackGold | Downstream | Total |
| Business acquisition | \$ 548.3 | \$ — | \$ — | \$ 548.3 |
| Additions to PP&E | 588.7 | 101.2 | 284.2 | 974.1 |
| Additions to E&E | 50.9 | — | — | 50.9 |
| Property acquisitions (dispositions), net | 2.6 | — | — | 2.6 |
| Total expenditures | \$ 1,190.5 | \$ 101.2 | \$ 284.2 | \$ 1,575.9 |
| | | | | |
| | Total Assets | PP&E | E&E | Goodwill |
| December 31, 2013 | | | | |
| Upstream | \$ 3,794.0 | \$ 3,166.2 | \$ 59.4 | \$ 379.8 |
| BlackGold | 1,144.0 | 1,138.8 | — | — |
| Downstream | 351.9 | 156.4 | — | — |
| Total | \$ 5,289.9 | \$ 4,461.4 | \$ 59.4 | \$ 379.8 |
| December 31, 2012 | | | | |
| Upstream | \$ 4,146.6 | \$ 3,507.6 | \$ 73.4 | \$ 391.8 |
| BlackGold | 684.9 | 679.8 | — | — |
| Downstream | 823.1 | 604.5 | — | — |
| Total | \$ 5,654.6 | \$ 4,791.9 | \$ 73.4 | \$ 391.8 |
| January 1, 2012 | | | | |
| Upstream | \$ 4,292.9 | \$ 3,687.7 | \$ 74.5 | \$ 404.9 |
| BlackGold | 583.4 | 497.3 | — | — |
| Downstream | 1,408.1 | 1,222.5 | — | — |
| Total | \$ 6,284.4 | \$ 5,407.5 | \$ 74.5 | \$ 404.9 |

7. Business Combination

On February 28, 2011, Harvest acquired certain petroleum and natural gas assets of Hunt Oil Company of Canada, Inc. and Hunt Oil Alberta, Inc. (collectively "Hunt") for total cash consideration of \$511.0 million. KNOC provided \$505.4 million of equity to fund the acquisition and acquisition costs were \$1.3 million for the year ended December 31, 2011.

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

| | | |
|---|----|--------|
| Property, plant and equipment | \$ | 530.9 |
| Evaluation and exploration assets | | 18.6 |
| Decommissioning and environmental remediation liabilities | | (38.0) |
| Other liabilities | | (0.5) |
| Cash consideration | \$ | 511.0 |

The final review of the fair value of the purchase price allocation was completed at December 31, 2011. These consolidated financial statements incorporate the results of operations of Hunt from February 28, 2011. For the year ended December 31, 2011, the Hunt assets contributed \$133.0 million of revenue and \$96.6 million to Harvest's earnings before depletion and income tax. If the acquisition had been completed on the first day of 2011, Harvest's revenues for the year ended December 31, 2011 would have been \$14.6 million higher and the earnings before depletion and income tax would have been \$7.4 million higher.

8. Assets Held For Sale

In February 2013, Harvest completed the sale of selected non-core oil and gas properties in Alberta and British Columbia that had been recorded in assets held for sale for proceeds of approximately \$9.0 million. The sale of these assets resulted in a gain of \$4.3 million in Harvest's Upstream segment, which is included in gains on disposition of property, plant and equipment in the statement of comprehensive loss for the year ended December 31, 2013.

| | | |
|---|-----------|----------|
| Assets held for sale | | |
| Exploration and evaluation | \$ | 0.4 |
| Property, plant and equipment, net | | 13.8 |
| Goodwill | | 2.7 |
| Assets held for sale December 31, 2012 | \$ | 16.9 |
| Disposals | | (16.9) |
| Assets held for sale December 31, 2013 | \$ | — |
| Liabilities associated with assets held for sale | | |
| Decommissioning liabilities December 31, 2012 | \$ | 11.9 |
| Disposals | | (11.9) |
| Liabilities associated with assets held for sale December 31, 2013 | \$ | — |

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

| | Upstream | BlackGold | Downstream | Total |
|---|-------------------|-------------------|-------------------|-------------------|
| Cost: | | | | |
| As at January 1, 2012 | \$ 4,707.7 | \$ 497.3 | \$ 1,378.6 | \$ 6,583.6 |
| Additions | 406.4 | 164.1 | 54.2 | 624.7 |
| Acquisitions | 1.3 | — | — | 1.3 |
| Change in decommissioning liabilities | 82.7 | 18.4 | 1.2 | 102.3 |
| Transfers from E&E | 19.2 | — | — | 19.2 |
| Exchange adjustment | — | — | (29.5) | (29.5) |
| Disposals | (108.8) | — | (11.5) | (120.3) |
| Investment tax credits | — | — | (2.7) | (2.7) |
| Transfers to assets held for sale | (23.0) | — | — | (23.0) |
| As at December 31, 2012 | \$ 5,085.5 | \$ 679.8 | \$ 1,390.3 | \$ 7,155.6 |
| Additions | 305.6 | 444.5 | 53.2 | 803.3 |
| Acquisitions | 16.3 | 0.7 | — | 17.0 |
| Disposals | (177.9) | — | (4.9) | (182.8) |
| Change in decommissioning liabilities | 31.5 | 13.8 | — | 45.3 |
| Transfers from E&E | 11.3 | — | — | 11.3 |
| Exchange adjustment | — | — | 99.4 | 99.4 |
| As at December 31, 2013 | \$ 5,272.3 | \$ 1,138.8 | \$ 1,538.0 | \$ 7,949.1 |
| Accumulated depletion, depreciation, amortization and impairment losses: | | | | |
| As at January 1, 2012 | \$ 1,020.0 | \$ — | \$ 156.1 | \$ 1,176.1 |
| Depreciation, depletion and amortization | 579.5 | — | 108.9 | 688.4 |
| Disposals | (34.2) | — | (11.5) | (45.7) |
| Impairment | 21.8 | — | 535.5 | 557.3 |
| Exchange adjustment | — | — | (3.2) | (3.2) |
| Transfers to assets held for sale | (9.2) | — | — | (9.2) |
| As at December 31, 2012 | \$ 1,577.9 | \$ — | \$ 785.8 | \$ 2,363.7 |
| Depreciation, depletion and amortization | 530.0 | — | 82.8 | 612.8 |
| Disposals | (25.9) | — | (4.7) | (30.6) |
| Impairment | 24.1 | — | 458.9 | 483.0 |
| Exchange adjustment | — | — | 58.8 | 58.8 |
| As at December 31, 2013 | \$ 2,106.1 | \$ — | \$ 1,381.6 | \$ 3,487.7 |
| Net Book Value: | | | | |
| As at December 31, 2013 | \$ 3,166.2 | \$ 1,138.8 | \$ 156.4 | \$ 4,461.4 |
| As at December 31, 2012 | \$ 3,507.6 | \$ 679.8 | \$ 604.5 | \$ 4,791.9 |
| As at January 1, 2012 | \$ 3,687.7 | \$ 497.3 | \$ 1,222.5 | \$ 5,407.5 |

General and administrative costs directly attributable to PP&E addition activities of \$19.6 million have been capitalized during the year ended December 31, 2013 (2012 – \$21.6 million; 2011 – \$21.4 million). Borrowing costs relating to the development of BlackGold assets have been capitalized within PP&E during the year ended December 31, 2013 in the amount of \$19.8 million (2012 – \$10.8 million; 2011 – \$4.5 million), at a weighted average interest rate of 4.8% (2012 – 5.7%; 2011 – 6.7%). No borrowing costs were capitalized for year ended December 31, 2013 for the Downstream debottlenecking project as this asset was written down during the fourth quarter of 2012 and no longer qualifies for capitalizing borrowing costs (2012 – \$2.7 million at a weighted average interest rate of 5.7%; 2011 – \$4.1 million at a weighted average interest rate of 6.7%). PP&E additions also

include non-cash additions relating to the BlackGold deferred payment of \$71.5 million (December 31, 2012 – \$4.7 million; January 1, 2012 – \$nil) (see note 18).

At December 31, 2013, the following costs were excluded from the asset base subject to depreciation, depletion and amortization: BlackGold oil sands assets of \$1.1 billion (December 31, 2012 – \$679.8 million; January 1, 2012 – \$497.3 million), Downstream assets under construction of \$37.0 million (December 31, 2012 – \$42.4 million; January 1, 2012 – \$102.5 million); and Downstream major parts inventory of \$8.3 million (December 31, 2012 – \$7.4 million; January 1, 2012 – \$7.5 million).

Downstream operations have experienced continuing losses due to lower than expected crack spreads and increased regulatory costs. During the second half of 2013, Harvest commenced a process to evaluate various business opportunities pertaining to the Downstream business, including but not limited to introduction of joint venture partners, disposition in whole or in part as well as multiple economic scenarios for future operations. As at December 31, 2013, no decision has been made out of this review, but during the review process, management gathered various external information that triggered an impairment assessment of the refinery. As a result, during the fourth quarter of 2013, Downstream recorded an impairment of \$458.9 million (2012 – \$535.5 million; 2011 – \$nil) on its refinery CGU relating to the PP&E to reflect the excess of the carrying value over the assessed recoverable amount. The recoverable amount was based on the CGU's VIU, estimated using the net present value of future cash flows and using a pre-tax discount rate of 16% (2012 – 16%; 2011 – nil). Cash flows were projected using the estimated life of the facility which is 40 years. The recoverable amount as at December 31, 2013 for the refinery CGU was \$132.7 million (2012 – \$581.9 million). The VIU model did not include any expected cash flows from capital enhancement projects but does assume a partial plant outage for major maintenance work every two years commencing in 2014 and a full plant outage every six years commencing 2016. The pre-tax discount rate of 16% incorporated the various risks inherent in the industry and in forecasting uncertainties. The following assumptions were used in the VIU model for determining gross margin per barrel:

| | Crack spread per bbl throughput | Crude feedstock differential |
|-------------|--|---|
| Year | (\$US/bbl) | (\$US/bbl) |
| 2014 | 6.05 | -3.74 |
| 2015 | 9.55 | -6.54 |
| 2016 | 8.82 | -7.23 |
| 2017 | 9.79 | -8.11 |
| 2018 | 9.92 | -8.74 |
| Thereafter | +2%/year | +2%/year |

An increase of 100 bps in the pre-tax discount rate would result in an additional impairment of \$21.2 million, while a 5% decrease in gross margin per barrel would result in an additional impairment of \$123.4 million.

During 2013, Harvest recognized an impairment loss of \$24.1 million (2012 – \$21.8 million; 2011 – \$nil) against its Upstream PP&E relating to certain gas properties in the South Alberta gas CGU, which was triggered by reserves write-down as a result of lower forecast development activities, a decline in the long-term gas prices and reduced estimates of recoverable NGLs from the CGU. The recoverable amount was based on the assets' VIU, estimated using the net present value of proved plus probable reserves discounted at a pre-tax rate of 8% (2012 – 10%; 2011 – nil). Please refer to note 10 for the forecast prices used in the VIU model. The recoverable amount as at December 31, 2013 for the South Alberta gas CGU was \$77.7 million (2012 – \$155.1 million). A 200 bps increase in the discount rate would result in an additional impairment for the South Alberta gas CGU of approximately \$4.2 million while a 10% decrease in the forward gas price estimate would result in an additional impairment of approximately \$10.5 million.

During 2013, Harvest closed the disposition of certain non-core oil and gas assets in west central Saskatchewan and Alberta for total proceeds of approximately \$173.9 million. Harvest recognized \$33.9 million of gains on disposition during the year ended December 31, 2013 (2012 – \$30.3 million; 2011 – \$7.9 million) relating to the de-recognition of PP&E, E&E, goodwill and decommissioning liabilities.

10. Goodwill

| | | |
|-----------------------------------|-----------|--------------|
| As at January 1, 2012 | \$ | 404.9 |
| Disposals | | (10.4) |
| Transfers to assets held for sale | | (2.7) |
| As at December 31, 2012 | \$ | 391.8 |
| Disposals | | (12.0) |
| As at December 31, 2013 | \$ | 379.8 |

Goodwill of \$379.8 million (December 31, 2012 - \$391.8 million; January 1, 2012 - \$404.9 million) has been allocated to the Upstream operating segment. In assessing whether goodwill has been impaired, the carrying amount of the Upstream operating segment (including goodwill) is compared with the recoverable amount of the Upstream operating segment. The estimated recoverable amount was based on the Upstream operating segment's VIU, calculated using the estimated discounted future cash flows from the proved plus probable reserves evaluated by Harvest's independent reserves evaluator. The key assumptions required to estimate the recoverable amount are the oil and natural gas prices, and the discount rate. The forecast prices are consistent with what have been used by Harvest's independent reserve evaluator. The discount rate represents management's assessment of the weighted average cost of capital of listed entities that have similar assets based on external sources. A pre-tax discount rate of 10% and the following forward commodity price estimates were used in the goodwill impairment calculation at December 31, 2013:

| Year | WTI Crude Oil | Edmonton Light | AECO Gas | US\$/Cdn\$ |
|---------------------------|---------------|-----------------------|---------------|---------------|
| | (\$US/bbl) | Crude Oil (\$Cdn/bbl) | (\$Cdn/Mmbtu) | Exchange Rate |
| 2014 | 97.50 | 92.76 | 4.03 | 0.95 |
| 2015 | 97.50 | 97.37 | 4.26 | 0.95 |
| 2016 | 97.50 | 100.00 | 4.50 | 0.95 |
| 2017 | 97.50 | 100.00 | 4.74 | 0.95 |
| 2018 | 97.50 | 100.00 | 4.97 | 0.95 |
| Thereafter ⁽¹⁾ | +2%/year | +2%/year | +2%/year | 0.95 |

⁽¹⁾ Represents the average escalation percentage in each year after 2018 to the end of reserve life.

