



First Quarter Report 2015

For the three
month period ended
March 31, 2015





MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three months ended March 31, 2015 and the audited annual consolidated financial statements for the year ended December 31, 2014 together with the accompanying notes. The information and opinions concerning the future outlook are based on information available at May 14, 2015.

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 March 31	
	2015	2014
CONTINUING OPERATIONS		
Upstream		
Daily sales volumes (boe/d) ⁽¹⁾	43,770	48,487
Average realized price		
Oil and NGLs (\$/bbl) ⁽²⁾	40.40	82.30
Gas (\$/mcf) ⁽²⁾	2.81	6.16
Operating netback prior to hedging(\$/boe) ⁽³⁾	9.80	37.27
Operating (loss) income ⁽⁴⁾	(110.1)	21.8
Cash contribution from operations ⁽³⁾	19.1	139.8
Capital asset additions (excluding acquisitions)	56.6	134.3
Corporate acquisition ⁽⁵⁾	36.8	—
Property acquisitions (dispositions), net	(0.5)	(2.1)
Net wells drilled	19.2	31.9
Net undeveloped land additions (acres)	20,338	6,444
Net undeveloped land dispositions (acres)	—	(1,897)
BlackGold		
Capital asset additions	60.8	42.2
NET LOSS⁽⁶⁾	(223.5)	(51.9)

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

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

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

(4) This is an additional GAAP measure; please refer to "Additional GAAP Measures" in this MD&A.

(5) Corporate acquisition represents the total consideration for the transaction including working capital assumed.

(6) Net loss relates to Continuing Operations only.

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") and an in-situ oil sands project in the pre-commissioning phase in northern Alberta ("BlackGold"). During the year ended December 31, 2014, Harvest's refining and marketing business ("Downstream") was sold and has been classified as "Discontinued Operations". The following MD&A focuses on the financial and operating results of Harvest's continuing Upstream and BlackGold operations. For Downstream results from the quarter ended March 31, 2014, please see the March 31, 2014 MD&A and interim consolidated financial statements for the quarter ended March 31, 2014 at www.sedar.com. Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). Our earnings and cash flow from continuing operations are largely determined by the realized prices for our crude oil and natural gas production.

The latter part of 2014 and the first quarter of 2015 have been very challenging for the oil and gas industry. The approximate 55 percent decline in crude oil prices since June 2014 has resulted in widespread reductions in capital spending programs and extensive efforts to reduce costs across the industry. We are

confident that commodity prices will eventually improve; however, the timing of that improvement is uncertain and we expect continued crude oil price and cash flow volatility in the near term. In the meantime, we are focused on identifying sustainable cost reductions as well as keeping our capital program focused on high return projects.

CONTINUING OPERATIONS

Upstream

- On February 27, 2015, Harvest closed the acquisition of Hunt Oil Company of Canada, Inc. ("Hunt") by acquiring all of the issued and outstanding common shares of Hunt for total consideration of approximately \$36.8 million, subject to final purchase price adjustments. Current production from the acquired assets is approximately 500 boe/d.
- Sales volumes for the first quarter ended March 31, 2015 decreased by 4,717 boe/d as compared to the same period in 2014. The decrease was primarily due to the disposition of assets to the Deep Basin Partnership ("DBP") (accounted for as an equity investment) in the second quarter of 2014, dispositions of certain non-core producing properties during 2014 and natural declines exceeding the volume additions from our drilling program.
- Harvest's share of DBP's volumes for the quarter ended March 31, 2015 was 1,123 boe/d. The construction of the HK MS Partnership ("HKMS") facility was completed in early 2015 and was operational in the latter part of the quarter. Strategically, this facility provides the DBP an advantage of access to firm processing capability, the ability to extract maximum liquids from the natural gas produced by DBP wells and will allow DBP to pursue both acquisition and drilling opportunities in the region.
- Operating netback prior to hedging for the first quarter of 2015 was \$9.80/boe, a decrease of \$27.47/boe from the same period in 2014. The decrease from 2014 was mainly due to lower realized prices per boe, partially offset by lower royalties, operating and transportation expense per boe.
- Operating loss was \$110.1 million (2014 – operating income of \$21.8 million) for the first quarter of 2015, a decrease in income of \$131.9 million mainly due to lower realized prices and sales volumes combined with a \$23.5 million asset impairment expense.
- Cash contribution from Harvest's Upstream operations for the first quarter of 2015 was \$19.1 million (2014 – \$139.8 million). The decrease in cash contribution was mainly due to lower sales volumes and lower realized prices, partially offset by lower operating expense.
- Capital asset additions of \$56.6 million during the first quarter of 2015 mainly related to the drilling, completion and tie-in of wells. Twenty-five gross wells (19.2 net) were rig-released during the first quarter of 2015.
- On April 14, 2015, Harvest entered into a purchase and sale agreement to sell certain non-core oil and gas assets in Eastern Alberta for approximately \$28.3 million in cash proceeds, net of any customary closing adjustments. The sale closed on May 1, 2015.

BlackGold

- Capital asset additions were \$60.8 million for the first quarter of 2015, mainly related to the completion of the central processing facility ("CPF") (2014 - \$42.2 million).

- The CPF was mechanically completed in early 2015 and minor pre-commissioning activities will continue at a measured pace throughout 2015 with first steam occurring once the heavy oil price environment becomes favourable.

CORPORATE

- The strengthening of the U.S. dollar against the Canadian dollar during the first quarter of 2015 resulted in an unrealized foreign exchange loss of \$138.9 million (2014 – \$54.0 million loss).
- The net borrowing from the credit facility was \$249.6 million during the quarter ended March 31, 2015 (2014 - \$93.4 net repayment). At March 31, 2015, Harvest had \$870.3 million drawn from the \$1.0 billion available under the credit facility (December 31, 2014 - \$620.7 million).
- On April 2, 2015, Harvest entered into a US\$171 million loan agreement with KNOC repayable within one year from the date of the first drawing, which was on April 10, 2015. At May 14, 2015, Harvest had drawn US\$120 million under the loan agreement.
- On April 22, 2015, Harvest amended the terms of its credit facility and replaced it with a \$940 million syndicated revolving credit facility maturing April 30, 2017. The amended credit facility is guaranteed by KNOC. Under the amended credit facility, applicable interest and fees will be based on a margin pricing grid based on the Moody's and S&P credit ratings of KNOC. The financial covenants under the previous credit facility were deleted and replaced with a new covenant: Total Debt to Capitalization ratio of 70% or less. At March 31, 2015 Harvest was in compliance with this covenant.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTINUING OPERATIONS (UPSTREAM)

Summary of Financial and Operating Results

	Three Months Ended March 31	
	2015	2014
FINANCIAL		
Petroleum and natural gas sales ⁽¹⁾	126.4	287.7
Royalties	(13.1)	(36.2)
Loss from joint ventures	(5.9)	—
Revenues and other income⁽²⁾	107.4	251.5
Expenses		
Operating	72.5	88.5
Transportation and marketing	1.2	6.3
Realized losses (gains) on risk management contracts ⁽³⁾	1.4	(0.5)
Operating netback after hedging ⁽⁴⁾	32.3	157.2
General and administrative	19.0	16.8
Depreciation, depletion and amortization	98.4	109.5
Exploration and evaluation	0.9	8.6
Impairment of property, plant and equipment	23.5	—
Unrealized losses (gains) on risk management contracts ⁽⁵⁾	1.1	(0.2)
(Gains) losses on disposition of assets	(0.5)	0.7
Operating income (loss) ⁽²⁾	(110.1)	21.8
Capital asset additions (excluding acquisitions)	56.6	134.3
Corporate acquisition ⁽⁶⁾	36.8	—
Property acquisitions (dispositions), net	(0.5)	(2.1)
OPERATING		
Light to medium oil (bbl/d)	9,832	10,989
Heavy oil (bbl/d)	12,058	15,777
Natural gas liquids (bbl/d)	4,231	4,917
Natural gas (mcf/d)	105,887	100,823
Total (boe/d) ⁽⁷⁾	43,770	48,487

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

(2) This is an additional GAAP measure; please refer to "Additional GAAP Measures" in this MD&A.

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

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

(5) Unrealized gains 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.

(6) Corporate acquisition represents the total consideration for the transaction, including working capital assumed.

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

Commodity Price Environment

	Three Months Ended March 31		
	2015	2014	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	48.63	98.68	(51%)
West Texas Intermediate crude oil (\$/bbl)	60.38	108.95	(45%)
Edmonton light sweet crude oil ("EDM") (\$/bbl)	51.95	99.83	(48%)
Western Canadian Select ("WCS") crude oil (\$/bbl)	42.08	83.36	(50%)
AECO natural gas daily (\$/mcf)	2.75	5.66	(51%)
U.S. / Canadian dollar exchange rate	0.806	0.906	(11%)
Differential Benchmarks			
EDM differential to WTI (\$/bbl)	8.43	9.12	(8%)
EDM differential as a % of WTI	14.0%	8.4%	67%
WCS differential to WTI (\$/bbl)	18.30	25.59	(28%)
WCS differential as a % of WTI	30.3%	23.5%	29%

The average WTI benchmark price decreased 51%, for the first quarter ended March 31, 2015 as compared to the same period in 2014. The average Edmonton light sweet crude oil price ("Edmonton Light") decreased 48% in the first quarter of 2015 compared to 2014, due to the decrease in the WTI price, partially offset by the strengthening of the U.S. dollar against the Canadian dollar and the narrowing of the Edmonton light sweet differential.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The changes in the WCS price for the first quarter ended March 31, 2015 as compared to the same period in 2014 was mainly the result of the decrease in the WTI price, the narrowing of the WCS differential to WTI and the strengthening of the U.S. dollar.

Realized Commodity Prices

	Three Months Ended March 31		
	2015	2014	Change
Light to medium oil (\$/bbl)	45.56	91.35	(50%)
Heavy oil (\$/bbl)	39.53	80.25	(51%)
Natural gas liquids (\$/bbl)	30.91	68.67	(55%)
Natural gas prior to hedging(\$/mcf)	2.81	6.16	(54%)
Average realized price prior to hedging (\$/boe) ⁽¹⁾	31.85	67.29	(53%)
Natural gas after hedging (\$/mcf) ⁽²⁾	2.86	5.48	(48%)
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	31.98	65.87	(51%)

(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.

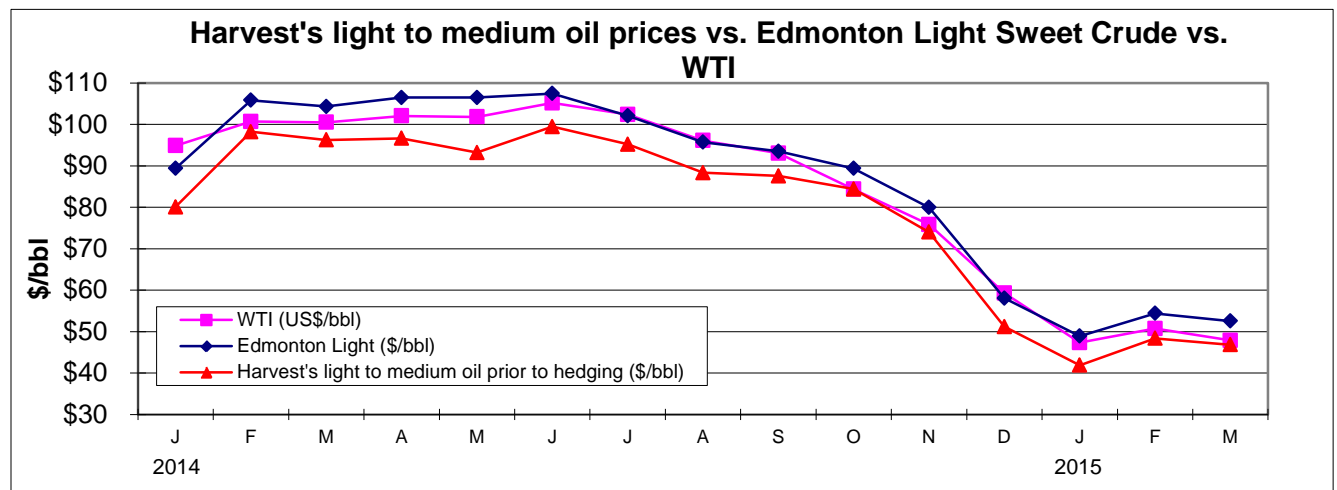
Harvest's realized prices prior to any hedging activity for light to medium oil and natural gas generally trend with the Edmonton Light and AECO benchmark prices, respectively. Harvest's realized prices prior to any hedging activity for heavy oil are a function of both the WCS and Edmonton Light benchmarks due to a

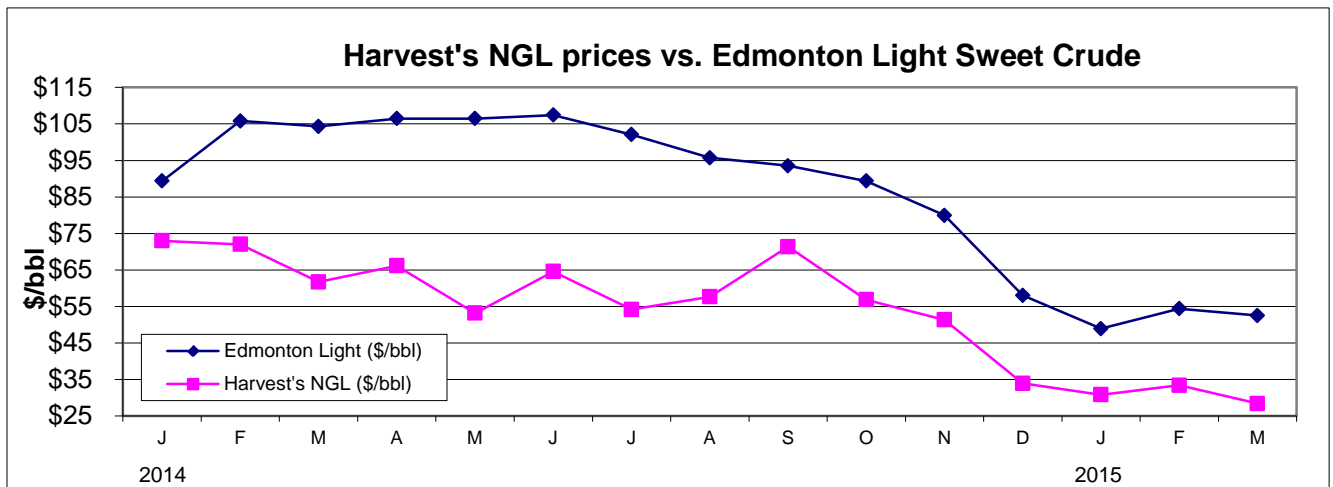
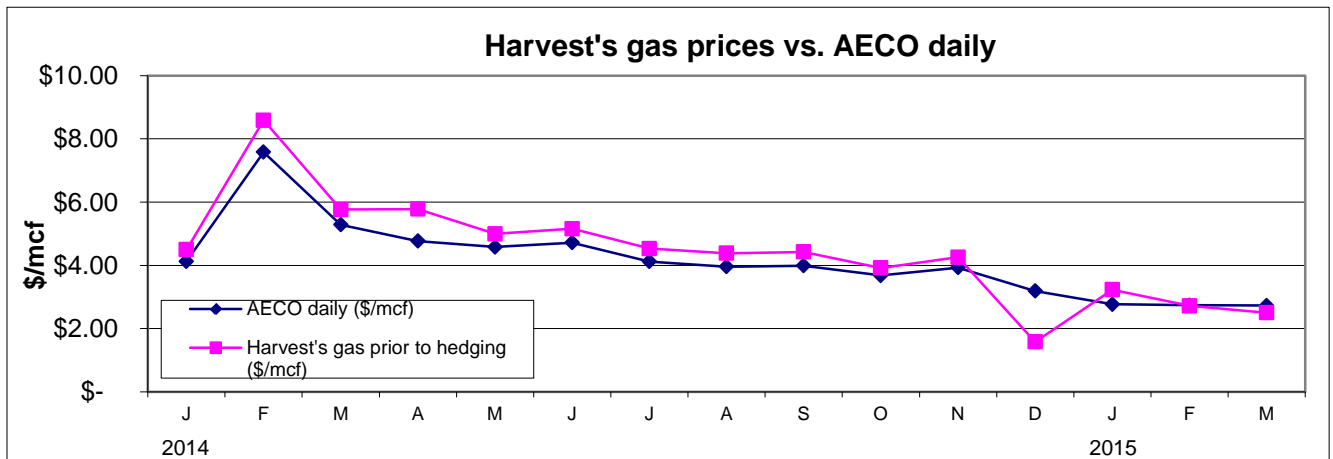
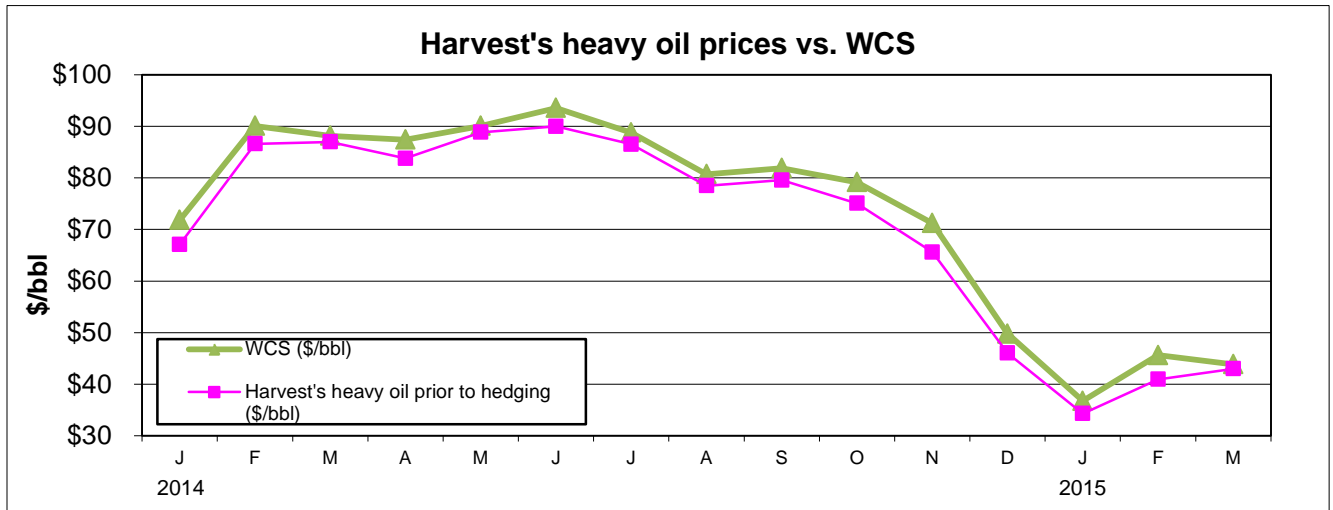
portion of our heavy oil volumes being sold based on a discount to the Edmonton Light benchmark. For the first quarter of 2015, the period-over-period variances and movements of light to medium oil, heavy oil and natural gas were consistent with the changes in their related benchmarks.

Realized natural gas liquids prices decreased by 55% for the first quarter ended March 31, 2015, as compared to the same period in 2014. The decrease was consistent with the decrease in oil prices.

In order to mitigate the risk of fluctuating cash flows due to natural gas pricing volatility, Harvest had AECO derivative contracts in place during the first quarters of 2015 and 2014. The AECO hedge increased our natural gas price by \$0.05/mcf in the first quarter of 2015 (2014 – decreased by \$0.68/mcf).

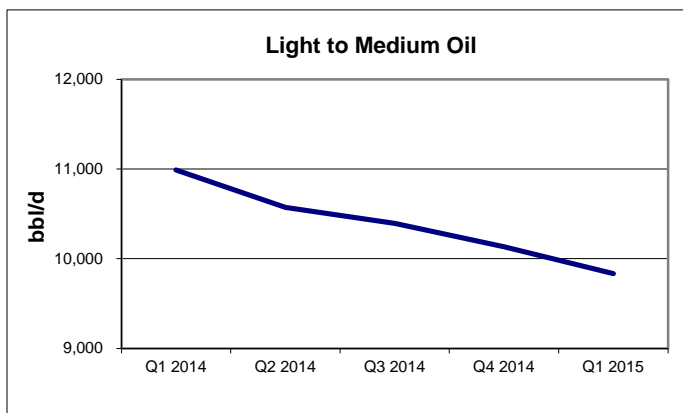
Please see “Cash Flow Risk Management” section in this MD&A for further discussion with respect to the cash flow risk management program.





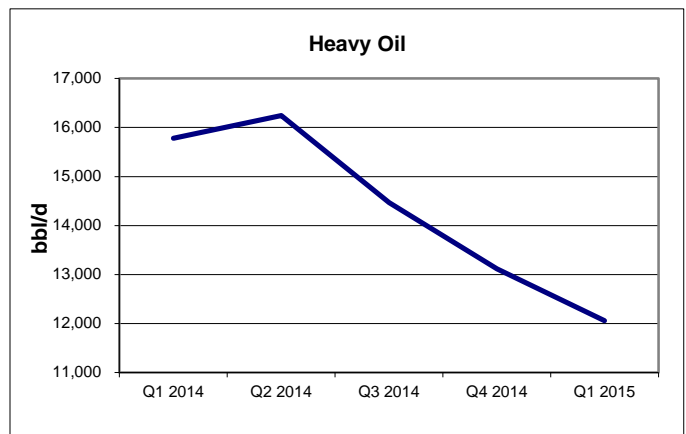
Sales Volumes

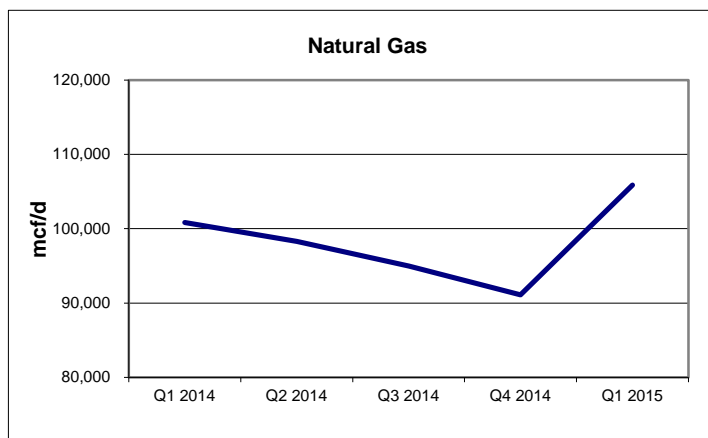
	Three Months Ended March 31				
	2015		2014		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	9,832	22%	10,989	23%	(11%)
Heavy oil (bbl/d)	12,058	28%	15,777	33%	(24%)
Natural gas liquids (bbl/d)	4,231	10%	4,917	10%	(14%)
Total liquids (bbl/d)	26,121	60%	31,683	66%	(18%)
Natural gas (mcf/d)	105,887	40%	100,823	34%	5%
Total oil equivalent (boe/d)	43,770	100%	48,487	100%	(10%)



Harvest's average daily sales of light to medium oil decreased 11% in the first quarter of 2015, as compared to the same period in 2014. The decrease was mainly due to natural declines, partially offset by the results of our 2014/2015 drilling program.