Based on the calculation performed using the above assumptions, management did not identify impairment to the Upstream operating segment and the associated goodwill for the year ended December 31, 2013 (2012 and 2011 - \$nil). A 200 bps increase in the discount rate would result in a goodwill impairment of approximately \$51.9 million, while a 10% decrease in the forward oil price estimates would result in a goodwill impairment of approximately \$266.5 million. A 10% decrease in the forward gas or NGL price estimates would not result in any goodwill impairment.

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

| | | |
|---|----|--------|
| As at January 1, 2012 | \$ | 74.5 |
| Additions | | 41.1 |
| Dispositions | | (0.6) |
| Unsuccessful exploration and evaluation costs | | (22.0) |
| Transfer to property, plant and equipment | | (19.2) |
| Transfer to assets held for sale | | (0.4) |
| As at December 31, 2012 | \$ | 73.4 |
| Additions | | 16.7 |
| Dispositions | | (7.9) |
| Unsuccessful exploration and evaluation costs | | (11.5) |
| Transfer to property, plant and equipment | | (11.3) |

As at December 31, 2013 **\$** **59.4**

The Company determined certain E&E costs to be unsuccessful and not recoverable, which were expensed as follows, together with pre-licensing expenses.

| | Year Ended December 31 | | |
|------------------------|------------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Pre-licensing costs | \$ 0.8 | \$ 2.9 | \$ 0.5 |
| Unsuccessful E&E costs | 11.5 | 22.0 | 17.8 |
| E&E expense | \$ 12.3 | \$ 24.9 | \$ 18.3 |

12. Long-Term Debt

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|--|----------------------|----------------------|--------------------|
| Credit facility (note 12a) | \$ 785.2 | \$ 491.3 | \$ 355.6 |
| 6½% senior notes due 2017 (US\$500 million) (note 12b) | 522.1 | 486.4 | 495.7 |
| 2½% senior notes due 2018 (US\$630 million) (note 12c) | 665.7 | — | — |
| 6.40% debentures due 2012 (series D) (note 12d) | — | — | 107.1 |
| 7.25% debentures due 2013 (series E) (note 12d) | — | 331.8 | 333.3 |
| 7.25% debentures due 2014 (series F) (note 12d) | — | 60.4 | 60.6 |
| 7.50% debentures due 2015 (series G) (note 12d) | — | 239.8 | 241.0 |
| Promissory note (note 12e) | 12.3 | — | — |
| Long-term debt outstanding | 1,985.3 | 1,609.7 | 1,593.3 |
| Less current portion | (12.3) | (331.8) | (107.1) |
| Long-term debt | \$ 1,973.0 | \$ 1,277.9 | \$ 1,486.2 |

a) Credit Facility

Effective April 1, 2013, Harvest extended the credit facility maturity date by one year to April 30, 2017. Borrowings under the facility are repayable in full at such date. In addition, the financial covenants for the credit facility agreement were amended to remove the total debt to annualized EBITDA ratio and to add an interest coverage ratio (annualized EBITDA to annualized interest expense). The interest coverage ratio cannot be less than 2.50:1. On October 18, 2013, the credit facility borrowing capacity was increased from \$800 million to \$1.0 billion. All other terms to the credit facility agreement remain unchanged.

Borrowings under the credit facility are available by way of bankers' acceptances, Canadian prime rate loans, LIBOR based loans, or U.S. base rate loans. At December 31, 2013, Harvest had \$788.5 million drawn from the \$1.0 billion available under the credit facility (December 31, 2012 - \$494.2 million; January 1, 2012 - \$358.9 million), of which US\$40.0 million were LIBOR based loans (December 31, 2012 - US\$90.0 million; January 1, 2012 - \$nil). The carrying value of the credit facility includes \$3.3 million of deferred financial charges at December 31, 2013 (December 31, 2012 - \$2.9 million; January 1, 2012 - \$3.3 million). For the year ended December 31, 2013, interest charges on the facility aggregated to \$20.3 million (2012 - \$17.2 million; 2011 - \$5.7 million), reflecting an effective interest rate of 3.0% (2012 and 2011 - 3.0% for both periods).

The credit facility is secured by a first floating charge over all of the assets of Harvest and its restricted subsidiaries plus a first mortgage security interest on the Downstream operation's refinery assets. The most restrictive covenants of Harvest's credit facility include an aggregate limitation of \$25 million on financial assistance and/or capital contributions to parties other than Harvest or its restricted subsidiaries, a limitation to carrying on business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to the shareholder in certain circumstances such as an event of default. The credit facility requires standby fees on undrawn amounts and interest on amounts borrowed at varying rates depending on Harvest's ratio of senior debt to its annualized EBITDA. Availability under this facility is subject to the following quarterly financial covenants as defined in the credit facility agreement:

| | Covenant | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|-----------------------|----------------------|----------------------|--------------------|
| Senior debt ⁽¹⁾ to annualized EBITDA ⁽²⁾ | 3.00 to 1.0 or less | 2.41 | 1.10 | 0.73 |
| Annualized EBITDA ⁽²⁾ to annualized interest expense ⁽³⁾⁽⁴⁾ | 2.50 to 1.0 or higher | 3.62 | n/a | n/a |
| Senior debt ⁽¹⁾ to total capitalization ⁽⁵⁾ | 50% or less | 22% | 14% | 10% |
| Total debt ⁽⁶⁾ to total capitalization ⁽⁵⁾ | 55% or less | 54% | 41% | 36% |

- (1) Senior debt consists of letters of credit of \$13.3 million (December 31, 2012 – \$8.2 million; January 1, 2012 - \$8.7 million), credit facility of \$785.2 million (December 31, 2012 - \$491.3 million; January 1, 2012 - \$355.6 million), guarantees of \$32.8 million (December 31, 2012 - \$76.6 million; January 1, 2012 - \$92.1 million) and risk management contracts liabilities of \$0.6 million (December 31, 2012 and January 1, 2012 - \$nil) at December 31, 2013.
- (2) The measure of Consolidated EBITDA (herein referred to as “annualized EBITDA”) used in Harvest’s credit facility agreement is defined as earnings before finance costs, income tax expense or recovery, DD&A, exploration and evaluation costs, impairment of assets, unrealized gains or losses on risk management contracts, unrealized gains or losses on foreign exchange, gains or losses on disposition of assets and other non-cash items during the last four quarters.
- (3) The annualized EBITDA to annualized interest expense ratio was added effective April 1, 2013, under an amendment to the credit facility and the total debt to annualized EBITDA ratio was deleted pursuant to the amendment.
- (4) Annualized interest expense is a reference to Consolidated Interest Expense as defined in Harvest’s credit facility agreement and includes all interest expenses and finance charges incurred during the last four quarters.
- (5) Total capitalization consists of total debt, related party loans and shareholder’s equity less equity for BlackGold of \$457.7 million at December 31, 2013 (December 31, 2012 - \$458.6 million; January 1, 2012 - \$459.9 million).
- (6) Total debt consists of senior debt, convertible debentures and senior notes.

b) 6½% Senior Notes

On October 4, 2010, Harvest issued US\$500 million of 6½% senior notes for net cash proceeds of US\$484.6 million. The senior notes are unsecured with interest payable semi-annually on April 1 and October 1 and mature on October 1, 2017. The senior notes are unconditionally guaranteed by Harvest and all of its wholly-owned subsidiaries that guarantee the revolving credit facility and every future restricted subsidiary that guarantees certain debt. The notes are redeemable at a redemption price equal to 100% of the principal amount of the notes being redeemed plus a make-whole redemption premium, plus accrued and unpaid interest to the redemption date. Harvest may also redeem the notes at any time in the event that certain changes affecting Canadian withholding taxes occur.

There are covenants restricting, among other things, the sale of assets and the incurrence of additional indebtedness if such issuance would result in an interest coverage ratio, as defined, of less than 2.0 to 1. Notwithstanding the interest coverage ratio limitation, the incurrence of additional indebtedness may be permitted under certain incurrence tests. One provision allows Harvest’s incurrence of indebtedness under the credit facility or other future bank debt in an aggregate principal amount not to exceed the greater of \$1.0 billion and 15% of total assets. In addition, the covenants of the senior notes restrict the amount of dividends Harvest can pay to shareholders; no dividends have been paid during the year ended December 31, 2013.

c) 2½% Senior Notes

On May 14, 2013, Harvest issued US\$630 million senior unsecured notes due May 14, 2018 with a coupon rate of 2½% for net proceeds of US\$626.1 million. Interest on the 2½% senior notes is paid semi-annually on May 14 and November 14 of each year.

The senior notes are unconditionally and irrevocably guaranteed by Harvest’s parent company KNOC. A guarantee fee of 0.52% per annum of the principal balance is payable to KNOC semi-annually on May 14 and November 14 of each year. Also see note 28 - Related Party Transactions.

d) Convertible Debentures

On April 2 and April 15, 2013, respectively, Harvest early redeemed the 7.25% Debentures Due 2013 and the 7.25% Debentures Due 2014. Both series of debentures were redeemed at par with the total redemption payment, including all accrued and unpaid interest up to the respective redemption dates being \$1,002.9794 per \$1,000 principal amount for the 7.25% Debentures Due 2013 and \$1,006.5547 per \$1,000 principal amount for the 7.25% Debentures Due 2014.

On June 13, 2013, Harvest early redeemed the 7.50% Debentures Due 2015 at par with the total redemption payment, including all accrued and unpaid interest up to the respective redemption dates being \$1,002.6712 per \$1,000 principal amount.

As a result of the early redemption of all three series of debentures in 2013, Harvest recognized a total gain on redemption of \$3.6 million, which has been included in "finance costs" in the consolidated statements of comprehensive loss (see note 22).

On September 19, 2012, Harvest redeemed its 6.40% of convertible debentures at a redemption price of \$1,024.90 per \$1,000 principal amount for a total amount of \$106.8 million. The redemption price was equal to the principal plus all accrued and unpaid interest thereon. Harvest recognized a nominal gain on the redemption in 2012, which has been included in "finance costs" in the consolidated statements of comprehensive income (see note 22).

e) Promissory Note

During the first quarter of 2013, Downstream entered in to an agreement with a third party to convert \$24.2 million of a trade payable to a two-year promissory note. The promissory note bears interest of 3%. The principal and interest are to be repaid in 24 equal installments, which started in January 2013. For the year ended December 31, 2013, interest charges of \$0.6 million (2012 and 2011 - \$nil) relating to this promissory note were recorded. At December 31, 2013, the current portion of the promissory note is \$12.3 million (December 31, 2012 and January 1, 2012 - \$nil).

13. Senior Unsecured Credit Facility

On March 14, 2013, Harvest entered into a US\$400 million senior unsecured credit facility. The facility was irrevocably and unconditionally guaranteed by KNOC and would, unless terminated earlier in accordance with its terms, terminate on October 2, 2013. Proceeds of borrowings under the senior unsecured credit facility were restricted and used to fund the early redemption of the 7.25% Debentures Due 2013 and the 7.25% Debentures Due 2014. Draws from the senior unsecured credit facility during the second quarter of 2013 were repaid with the proceeds from the issuance of the 2½% senior notes after which the senior unsecured credit facility was cancelled.

14. Shareholder's Capital

(a) Authorized

The authorized capital consists of an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series.

(b) Number of Common Shares Issued

| | |
|--|--------------------|
| Outstanding at December 31, 2010 | 335,535,047 |
| Issued to KNOC at \$10.00 per share for Hunt acquisition | 50,543,602 |
| Outstanding at December 31, 2013 and 2012 and January 1, 2012 | 386,078,649 |

15. Capital Structure

Harvest considers its capital structure to be its long term debt, related party loans, and shareholder's equity.