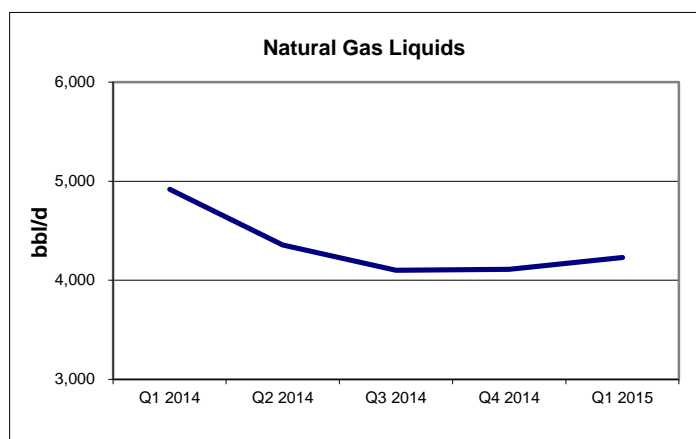
Heavy oil sales for the first quarter of 2015 decreased 24%, as compared to the same period in 2014 mainly due to non-core asset dispositions in the third and fourth quarters of 2014 and natural declines.





Natural gas sales during the first quarter of 2015 increased 5% as compared to the same period in 2014. The increase was mainly a result of Harvest's 2014/2015 drilling program and the acquisition of Hunt during the first quarter of 2015, partially offset by the disposition of assets to the Deep Basin Partnership in the second quarter of 2014, disposition of non-core assets during 2014 and natural declines.

Natural gas liquids sales for the first quarter ended March 31, 2015 decreased by 14% from the same period in 2014 due to the disposition of assets to the Deep Basin Partnership in the second quarter of 2014, third party facility constraints and natural declines, partially offset by results from Harvest's 2014/2015 drilling program.



Revenues

	Three Months Ended March 31		
	2015	2014	Change
Light to medium oil sales	40.3	90.4	(55%)
Heavy oil sales	42.9	114.0	(62%)
Natural gas sales after hedging ⁽¹⁾	27.3	49.7	(45%)
Natural gas liquids sales	11.8	30.4	(61%)
Other ⁽²⁾	4.1	3.2	28%
Petroleum and natural gas sales	126.4	287.7	(56%)
Royalties	(13.1)	(36.2)	(64%)
Revenues	113.3	251.5	(55%)

(1) Inclusive of the effective portion of realized gains (losses) from natural gas 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 first quarter of 2015, total petroleum and natural gas sales decreased by 56% as compared to the first quarter of 2014, mainly due to the 51% decrease in realized prices after hedging activities and the 10% decrease in sales volumes.

Sulphur revenue represented \$3.7 million of the total in other revenues for the first quarter of 2015 (2014 - \$3.0 million).

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 first quarter ended March 31, 2015, royalties as a percentage of gross revenue averaged 10.4% (2014 – 12.6%). The decrease in royalties as a percentage of gross revenue was mainly due to lower commodity prices.

Operating and Transportation Expenses

	Three Months Ended March 31				
	2015	\$/boe	2014	\$/boe	\$/boe Change
Power and purchased energy	13.7	3.48	21.0	4.82	(1.34)
Repairs and maintenance	12.7	3.22	13.3	3.05	0.17
Labour - internal	9.2	2.34	9.3	2.13	0.21
Processing and other fees	8.9	2.26	8.8	2.02	0.24
Lease rentals and property tax	8.3	2.11	9.8	2.23	(0.12)
Well servicing	7.8	1.98	12.3	2.81	(0.83)
Chemicals	7.5	1.90	5.6	1.29	0.61
Labour - contract	3.5	0.89	3.4	0.78	0.11
Trucking	2.1	0.53	3.4	0.78	(0.25)
Other ⁽¹⁾	(1.2)	(0.31)	1.6	0.38	(0.69)
Total operating expenses	72.5	18.40	88.5	20.29	(1.89)
Transportation and marketing	1.2	0.31	6.3	1.43	(1.12)

(1) Other operating expenses include Environmental, Health and Safety \$2.3 million (2014 – \$3.5 million), insurance and accruals.

Operating expenses for the first quarter of 2015 decreased by \$16.0 million compared to the same period in 2014, mainly due to the decrease in the cost of power, reduced levels of well servicing activity and asset dispositions in 2014. Operating expenses on a per barrel basis decreased by 9% to \$18.40 per barrel due to the lower spending and partially offset by the lower sales volumes.

(\$/boe)	Three Months Ended March 31		
	2015	2014	Change
Power and purchased energy costs	3.48	4.82	(1.34)
Realized losses (gains) on electricity risk management contracts	0.34	(0.11)	0.45
Net power and purchased energy costs	3.82	4.71	(0.89)
Alberta Power Pool electricity price (\$/MWh)	29.15	61.75	(32.60)

Power and purchased energy costs, comprised primarily of electric power costs, represented approximately 19% (2014 – 24%) of total operating expenses for the first quarter of 2015. Power and purchased energy costs per boe were lower in the first quarter of 2015 as compared to 2014 primarily due to the lower average Alberta electricity price.

Transportation and marketing expenses relate primarily to the cost of trucking crude oil to pipeline or rail receipt points. Transportation and marketing expenses in the first quarter of 2015 decreased by \$5.1 million as compared to the same period in 2014, primarily due to the reclassification of gas transportation costs to revenue (which started during the fourth quarter of 2014), combined with the higher transportation costs incurred in the Deep Basin and Hayter areas during the first quarter of 2014 as a result of facility restrictions.

Operating Netback⁽¹⁾

(\$/boe)	Three Months Ended March 31		
	2015	2014	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	31.85	67.29	(35.44)
Royalties	(3.34)	(8.30)	4.96
Operating expenses	(18.40)	(20.29)	1.89
Transportation and marketing	(0.31)	(1.43)	1.12
Operating netback prior to hedging ⁽¹⁾	9.80	37.27	(27.47)
Hedging loss ⁽³⁾	(0.21)	(1.30)	1.09
Operating netback after hedging ⁽¹⁾	9.59	35.97	(26.38)

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

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

(3) Includes the settlement amounts for natural gas and power contracts.

General and Administrative ("G&A") Expenses

	Three Months Ended March 31	
	2015	2014
G&A	19.0	16.8
G&A (\$/boe)	4.83	3.85

For the first quarter ended March 31, 2015, G&A expenses increased \$2.2 million from the same period in 2014 mainly due to severance payments made during the first quarter of 2015. On a per boe basis, G&A expenses increased \$0.98 from the same period in 2014, mainly due to the increase in G&A costs combined with lower sales volumes in the current period. Harvest does not have a stock option program, however there is a long-term incentive program which is a cash settled plan that has been included in the G&A expense.

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

	Three Months Ended March 31	
	2015	2014
DD&A	98.4	109.5
DD&A (\$/boe)	24.99	25.09

DD&A expense for the quarter ended March 31, 2015 decreased by \$11.1 million as compared to 2014, mainly due to lower sales volumes in the current quarter as well as impairment of certain assets in Q4 2014.

Impairment of Property, Plant and Equipment

For the quarter ended March 31, 2015, Harvest recognized an impairment loss of \$23.5 million (2014 – \$nil) against PP&E relating to the South Oil CGU. Impairment was triggered by reserves write-downs as a result of a decline in oil prices and underperformance assets. 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 10%. Please refer to note 7 of the March 31, 2015 interim consolidated financial statements for further discussion.

Acquisitions & Dispositions

On February 27, 2015, Harvest closed the acquisition of Hunt by acquiring all of the issued and outstanding common shares for total consideration of approximately \$36.8 million, subject to final purchase price adjustments. Hunt was a private oil and gas company with operations immediately offsetting Harvest's lands and production in the Deep Basin area of Alberta. Harvest acquired approximately 15,000 acres of net undeveloped land and current production from the assets is approximately 500 boe/d. Please refer to note 5 of the March 31, 2015 interim consolidated financial statements for further discussion.

On April 14, 2015, Harvest entered into a purchase and sale agreement to sell certain non-core oil and gas assets in Eastern Alberta for approximately \$28.3 million in cash proceeds, net of any customary closing adjustments. The sale closed on May 1, 2015.

Capital Asset Additions

	Three Months Ended March 31	
	2015	2014
Drilling and completion	38.0	81.8
Well equipment, pipelines and facilities	15.6	43.2
Land and undeveloped lease rentals	1.1	0.6
Geological and geophysical	0.1	4.6
Corporate	1.8	1.5
Other	—	2.6
Total additions excluding acquisitions	56.6	134.3

Total capital additions were lower for the quarter ended March 31, 2015 compared to 2014 mainly due to reduced capital activity for the current year in response to a low commodity price environment. Harvest's capital expenditures in the first quarter of 2015 included completions and tie-ins of previously drilled wells, as well as the winter 2014/2015 drilling program in Kakwa (Deep Basin), Hay River and Red Earth.

The following table summarizes the wells drilled in our core growth areas, supplemented with drilling in strategic revenue generating areas in Suffield, 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 and tie-in costs may be incurred in a period afterwards, depending on the timing of the completion work.

Three months ended March 31, 2015

Area	Gross	Net	Drilling and completion
Deep Basin	6.0	3.0	\$ 15.3
Red Earth	6.0	6.0	11.0
Hay River	9.0	9.0	10.9
Suffield	1.0	1.0	0.7
West Central Alberta	3.0	0.2	0.1
Total	25.0	19.2	\$ 38.0

The primary areas of focus for Harvest's Upstream drilling program were as follows:

- Deep Basin – participated or drilled horizontal multi-stage fractured wells to develop the liquids-rich Falher and Montney gas formations;
- Red Earth – drilled wells at Loon Lake with completions performed in late March and early April, with tie-ins to be done in late April and May for a June production start-up;
- Hay River – drilled seven producing and two injection wells, pursuing slightly heavy (low 20 degree API) gravity oil in the Bluesky formation using multi-leg horizontal oil wells;
- Suffield – drilled and abandoned one vertical test well;
- West Central Alberta – participated in wells in Wilson Creek with recent efforts targeting the Glauconite formation.

Harvest's net undeveloped land additions of 20,338 acres during the quarter ended March 31, 2015 (2014 – 6,444 acres) were primarily from the acquisition of Hunt.

Decommissioning Liabilities

Harvest's Upstream decommissioning liabilities at March 31, 2015 were \$757.0 million (December 31, 2014 – \$752.0 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.

Investments in Joint Arrangements

Harvest is a party to the Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") joint ventures with KERR Canada Co. Ltd. ("KERR") both accounted for as equity investments. Below is an overview of operational and financial highlights of these investments for the quarter ended March 31, 2015:

DBP

During the first quarter of 2015, DBP drilled 4 gross (3.75 net) wells in the Deep Basin, targeting the Cardium, Halfway and Montney formations. All wells were horizontal, multi-stage fracture stimulated wells targeting liquids rich gas. Of the 4 gross wells drilled, 1.0 (1.0 net) was dry, 1.0 (1.0 net) was a stratigraphic test well



MANAGEMENT'S DISCUSSION AND ANALYSIS

and production from the remaining wells was processed through the new HKMS Bilbo gas plant that was completed during the first quarter of 2015 and commenced operations in March 2015.