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|--|----------------------|----------------------|--------------------|
| Credit facility ⁽¹⁾ | \$ 788.5 | \$ 494.2 | \$ 358.9 |
| 6 $\frac{7}{8}$ % senior notes (US\$500 million) ⁽¹⁾⁽²⁾ | 531.8 | 497.5 | 508.5 |
| 2 $\frac{1}{8}$ % senior notes (US\$630 million) ⁽¹⁾⁽²⁾ | 670.1 | — | — |
| Related party loans (US\$170 million and CAD\$80 million) ⁽²⁾ (note 28) | 260.8 | 169.1 | — |
| Principal amount of convertible debentures ⁽¹⁾ | — | 627.2 | 734.0 |
| | \$ 2,251.2 | 1,788.0 | 1,601.4 |
| Shareholder's equity | 1,939.2 | 2,691.9 | 3,453.7 |
| | \$ 4,190.4 | \$ 4,479.9 | \$ 5,055.1 |

(1) Excludes capitalized financing fees

(2) 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 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 evaluates its capital structure using the same financial covenant ratios as the ones externally imposed under the Company's credit facility (see note 12a). The Company continually monitors its credit facility covenants and actively takes steps, such as reduce borrowings, increase capitalization, amending or renegotiating covenants as and when required, to ensure compliance. Harvest was in compliance with all debt covenants at December 31, 2013 and the prior period.

On December 30, 2013, Harvest signed a five year \$200 million subordinated loan agreement with KNOC (see note 28) to increase flexibility in the Company's capital structure. Harvest intends to fund capital and operating requirements using proceeds drawn from this loan agreement. The Company borrowed \$80 million under such loan agreement on December 30, 2013. Had Harvest fully drawn down the \$200 million and applied the proceeds against its borrowings under the credit facility, the "total debt to total capitalization" covenant ratio would have been 51% as at December 31, 2013. Through active capital management, Harvest does not expect to breach this covenant.

16. Financial Instruments

a) Fair Values

Financial instruments of Harvest consist of cash, accounts receivable, accounts payable and accrued liabilities, borrowings under the credit facility, risk management contracts, promissory note, senior notes, related party loans and long term liability. Cash and risk management 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 fair value hierarchy based on the amount of observable inputs used to value the instrument.

During the year ended December 31, 2013, there were no transfers among Levels 1, 2 and 3.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

| | December 31, 2013 | | Fair Value Measurements | |
|---|-------------------|-------------------|---|---|
| | Carrying Value | Fair Value | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) |
| Financial assets | | | | |
| <u>Loans and Receivables</u> | | | | |
| Accounts receivable (note 16b) | \$ 168.9 | \$ 168.9 | \$ — | \$ 168.9 |
| <u>Held for Trading</u> | | | | |
| Risk management contracts | 0.3 | 0.3 | — | 0.3 |
| Total Financial Assets | \$ 169.2 | \$ 169.2 | \$ — | \$ 169.2 |
| Financial Liabilities | | | | |
| <u>Held for Trading</u> | | | | |
| Risk management contracts | \$ 0.6 | \$ 0.6 | \$ — | \$ 0.6 |
| <u>Measured at Amortized Cost</u> | | | | |
| Accounts payable and accrued liabilities (note 16b) | 258.3 | 258.3 | — | 258.3 |
| Credit facility | 785.2 | 788.5 | — | 788.5 |
| 6 $\frac{7}{8}$ % senior notes | 522.1 | 577.7 | — | 577.7 |
| 2 $\frac{1}{8}$ % senior notes | 665.7 | 653.2 | 653.2 | — |
| Promissory note | 12.3 | 12.3 | — | 12.3 |
| Related party loans | 259.6 | 242.1 | — | 242.1 |
| Long-term liability | 69.2 | 60.7 | — | 60.7 |
| Total Financial Liabilities | \$ 2,573.0 | \$ 2,593.4 | \$ 653.2 | \$ 1,940.2 |

| | December 31, 2012 (Restated)* | | Fair Value Measurements | |
|---|----------------------------------|-------------------|---|---|
| | Carrying Value | Fair Value | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) |
| Financial assets | | | | |
| <u>Loans and Receivables</u> | | | | |
| Accounts receivable (note 16b) | \$ 175.6 | \$ 175.6 | \$ — | \$ 175.6 |
| <u>Held for Trading</u> | | | | |
| Cash | 7.6 | 7.6 | 7.6 | — |
| Risk management contracts | 1.8 | 1.8 | — | 1.8 |
| Total Financial Assets | \$ 185.0 | \$ 185.0 | \$ 7.6 | \$ 177.4 |
| Financial Liabilities | | | | |
| <u>Measured at Amortized Cost</u> | | | | |
| Accounts payable and accrued liabilities (note 16b) | 373.0 | 373.0 | — | 373.0 |
| Credit facility | 491.3 | 494.2 | — | 494.2 |
| 6 $\frac{7}{8}$ % senior notes | 486.4 | 555.3 | — | 555.3 |
| Convertible debentures | 632.0 | 644.0 | 644.0 | — |
| Related party loan | 172.1 | 172.1 | — | 172.1 |
| Long-term liability | 7.7 | 7.7 | — | 7.7 |
| Total Financial Liabilities | \$ 2,162.5 | \$ 2,246.3 | \$ 644.0 | \$ 1,602.3 |

*See Note 3

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

| | January 1, 2012 (Restated)* | | Fair Value Measurements | |
|---|--------------------------------|-------------------|---|---|
| | Carrying Value | Fair Value | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) |
| Financial assets | | | | |
| <u>Loans and Receivables</u> | | | | |
| Accounts receivable (note 16b) | \$ 212.3 | \$ 212.3 | \$ – | \$ 212.3 |
| <u>Held for Trading</u> | | | | |
| Cash | 6.6 | 6.6 | 6.6 | – |
| Risk management contracts | 20.2 | 20.2 | – | 20.2 |
| Total Financial Assets | \$ 239.1 | \$ 239.1 | \$ 6.6 | \$ 232.5 |
| Financial Liabilities | | | | |
| <u>Measured at Amortized Cost</u> | | | | |
| Accounts payable and accrued liabilities (note 16b) | 462.2 | 462.2 | – | 462.2 |
| Credit facility | 355.6 | 358.9 | – | 358.9 |
| 6½% senior notes | 495.7 | 523.1 | – | 523.1 |
| Convertible debentures | 742.0 | 752.5 | 752.5 | – |
| Total Financial Liabilities | \$ 2,055.5 | \$ 2,096.7 | \$ 752.5 | \$ 1,344.2 |

*See Note 3

Non-derivative financial instruments

Due to the short term maturities of accounts receivable, accounts payable and accrued liabilities and promissory note, their carrying values approximate their fair values.

The credit facility bears floating market rate, thus, the fair value approximates the carrying value (excluding deferred financing charges). The carrying value of the credit facility includes \$3.3 million of deferred financing charges at December 31, 2013 (December 31, 2012 – \$2.9 million; January 1, 2012 – \$3.3 million).

The fair value of the 2½% senior notes was based on the quoted market price of the notes on the Singapore Exchange as at December 31, 2013 (Level 1), which includes the benefit of the guarantee offered by KNOC. The fair value of the convertible debentures was based on the quoted market price on the Toronto Stock Exchange as at December 31, 2012 and January 1, 2012 (Level 1). The fair value of the 6½% senior notes was estimated based on the period end trading price of the notes on the secondary market (Level 2).

The fair values of the related party loans and long-term liability are estimated by discounting the future interest and principal payments using the current market interest rates of instruments with similar terms. At December 31, 2013, the rate used in determining the fair values of the related party loans and long-term liability was 7.0% (December 31, 2012 – 4.6% and 4.5%, respectively; January 1, 2012 - nil).

Derivative financial instruments

Harvest enters into risk management contracts with various counterparties, principally financial institutions with investment grade credit ratings. The fair values of the risk management contracts are determined based on the quoted forward prices of similar transactions observable in active markets as at December 31, 2013. The fair values of the risk management contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in the hedging relationship and other financial instruments recognized at fair value. Derivative financial instruments carried at fair value are as follows:

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|----------------------|-------------------|-----------------|-------------------|-------------|-----------------|-------------|
| | Asset | Liability | Asset | Liability | Asset | Liability |
| Natural gas swap | \$ 0.2 | \$ – | \$ 1.8 | \$ – | \$ – | \$ – |
| Crude oil price swap | – | – | – | – | 19.7 | – |
| Power swap | 0.1 | (0.6) | – | – | 0.5 | – |
| | \$ 0.3 | \$ (0.6) | \$ 1.8 | \$ – | \$ 20.2 | \$ – |

b) Financial Assets and Financial Liabilities Subject to Offsetting

The following table presents the recognized financial instrument that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2013 and 2012 and January 1, 2012, and shows in the "net" column what the net impact would be on Harvest's statement of financial position if all set-off rights was exercised.

| | Notes | Gross assets (liabilities) | Amounts offset Gross assets (liabilities) offset | Net amount presented | Related financial instruments that are not offset | Net |
|---|--------|----------------------------|--|----------------------|---|-----------|
| December 31, 2013 | | | | | | |
| Financial assets | | | | | | |
| Account receivable | (a)(b) | \$ 197.5 | \$ (189.7) | \$ 7.8 | \$ – | \$ 7.8 |
| Risk management contracts | (c) | 0.3 | – | 0.3 | (0.1) | 0.2 |
| | | \$ 197.8 | \$ (189.7) | \$ 8.1 | \$ (0.1) | \$ 8.0 |
| Financial Liabilities | | | | | | |
| Account payable and accrued liabilities | (a)(b) | \$ (189.7) | \$ 189.7 | \$ – | \$ – | \$ – |
| Risk management contracts | (c) | (0.6) | – | (0.6) | 0.1 | (0.5) |
| | | \$ (190.3) | \$ 189.7 | \$ (0.6) | \$ 0.1 | \$ (0.5) |
| December 31, 2012 | | | | | | |
| Financial assets | | | | | | |
| Account receivable | (a)(b) | \$ 237.2 | \$ (237.2) | \$ – | \$ – | \$ – |
| Risk management contracts | (c) | 1.8 | – | 1.8 | – | 1.8 |
| | | \$ 239.0 | \$ (237.2) | \$ 1.8 | \$ – | \$ 1.8 |
| Financial Liabilities | | | | | | |
| Account payable and accrued liabilities | (a)(b) | \$ (267.5) | \$ 237.2 | \$ (30.3) | \$ – | \$ (30.3) |
| Risk management contracts | (c) | – | – | – | – | – |
| | | \$ (267.5) | \$ 237.2 | \$ (30.3) | \$ – | \$ (30.3) |
| January 1, 2012 | | | | | | |
| Financial assets | | | | | | |
| Account receivable | (a)(b) | \$ 142.8 | \$ (142.8) | \$ – | \$ – | \$ – |
| Risk management contracts | (c) | 20.2 | – | 20.2 | – | 20.2 |
| | | \$ 163.0 | \$ (142.8) | \$ 20.2 | \$ – | \$ 20.2 |
| Financial Liabilities | | | | | | |
| Account payable and accrued liabilities | (a)(b) | \$ (185.9) | \$ 142.8 | \$ (43.1) | \$ – | \$ (43.1) |
| Risk management contracts | (c) | – | – | – | – | – |
| | | \$ (185.9) | \$ 142.8 | \$ (43.1) | \$ – | \$ (43.1) |

- (a) Standard terms of the supply and off take ("SOA") agreement include provision allowing settlement of payments in the normal course of business.
- (b) Various master netting agreements with counterparties that allow net settlement of payments in the normal course of business.
- (c) Harvest entered into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. When credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position as Harvest does not have currently enforceable right to offset recognized amounts because the rights to offset is enforceable only on the occurrence of future events such as a default on the bank loan or other credit events.

c) Risk Exposure

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

(i) Risk Management Contracts

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. These derivative contracts are entered for periods consistent with the underlying hedged transactions. Under hedge accounting, the effective portion of the unrealized gains and losses is included in OCL. The effective portion of the realized gains and losses is removed from AOCL and included in petroleum, natural gas, and refined product sales (see note 16 and 20). The ineffective portion of the unrealized and realized gains and losses are recognized in the consolidated statement of comprehensive loss.

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

| Year Ended December 31 | | | | | | | | | | |
|------------------------|-------------------|--------|-------------------------|-------------------|--------|-------------------------|---------------------------|----------|--|--|
| 2013 | | | 2012 | | | 2011 | | | | |
| Realized gains | Unrealized losses | Total | Realized (gains) losses | Unrealized losses | Total | Realized (gains) losses | Unrealized (gains) losses | Total | | |
| Power | \$ (3.1) | \$ 0.5 | \$ (2.6) | \$ – | \$ – | \$ (7.7) | \$ 1.0 | \$ (6.7) | | |
| Crude Oil | (0.4) | – | (0.4) | (2.1) | 1.1 | 1.7 | (1.7) | – | | |
| Currency | (1.4) | – | (1.4) | 0.5 | – | – | – | – | | |
| | \$ (4.9) | \$ 0.5 | \$ (4.4) | \$ (1.6) | \$ 1.1 | (6.0) | (0.7) | \$ (6.7) | | |

The following is a summary of Harvest's risk management contracts outstanding at December 31, 2013:

Contracts Designated as Hedges

| Contract Quantity | Type of Contract | Term | Contract Price | Fair Value |
|-------------------|------------------|----------------|----------------|------------|
| 36,750 GJ/day | AECO swap | Jan – Dec 2014 | \$3.71/GJ | \$ 0.2 |

Contracts Not Designated as Hedges

| Contract Quantity | Type of Contract | Term | Contract Price | Fair Value |
|-------------------|------------------|----------------|----------------|------------|
| 30 MWh | AESO power swap | Jan – Dec 2014 | \$55.29/MWh | \$ (0.5) |

(ii) Credit Risk

Upstream Accounts Receivable

Accounts receivable in Harvest's Upstream operations are due from crude oil and natural gas purchasers as well as joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad customer base, which includes a significant number of companies engaged in joint operations with Harvest. Harvest periodically assesses the financial strength of its crude oil and natural gas purchasers and will adjust its marketing plan to mitigate credit risks. This assessment involves a review of external credit ratings of the counterparty; however, if external ratings are not available, Harvest performs an internal credit review based on the purchaser's past financial performance. Credit is allocated to a counterparty dependent on the external and internal credit rating, and if required parent guarantees, letter of credit or prepayments are requested. The credit risk associated with joint venture partners is mitigated by reviewing the credit history of partners and

requiring some partners to provide cash prior to incurring significant capital costs on their behalf. Additionally, most agreements have a provision enabling Harvest to use the proceeds from the sale of production that would otherwise be taken in kind by the partner to offset amounts owing from the partner that is in default. Generally, the only instances of impairment are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Risk Management Contract Counterparties

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

Downstream Accounts Receivable

The SOA exposes Harvest to the credit risk of Macquarie Energy Canada Ltd. ("Macquarie") as all feedstock purchases and the majority of product sales are made with Macquarie. This credit risk is mitigated by the amounts owing to Macquarie for feedstock purchases that are offset against amounts receivable from Macquarie for product sales with the balance being net settled. The SOA also requires both Harvest and Macquarie's parent, Macquarie Bank Ltd, to provide reciprocal guarantees of US\$75 million to each other in order to mitigate the risk of either counterparty being unable to settle a net payable amount. At December 31, 2013, Harvest is in a net receivable position with Macquarie and the outstanding balance is included in the trade receivable table below.

Harvest's maximum exposure to credit risk relating to the above classes of financial assets at December 31, 2013 and 2012 and January 1, 2012 is the carrying value of accounts receivable. The tables below provide an analysis of Harvest's current and past due but not impaired receivables.

| December 31, 2013 | | | | | |
|---|-------------------|------------------|---|------------------------------------|-----------------------------|
| | Current AR | ≤ 30 days | Overdue AR > 30 days, ≤ 60 days | > 60 days, ≤ 90 days | > 90 days |
| Upstream accounts receivable ⁽¹⁾ | \$ 111.2 | \$ 1.1 | \$ 0.4 | \$ 0.1 | \$ 2.1 |
| Downstream accounts receivable ⁽¹⁾ | 44.8 | — | 5.9 | 1.6 | 1.7 |
| | \$ 156.0 | \$ 1.1 | \$ 6.3 | \$ 1.7 | \$ 3.8⁽²⁾ |

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

⁽²⁾ Net of \$2.5 million of allowance for doubtful accounts.

| December 31, 2012 | | | | | |
|---|-------------------|------------------|---|------------------------------------|-----------------------------|
| | Current AR | ≤ 30 days | Overdue AR > 30 days, ≤ 60 days | > 60 days, ≤ 90 days | > 90 days |
| Upstream accounts receivable ⁽¹⁾ | \$ 114.9 | \$ 0.7 | \$ 0.4 | \$ 0.5 | \$ 5.5 |
| Downstream accounts receivable ⁽¹⁾ | 44.2 | — | 7.0 | 1.5 | 0.9 |
| | \$ 159.1 | \$ 0.7 | \$ 7.4 | \$ 2.0 | \$ 6.4⁽²⁾ |

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

⁽²⁾ Net of \$4.0 million of allowance for doubtful accounts.

| January 1, 2012 | | | | | |
|---|-------------------|------------------|---|------------------------------------|-----------------------------|
| | Current AR | ≤ 30 days | Overdue AR > 30 days, ≤ 60 days | > 60 days, ≤ 90 days | > 90 days |
| Upstream accounts receivable ⁽¹⁾ | \$ 146.1 | \$ 1.3 | \$ 0.6 | \$ 1.2 | \$ 4.0 |
| Downstream accounts receivable ⁽¹⁾ | 50.7 | 6.1 | 1.7 | 0.2 | 0.4 |
| | \$ 196.8 | \$ 7.4 | \$ 2.3 | \$ 1.4 | \$ 4.4⁽²⁾ |

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

⁽²⁾ Net of \$3.3 million of allowance for doubtful accounts.

(iii) Liquidity Risk

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

In addition to the guarantee provided to Macquarie, at December 31, 2012, Harvest also provided guarantees of \$2.0 million for Downstream product purchases (January 1, 2012 - \$15.8 million). Harvest did not provide any guarantees for product purchases as at December 31, 2013.

The following tables provide an analysis of Harvest's financial liability maturities based on the remaining terms of its liabilities including the related interest charges as at December 31, 2013 and 2012, and January 1, 2012:

| December 31, 2013 | | | | | |
|---|-----------------|---------------------|----------------------|----------------|------------------|
| | ≤1 year | >1 year ≤3 years | >3 years ≤5 years | >5 years | Total |
| Accounts payable and accrued liabilities ⁽¹⁾ | \$ 258.3 | \$ – | \$ – | \$ – | \$ 258.3 |
| Credit facility and interest | 25.8 | 51.7 | 789.2 | – | 866.7 |
| 6½% senior notes and interest | 36.5 | 73.1 | 568.4 | – | 678.0 |
| 2½% senior notes and interest | 14.2 | 28.5 | 691.4 | – | 734.1 |
| Promissory note and interest | 12.5 | – | – | – | 12.5 |
| Related party loans and interest | – | – | 316.0 | – | 316.0 |
| Long-term liability | – | 21.8 | 19.3 | 48.2 | 89.3 |
| Risk management contracts liability | 0.6 | – | – | – | 0.6 |
| | \$ 347.9 | \$ 175.1 | \$ 2,384.3 | \$ 48.2 | \$2,955.5 |

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

| December 31, 2012 (Restated)* | | | | | |
|---|-----------------|---------------------|----------------------|---------------|------------------|
| | ≤1 year | >1 year ≤3 years | >3 years ≤5 years | >5 years | Total |
| Accounts payable and accrued liabilities ⁽¹⁾ | \$ 373.0 | \$ – | \$ – | \$ – | \$ 373.0 |
| Credit facility and interest | 13.9 | 27.9 | 498.8 | – | 540.6 |
| Convertible debentures and interest | 370.6 | 322.5 | – | – | 693.1 |
| 6½% senior notes and interest | 34.2 | 68.4 | 557.3 | – | 659.9 |
| Related party loan and interest | – | – | 206.4 | – | 206.4 |
| Long-term liability | – | 3.9 | 0.9 | 2.9 | 7.7 |
| | \$ 791.7 | \$ 422.7 | \$ 1,263.4 | \$ 2.9 | \$2,480.7 |

*See Note 3

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

| | January 1, 2012 (Restated)* | | | | |
|---|--------------------------------|---------------------|----------------------|----------|-----------|
| | ≤1 year | >1 year ≤3 years | >3 years ≤5 years | >5 years | Total |
| Accounts payable and accrued liabilities ⁽¹⁾ | \$ 462.2 | \$ – | \$ – | \$ – | \$ 462.2 |
| Credit facility and interest | 5.6 | 11.3 | 360.7 | – | 377.6 |
| Convertible debentures and interest | 158.6 | 449.1 | 244.0 | – | 851.7 |
| 6½% senior notes and interest | 35.0 | 69.9 | 69.9 | 534.7 | 709.5 |
| | \$ 661.4 | \$ 530.3 | \$674.6 | \$ 534.7 | \$2,401.0 |

*See Note 3

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

(iv) **Market Risks and Sensitivity Analysis**

Interest rate risk

Harvest is exposed to interest rate risk on its bank borrowings as interest rates are determined in relation to floating market rates plus an incremental charge based on the Company's senior debt to annualized EBITDA. Harvest's 6½% and 2½% senior notes and related party loans have fixed interest rates and therefore do not have any additional interest rate risk. Harvest manages its interest rate risk by targeting appropriate levels of debt relative to its expected cash flow from operations.

If the interest rate applicable to Harvest's bank borrowings at December 31, 2013 increased or decreased by approximately 30 basis points with all other variables held constant, pre-tax income for the year would change by \$2.3 million (2012 – \$1.4 million; 2011 – \$1.0 million) as a result of change in interest expense on variable rate borrowings under the credit facility.

Currency exchange rate risk

Harvest is exposed to the risk of changes in the U.S. dollar exchange rate on its U.S. dollar denominated revenues. In addition, Harvest's 6½% and 2½% senior notes, related party loan from ANKOR and LIBOR based loans are denominated in U.S. dollars, collectively US\$1.3 billion (2012 – \$760 million; 2011 – \$500 million). Interest on such debt is also payable in U.S. dollars and accordingly, the future cash payments of the principal and interest obligations will be sensitive to fluctuations in the U.S. dollars relative to the Canadian dollars.

Harvest's Downstream operations operate with a U.S. dollar functional currency which gives rise to currency exchange rate risk on the Company's Canadian dollar denominated monetary assets and liabilities such as Canadian dollar bank accounts, accounts receivable and payable, and defined benefit obligations. Harvest manages these exchange rate risks by occasionally entering into fixed rate currency exchange contracts on future U.S. dollar payments and U.S. dollar sales receipts.

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

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|--|--|--|--|--|--|--|
| | Increase (decrease) in pre-tax income | Increase (decrease) in OCI before tax | Increase (decrease) in pre-tax income | Increase (decrease) in OCI before tax | Increase (decrease) in pre-tax income | Increase (decrease) in OCI before tax |
| 10% strengthening in U.S. dollar relative to Canadian dollar | \$ (50.6) | \$ (64.3) | \$ (1.2) | \$ (46.5) | \$ (19.9) | \$ (34.8) |
| 10% weakening in U.S. dollar relative to Canadian dollar | \$ 50.6 | \$ 64.3 | \$ 1.2 | \$ 46.5 | \$ 19.9 | \$ 34.8 |

⁽¹⁾ The sensitivity to net income and other comprehensive income is done independently.

Commodity Price Risk

Harvest is exposed to natural gas and crude oil price movements as part of its normal business operations. The Company uses price risk management contracts to protect a portion of the Company's future cash flows and net income against unfavorable movements in commodity prices. These contracts are recorded on the consolidated statement of financial position at their fair value as of the reporting date. These fair values are generally determined as the difference between the stated fixed price of the contract and an expected future price of the commodity. Variances in expected future prices expose Harvest to commodity price risk as changes will result in a gain or loss that Harvest will realize on settlement of these contracts. This risk is mitigated by continuously monitoring the effectiveness of these contracts.

If the following changes in expected forward prices were applied to the fair value of risk management contracts in place at December 31, 2013 and 2012, and January 1, 2012, the pre-tax impact would be as follows:

| December 31, 2013 | | | |
|---|--|-------|--|
| | Increase (decrease) in pre-tax income | | Increase (decrease) in OCI before tax |
| Forward price of natural gas – 10% increase | \$ | – | \$ (5.0) |
| Forward price of natural gas – 10% decrease | \$ | – | \$ 5.0 |
| Forward price of electricity – 10% increase | \$ | 1.4 | \$ – |
| Forward price of electricity – 10% decrease | \$ | (1.4) | \$ – |
| December 31, 2012 | | | |
| | Increase (decrease) in pre-tax income | | Increase (decrease) in OCI before tax |
| Forward price of natural gas – 10% increase | \$ | – | \$ (1.2) |
| Forward price of natural gas – 10% decrease | \$ | – | \$ 1.2 |
| January 1, 2012 | | | |
| | Increase (decrease) in pre-tax income | | Increase (decrease) in OCI before tax |
| Forward price of crude oil – 10% increase | \$ | (1.0) | \$ (18.5) |
| Forward price of crude oil – 10% decrease | \$ | 0.6 | \$ 11.4 |