As at March 31, 2015, Harvest's ownership interest in DBP remains unchanged compared to December 31, 2014. For the first quarter of 2015, Harvest recognized a loss of \$5.9 million (2014 – \$nil) from its investment in these joint ventures primarily due to lower commodity prices and higher operating costs. Harvest derives its income or loss from its investment in the DBP based upon Harvest's share in the change of the net assets of the joint venture. Harvest's share of the change in the net assets does not directly correspond to its ownership interest of 77.81% because of contractual preference rights to KERR. Considering that fact, Harvest's share of the production of the DBP is as follows:

	DBP volumes	Harvest's share
Three months ended March 31, 2015 (boe/d)	1,572	1,223

KERR's preferred partnership units provide certain preference rights, including a put option right exercisable after 10.5 years, whereby KERR could cause DBP to redeem all of its preferred partnership units for consideration equal to its initial contribution plus a minimum after-tax internal rate of return of two percent. If DBP does not have sufficient funds to complete the redemption obligation and after making efforts to secure funding, whether via issuing new equity, entering into a financing arrangement or selling assets, the partnership can cash-call Harvest to meet such obligation (the "top-up obligation"). This obligation could also arise upon the termination of this arrangement. This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP. The cash flow forecast is based on management's internal assumptions of the volumes, commodity prices, royalties, operating costs and capital expenditures specific to the DBP. As at March 31, 2015, the fair value of the top-up obligation was estimated as \$nil, therefore, no top-up obligation was recorded by Harvest. Once KERR achieves the minimum after-tax internal rate of return on its investment, Harvest is entitled to increased return on its investment.

The amounts contributed by KERR on formation of the partnership on April 23, 2014 are being spent by the DBP to purchase land, drill and develop partnership properties in the Deep Basin area. As the initial funding from KERR is consumed and additional funds are required to fund the entire agreed initial multi-year development program, Harvest is obligated to fund the balance of the program from its share of partnership distributions from DBP. As at March 31, 2015, total distributions received by Harvest to date was \$2.3 million. Although Harvest is not obligated to fund the balance of the program, above the distributions received, Harvest intends to provide additional funding pending further capital contributions from KERR.

HKMS

During the first quarter of 2015, the HKMS facility was completed and commenced operations. This facility provides the DBP an advantage of access to firm processing capability, the ability to extract maximum liquids from the natural gas produced by DBP and will allow DBP to pursue both acquisition and drilling opportunities in the region. A gas processing agreement was signed by the two partnerships. To complete the construction of the facility, Harvest contributed a total of \$21.2 million in Q1 2015, increasing its ownership interest to 61.46% as at March 31, 2015 and diluting KERR's ownership interest to 38.54% (December 31, 2014 –



MANAGEMENT'S DISCUSSION AND ANALYSIS

53.76% and 46.24%, respectively). On the earlier of 10.5 years after the formation of HKMS or when KERR achieves a certain internal rate of return, Harvest will have the right but not the obligation to purchase all of KERR's interest in HKMS Partnership for nominal consideration.

See note 9 of the March 31, 2015 interim consolidated financial statements for the summary financial information and related disclosures for these joint arrangements.

BLACKGOLD OIL SANDS

Capital Asset Additions

	Three Months Ended March 31	
	2015	2014
Well equipment, pipelines and facilities	40.4	33.0
Pre-operating costs	6.8	0.1
Drilling and completion	0.4	—
Capitalized borrowing costs and other	13.2	9.1
Total BlackGold additions	60.8	42.2

During the quarter ended March 31, 2015, Harvest invested \$40.4 million on the CPF (2014 – \$ 33.0 million).

Project Development

During the first quarter of 2015, the CPF was substantially completed, including the building of the CPF plant site, well pads, and connecting pipelines. Minor pre-commissioning activities commenced and will continue at a measured pace throughout 2015 with first steam occurring once the heavy oil price environment becomes favourable. Initial drilling of 30 steam assisted gravity drainage ("SAGD") wells (15 well pairs) was completed by the end of 2012 and the majority of the well completion activities were completed by the end of 2014.

Harvest has recorded \$1,075.2 million of costs on the entire project since acquiring the BlackGold assets in 2010. This \$1,075.2 million includes certain Phase 2 pre-investment which is expected to improve the capital efficiency over the project lifecycle. 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 in the second quarter of 2015. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at March 31, 2015, Harvest recognized a liability of \$78.4 million (December 31, 2014 - \$77.8 million) using a discount rate of 4.5% (December 31, 2014 - 4.5%).

As Harvest uses the unit of production method for depreciation and the BlackGold assets currently have no production, no depreciation on the BlackGold property, plant and equipment was recorded for the quarter ended March 31, 2015.

Decommissioning Liabilities

Harvest's BlackGold decommissioning liabilities at March 31, 2015 were \$48.5 million (December 31, 2014 - \$47.5 million) relating to the future remediation, abandonment, and reclamation of the SAGD wells and CPF.



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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.

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 March 31, 2015:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
5,400 GJ/day	AECO swap	Apr - Dec 2015	\$3.65/GJ	\$ 1.4

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
35 MWh	AESO power swap	Apr - Dec 2015	\$47.07/MWh	\$ (2.3)

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

	Three Months Ended March 31						
	2015			2014			
	Power	Natural Gas	Total	Power	Crude Oil	Natural Gas	Total
Realized (gains) losses recognized in:							
Revenues	—	(0.5)	(0.5)	—	—	6.2	6.2
Risk management losses (gains)	1.4	—	1.4	(0.5)	—	—	(0.5)
Unrealized (gains) losses recognized in:							
OCI, before tax	—	—	—	—	1.7	14.5	16.2
Risk management losses (gains)	1.1	—	1.1	(0.4)	0.2	—	(0.2)

Finance Costs

	Three Months Ended March 31	
	2015	2014
Credit facility	5.7	6.6
6 $\frac{7}{8}$ % senior notes	11.3	9.9
2 $\frac{1}{8}$ % senior notes ⁽¹⁾	5.4	4.8
Related party loans	5.8	4.0
Amortization of deferred finance charges and other	0.4	0.5
Interest and other financing charges ⁽²⁾	28.6	25.8
Accretion of decommission and environmental remediation liabilities	4.7	5.6
Less: capitalized interest	(9.7)	(7.2)
Total finance costs⁽²⁾	23.6	24.2

(1) Includes guarantee fee to KNOC.

(2) Excludes discontinued operations of the Downstream segment.

Currency Exchange

	Three Months Ended March 31	
	2015	2014
Realized losses on foreign exchange ⁽¹⁾	1.6	2.2
Unrealized losses on foreign exchange ⁽¹⁾	138.9	54.0
	140.5	56.2

(1) Excludes discontinued operations of the Downstream segment.

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. At March 31, 2015, the Canadian dollar had weakened compared to the US dollar as at December 31, 2014 resulting in an unrealized foreign exchange loss of \$138.9 million for the first quarter of 2015 (2014 – \$54.0 million loss). Harvest recognized a realized foreign exchange loss of \$1.6 million for the first quarter of 2015 (2014 – \$2.2 million loss) as a result of the settlement of U.S. dollar denominated transactions.

Deferred Income Taxes

For the three months ended March 31, 2015 Harvest recorded a deferred income tax recovery of \$50.6 million (2014 – \$6.7 million) primarily due to increase in taxable losses. 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 and liabilities. Due to acquisition of Hunt, Harvest recognized deferred tax liability of \$7.6 million. 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 quarter ended March 31, 2015:

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 March 31, 2015, Harvest has drawn \$200.0 million from the loan agreement (December 31, 2014 - \$200.0 million). The loan amount was recorded at fair value on initial recognition by discounting the future cash payments at the rate of 7% which is considered the market rate applicable to the liability. As at March 31, 2015, the carrying value of the KNOC loan was \$191.7 million (December 31, 2014 - \$191.2 million). The difference between the fair value and the loan amount was recognized in contributed surplus. As at March 31, 2015, \$10.3 million (December 31, 2014 - \$10.3 million) has been recognized in contributed surplus related to the KNOC loan. For the quarter ended March 31, 2015, interest expense of \$3.4 million was recorded (2014 - \$1.8 million), of which \$7.8 million remains outstanding as at March 31, 2015 (December 31, 2014 - \$4.9 million).

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 March 31, 2015, Harvest's related party loan from ANKOR included \$215.3 million (December 31, 2014 - \$197.2 million) of principal and \$5.9 million (December 31, 2014 - \$3.1 million) of accrued interest. Interest expense was \$2.4 million for the quarter ended March 31, 2015 (2014 - \$2.2 million).

The related party loans are unsecured and the loan agreements contain no restrictive covenants.

	Transactions		Balance Outstanding			
	Three Months Ended		Accounts Receivable as at		Accounts Payable as at	
	March 31	March 31	March 31	December 31	March 31	December 31
	2015	2014	2015	2014	2015	2014
G&A Expenses						
KNOC ⁽¹⁾	(1.8)	(1.1)	0.3	0.5	2.1	3.7
Finance costs						
KNOC ⁽²⁾	1.1	1.0	-	-	1.7	2.7

⁽¹⁾ The Global Technology and Research Centre ("GTRC") is used as a training and research facility for KNOC. Amounts relate to the reimbursement from KNOC for general and administrative expenses incurred by the GTRC. Also included is Harvest's reimbursement to KNOC for secondee salaries paid by KNOC on behalf of Harvest.

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2% senior notes. A guarantee fee of 52 basis points per annum is charged by KNOC.

The Company identifies its related party transactions by making inquiries of management and the Board of Directors, reviewing KNOC's subsidiaries and associates, and performing a comprehensive search of transactions recorded in the accounting system. Material related party transactions require the Board of Directors' approval. Also see note 9, "Investment in Joint Ventures" in the March 31, 2015 interim consolidated financial statements for details of related party transactions with DBP and HKMS.

On April 2, 2015, Harvest entered into a US\$171 million loan agreement with KNOC, repayable within one year from the date of the first drawing, which was on April 10, 2015. As at May 14, 2015, Harvest had drawn US\$120 million under the loan agreement.

CAPITAL RESOURCES

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

	March 31, 2015	December 31, 2014
Credit facility ⁽¹⁾	870.3	620.7
6% senior notes (US\$500 million) ⁽¹⁾⁽²⁾	633.3	580.1
2½% senior notes (US\$630 million) ⁽¹⁾⁽²⁾	798.0	730.9
Related party loans (US\$170 million and CAD\$200 million) ⁽²⁾	415.3	397.2
	2,716.9	2,328.9
Shareholder's equity		
386,078,649 common shares issued	1,310.9	1,534.8
	4,027.8	3,863.7

(1) Excludes capitalized financing fees

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

On April 22, 2015, Harvest amended the terms of its credit facility and replaced it with a \$940 million syndicated revolving credit facility maturing April 30, 2017. The amended credit facility includes an accordion feature that permits Harvest to increase the size of the facility to \$1.0 billion if Harvest is able to secure additional commitment from an existing or new lender(s). The facility is secured by KNOC's guarantee (up to \$1.0 billion) and by a first floating charge over all of the assets of Harvest and its material subsidiaries. Under the amended credit facility, applicable interest and fees will be based on a margin pricing grid based on the Moody's and S&P credit ratings of KNOC. The financial covenants under the Credit Facility were deleted and replaced with a new covenant: Total Debt to Capitalization ratio of 70% or less. At March 31, 2015, Harvest's Total Debt to Capitalization ratio was 55%. See note 11 of the interim consolidated financial statements for details and "Non-GAAP Measures" section of this MD&A.

LIQUIDITY

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

Cash flow from continuing and discontinued operations are presented on a combined basis in the 2015 comparative statement of cash flows. Cash used in operating activities for the three months ended March 31, 2015 was \$10.6 million (2014 – cash from operating activities of \$195.6 million). The decrease from the first quarter of 2015 from 2014 is mainly a result of the decrease in cash contribution from upstream operations, a decrease in the non-cash working capital changes and the absence of a cash contribution from Downstream.