17. Provisions

| | Upstream | BlackGold | Downstream | Total |
|--|-----------------|----------------|----------------|-----------------|
| Decommissioning liabilities at January 1, 2012 | \$ 664.4 | \$ 1.5 | \$ 14.6 | \$ 680.5 |
| Liabilities incurred | 9.9 | 15.8 | – | 25.7 |
| Settled during the period | (18.4) | (0.2) | – | (18.6) |
| Revisions (change in estimated timing and costs) | 72.8 | 2.6 | 1.2 | 76.6 |
| Disposals | (27.4) | – | – | (27.4) |
| Accretion | 19.9 | 0.1 | 0.4 | 20.4 |
| Transfers to assets held for sale | (11.9) | – | – | (11.9) |
| Decommissioning liabilities at December 31, 2012 | \$ 709.3 | \$ 19.8 | \$ 16.2 | \$ 745.3 |
| Environmental remediation at December 31, 2012 | 6.6 | – | – | 6.6 |
| Other provisions at December 31, 2012 | 3.5 | – | – | 3.5 |
| Less current portion | (28.1) | – | – | (28.1) |
| Non-current provisions at December 31, 2012 | \$ 691.3 | \$ 19.8 | \$ 16.2 | \$ 727.3 |
| Decommissioning liabilities at December 31, 2012 | \$ 709.3 | \$ 19.8 | \$ 16.2 | \$ 745.3 |
| Liabilities incurred | 8.6 | 14.9 | – | 23.5 |
| Settled during the period | (18.6) | (0.1) | – | (18.7) |
| Revisions (change in estimated timing and costs) | 22.9 | (1.1) | – | 21.8 |
| Disposals | (33.6) | – | – | (33.6) |
| Accretion | 20.8 | 0.8 | 0.5 | 22.1 |
| Decommissioning liabilities at December 31, 2013 | \$ 709.4 | \$ 34.3 | \$ 16.7 | \$ 760.4 |
| Environmental remediation at December 31, 2013 | 6.7 | – | – | 6.7 |
| Other provisions at December 31, 2013 | 3.5 | – | – | 3.5 |
| Less current portion | (39.1) | – | – | (39.1) |
| Non-current provisions at December 31, 2013 | \$ 680.5 | \$ 34.3 | \$ 16.7 | \$ 731.5 |

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.6 billion at December 31, 2013 (December 31, 2012 - \$1.8 billion; January 1, 2012 - \$1.4 billion), which will be incurred between 2014 and 2074. A risk-free discount rate of 3.0% (December 31, 2012 and January 1, 2012 - 3.0%) and inflation rate of 1.7% (December 31, 2012 and January 1, 2012 - 1.7%) were used to calculate the fair value of the decommissioning and environmental remediation liabilities. The actual decommissioning and environmental remediation costs will ultimately depend upon future market prices for the necessary decommissioning and remediation work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

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

18. Long-Term Liability

On May 30, 2012, Harvest amended certain aspects of its BlackGold oil sands project engineering, procurement and construction ("EPC") contract, including revising the compensation terms from a lump sum price to a cost reimbursable price and confirming greater Harvest control over project execution. Harvest and the EPC contractor also agreed to apply the cumulative progress payments made under the lump sum contract and the remaining deposit of \$24.4 million as at May 30, 2012 towards costs incurred to that date.

Under the EPC contract, a maximum of approximately \$101 million of the EPC costs will be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work in 2014. The liability

is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2013, Harvest recognized a total liability of \$76.2 million (December 31, 2012 – \$4.7 million; January 1, 2012 – \$nil) using a discount rate of 4.5% (December 31, 2012 – 4.5%; January 1, 2012 – nil) of which \$9.6 million (December 31, 2012 and January 1, 2012 – \$nil) is payable within a year and has been included with accounts payable and accrued liabilities.

Also included in long-term liability is an accrual related to Harvest's long term incentive program of \$2.6 million (December 31, 2012 – \$3.0 million; January 1, 2012 – \$1.9 million) as well as deferred credits of \$0.3 million (December 31, 2012 – \$0.5 million; January 1, 2012 – \$0.8 million).

19. Income Taxes

| | Year Ended December 31 | | |
|--------------------------------------|------------------------|---------------------|---------------------|
| | 2013 | 2012 (Restated)* | 2011 (Restated)* |
| Current income tax expense | \$ – | \$ – | \$ 0.1 |
| Deferred income tax ("DIT") recovery | (64.2) | (81.6) | (30.1) |
| | \$ (64.2) | \$ (81.6) | \$ (30.0) |

*See Note 3.

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

| | Year Ended December 31 | | |
|--|------------------------|---------------------|---------------------|
| | 2013 | 2012 (Restated)* | 2011 (Restated)* |
| Loss before income tax | \$ (846.1) | \$ (802.6) | \$ (135.4) |
| Combined Canadian federal and provincial statutory income tax rate | 27.69% | 27.65% | 28.08% |
| Computed income tax recovery at statutory rates | (234.3) | (221.9) | (38.0) |
| Increased expense (recovery) resulting from the following: | | | |
| Difference between current and expected tax rates | 60.4 | 56.3 | 13.9 |
| Foreign exchange impact not recognized in income | 15.8 | (6.7) | 7.8 |
| Amended returns and pool balances | (0.3) | 6.1 | 4.9 |
| Reversal of previously recognized temporary differences | 75.0 | 52.4 | (12.7) |
| Non-deductible expenses (recoveries) | (11.0) | 4.6 | (3.5) |
| Other | 2.6 | (0.1) | (2.4) |
| Non-taxable portion of capital loss | – | – | – |
| | (91.8) | (109.3) | (30.0) |
| Income tax credit receivable written-off | 27.6 | 27.7 | – |
| Income tax recovery | \$ (64.2) | \$ (81.6) | \$ (30.0) |

*See Note 3.

The change in the applicable tax rate for the year ended December 31, 2013 from the previous year is due to an increase in the provincial component of the tax rate.

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

| | PP&E | Decommissioning liabilities | Non-capital tax losses | Other | Total deferred asset (liability) |
|--|-------------------|-----------------------------|------------------------|---------------|----------------------------------|
| At January 1, 2012 | \$ (605.3) | \$ 172.4 | \$ 375.0 | \$ 3.0 | \$ (54.9) |
| Recognized in profit or loss | 282.3 | 19.2 | (184.1) | (8.1) | 109.3 |
| Recognized in other comprehensive loss | — | — | — | 6.7 | 6.7 |
| At December 31, 2012 | \$ (323.0) | \$ 191.6 | \$ 190.9 | \$ 1.6 | \$ 61.1 |
| Recognized in profit or loss | 28.4 | 0.8 | 57.3 | 5.3 | 91.8 |
| Recognized in other comprehensive loss | — | — | — | (4.1) | (4.1) |
| At December 31, 2013 | \$ (294.6) | \$ 192.4 | \$ 248.2 | \$ 2.8 | \$ 148.8 |

DIT assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. As at December 31, 2013, Harvest had approximately \$1.5 billion (December 31, 2012 - \$1.1 billion; January 1, 2012 - \$1.6 billion) of carry-forward tax losses and approximately \$3.5 billion (December 31, 2012 - \$3.5 billion; January 1, 2012 - \$2.8 billion) of tax pools that would be available to offset against future taxable profit. The carry-forward losses will expire between the years 2024 and 2033. Based on management's best estimate of the forecasted future taxable profit of the Company, management believes that there is not sufficient evidence to recognize \$713.8 million (December 31, 2012 - \$300.0 million; January 1, 2012 - \$nil) of the carry-forward tax losses within its Downstream operations as it is not probable that sufficient future taxable profit will be available to utilize these losses. Consequently \$142.7 million (December 31, 2012 - \$60.0 million; January 1, 2012 - \$nil) of DIT assets have not been recognized as at December 31, 2013 which related to carry-forward tax losses that will expire between the years 2026 and 2032.

As at December 31, 2013, Harvest had a contingent liability relating to an unsettled dispute with the Canada Revenue Agency. This contingent liability has not been provided for in the consolidated statement of financial position as the Company has assessed that it is possible but not probable that a payment will be necessary. The range of possible payment is estimated to be between \$3.6 million to \$7.1 million.

20. Revenues

| | Year Ended December 31 | | |
|---|------------------------|-------------------|-------------------|
| | 2013 | 2012 | 2011 |
| Petroleum and natural gas sales, net of royalties | \$ 943.9 | \$ 999.3 | \$ 1,100.8 |
| Refined products sales | 4,416.9 | 4,752.1 | 3,302.3 |
| Effective portion of realized crude oil hedges | 3.9 | 29.6 | (9.4) |
| | \$ 5,364.7 | \$ 5,781.0 | \$ 4,393.7 |

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

| | Year Ended December 31 | | | | | | | | |
|------------------------------------|------------------------|----------|----------|----------------|---------|---------|----------------|---------|---------|
| | Upstream | | | Downstream | | | Total | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Operating expenses | | | | | | | | | |
| Power and purchased energy | \$89.1 | \$ 79.6 | \$ 83.1 | \$106.7 | \$140.7 | \$117.3 | \$195.8 | \$220.3 | \$200.4 |
| Well servicing | 49.9 | 56.0 | 61.6 | — | — | — | 49.9 | 56.0 | 61.6 |
| Repairs and maintenance | 51.7 | 57.0 | 60.0 | 23.6 | 26.4 | 20.4 | 75.3 | 83.4 | 80.4 |
| Lease rentals and property taxes | 37.3 | 38.3 | 34.7 | — | — | — | 37.3 | 38.3 | 34.7 |
| Salaries and benefits | 31.8 | 31.5 | 28.1 | 71.3 | 67.6 | 59.8 | 103.1 | 99.1 | 87.9 |
| Professional and consultation fees | 15.3 | 19.3 | 19.4 | 3.9 | 5.7 | 4.5 | 19.2 | 25.0 | 23.9 |
| Chemicals | 18.7 | 18.0 | 15.4 | — | — | — | 18.7 | 18.0 | 15.4 |
| Processing fees | 36.8 | 33.4 | 22.6 | — | — | — | 36.8 | 33.4 | 22.6 |
| Trucking | 13.9 | 16.3 | 13.3 | — | — | — | 13.9 | 16.3 | 13.3 |
| Other | 1.1 | 9.6 | 12.2 | 27.6 | 22.2 | 24.6 | 28.7 | 31.8 | 36.8 |
| | \$345.6 | \$ 359.0 | \$ 350.4 | \$233.1 | \$262.6 | \$226.6 | \$578.7 | \$621.6 | \$577.0 |

| | Year Ended December 31 | | |
|--|------------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| General and administrative expenses | | | |
| Salaries and benefits | \$ 60.2 | \$ 64.8 | \$ 59.5 |
| Professional and consultation fees | 13.9 | 10.8 | 7.9 |
| Other | 15.0 | 13.3 | 18.6 |
| G&A capitalized and recovery | (20.4) | (23.3) | (23.4) |
| | \$ 68.7 | \$ 65.6 | \$ 62.6 |

22. Finance Costs

| | Year Ended December 31 | | |
|--|------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Interest and other finance charges | \$ 95.3 | \$ 103.9 | \$ 94.1 |
| Accretion of decommissioning and environmental remediation liabilities | 22.3 | 20.7 | 23.6 |
| Gain on redemption of convertible debentures | (3.6) | (0.1) | — |
| Less: capitalized interest | (19.8) | (13.5) | (8.6) |
| | \$ 94.2 | \$ 111.0 | \$ 109.1 |

23. Foreign Exchange

| | Year Ended December 31 | | |
|---|------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Realized losses (gains) on foreign exchange | \$ 3.4 | \$ (0.1) | \$ (6.6) |
| Unrealized losses (gains) on foreign exchange | 40.8 | (1.2) | 2.6 |
| | \$ 44.2 | \$ (1.3) | \$ (4.0) |

24. Supplemental Cash Flow Information

| | Year Ended December 31 | | |
|--|------------------------|---------------------|---------------------|
| | 2013 | 2012 (Restated)* | 2011 (Restated)* |
| Source (use) of cash: | | | |
| Accounts receivable | \$ 6.7 | \$ 36.7 | \$ 1.7 |
| Prepaid expenses and long-term deposit | 6.1 | 18.2 | 42.2 |
| Inventories | 29.2 | (19.8) | 14.5 |
| Accounts payable and accrued liabilities | (114.7) | (89.2) | 103.3 |
| Net changes in non-cash working capital | (72.7) | (54.1) | 161.7 |
| Changes relating to operating activities | (70.6) | 11.0 | 51.1 |
| Changes relating to investing activities | 21.6 | (63.8) | 108.7 |
| Promissory note (note 12e) | (24.2) | — | — |
| Add: Non-cash changes | 0.5 | (1.3) | 1.9 |
| | \$ (72.7) | \$ (54.1) | \$ 161.7 |

*See Note 3.

25. Accumulated Other Comprehensive Loss ("AOCL")

| | Foreign Currency Translation Adjustment | Designated Cash Flow Hedges, Net of Tax | Actuarial Loss, Net of Tax | Total |
|---|--|--|----------------------------------|------------------|
| Balance at December 31, 2010 (Restated)* | \$ (45.9) | \$ (5.0) | \$ (2.6) | \$ (53.5) |
| Reclassification to net income of losses on cash flow hedges | — | 7.1 | — | 7.1 |
| Gains on derivatives designated as cash flow hedges, net of tax | — | 12.3 | — | 12.3 |
| Actuarial loss, net of tax | — | — | (4.2) | (4.2) |
| Losses on foreign currency translation | 21.5 | — | — | 21.5 |
| Balance at December 31, 2011 (Restated)* | \$ (24.4) | \$ 14.4 | \$ (6.8) | \$ (16.8) |
| Reclassification to net income of gains on cash flow hedges | — | (22.4) | — | (22.4) |
| Gains on derivatives designated as cash flow hedges, net of tax | — | 9.2 | — | 9.2 |
| Actuarial loss, net of tax | — | — | (9.9) | (9.9) |
| Losses on foreign currency translation | (17.7) | — | — | (17.7) |
| Balance at December 31, 2012 (Restated)* | \$ (42.1) | \$ 1.2 | \$ (16.7) | \$ (57.6) |
| Reclassification to net income of gains on cash flow hedges | — | (2.8) | — | (2.8) |
| Gains on derivatives designated cash flow hedges, net of tax | — | 1.7 | — | 1.7 |
| Actuarial gain, net of tax | — | — | 18.1 | 18.1 |
| Gains on foreign currency translation | 7.9 | — | — | 7.9 |
| Balance at December 31, 2013 | \$ (34.2) | \$ 0.1 | \$ 1.4 | \$ (32.7) |

*See Note 3.

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

| | Year Ended December 31 | | | | | |
|--|------------------------|------------------|----------------|-----------------|------------------|----------------|
| | After - tax | | | Pre - tax | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| (Gains) losses reclassified from OCL to revenues | \$ (2.8) | \$ (22.4) | \$ 7.1 | \$ (3.9) | \$ (29.6) | \$ 9.4 |
| Gains recognized in OCL | \$ 1.7 | \$ 9.2 | \$ 12.3 | \$ 2.4 | \$ 12.2 | \$ 16.5 |
| Total | \$ (1.1) | \$ (13.2) | \$ 19.4 | \$ (1.5) | \$ (17.4) | \$ 25.9 |

The Company expects the \$0.1 million after-tax accumulated gain (\$0.1 million pre-tax) reported in AOCL related to the natural gas cash flow hedges to be released to net income within the next twelve months.

26. Post-Employment Benefits

The defined pension benefit plan is a final salary plan which provides benefits to members in the form of a guaranteed level of pension payable for life or single life guaranteed ten years. The level of benefits provided is calculated as 2% of average eligible earnings, based on maximum annual eligible earnings of \$86,111, in the best five years of the last ten years of participation in the plan. All benefit payments are from trustee-administered funds. Plan assets held in trust are governed by provincial regulations. Responsibility for governance of the plan rests with the Downstream pension committee who has also appointed experienced, independent professional experts such as investment managers, actuaries, custodians and trustees to assist with the management of the plans. The defined benefit health care plan is unfunded and Downstream meets the benefit payment obligation as it falls due.

Funding of the defined benefit pension plans complies with Canadian federal and provincial regulations, and requires contributions to the plans to be made based on independent actuarial valuation. These funding requirements are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions used to determine the net benefit asset or obligation that is recorded on the statement of financial position.

The measurement of the accrued benefit obligation and annual expense for the defined benefit plans requires actuarial calculations and the following key assumptions.

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|--|-------------------|---------------------|-------------------|---------------------|-----------------|---------------------|
| | Pension Plans | Other Benefit Plans | Pension Plans | Other Benefit Plans | Pension Plans | Other Benefit Plans |
| Discount rate | 4.8% | 4.8% | 4.0% | 4.0% | 5.0% | 5.0% |
| Expected long-term rate of return on plan assets – bonds/fixed income securities | 5.0% | – | 5.0% | – | 5.0% | – |
| Expected long-term rate of return on plan assets – equity securities | 8.0% | – | 8.0% | – | 8.0% | – |
| Rate of compensation increase | 3.5% | – | 3.5% | – | 3.5% | – |
| Employee contribution of pensionable income | 6.0% | – | 6.0% | – | 6.0% | – |
| Annual rate of increase in covered health care benefits | – | 8.0% | – | 8.0% | – | 8.0% |

The discount rates are determined with reference to market yields on high quality corporate bonds with similar duration to the benefit obligations at the end of the reporting period.

The expected long-term rate of return is based on the portfolio as a whole and not necessarily on the sum of the returns on individual asset categories and is calculated using the projected rates of return of the plan investment portfolio, including the expected forecast for inflation, risk premiums for each class of asset, and current and future financial market conditions.

The sensitivity of the defined benefit obligation to changes in assumptions is concentrated to the discount rate. Other changes in assumptions have minimal impact on the obligation as a result of salary and benefit restrictions under both the pension plans and other benefit plans. The effect of an increase/decrease of one percentage point in the discount rate will decrease/increase the benefit obligation for our pension plans by \$13.5 million and will decrease/increase the benefit obligation for our other benefit plan by \$1.1 million. The effect of a increase/decrease of one percentage point in the discount rate will decrease/increase net service cost of our pension plans by \$1.1 million and decrease/increase the service cost of our other benefit plan by \$0.1 million. The sensitivity of the discount rate assumes that all other assumptions remain constant.

Although, the sensitivity analysis noted above is based on changing one assumption while holding all other assumptions constant, this is unlikely to occur in reality since changes to some assumptions may be correlated. When calculating the sensitivity of the discount rate and the impact on the benefit obligation, the same method has been applied as for calculating the net benefit asset and net benefit obligation recognized in the statement of financial position.

The assets of the defined benefit plan are invested and maintain the following asset mix:

| Asset Category | Percentage of Plan Assets | | |
|-----------------------------------|---------------------------|-------------------|-----------------|
| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Equity securities | | | |
| - Consumer markets and healthcare | 19% | 19% | 23% |
| - Energy and industrial | 19% | 18% | 18% |
| - Financial Institutions | 17% | 17% | 11% |
| - Information technology | 9% | 9% | 9% |
| - Other | 6% | 6% | 8% |
| Bonds/fixed income securities | | | |
| - Government and corporate bonds | 22% | 23% | 19% |
| - Short-term investments | 6% | 8% | 11% |
| - Other | 2% | — | 1% |

The primary investment strategy is the security and long-term stability of plan assets, combined with moderate growth that corresponds to the participants' anticipated retirement dates. The investment policy is reviewed from time to time to ensure consistency with the plan objectives. The Company in conjunction with the plan asset investment managers manages the inherent risks of various asset classes by investing in a diversified portfolio. The plan assets are primarily invested in domestic and foreign equity funds and in domestic bonds. The target asset allocation for equity securities is approximately 70% (and within a range of 50% to 90%) and the target asset allocation for debt securities is approximately 30% (and within a range of 10% to 50%). From time to time, the actual asset allocations for equity securities and debt securities may vary slightly from the target allocation, while staying within the target range, as a result of market conditions, however, management reviews the investments on a regular basis to ensure they continue to meet the plans' investment strategy.

All of the plan assets have quoted prices in active markets. There are no shares of Harvest Operations Corp. included in the plan asset mix.

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|-------------------|---------------------|-------------------|---------------------|-----------------|---------------------|
| | Pension Plans | Other Benefit Plans | Pension Plans | Other Benefit Plans | Pension Plans | Other Benefit Plans |
| Employee benefit obligation, beginning of year | \$ (90.6) | \$ (9.3) | \$ (70.8) | \$ (8.2) | \$ (63.8) | \$ (7.9) |
| Current service costs | (4.1) | (0.2) | (2.6) | (0.3) | (2.5) | (0.3) |
| Interest | (3.8) | (0.4) | (3.7) | (0.4) | (3.5) | (0.4) |
| Contributions by plan participants | (1.8) | (0.2) | (1.8) | (0.2) | (1.6) | (0.2) |
| Actuarial gains/(losses) arising from financial assumptions | 10.4 | 1.1 | (14.4) | (0.7) | (1.5) | 0.1 |
| Benefits paid | 4.8 | 0.5 | 2.7 | 0.5 | 2.1 | 0.5 |
| Employee benefit obligation, end of year | \$ (85.1) | \$ (8.5) | \$ (90.6) | \$ (9.3) | \$ (70.8) | \$ (8.2) |
| Fair value of plan assets, beginning of year | \$ 67.5 | \$ – | \$ 53.0 | \$ – | \$ 51.3 | \$ – |
| Expected return on plan assets | 2.8 | – | 2.8 | – | 2.7 | – |
| Employer contributions | 8.3 | 0.3 | 9.8 | 0.3 | 3.3 | 0.3 |
| Employee contributions | 1.8 | 0.2 | 1.8 | 0.2 | 1.6 | 0.2 |
| Actuarial gains/(losses) arising from financial assumptions | 11.2 | – | 2.8 | – | (3.8) | – |
| Benefits paid | (4.8) | (0.5) | (2.7) | (0.5) | (2.1) | (0.5) |
| Fair value of plan assets, end of year | 86.8 | – | 67.5 | – | 53.0 | – |
| Net asset (obligation) and carrying amount | \$ 1.7 | \$ (8.5) | \$ (23.1) | \$ (9.3) | \$ (17.8) | \$ (8.2) |

The table below shows the summary of the defined benefit net asset and obligation:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---------------------|-------------------|-------------------|-----------------|
| Pension plans | \$ 1.7 | \$ (23.1) | \$ (17.8) |
| Other benefit plans | (8.5) | (9.3) | (8.2) |
| Net obligation | \$ (6.8) | \$ (32.4) | \$ (26.0) |

In accordance with the terms and conditions of the defined benefit plans, and in accordance with federal and provincial statutory requirements of the plans, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of plan assets less the total present value of obligations and, as such, no decrease in the defined benefit asset was necessary at December 31, 2013.

The actual return on plan assets for the year ended December 31, 2013 was \$13.9 million (2012 – a return of \$5.6 million; 2011 – a loss of \$1.1 million).

Total cash payments for employee future benefits, consisting of cash contributed by Downstream to the pension and other benefit plans were \$8.6 million for the year ended December 31, 2013 (2012 – \$10.1 million; 2011 – \$3.6 million). Expected contributions to the pension and other benefit plans for 2014 are \$4.3 million.

Actuarial valuations are completed annually for the defined benefit plans and post-retirement benefit plan.

The table below shows the components of the net benefit plan expense:

| | Year Ended December 31 | | | | | |
|--------------------------|------------------------|---------------------|---------------|---------------------|---------------|---------------------|
| | 2013 | | 2012 | | 2011 | |
| | Pension Plans | Other Benefit Plans | Pension Plans | Other Benefit Plans | Pension Plans | Other Benefit Plans |
| Current service cost | \$ 4.1 | \$ 0.2 | \$ 2.6 | \$ 0.3 | \$ 2.5 | \$ 0.3 |
| Net interest expense | 1.0 | 0.4 | 0.9 | 0.4 | 0.8 | 0.4 |
| Net benefit plan expense | \$ 5.1 | \$ 0.6 | \$ 3.5 | \$ 0.7 | \$ 3.3 | \$ 0.7 |

For the year ended December 31, 2013 the net benefit plan expense of \$5.7 million (2012 – \$4.2 million; 2011 – \$4.0 million) has been included in operating expenses in the statement of comprehensive loss and actuarial gains of \$18.1 million, after tax expense of \$4.6 million (2012 – actuarial losses of \$9.9 million, after tax recovery of \$2.4 million; 2011 – actuarial losses of \$4.2 million, after tax recovery of \$1.0 million) have been included in other comprehensive loss. The cumulative amount of actuarial gains included in accumulated other comprehensive loss as at December 31, 2013 was \$1.4 million, after tax expense of \$0.4 million (2012 – cumulative actuarial losses of \$16.7 million, after tax recovery of \$4.2 million).

The weighted average duration of the defined benefit pension plan and other benefit plan is 14.3 years and 12.2 years respectively.

Downstream is exposed to a number of risks through the defined benefit plans, the most significant of which are detailed below:

(i) *Investment risk*

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; a plan deficit will result if the plan assets underperform this yield. The plan asset mix is weighted towards equities which are expected to outperform corporate bonds in the long-term while contributing volatility and risk in the short-term.

Due to the long-term nature of the plan liabilities, maintaining a higher proportion of equity investments is an appropriate element of the long-term strategy of the defined benefit plans and as managed by the pension committee.

(ii) *Interest risk*

A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the return on the plan's debt investments.

(iii) *Longevity risk*

The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's obligation.

In the case of funded plans, Downstream's pension committee ensures that the investment positions are managed so that long-term investments are in line with the obligations under the benefit plans. The objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The pension committee monitors the plan asset performance and ensures that investments are well diversified such that the failure of any single investment would not have a material impact on the overall level of assets.

Required payments under the defined benefit plans for the next five years are disclosed in note 29 "Commitments" and include special payments for solvency and funding deficiencies.

27. Inventories

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 |
|-----------------------------------|-------------------|------|-------------------|------|-----------------|
| Petroleum products | | | | | |
| Upstream – pipeline fill | \$ | 3.0 | \$ | 0.9 | \$ 1.4 |
| Downstream | | 43.8 | | 75.5 | 56.3 |
| Total petroleum product inventory | | 46.8 | | 76.4 | 57.7 |
| Parts and supplies | | 4.8 | | 4.4 | 3.3 |
| | \$ | 51.6 | \$ | 80.8 | \$ 61.0 |

For the year ended December 31, 2013, Downstream recognized inventory impairments of \$6.6 million (2012 - \$14.8 million; 2011 - \$9.7 million). Downstream inventory impairment reversals during 2013 was \$3.9 million (2012 - \$8.4 million; 2011 - \$7.2 million) due to improvement in market prices. Such write-down and recovery amounts are included as costs in “purchased products for processing and resale” in the consolidated statements of comprehensive loss. The amount of petroleum products inventory recognized as an expense during year is included in “purchased products for processing and resale expense” in the consolidated statements of comprehensive loss.