Cash contribution from Harvest's Upstream operations for the first quarter of 2015 was \$19.1 million (2014 – \$139.8 million). The decrease in Upstream's cash contribution for the quarter ended March 31, 2015 compared to 2014 is mainly due to the decreased average realized prices and lower sales volumes, partially



MANAGEMENT'S DISCUSSION AND ANALYSIS

offset by lower operating costs in 2015. See the "Cash Contribution (Deficiency) from Operations" section of this MD&A for further detail.

Harvest funded capital expenditures for the quarter ended March 31, 2015 of \$151.4 million, including the Hunt acquisition (2014 – \$179.6 million) with borrowings under the credit facility.

Harvest's net drawings from the credit facility was \$249.6 million during the quarter ended March 31, 2015 (2014 - \$93.4 million net repayment).

Harvest had a working capital deficiency of \$233.2 million as at March 31, 2015, as compared to a \$300.5 million deficiency at December 31, 2014, mainly due to the decrease in accounts payable partially offset by the decrease in accounts receivable. 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. Due to the decline in commodity prices in late 2014, Harvest plans to manage its working capital by actively managing its capital program and seeking opportunities to reduce operating and G&A expenses throughout 2015.

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 ratio as the one externally imposed under the Company's credit facility. The Company continually monitors its credit facility covenant and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating covenants as and when required, to ensure compliance. At March 31, 2015, Harvest was in compliance with the debt covenant under the amended credit facility.

Harvest plans to incur capital expenditures in 2015 based on project viability, growth opportunities in certain core development areas, as well as availability of funding. Harvest has also postponed first steam for the BlackGold project in response to the unfavourable heavy oil prices and will continually assess the commodity price environment to determine when the project will become viable. In addition, on April 22, 2015, Harvest amended its existing credit facility to provide for more financial flexibility and entered into a US\$171 loan agreement with KNOC on April 2, 2015. Harvest expects to meet its current and long term cash requirements and financial obligations with cash from operations, the undrawn borrowing room under the amended credit facility, the additional loan from KNOC, and proceeds from asset dispositions and joint arrangements. In addition, Harvest plans to refinance its long term debt(s) as they become due.

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at March 31, 2015, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt repayments ⁽¹⁾	—	1,719.0	998.0	—	2,717.0
Debt interest payments ^{(1) (2)}	84.7	184.0	66.8	—	335.5
BlackGold long-term liability ⁽³⁾	19.0	19.0	19.0	37.9	94.9
Operating leases	5.4	16.1	14.6	40.3	76.4
Firm processing commitments	19.2	38.7	31.7	80.6	170.2
Firm transportation agreements	24.4	62.1	49.6	73.5	209.6
Employee benefits ⁽⁴⁾	2.0	1.8	—	—	3.8
Decommissioning and environmental liabilities ⁽⁵⁾	38.4	55.5	43.0	1,290.7	1,427.6
Total	193.1	2,096.2	1,222.7	1,523.0	5,035.0

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at March 31, 2015 will be applicable to future interest payments.

(3) Relates to the BlackGold deferred payment under the EPC contract. See "BlackGold Oil Sands" section of this MD&A for details.

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

(5) Represents the undiscounted obligation by period.

Off Balance Sheet Arrangements

See "Investments in Joint Arrangements" section in this MD&A and note 9, "Investment in Joint Ventures" in the March 31, 2015 interim consolidated financial statements.



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SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the first quarter of 2015 results relative to the preceding 7 quarters:

	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Revenue, Upstream	107.4	172.7	223.1	244.3	251.5	223.1	245.3	243.2
Revenue, Downstream ⁽¹⁾	—	321.2	877.0	1,120.4	1,113.4	1,084.2	1,054.6	1,156.1
Total revenues and other income ⁽²⁾	107.4	493.9	1,100.1	1,364.7	1,364.9	1,307.3	1,299.9	1,399.3
Net income (loss) from continuing operations	(223.5)	(275.8)	197.0	45.1	(51.9)	(49.8)	7.7	(55.3)
Net income (loss) from discontinued operations	—	(61.7)	(277.9)	(69.9)	54.9	(468.0)	(87.2)	(33.9)
Net income (loss)	(223.5)	(337.5)	(80.9)	(24.8)	3.0	(517.8)	(79.5)	(89.2)
OPERATIONS								
Continuing Operations								
Daily sales volumes (boe/d)	43,770	42,539	44,794	47,556	48,487	49,154	51,783	53,461
Realized price prior to hedging (\$/boe)	31.85	47.99	62.99	69.30	67.29	54.01	60.62	58.22
Discontinued Operations⁽¹⁾								
Average daily throughput (bbl/d)	—	76,455	73,495	95,410	95,767	92,339	93,798	106,245
Average refining gross margin (loss) (\$US/bbl) ⁽³⁾	—	2.76	4.09	0.25	9.58	2.50	(1.43)	0.74

(1) Downstream operations have been classified as "Discontinued Operations" as a result of disposition on November 13, 2014.

(2) This is an additional GAAP measure; please refer to "Additional GAAP Measures" in this MD&A.

(3) 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 previously, Downstream throughput volumes, cost of feedstock and refined product prices. Significant items that impacted Harvest's quarterly revenues include:

- Total revenues were highest in the second quarter of 2013, as a result of high daily throughput volumes from discontinued operations and lowest in the first quarter of 2015 due to low realized prices combined with low sales volumes from continuing operations and the absence of revenues from discontinued operations.
- The declines in Upstream's sales volumes since 2013 were mainly due to asset dispositions and a capital program that was insufficient to offset declines in production.

Net income (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. The net loss from continuing operations in the first quarter of 2015 is mainly a result of lower realized prices and sales volumes, a \$139.5 million foreign exchange loss and a \$23.5 million Upstream impairment

expense. The net loss from continuing operations from the fourth quarter of 2014 was mainly due to the \$267.6 million Upstream impairment expense.

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. Further information on the basis of preparation and significant accounting policies and estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2014. There have been no changes to the accounting policies and critical accounting estimates in the first quarter of 2015.

RECENT ACCOUNTING PRONOUNCEMENTS

There were no new or amended standards issued during the three months ended March 31, 2015 that are applicable to Harvest in future periods. A description of additional accounting pronouncements that will be adopted by Harvest in future periods can be found in note 3 of the audited consolidated financial statements for the year ended December 31, 2014.

OPERATIONAL AND OTHER BUSINESS RISKS FOR CONTINUING OPERATIONS

Harvest's operational and other business risks remain unchanged from those discussed in the annual MD&A and AIF for the year ended December 31, 2014 as filed on SEDAR at www.sedar.com.

CHANGES IN REGULATORY ENVIRONMENT

Harvest's regulatory environment remains unchanged from that discussed in the annual MD&A and AIF for the year ended December 31, 2014 as filed on SEDAR at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes in the internal controls over financial reporting or disclosure controls and procedures described in the annual MD&A for the year ended December 31, 2014 as filed on SEDAR at www.sedar.com that have materially affected, or are reasonably likely to affect, internal controls over financial reporting.

ADDITIONAL GAAP MEASURES

Throughout this MD&A, Harvest uses additional GAAP measures that are not defined under IFRS (hereinafter also referred to as "GAAP"). "Operating income (loss)" 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. "Revenues and other income" comprises sales of petroleum and natural gas net of related royalties, and Harvest's share of the net income from its joint ventures.

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 netback", "operating netback prior to/after hedging", "average refining gross margin", "cash contribution (deficiency) from operations" 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. "Average refining gross margin" 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 to total capitalization" is a term defined in Harvest's amended credit facility agreement for the purpose of calculation of the financial covenant. 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 cash contribution (deficiency) which is shown below.

Cash Contribution (Deficiency) from Operations

Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: operating, general and administrative, exploration and evaluation, depletion, depreciation and amortization, gains on disposition of assets, risk management contracts gains or losses, impairment and other charges, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included in operating income (loss). The measure demonstrates the ability of Harvest's upstream segment to generate cash from operations and is calculated before changes in non-cash working capital. The most directly comparable additional GAAP measure is operating income (loss). Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below. Comparative results include results from both continued and discontinued operations.



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	Three Months Ended March 31					
	Upstream		Downstream		Total	
	2015	2014	2015	2014	2015	2014
Operating income (loss)	(110.1)	21.8	—	31.5	(110.1)	53.3
Adjustments:						
Loss from joint ventures	5.9	—	—	—	5.9	—
Operating, non-cash	(0.5)	1.5	—	(1.2)	(0.5)	0.3
General and administrative, non-cash	0.4	(1.8)	—	—	0.4	(1.8)
Exploration and evaluation, non-cash	0.9	8.3	—	—	0.9	8.3
Depletion, depreciation and amortization	98.4	109.5	—	3.6	98.4	113.1
(Gains) losses on disposition of assets	(0.5)	0.7	—	(0.2)	(0.5)	0.5
Unrealized losses (gains) on risk management contracts	1.1	(0.2)	—	—	1.1	(0.2)
Impairment and other charges, non-cash	23.5	—	—	—	23.5	—
Cash contribution (deficiency) from operations	19.1	139.8	—	33.7	19.1	173.5
Inclusion of items not attributable to segments:						
Net cash interest					11.3	17.9
Realized foreign exchange losses					1.6	2.0
Consolidated cash contribution from operations					6.2	153.6

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three months ended March 31, 2015 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

Such risks and uncertainties include, but are not limited to: risks associated with conventional petroleum and natural gas operations; risks associated with the construction of the oil sands project; the volatility in commodity prices, interest rates and currency exchange rates; risks associated with realizing the value of acquisitions; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources; and, such other risks and uncertainties described from time to time in regulatory reports and filings made with securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on the assessment of all information at that time. Please also refer to "Operational and Other Business Risks" in this MD&A and "Risk Factors" in the Annual Information Form for detailed discussion on these risks.

Forward-looking statements in this MD&A include, but are not limited to: commodity prices, price risk management activities, acquisitions and dispositions, capital spending and allocation of such to various projects, reserve estimates and ultimate recovery of reserves, potential timing and commerciality of Harvest's capital projects, the extent and success rate of Upstream and BlackGold drilling programs, the ability to achieve the maximum capacity from the BlackGold central processing facilities, availability of the credit

facility, access and ability to raise capital, ability to maintain debt covenants, debt levels, recovery of long-lived assets, the timing and amount of decommission and environmental related costs, income taxes, cash from operating activities, regulatory approval of development projects and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "target", "plan", "potential", "intend", and similar expressions.