28. Related Party Transactions

a) Related party loans

On December 30, 2013, Harvest entered into a subordinated loan agreement with KNOC to borrow up to \$200 million at a fixed interest rate of 5.3% per annum. The full principal and accrued interest is payable on December 30, 2018. As of December 31, 2013, Harvest has drawn \$80 million from the \$200 million available under the loan agreement (December 31, 2012 and January 1, 2012 - \$nil). The loan amount was recorded at fair value on initial recognition by discounting the future cash payments at the prevailing market interest rate of 7% for loans with similar terms. The difference between the fair value and the loan amount of \$4.3 million was recognized in contributed surplus. For the year ended December 31, 2013, interest expense of \$nil was recorded (2012 and 2011 - \$nil). On February 28, 2014, Harvest borrowed an additional \$80.0 million under the KNOC subordinated loan agreement.

On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow US\$170 million at a fixed interest rate of 4.62% per annum. The principal balance and accrued interest is payable on October 2, 2017. At December 31, 2013, Harvest's related party loan from ANKOR included \$180.8 million (December 31, 2012 - \$169.1 million; January 1, 2012 - \$nil) of principal and \$3.0 million (December 31, 2012 - \$3.0 million; January 1, 2012 - \$nil) of accrued interest. Interest expense was \$8.1 million for the year ended December 31, 2013 (2012 - \$3.0 million; 2011 - \$nil).

The related party loans are unsecured and the loan agreements contain no restrictive covenants. For purposes of Harvest's credit facility covenant requirements, the related party loans are excluded from the 'total debt' amount but included in the 'total capitalization' amount.

b) Directors and Key Management Personnel Remuneration

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

| | Year Ended December 31 | | | | | |
|------------------------------|------------------------|-----|------|-----|------|-----|
| | 2013 | | 2012 | | 2011 | |
| Short-term employee benefits | \$ | 5.1 | \$ | 5.3 | \$ | 4.6 |
| Other long-term benefits | | 0.7 | | 0.4 | | 1.0 |
| Other | | – | | 0.5 | | – |
| | \$ | 5.8 | \$ | 6.2 | \$ | 5.6 |

c) Other Related Party Transactions

| | Transactions | | | Balance Outstanding | | | |
|--|------------------------|----------|----------|------------------------|--------|---------------------|--------|
| | Year Ended December 31 | | | Accounts Receivable As | | Accounts Payable As | |
| | 2013 | 2012 | 2011 | At December 31 | | At December 31 | |
| | | | | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | | | | |
| KNOC ⁽¹⁾⁽²⁾ | \$ 4.1 | \$ 0.1 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other KNOC subsidiaries ⁽²⁾ | 0.8 | 0.8 | - | - | 0.1 | - | - |
| Operating Expenses | | | | | | | |
| Other KNOC subsidiaries ⁽³⁾ | \$ 0.5 | \$ 0.4 | \$ - | \$ - | \$ - | \$ - | \$ 0.3 |
| G&A Expenses | | | | | | | |
| KNOC ⁽⁴⁾ | \$ (3.5) | \$ (5.6) | \$ (1.0) | \$ - | \$ 1.6 | \$ 0.5 | \$ - |
| Finance costs | | | | | | | |
| KNOC ⁽⁵⁾ | \$ 2.8 | \$ - | \$ - | \$ - | \$ - | \$ 0.5 | \$ - |

⁽¹⁾ Global Technology and Research Centre ("GTRC") is used as a training and research facility for KNOC. In 2013, the amount is related to a geological study performed by GTRC on behalf of KNOC.

⁽²⁾ KNOC Trading Corporation ("KNOC Trading") is a wholly owned subsidiary of North Atlantic. KNOC Trading bills KNOC, Ankor E&P Holdings Corp. ("ANKOR") and Dana Petroleum plc ("Dana") for oil marketing services, such as the sale of products, performed on behalf of KNOC, ANKOR and Dana. Both ANKOR and Dana are wholly owned subsidiaries of KNOC.

⁽³⁾ Billing from Ankor for office rent and salaries and benefits related to KNOC Trading.

⁽⁴⁾ Reimbursement from KNOC for general and administrative expenses incurred by GTRC. Also included is Harvest's reimbursement to KNOC for secondees salaries paid by KNOC on behalf of Harvest.

⁽⁵⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½% senior notes and the senior unsecured credit facility. A guarantee fee of 52 basis points per annum is charged by KNOC.

On February 28, 2014 KNOC purchased 100% of the shares of KNOC Trading Corporation for US\$0.4 million.

29. Commitments

The following is a summary of Harvest's contractual obligations and estimated commitments as at December 31, 2013:

| | Payments Due by Period | | | | |
|--|------------------------|-----------------|-------------------|-------------------|-------------------|
| | 1 year | 2-3 years | 4-5 years | After 5 years | Total |
| Debt repayments ⁽¹⁾ | \$ 12.3 | \$ - | \$ 2,243.3 | \$ - | \$ 2,255.6 |
| Debt interest payments ^{(1) (2)} | 76.8 | 153.3 | 121.6 | - | 351.7 |
| Purchase commitments ⁽³⁾ | 75.5 | 20.0 | 70.0 | - | 165.5 |
| Operating leases | 11.8 | 8.6 | 6.2 | 2.8 | 29.4 |
| Firm processing commitments | 9.0 | 32.2 | 27.0 | 97.7 | 165.9 |
| Firm transportation agreements | 9.6 | 38.8 | 49.9 | 92.2 | 190.5 |
| Feedstock and other purchase commitments ⁽⁴⁾ | 927.8 | - | - | - | 927.8 |
| Employee benefits ⁽⁵⁾ | 2.6 | 5.2 | 1.2 | 3.8 | 12.8 |
| Decommissioning and environmental liabilities ⁽⁶⁾ | 35.6 | 60.7 | 42.9 | 1,485.7 | 1,624.9 |
| Total | \$ 1,161.0 | \$ 318.8 | \$ 2,562.1 | \$ 1,682.2 | \$ 5,724.1 |

⁽¹⁾ Assumes constant foreign exchange rate.

⁽²⁾ Assumes interest rates as at December 31, 2013 will be applicable to future interest payments.

⁽³⁾ Relates to drilling commitments, BlackGold oil sands project commitment and Downstream capital commitments.

⁽⁴⁾ Includes commitments to purchase refinery crude stock and refined products for resale under the SOA with Macquarie. The amount will be net settled against any product sales to Macquarie.

⁽⁵⁾ Relates to the expected contributions to employee benefit plans and long-term incentive plan payments.

⁽⁶⁾ Represents the undiscounted obligation by period.

30. Supplemental Guarantor Condensed Financial Information

Harvest Breeze Trust No. 1, Harvest Breeze Trust No. 2, Breeze Resources Partnership, Hay River Partnership, 1496965 Alberta Ltd. and North Atlantic Refining Limited (collectively "guarantor subsidiaries") fully and unconditionally guarantees the 6% senior notes issued by Harvest Operations Corporation ("HOC"). Each of the guarantor subsidiaries is 100% owned by HOC. The full and unconditional guarantees may be automatically released under the following customary circumstances:

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|------------|---------------------------|----------------------------------|--------------|------------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ — | \$ — | \$ — |
| Accounts receivable | 95.2 | 71.6 | 2.1 | — | 168.9 |
| Inventories | 3.0 | 47.0 | 1.6 | — | 51.6 |
| Prepaid expenses | 12.8 | 1.3 | — | — | 14.1 |
| Risk management contracts | 0.3 | — | — | — | 0.3 |
| Due from affiliates | 1,016.1 | 83.0 | 0.3 | (1,099.4) | — |
| | \$ 1,127.4 | \$ 202.9 | \$ 4.0 | \$ (1,099.4) | \$ 234.9 |
| Non-current assets | | | | | |
| Long-term deposit | \$ 5.0 | \$ — | \$ — | \$ — | \$ 5.0 |
| Investment tax credits and other | — | 0.6 | — | — | 0.6 |
| Deferred income tax asset | 88.9 | 59.7 | 0.2 | — | 148.8 |
| Exploration & evaluation assets | 52.0 | 7.4 | — | — | 59.4 |
| Property, plant and equipment | 3,715.5 | 744.4 | 1.5 | — | 4,461.4 |
| Investment in subsidiaries | (316.4) | (2.8) | — | 319.2 | — |
| Goodwill | 379.8 | — | — | — | 379.8 |
| Total assets | \$ 5,052.2 | \$ 1,012.2 | \$ 5.7 | \$ (780.2) | \$ 5,289.9 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 202.3 | \$ 52.1 | \$ 3.9 | \$ — | \$ 258.3 |
| Current portion of long-term debt | — | 12.3 | — | — | 12.3 |
| Current portion of long-term provisions | 39.1 | — | — | — | 39.1 |
| Risk management contracts | 0.6 | — | — | — | 0.6 |
| Due to affiliates | 75.7 | 1,014.5 | 9.2 | (1,099.4) | — |
| | \$ 317.7 | \$ 1,078.9 | \$ 13.1 | \$ (1,099.4) | \$ 310.3 |
| Non-current liabilities | | | | | |
| Long-term debt | 1,965.2 | 9.9 | (2.1) | — | 1,973.0 |
| Related party loan | 259.6 | — | — | — | 259.6 |
| Long-term liability | 69.5 | — | — | — | 69.5 |
| Long-term provisions | 501.0 | 230.5 | — | — | 731.5 |
| Post-employment benefit obligations | — | 6.8 | — | — | 6.8 |
| Intercompany loan | — | 1,189.8 | 0.8 | (1,190.6) | — |
| Total liabilities | \$ 3,113.0 | \$ 2,515.9 | \$ 11.8 | \$ (2,290.0) | \$ 3,350.7 |
| Shareholder's equity | 1,939.2 | (1,503.7) | (6.1) | 1,509.8 | 1,939.2 |
| Total liabilities and shareholder's equity | \$ 5,052.2 | \$ 1,012.2 | \$ 5.7 | \$ (780.2) | \$ 5,289.9 |

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2013

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|-------------------|---------------------------|----------------------------------|-----------------|------------------------|
| Petroleum, natural gas, and refined product sales | \$ 852.3 | \$ 4,630.0 | \$ 101.9 | \$ (65.6) | \$ 5,518.6 |
| Royalty expense | (112.9) | (41.0) | — | — | (153.9) |
| Earnings from equity accounted subsidiaries | (611.6) | (2.8) | — | 614.4 | — |
| Revenues | 127.8 | 4,586.2 | 101.9 | 548.8 | 5,364.7 |
| Expenses | | | | | |
| Purchased products for processing and resale | — | 4,297.0 | 93.3 | (62.9) | 4,327.4 |
| Operating | 279.9 | 291.0 | 10.5 | (2.7) | 578.7 |
| Transportation and marketing | 22.5 | 5.5 | — | — | 28.0 |
| General and administrative | 54.7 | 14.0 | — | — | 68.7 |
| Depletion, depreciation and amortization | 425.3 | 187.5 | — | — | 612.8 |
| Exploration and evaluation | 11.0 | 1.3 | — | — | 12.3 |
| Gain on disposition of property, plant & equipment | (34.0) | (0.1) | — | — | (34.1) |
| Finance costs | 87.3 | 6.9 | — | — | 94.2 |
| Risk management contracts gains | (4.4) | — | — | — | (4.4) |
| Foreign exchange (gains) losses | 78.7 | (34.5) | — | — | 44.2 |
| Impairment on property, plant and equipment | 13.6 | 469.4 | — | — | 483.0 |
| Loss before income tax | (806.8) | (651.8) | (1.9) | 614.4 | (846.1) |
| Income tax recovery | (24.8) | (39.4) | — | — | (64.2) |
| Net loss | \$ (782.0) | \$ (612.4) | \$ (1.9) | \$ 614.4 | \$ (781.9) |
| Other comprehensive income (loss) | | | | | |
| Losses on designated cash flow hedges, net of tax | (1.1) | — | — | — | (1.1) |
| Gains on foreign currency translation | — | 7.9 | — | — | 7.9 |
| Actuarial gains, net of tax | — | 18.1 | — | — | 18.1 |
| Share of equity accounted subsidiaries other comprehensive income, net of tax | 26.0 | — | — | (26.0) | — |
| Comprehensive loss | \$ (757.1) | \$ (586.4) | \$ (1.9) | \$ 588.4 | \$ (757.0) |