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

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

ADDITIONAL INFORMATION

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at (millions of Canadian dollars)	Notes	March 31, 2015	December 31, 2014
Assets			
Current assets			
Cash	12	\$ 2.7	\$ —
Accounts receivable	12	78.4	89.8
Inventories		0.9	2.6
Prepaid expenses		12.9	13.9
Risk management contracts	12	1.4	1.9
		96.3	108.2
Non-current assets			
Deferred income tax asset		425.5	382.5
Exploration and evaluation assets	8	68.3	62.1
Property, plant and equipment	7	4,148.5	4,109.9
Investments in joint ventures	9	91.3	75.8
Goodwill		353.1	353.1
		5,086.7	4,983.4
Total assets		\$ 5,183.0	\$ 5,091.6
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12, 14	\$ 285.3	\$ 370.2
Current portion of provisions	13	41.9	37.3
Risk management contracts	12	2.3	1.2
		329.5	408.7
Non-current liabilities			
Long-term debt	10, 12	2,287.1	1,916.8
Related party loans	12, 20	420.7	396.5
Long-term liability	12, 14	60.6	61.5
Non-current provisions	13	774.2	773.3
		3,542.6	3,148.1
Total liabilities		\$ 3,872.1	\$ 3,556.8
Shareholders' equity			
Shareholder's capital		3,860.8	3,860.8
Contributed surplus		10.3	10.3
Deficit		(2,561.2)	(2,337.7)
Accumulated other comprehensive income	18	1.0	1.4
Total shareholder's equity		1,310.9	1,534.8
Total liabilities and shareholder's equity		\$ 5,183.0	\$ 5,091.6

Commitments [Note 19]

Subsequent events [Note 7, 10, and 20]

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

<i>(millions of Canadian dollars)</i>	Notes	Three months ended March 31	
		2015	2014
Petroleum and natural gas sales		\$ 126.4	\$ 287.7
Royalties		(13.1)	(36.2)
Loss from joint ventures	9	(5.9)	—
Revenues and other income		107.4	251.5
Expenses			
Operating		72.5	88.5
Transportation and marketing		1.2	6.3
General and administrative		19.0	16.8
Depletion, depreciation and amortization	7	98.4	109.5
Exploration and evaluation	8	0.9	8.6
Losses (gains) on disposition of assets		(0.5)	0.7
Finance costs	15	23.6	24.2
Risk management contracts losses (gains)	12	2.5	(0.7)
Foreign exchange losses	16	140.5	56.2
Impairment on property, plant and equipment	7	23.5	—
Loss from continuing operations before income tax		(274.2)	(58.6)
Income tax recovery		(50.7)	(6.7)
Net loss from continuing operations		(223.5)	(51.9)
Net income from discontinued operations	6	—	54.9
Net (loss) income		\$ (223.5)	\$ 3.0
Other comprehensive loss ("OCL")			
<i>Items that may be reclassified to net income</i>			
Losses on designated cash flow hedges, net of tax	12, 18	(0.4)	(7.3)
Losses on foreign currency translation		—	(15.4)
<i>Items that will not be reclassified to net income</i>			
Actuarial Losses, net of tax		—	(1.1)
Comprehensive loss		\$ (223.9)	\$ (20.8)

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

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

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss) ("AOCI")	Total Shareholder's Equity
Balance at December 31, 2014		\$ 3,860.8	\$ 10.3	\$ (2,337.7)	\$ 1.4	\$ 1,534.8
Losses on derivatives designated as cash flow hedges, net of tax	18	—	—	—	(0.4)	(0.4)
Net loss		—	—	(223.5)	—	(223.5)
Balance at March 31, 2015		\$ 3,860.8	\$ 10.3	\$ (2,561.2)	\$ 1.0	\$ 1,310.9
Balance at December 31, 2013		\$ 3,860.8	\$ 4.3	\$ (1,893.2)	\$ (32.7)	\$ 1,939.2
Losses on derivatives designated as cash flow hedges, net of tax		—	—	—	(7.3)	(7.3)
Losses on foreign currency translation		—	—	—	(15.4)	(15.4)
Actuarial losses, net of tax		—	—	—	(1.1)	(1.1)
Shareholder loan		—	4.1	—	—	4.1
Net income		—	—	3.0	—	3.0
Balance at March 31, 2014		\$ 3,860.8	\$ 8.4	\$ (1,890.2)	\$ (56.5)	\$ 1,922.5

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(millions of Canadian dollars)</i>	Notes	Three months ended March 31	
		2015	2014
Cash provided by (used in)			
Operating Activities			
Net (loss) income		\$ (223.5)	\$ 3.0
Items not requiring cash			
Loss from joint ventures	9	5.9	—
Depletion, depreciation and amortization	7	98.4	113.1
Accretion of decommissioning and environmental remediation liabilities	13, 15	4.7	5.8
Unrealized (gains) losses on risk management contracts	12	1.1	(0.2)
Unrealized losses on foreign exchange	6, 16	138.9	30.2
Unsuccessful exploration and evaluation cost	8	0.9	8.3
Losses (gains) on disposition of assets		(0.5)	0.5
Deferred income tax recovery		(50.6)	(6.4)
Impairment on property, plant and equipment	7	23.5	—
Other non-cash items		7.6	(0.9)
Settlement of decommissioning and environmental remediation liabilities	13	(4.0)	(2.9)
Change in non-cash working capital	17	(13.0)	45.1
Cash from (used in) operating activities		\$ (10.6)	\$ 195.6
Financing Activities			
Credit facility (repayment) borrowings, net	10	249.6	(93.4)
Repayment of promissory note		—	(3.1)
Borrowings from related party loans		—	80.0
Cash from (used in) financing activities		\$ 249.6	\$ (16.5)
Investing Activities			
Additions to property, plant and equipment	7	(116.4)	(173.2)
Additions to exploration and evaluation assets	8	(0.4)	(6.4)
Property dispositions (acquisitions), net		0.9	2.3
Corporate acquisition, net of cash acquired	5	(34.6)	—
Investment in joint ventures	9	(21.2)	—
Change in non-cash working capital	17	(64.6)	(1.8)
Cash used in investing activities		\$ (236.3)	\$ (179.1)
Change in cash		2.7	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ 2.7	\$ —
Interest paid		\$ 5.7	\$ 8.2

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2015 and 2014

(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. Harvest has two reportable segments: Upstream and BlackGold oil sands. For further information regarding these reportable segments, see note 4.

Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). The Company is incorporated and domiciled in Canada. Harvest's principal place of business is located at 1500, 700 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standards ("IAS") 34 – "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The interim consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the annual Consolidated Financial Statements as at and for the year ended December 31, 2014, which were prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on May 14, 2015.

Basis of Measurement

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

Use of Estimates and Judgment

Significant estimates and judgment used in the preparation of the financial statements are described in note 5 of the annual Consolidated Financial Statements as at and for the year ended December 31, 2014.

3. Significant Accounting Policies

These condensed interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 4 of the Company's annual Consolidated Financial Statements as at and for the year ended December 31, 2014.

There were no new or amended standards issued during the three months ended March 31, 2015 that are applicable to Harvest in future periods. A description of additional accounting pronouncements that will be adopted by Harvest in future periods can be found in note 3 of the Audited Consolidated Financial Statements for the year ended December 31, 2014.

4. Segment Information

Harvest's operating segments are determined based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by Harvest's chief operating decision makers. The Company's reportable segments are:

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- Upstream Operations, which consists of exploration, development, production and subsequent sale of petroleum, natural gas and natural gas liquids in western Canada.
- BlackGold Oil Sands, which is an in-situ oil sands project located near Conklin, Alberta. Phase 1 of the project is designed to produce 10,000 barrels of bitumen per day. The project is currently in the pre-commissioning phase.

Harvest's Downstream segment was sold during 2014 and has been classified as discontinued operations (see note 6).

	Three months ended March 31			
	Upstream		Total	
	2015	2014	2015	2014
Petroleum and natural gas sales	\$ 126.4	\$ 287.7	\$ 126.4	\$ 287.7
Royalties	(13.1)	(36.2)	(13.1)	(36.2)
Loss from joint ventures	(5.9)	—	(5.9)	—
Revenues and other income	107.4	251.5	107.4	251.5
Expenses				
Operating	72.5	88.5	72.5	88.5
Transportation and marketing	1.2	6.3	1.2	6.3
General and administrative	19.0	16.8	19.0	16.8
Depletion, depreciation and amortization	98.4	109.5	98.4	109.5
Exploration and evaluation	0.9	8.6	0.9	8.6
Losses (gains) on disposition of assets	(0.5)	0.7	(0.5)	0.7
Risk management contracts (gains) losses	2.5	(0.7)	2.5	(0.7)
Impairment on property, plant and equipment	23.5	—	23.5	—
Operating (loss) income	\$ (110.1)	\$ 21.8	\$ (110.1)	\$ 21.8
Finance costs			23.6	24.2
Foreign exchange losses			140.5	56.2
Income tax recovery			(50.7)	(6.7)
Net loss from continuing operations			(223.5)	(51.9)
Net income from discontinued operations			—	54.9
Net (loss) income			\$ (223.5)	\$ 3.0

	Three months ended March 31					
	Upstream		BlackGold		Total	
	2015	2014	2015	2014	2015	2014
Capital Additions						
Additions to PPE	\$ 56.2	\$ 127.9	\$ 60.8	\$ 42.2	\$ 117.0	\$ 170.1
Additions to E&E	0.4	6.4	—	—	0.4	6.4
Corporate acquisition	48.6	—	—	—	48.6	—
Property acquisitions (dispositions), net	(0.5)	(2.1)	—	—	(0.5)	(2.1)
Net capital additions	\$ 104.7	\$ 132.2	\$ 60.8	\$ 42.2	\$ 165.5	\$ 174.4



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	Total Assets		PP&E		E&E		Goodwill
March 31, 2015							
Upstream	\$ 3,686.8		\$ 2,652.4		\$ 68.3		\$ 353.1
BlackGold	1,496.2		1,496.1		—		—
Total	\$ 5,183.0		\$ 4,148.5		\$ 68.3		\$ 353.1
December 31, 2014							
Upstream	\$ 3,656.8		\$ 2,675.3		\$ 62.1		\$ 353.1
BlackGold	1,434.8		1,434.6		—		—
Total	\$ 5,091.6		\$ 4,109.9		\$ 62.1		\$ 353.1

5. Business Combination

On February 27, 2015, Harvest acquired all of the issued and outstanding common shares of Hunt Oil Company of Canada, Inc. ("Hunt"). Hunt was a private oil and gas company with operations immediately offsetting Harvest's lands and production in the Deep Basin area of Alberta.

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

Consideration			
Cash		\$	36.8
		\$	36.8
Fair value of net assets acquired			
Cash		\$	2.2
Accounts receivable			1.0
Prepaid expenses			0.2
Property, plant and equipment			41.9
Exploration and evaluation assets			6.7
Accounts payable and accrued liabilities			(4.4)
Decommissioning liability			(3.2)
Deferred income tax liability			(7.6)
		\$	36.8

The above amounts are estimates made by management at the time of the preparation of these condensed interim consolidated financial statements based on information then available. Amendments may be made as amounts subject to estimates are finalized.

These condensed interim consolidated financial statements incorporate the results of operations of Hunt from February 27, 2015. For the three months ended March 31, 2015, the assets acquired contributed \$0.3 million of revenues and \$0.1 million to revenues less operating and transportation expenses. If the acquisition had been completed on the first day of 2015, Harvest's revenues for the three months ended March 31, 2015 would have been \$0.5 million higher and revenues less operating and transportation expenses would have been \$0.3 million higher.



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6. Discontinued Operations

On November 13, 2014, Harvest disposed of its wholly owned Downstream segment. Results of Downstream have been presented as discontinued operations for the comparative periods. Downstream operations included 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.

	Three months ended March 31, 2014	
Refined products sales	\$	1,113.4
Expenses		
Purchased products for resale and processing		1,008.0
Operating		68.6
Transportation and marketing		1.7
General and administrative		0.2
Depletion, depreciation and amortization		3.6
Gains on disposition of assets		(0.2)
Operating income from discontinued operations	\$	31.5
Finance costs		0.3
Foreign exchange gains ⁽¹⁾		(24.0)
Income before income tax from discontinued operations	\$	55.2
Income tax expense		0.3
Net income from discontinued operations	\$	54.9

(1) For the three months ended March 31, 2014, the unrealized foreign exchange gain was \$23.8 million.

The following table summarizes the components of the discontinued operations cash flows:

	Three months ended March 31, 2014	
Cash flow from operating activities	\$	76.1
Cash flow used in financing activities		(62.1)
Cash flow used in investing activities		(14.0)
Total cash inflow (outflow)	\$	—

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

	Upstream	BlackGold	Total
Cost:			
As at December 31, 2013 ⁽¹⁾	\$ 5,272.3	\$ 1,138.8	\$ 6,411.1
Additions	386.2	283.5	669.7
Property acquisitions	3.1	0.2	3.3
Disposals	(500.2)	—	(500.2)
Change in decommissioning liabilities	116.6	12.1	128.7
Transfer from E&E	7.2	—	7.2
As at December 31, 2014	\$ 5,285.2	\$ 1,434.6	\$ 6,719.8
Additions	56.2	60.8	117.0
Corporate acquisition	41.9	—	41.9
Disposals	(0.5)	—	(0.5)
Change in decommissioning liabilities	1.4	0.7	2.1
As at March 31, 2015	\$ 5,384.2	\$ 1,496.1	\$ 6,880.3
Accumulated depletion, depreciation, amortization and impairment losses:			
As at December 31, 2013 ⁽¹⁾	\$ 2,106.1	\$ —	\$ 2,106.1
Depreciation, depletion and amortization	435.2	—	435.2
Disposals	(199.0)	—	(199.0)
Impairment	267.6	—	267.6
As at December 31, 2014	\$ 2,609.9	\$ —	\$ 2,609.9
Depreciation, depletion and amortization	98.4	—	98.4
Impairment	23.5	—	23.5
As at March 31, 2015	\$ 2,731.8	\$ —	\$ 2,731.8
Net Book Value:			
As at March 31, 2015	\$ 2,652.4	\$ 1,496.1	\$ 4,148.5
As at December 31, 2014	\$ 2,675.3	\$ 1,434.6	\$ 4,109.9

(1) The total carrying amount of property, plant and equipment excludes the Downstream segment.

General and administrative costs directly attributable to PP&E addition activities of \$4.8 million have been capitalized during the three months ended March 31, 2015 (2014 – \$5.0 million). Borrowing costs relating to the development of BlackGold assets have been capitalized within PP&E during the three months ended March 31, 2015 in the amount of \$9.7 million (2014 – \$7.2 million), at a weighted average interest rate of 4.4% (2014 – 4.6%). PP&E additions also include non-cash additions relating to the BlackGold deferred payment of \$0.6 million (December 31, 2014 – \$1.6 million) (see note 14).

At March 31, 2015, the BlackGold oil sands central processing facility was mechanically completed, however, no depreciation, depletion and amortization expense was incurred for the three months ended March 31, 2015 as Harvest uses the unit-of-production method of depreciation and the BlackGold assets currently have no production.

During the first quarter of 2015, Harvest recognized an impairment loss of \$23.5 million (2014 - \$nil) against its Upstream PP&E in the South Oil cash generating unit to reflect lower forecasted oil prices and underperforming assets, which resulted in lower estimated future cash flows. The recoverable amount was based on the assets' value-in-use, estimated using the net present value of proved plus probable reserves discounted at a pre-tax rate of 10% and the forecast commodity prices noted below. The recoverable amount as at March 31, 2015 for the South Oil CGU was \$18.5 million. A 200 bps increase in the discount rate would result in an additional impairment of approximately \$0.7 million. A 10% decrease in the forward oil price estimate would result in an additional impairment of approximately \$8.0 million.

The following forecast commodity prices were used:

Year	WTI Crude Oil (\$US/bbl)	Edmonton Light	
		Crude Oil (\$Cdn/bbl)	US\$/Cdn\$ Exchange Rate
2015 (9 months)	55.00	61.25	0.800
2016	67.50	74.55	0.825
2017	72.50	79.41	0.850
2018	77.50	85.29	0.850
2019	82.50	91.18	0.850
Thereafter ⁽¹⁾	+2%/year	+2%/year	0.850

⁽¹⁾ Represents the average escalation percentage in each year after 2019 to the end of reserve life

On April 14, 2015, Harvest entered into a purchase and sale agreement to sell certain non-core oil and gas assets in Eastern Alberta for approximately \$28.3 million in cash proceeds, net of any customary closing adjustments. The sale closed on May 1, 2015.

8. Exploration and Evaluation Assets (“E&E”)

As at December 31, 2013	\$	59.4
Additions		22.3
Property acquisitions		3.1
Disposition		(6.1)
Unsuccessful E&E costs		(9.4)
Transfer to property, plant and equipment		(7.2)
As at December 31, 2014	\$	62.1
Additions		0.4
Corporate acquisition		6.7
Unsuccessful E&E costs		(0.9)
As at March 31, 2015	\$	68.3

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

	Three months ended March 31	
	2015	2014
Pre-licensing costs	\$ —	\$ 0.3
Unsuccessful E&E costs	0.9	8.3
E&E expense	\$ 0.9	\$ 8.6

9. Investments in Joint Ventures

	March 31, 2015	December 31, 2014
Deep Basin Partnership ("DBP")	\$ 43.8	\$ 49.2
HK MS Partnership ("HKMS")	47.5	26.6
Investments in joint ventures	\$ 91.3	\$ 75.8

The following table shows the movement in the investments in joint ventures account during the period:

	DBP	HKMS
Balance as at December 31, 2013	\$ —	\$ —
Initial investment on April 23, 2014	54.9	—
Additional investments in joint ventures	—	26.7
Share of loss from investments in joint ventures	(4.6)	(0.1)
Distributions received from joint ventures	(2.3)	—
Dilution gain recognized on disposal of assets	1.2	—
Balance as at December 31, 2014	\$ 49.2	\$ 26.6
Additional investments in joint ventures	—	21.2
Share of loss from investments in joint ventures	(5.6)	(0.3)
Dilution gain recognized on disposal of assets	0.2	—
Balance as at March 31, 2015	\$ 43.8	\$ 47.5

Deep Basin Partnership

As at March 31, 2015, Harvest's ownership interest in DBP is 77.81% (December 31, 2014 – 77.81%) and KERR Canada Co. Ltd.'s ("KERR's") ownership interest in DBP is 22.19% (December 31, 2014 – 22.19%). The amounts contributed by KERR on formation of the partnership on April 23, 2014 are being spent by the DBP to purchase land, drill and develop partnership properties in the Deep Basin area. As the initial funding from KERR is consumed and additional funds are required to fund the entire agreed initial multi-year development program, Harvest is obligated to fund the balance of the program from its share of partnership distributions from DBP. As at March 31, 2015, total distributions received by Harvest to date was \$2.3 million.

KERR's preferred partnership units provide KERR certain preference rights, including a put option right exercisable after 10.5 years, whereby KERR could cause DBP to redeem all its preferred partnership units for consideration equal to its initial contribution plus a minimum after-tax internal rate of return of two percent. If DBP does not have sufficient funds to complete the redemption obligation and after making efforts to secure funding, whether via issuing new equity, entering into a financing arrangement or selling assets, the partnership can cash-call Harvest to meet such obligation (the "top-up obligation"). This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP (level 3 fair value inputs). The cash flow forecast is based on management's internal assumptions of the volumes, commodity prices, royalties, operating costs and capital expenditures specific to the DBP. As at March 31, 2015, the fair value of the top-up obligation was estimated as \$nil, therefore, no top-up obligation was recorded by Harvest.

HK MS Partnership

During the first quarter of 2015, Harvest contributed \$21.2 million into HKMS to complete the construction of the gas processing facility, increasing its ownership interest to 61.46% as at March 31, 2015 and diluting KERR's ownership interest to 38.54% (December 31, 2014 – 53.76% and 46.24%, respectively).



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

	March 31, 2015		December 31, 2014	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ —	\$ —	\$ 1.7	\$ —
Other current assets	16.5	1.9	51.7	0.6
Total current assets	\$ 16.5	\$ 1.9	\$ 53.4	\$ 0.6
Non-current assets	220.7	100.3	170.7	79.0
Total assets ⁽¹⁾	\$ 237.2	\$ 102.2	\$ 224.1	\$ 79.6
Current liabilities	\$ 65.3	\$ 12.4	\$ 46.4	\$ 13.6
Non-current financial liabilities	125.2	85.8	125.5	61.4
Other non-current liabilities	4.3	4.7	4.2	4.7
Total liabilities ⁽¹⁾	\$ 194.8	\$ 102.9	\$ 176.1	\$ 79.7
Net assets (liabilities) ⁽¹⁾	\$ 42.4	\$ (0.7)	\$ 48.0	\$ (0.1)

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

	Three months ended March 31, 2015	
	DBP	HKMS
Revenues	\$ 2.5	\$ 1.4
Depletion, depreciation and amortization	(4.3)	(0.6)
Finance costs	(0.7)	(0.9)
Other	(3.1)	(0.5)
Net loss ⁽¹⁾	\$ (5.6)	\$ (0.6)

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

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at March 31, 2015:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Preferred distribution liability payments	\$ 6.7	\$ 0.4	\$ —	\$ 124.8	\$ 131.9
Firm processing commitment	14.0	28.0	28.0	64.2	134.2
Decommissioning and environmental liabilities ⁽¹⁾	—	0.1	0.4	10.3	10.8
Total	\$ 20.7	\$ 28.5	\$ 28.4	\$ 199.3	\$ 276.9

(1) Represents the undiscounted obligation by period.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at March 31, 2015:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 14.8	\$ 14.8
Total	\$ —	\$ —	\$ —	\$ 14.8	\$ 14.8

(1) Represents the undiscounted obligation by period.

Related party transactions

Deep Basin Partnership

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the three months ended March 31, 2015, Harvest charged DBP marketing fee of \$nil and general and administrative expenses of \$0.4 million. As at March 31, 2015, \$4.2 million remains outstanding in due to DBP (December 31, 2014 - \$3.8 million).

A cash call payable of \$5.8 million is also outstanding to DBP as at March 31, 2015 relating to the estimated drilling and completion costs to be incurred on behalf of the DBP (December 31, 2014 - \$44.4 million).

HK MS Partnership

As the managing partner, Harvest incurs expenditures relating to the construction of the midstream facility on behalf of HKMS. In addition, Harvest also charged HKMS general and administrative expenses of \$0.2 million for the three months ended March 31, 2015. As at March 31, 2015, the balance of \$0.8 million remains outstanding in due from HKMS (December 31, 2014 - \$0.6 million).

10. Long-Term Debt

	March 31, 2015		December 31, 2014	
Credit facility	\$	867.5	\$	617.6
6 $\frac{7}{8}$ % senior notes due 2017 (US\$500 million)		625.3		572.0
2 $\frac{1}{8}$ % senior notes due 2018 (US\$630 million)		794.3		727.2
Long-term debt outstanding	\$	2,287.1	\$	1,916.8

Credit facility

At March 31, 2015, Harvest had \$870.3 million drawn from the \$1.0 billion available under the credit facility (December 31, 2014 - \$620.7 million). The carrying value of the credit facility includes \$2.8 million of deferred financial fees at March 31, 2015 (December 31, 2014 - \$3.1 million). For the three months ended March 31, 2015, interest charges on the credit facility borrowings aggregated to \$5.4 million (2014 - \$6.5 million), reflecting an effective interest rate 2.8% (2014 - 3.5%).

On April 22, 2015, Harvest amended its credit facility and replaced it with a \$940 million revolving credit facility that matures on April 30, 2017, with a syndicate of eight financial institutions. The amended credit facility includes an accordion feature that permits Harvest to increase the size of the facility to \$1.0 billion if Harvest is able to secure additional commitment from an existing or new lender(s). The facility is secured by KNOC's guarantee (up to \$1.0 billion) and by a first floating charge over all of the assets of Harvest and its material subsidiaries. Under the amended credit facility, applicable interest and fees will be based on a margin pricing grid based on the credit ratings of KNOC. The financial covenants under the previous credit facility were deleted and replaced with a new covenant: Total Debt to Capitalization ratio of 70% or less.