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|------------|---------------------------|-------------------------------|--------------|------------------------|
| Cash provided by (used in) operating activities | \$ (1.1) | \$ 204.0 | \$ (2.3) | \$ — | \$ 200.6 |
| Cash provided by (used in) financing activities | 371.9 | (103.3) | (2.1) | 101.3 | 367.8 |
| Cash used in investing activities | (371.5) | (103.2) | — | (101.3) | (576.0) |
| Change in cash and cash equivalents | (0.7) | (2.5) | (4.4) | — | (7.6) |
| Effect of exchange rate changes on cash | — | — | — | — | — |
| Cash and cash equivalents, beginning of year | 0.7 | 2.5 | 4.4 | — | 7.6 |
| Cash and cash equivalents, end of year | \$ — | \$ — | \$ — | \$ — | \$ — |

CONDENSED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

(Restated)*

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|-------------------|-----------------------------------|---|---------------------|--------------------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 0.7 | \$ 2.5 | \$ 4.4 | \$ — | \$ 7.6 |
| Accounts receivable | 102.4 | 69.2 | 4.0 | — | 175.6 |
| Inventories | 0.9 | 78.4 | 1.5 | — | 80.8 |
| Prepaid expenses | 13.5 | 6.7 | — | — | 20.2 |
| Risk management contracts | 1.8 | — | — | — | 1.8 |
| Assets held for sale | 16.9 | — | — | — | 16.9 |
| Due from affiliates | 748.5 | 66.0 | 0.4 | (814.9) | — |
| | \$ 884.7 | \$ 222.8 | \$ 10.3 | \$ (814.9) | \$ 302.9 |
| Non-current assets | | | | | |
| Long-term deposit | \$ 5.0 | \$ — | \$ — | \$ — | \$ 5.0 |
| Investment tax credits and other | — | 28.5 | — | — | 28.5 |
| Deferred income tax asset | 63.6 | (2.8) | 0.3 | — | 61.1 |
| Exploration & evaluation assets | 67.3 | 6.1 | — | — | 73.4 |
| Property, plant and equipment | 3,538.7 | 1,251.6 | 1.6 | — | 4,791.9 |
| Investment in subsidiaries | 370.4 | — | — | (370.4) | — |
| Goodwill | 391.8 | — | — | — | 391.8 |
| Total assets | \$ 5,321.5 | \$ 1,506.2 | \$ 12.2 | \$ (1,185.3) | \$ 5,654.6 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 225.5 | \$ 141.4 | \$ 6.1 | \$ — | \$ 373.0 |
| Current portion of long-term debt | 331.8 | — | — | — | 331.8 |
| Current portion of long-term provisions | 28.1 | — | — | — | 28.1 |
| Liabilities associated with assets held for sale | 11.9 | — | — | — | 11.9 |
| Due to affiliates | 58.3 | 747.2 | 9.4 | (814.9) | — |
| | \$ 655.6 | \$ 888.6 | \$ 15.5 | \$ (814.9) | \$ 744.8 |
| Non-current liabilities | | | | | |
| Long-term debt | 1,277.9 | — | — | — | 1,277.9 |
| Related party loan | 172.1 | — | — | — | 172.1 |
| Long-term liability | 8.2 | — | — | — | 8.2 |
| Long-term provisions | 515.8 | 211.5 | — | — | 727.3 |
| Post-employment benefit obligations | — | 32.4 | — | — | 32.4 |
| Intercompany loan | — | 1,189.8 | 0.8 | (1,190.6) | — |
| Total liabilities | \$ 2,629.6 | \$ 2,322.3 | \$ 16.3 | \$ (2,005.5) | \$ 2,962.7 |
| Shareholder's equity | 2,691.9 | (816.1) | (4.1) | 820.2 | 2,691.9 |
| Total liabilities and shareholder's equity | \$ 5,321.5 | \$ 1,506.2 | \$ 12.2 | \$ (1,185.3) | \$ 5,654.6 |

*See Note 3

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2012
(Restated)*

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|-------------------|---------------------------|----------------------------------|-----------------|------------------------|
| Petroleum, natural gas, and refined product sales | \$ 902.2 | \$ 5,011.9 | \$ 92.2 | \$ (60.7) | \$ 5,945.6 |
| Royalty expense | (114.7) | (49.9) | — | — | (164.6) |
| Earnings from equity accounted subsidiaries | (557.9) | (0.1) | — | 558.0 | — |
| Revenues | 229.6 | 4,961.9 | 92.2 | 497.3 | 5,781.0 |
| Expenses | | | | | |
| Purchased products for processing and resale | — | 4,494.4 | 85.1 | (59.2) | 4,520.3 |
| Operating | 288.6 | 328.5 | 6.0 | (1.5) | 621.6 |
| Transportation and marketing | 21.8 | 4.8 | — | — | 26.6 |
| General and administrative | 50.1 | 15.5 | — | — | 65.6 |
| Depletion, depreciation and amortization | 462.1 | 226.3 | — | — | 688.4 |
| Exploration and evaluation | 24.7 | 0.2 | — | — | 24.9 |
| Gain on disposition of property, plant & equipment | (6.8) | (23.5) | — | — | (30.3) |
| Finance costs | 107.2 | 3.8 | — | — | 111.0 |
| Risk management contracts gains | (0.5) | — | — | — | (0.5) |
| Foreign exchange (gains) losses | (10.7) | 9.4 | — | — | (1.3) |
| Impairment on property, plant and equipment | 11.3 | 546.0 | — | — | 557.3 |
| Income (loss) before income tax | (718.2) | (643.5) | 1.1 | 558.0 | (802.6) |
| Income tax expense (recovery) | 2.9 | (85.0) | 0.5 | — | (81.6) |
| Net income (loss) | \$ (721.1) | \$ (558.5) | \$ 0.6 | \$ 558.0 | \$ (721.0) |
| Other comprehensive income (loss) | | | | | |
| Losses on designated cash flow hedges, net of tax | (13.2) | — | — | — | (13.2) |
| Losses on foreign currency translation | — | (17.7) | — | — | (17.7) |
| Actuarial loss, net of tax | — | (9.9) | — | — | (9.9) |
| Share of equity accounted subsidiaries other comprehensive loss, net of tax | (27.6) | — | — | 27.6 | — |
| Comprehensive income (loss) | \$ (761.9) | \$ (586.1) | \$ 0.6 | \$ 585.6 | \$ (761.8) |

*See Note 3

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|------------|---------------------------|-------------------------------|--------------|------------------------|
| Cash provided by operating activities | \$ 122.8 | \$ 318.7 | \$ 1.3 | \$ — | \$ 442.8 |
| Cash provided by (used in) financing activities | 196.0 | (171.5) | — | 171.5 | 196.0 |
| Cash used in investing activities | (318.6) | (147.7) | — | (171.5) | (637.8) |
| Change in cash and cash equivalents | 0.2 | (0.5) | 1.3 | — | 1.0 |
| Effect of exchange rate changes on cash | — | — | — | — | — |
| Cash and cash equivalents, beginning of year | 0.5 | 3.0 | 3.1 | — | 6.6 |
| Cash and cash equivalents, end of year | \$ 0.7 | \$ 2.5 | \$ 4.4 | \$ — | \$ 7.6 |

CONDENSED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

(Restated)*

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|-------------------|---------------------------|----------------------------------|---------------------|------------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 0.5 | \$ 3.0 | \$ 3.1 | \$ — | \$ 6.6 |
| Accounts receivable | 121.3 | 89.8 | 1.2 | — | 212.3 |
| Inventories | 1.4 | 58.6 | 1.0 | — | 61.0 |
| Prepaid expenses | 11.8 | 6.7 | — | — | 18.5 |
| Risk management contracts | 20.2 | — | — | — | 20.2 |
| Due from affiliates | 517.1 | 44.8 | 0.2 | (562.1) | — |
| | \$ 672.3 | \$ 202.9 | \$ 5.5 | \$ (562.1) | \$ 318.6 |
| Non-current assets | | | | | |
| Long-term deposit | \$ 24.9 | \$ — | \$ — | \$ — | \$ 24.9 |
| Investment tax credits and other | — | 54.0 | — | — | 54.0 |
| Exploration & evaluation assets | 69.6 | 4.9 | — | — | 74.5 |
| Property, plant and equipment | 3,468.0 | 1,938.1 | 1.4 | — | 5,407.5 |
| Investment in subsidiaries | 1,127.4 | 0.1 | — | (1,127.5) | — |
| Goodwill | 404.9 | — | — | — | 404.9 |
| Total assets | \$ 5,767.1 | \$ 2,200.0 | \$ 6.9 | \$ (1,689.6) | \$ 6,284.4 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 259.0 | \$ 200.9 | \$ 2.3 | \$ — | \$ 462.2 |
| Current portion of long-term debt | 107.1 | — | — | — | 107.1 |
| Current portion of long-term provisions | 17.1 | — | — | — | 17.1 |
| Due to affiliates | 39.3 | 513.3 | 9.5 | (562.1) | — |
| | \$ 422.5 | \$ 714.2 | \$ 11.8 | \$ (562.1) | \$ 586.4 |
| Non-current liabilities | | | | | |
| Long-term debt | 1,486.2 | — | — | — | 1,486.2 |
| Long-term liability | 2.7 | — | — | — | 2.7 |
| Long-term provisions | 464.1 | 210.4 | — | — | 674.5 |
| Post-employment benefit obligations | — | 26.0 | — | — | 26.0 |
| Deferred income tax liability | (62.2) | 118.0 | (0.9) | — | 54.9 |
| Intercompany loan | — | 1,189.8 | — | (1,189.8) | — |
| Total liabilities | \$ 2,313.3 | \$ 2,258.4 | \$ 10.9 | \$ (1,751.9) | \$ 2,830.7 |
| Shareholder's equity | 3,453.8 | (58.4) | (4.0) | 62.3 | 3,453.7 |
| Total liabilities and shareholder's equity | \$ 5,767.1 | \$ 2,200.0 | \$ 6.9 | \$ (1,689.6) | \$ 6,284.4 |

*See Note 3

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
For the year ended December 31, 2011
(Restated)*

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|-------------------|---------------------------|----------------------------------|----------------|------------------------|
| Petroleum, natural gas, and refined product sales | \$ 985.9 | \$ 3,579.5 | \$ 70.7 | \$ (46.9) | \$ 4,589.2 |
| Royalty expense | (146.3) | (49.2) | — | — | (195.5) |
| Earnings from equity accounted subsidiaries | (56.3) | (0.2) | — | 56.5 | — |
| Revenues | 783.3 | 3,530.1 | 70.7 | 9.6 | 4,393.7 |
| Expenses | | | | | |
| Purchased products for processing and resale | — | 3,098.5 | 65.4 | (45.8) | 3,118.1 |
| Operating | 280.7 | 291.0 | 6.4 | (1.1) | 577.0 |
| Transportation and marketing | 22.2 | 13.7 | — | — | 35.9 |
| General and administrative | 48.2 | 14.4 | — | — | 62.6 |
| Depletion, depreciation and amortization | 423.9 | 202.8 | — | — | 626.7 |
| Exploration and evaluation | 16.0 | 2.3 | — | — | 18.3 |
| Gain on disposition of property, plant & equipment | (7.9) | — | — | — | (7.9) |
| Finance costs | 102.5 | 6.6 | — | — | 109.1 |
| Risk management contracts gains | (6.7) | — | — | — | (6.7) |
| Foreign exchange (gains) losses | 11.7 | (15.8) | 0.1 | — | (4.0) |
| Loss before income tax | (107.3) | (83.4) | (1.2) | 56.5 | (135.4) |
| Income tax recovery | (1.8) | (27.6) | (0.6) | — | (30.0) |
| Net loss | \$ (105.5) | \$ (55.8) | \$ (0.6) | \$ 56.5 | \$ (105.4) |
| Other comprehensive income (loss) | | | | | |
| Gains on designated cash flow hedges, net of tax | 19.4 | — | — | — | 19.4 |
| Gains on foreign currency translation | — | 21.5 | — | — | 21.5 |
| Actuarial loss, net of tax | — | (4.2) | — | — | (4.2) |
| Share of equity accounted subsidiaries other comprehensive income loss, net of tax | 17.3 | — | — | (17.3) | — |
| Comprehensive loss | \$ (68.8) | \$ (38.5) | \$ (0.6) | \$ 39.2 | \$ (68.7) |

*See Note 3

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

| | Issuer HOC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---|------------|---------------------------|-------------------------------|--------------|------------------------|
| Cash provided by (used in) operating activities | \$ 62.1 | \$ 498.7 | \$ (0.3) | \$ — | \$ 560.5 |
| Cash provided by (used in) financing activities | 848.7 | (157.1) | — | 157.1 | 848.7 |
| Cash used in investing activities | (922.8) | (341.7) | — | (157.1) | (1,421.6) |
| Change in cash and cash equivalents | (12.0) | (0.1) | (0.3) | — | (12.4) |
| Effect of exchange rate changes on cash | — | 0.1 | — | — | 0.1 |
| Cash and cash equivalents, beginning of year | 12.5 | 3.0 | 3.4 | — | 18.9 |
| Cash and cash equivalents, end of year | \$ 0.5 | \$ 3.0 | \$ 3.1 | \$ — | \$ 6.6 |