11. Capital Structure

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

	March 31, 2015		December 31, 2014	
Credit facility ⁽¹⁾	\$	870.3	\$	620.7
6 ⁷ / ₈ % senior notes (US\$500 million) ⁽¹⁾⁽²⁾		633.3		580.1
2 ¹ / ₈ % senior notes (US\$630 million) ⁽¹⁾⁽²⁾		798.0		730.9
Related party loans (US\$170 million and CAD\$200 million) ⁽²⁾		415.3		397.2
	\$	2,716.9	\$	2,328.9
Shareholder's equity		1,310.9		1,534.8
	\$	4,027.8	\$	3,863.7

(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 ratio as the ones externally imposed under the Company's credit facility. Harvest was in compliance with all debt covenants at March 31, 2015.

	Covenant	March 31, 2015	December 31, 2014
Total debt ⁽¹⁾ to capitalization ⁽²⁾	70% or less	55%	n/a
(1) Total debt was amended on April 22, 2015 (see note 10) and includes letters of credit of \$12.0 million, credit facility of \$867.5 million, guarantees of \$nil, risk management contracts liabilities of \$2.3 million, senior notes of \$1.4 billion, related party loans with maturity date prior to April 30, 2017 of \$nil plus an incremental net amount representing the implied redemption obligation owed to KERR by the Deep Basin Partnership of \$105.1 million.			
(2) Capitalization was amended on April 22, 2015 (see note 10) and includes total debt, related party loans with a maturity date after April 30, 2017, and shareholder's equity. The calculation of capitalization also included the following: (i) \$223.4 million representing 50% of impairment charges and unrealized gains and losses on foreign exchange hedge transactions disclosed in the December 31, 2014 annual consolidated financial statements of Harvest and (ii) \$11.7 million representing 50% of impairment charges and unrealized gains and losses on foreign exchange hedge transactions incurred during the first quarter of 2015. The maximum amount under clause (ii) cannot exceed \$100 million.			

12. 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, 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 following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.



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	March 31, 2015		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 Measured at Cost</u>				
Accounts receivable	\$ 78.4	\$ 78.4	\$ —	\$ 78.4
<u>Held for Trading</u>				
Cash	2.7	2.7	2.7	—
Fair value of risk management contracts	1.4	1.4	—	1.4
Total Financial Assets	\$ 82.5	\$ 82.5	\$ 2.7	\$ 79.8
Financial Liabilities				
<u>Held for Trading</u>				
Fair value of risk management contracts	\$ 2.3	\$ 2.3	\$ —	\$ 2.3
<u>Measured at Amortized Cost</u>				
Accounts payable and accrued liabilities	285.3	285.3	—	285.3
Credit Facility	867.5	870.3	—	870.3
6 $\frac{7}{8}$ % senior notes	625.3	620.6	—	620.6
2 $\frac{1}{8}$ % senior notes	794.3	802.2	802.2	—
Related party loans	420.7	392.8	—	392.8
Long-term liability	60.2	47.0	—	47.0
Total Financial Liabilities	\$ 3,055.6	\$ 3,020.5	\$ 802.2	\$ 2,218.3

	December 31, 2014		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 Measured at Cost</u>				
Accounts receivable	\$ 89.8	\$ 89.8	\$ —	\$ 89.8
<u>Held for Trading</u>				
Fair value of risk management contracts	1.9	1.9	—	1.9
Total Financial Assets	\$ 91.7	\$ 91.7	\$ —	\$ 91.7
Financial Liabilities				
<u>Held for Trading</u>				
Fair value of risk management contracts	\$ 1.2	\$ 1.2	\$ —	\$ 1.2
<u>Measured at Amortized Cost</u>				
Accounts payable and accrued liabilities	370.2	370.2	—	370.2
Credit facility	617.6	620.7	—	620.7
6% senior notes	572.0	561.9	—	561.9
2% senior notes	727.2	727.2	727.2	—
Related party loans	396.5	367.9	—	367.9
Long-term liability	61.5	47.6	—	47.6
Total Financial Liabilities	\$ 2,746.2	\$ 2,696.7	\$ 727.2	\$ 1,969.5

b) 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. When the hedged item is settled, the related effective portion of the realized gains and losses is removed from AOCI and included in petroleum and natural gas sales (see note 18). 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:

	Three months ended March 31					
	2015			2014		
	Realized losses	Unrealized losses	Total	Realized gains	Unrealized (gains) losses	Total
Power	\$ 1.4	\$ 1.1	\$ 2.5	\$ (0.5)	\$ (0.4)	\$ (0.9)
Crude Oil	—	—	—	—	0.2	0.2
	\$ 1.4	\$ 1.1	\$ 2.5	\$ (0.5)	\$ (0.2)	\$ (0.7)

The following is a summary of Harvest's risk management contracts outstanding at March 31, 2015:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
5,400 GJ/day	AECO swap	Apr - Dec 2015	\$3.65/GJ	\$ 1.4

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
35 MWh	AESO power swap	Apr - Dec 2015	\$47.07/MWh	\$ (2.3)

13. Provisions

	Upstream	BlackGold	Total
Decommissioning liabilities at December 31, 2013 ⁽¹⁾	\$ 709.4	\$ 34.3	\$ 743.7
Liabilities incurred	8.0	4.2	12.2
Settled during the period	(13.8)	—	(13.8)
Revisions (change in discount rate, estimated timing and costs)	108.6	7.9	116.5
Disposals	(80.9)	—	(80.9)
Accretion	20.7	1.1	21.8
Decommissioning liabilities at December 31, 2014	\$ 752.0	\$ 47.5	\$ 799.5
Environmental remediation at December 31, 2014	7.6	—	7.6
Other provisions at December 31, 2014	3.5	—	3.5
Less current portion	(37.3)	—	(37.3)
Balance at December 31, 2014	\$ 725.8	\$ 47.5	\$ 773.3
Decommissioning liabilities at December 31, 2014	\$ 752.0	\$ 47.5	\$ 799.5
Liabilities incurred	1.5	0.7	2.2
Corporate acquisition	3.2	—	3.2
Settled during the period	(4.0)	—	(4.0)
Revisions (change in estimated timing and costs)	(0.1)	—	(0.1)
Accretion	4.4	0.3	4.7
Decommissioning liabilities at March 31, 2015	\$ 757.0	\$ 48.5	\$ 805.5
Environmental remediation at March 31, 2015	7.1	—	7.1
Other provisions at March 31, 2015	3.5	—	3.5
Less current portion	(41.9)	—	(41.9)
Balance at March 31, 2015	\$ 725.7	\$ 48.5	\$ 774.2

(1) The total decommissioning liabilities excludes the Downstream segment.

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.4 billion at March 31, 2015 (December 31, 2014 - \$1.4 billion), which will be incurred between 2015 and 2075. A risk-free discount rate of 2.3% (December 31, 2014 - 2.3%) and inflation rate of 1.7% (December 31, 2014 - 1.7%) were used to calculate the fair value of the decommissioning and environmental remediation liabilities.

14. Long-Term Liability

Under the BlackGold oil sands engineering, procurement and construction (“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 2015. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at March 31, 2015, Harvest recognized a total liability of \$78.4 million (December 31, 2014 - \$77.8 million) using a discount rate of 4.5% (December 31, 2014 - 4.5%) of which \$19.0 million (December 31, 2014 - \$19.0 million) is payable in the second quarter of 2015 and has been included with accounts payable and accrued liabilities.

Also included in long-term liability and other is an accrual related to Harvest's long term incentive program of \$0.8 million (December 31, 2014 - \$2.7 million) as well as deferred credits of \$0.4 million (December 31, 2014 - \$nil).



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15. Finance Costs

	Three months ended March 31	
	2015	2014
Interest and other financing charges	\$ 28.6	\$ 25.8
Accretion of decommissioning and environmental remediation liabilities	4.7	5.6
Less: interest capitalized	(9.7)	(7.2)
	\$ 23.6	\$ 24.2

16. Foreign Exchange

	Three months ended March 31	
	2015	2014
Realized losses on foreign exchange	\$ 1.6	\$ 2.2
Unrealized losses on foreign exchange	138.9	54.0
	\$ 140.5	\$ 56.2

17. Supplemental Cash Flow Information

	Three months ended March 31	
	2015	2014
Source (use) of cash:		
Accounts receivable	\$ 12.4	\$ (18.1)
Prepaid expenses	1.2	0.4
Inventories	1.7	3.8
Accounts payable and accrued liabilities	(89.3)	55.9
Net changes in non-cash working capital	(74.0)	42.0
Changes relating to operating activities	(13.0)	45.1
Changes relating to investing activities	(64.6)	(1.8)
Reclass of long-term liability to accounts payable	2.0	—
Add: Other non-cash changes	1.6	(1.3)
	\$ (74.0)	\$ 42.0



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18. Accumulated Other Comprehensive Income ("AOCI")

	Foreign Currency Translation Adjustment	Designated Cash Flow Hedges, Net of Tax	Actuarial Loss, Net of Tax	Total
Balance at December 31, 2013	\$ (34.2)	\$ 0.1	\$ 1.4	\$ (32.7)
Reclassification to net income of gains on cash flow hedges	—	(2.1)	—	(2.1)
Gains on derivatives designated as cash flow hedges, net of tax	—	3.4	—	3.4
Actuarial loss, net of tax	—	—	(5.7)	(5.7)
Transfer of cumulative actuarial loss to deficit	—	—	4.3	4.3
Losses on foreign currency translation	(9.9)	—	—	(9.9)
Reclassification of cumulative foreign currency translation to loss from discontinued operations	44.1	—	—	44.1
Balance at December 31, 2014	\$ —	\$ 1.4	\$ —	\$ 1.4
Reclassification to net income of gains on cash flow hedges	—	(0.4)	—	(0.4)
Balance at March 31, 2015	\$ —	\$ 1.0	\$ —	\$ 1.0

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

	Three months ended March 31			
	After-tax		Pre-tax	
	2015	2014	2015	2014
(Gains) losses reclassified from OCL to revenues	\$ (0.4)	\$ 4.5	\$ (0.5)	\$ 6.2
Losses recognized in OCL	—	(11.8)	—	(16.2)
Total	\$ (0.4)	\$ (7.3)	\$ (0.5)	\$ (10.0)

The Company expects the \$1.0 million after-tax accumulated gain reported in AOCI (\$1.3 million pre-tax) related to the natural gas cash flow hedges to be released to net income within the next nine months.

19. Commitments

The following is a summary of Harvest's contractual obligations and estimated commitments as at March 31, 2015:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments ⁽¹⁾	\$ —	\$ 1,719.0	\$ 998.0	\$ —	\$ 2,717.0
Debt interest payments ^{(1) (2)}	84.7	184.0	66.8	—	335.5
BlackGold long-term liability	19.0	19.0	19.0	37.9	94.9
Operating leases	5.4	16.1	14.6	40.3	76.4
Firm processing commitments	19.2	38.7	31.7	80.6	170.2
Firm transportation agreements	24.4	62.1	49.6	73.5	209.6
Employee benefits ⁽³⁾	2.0	1.8	—	—	3.8
Decommissioning and environmental liabilities ⁽⁴⁾	38.4	55.5	43.0	1,290.7	1,427.6
Total	\$ 193.1	\$ 2,096.2	\$ 1,222.7	\$ 1,523.0	\$ 5,035.0

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at March 31, 2015 will be applicable to future interest payments.

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

(4) Represents the undiscounted obligation by period.

20. 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 at March 31, 2015, Harvest had drawn \$200 million from the loan agreement (December 31, 2014 - \$200 million). The loan amount was recorded at fair value on initial recognition by discounting the future cash payments at the rate of 7% which is considered the market rate applicable to the liability. As at March 31, 2015, the carrying value of the KNOC loan was \$191.7 million (December 31, 2014 - \$191.2 million). The difference between the fair value and the loan amount was recognized in contributed surplus. For the three months ended March 31, 2015, interest expense of \$3.4 million was recorded (2014 - \$1.8 million) and \$7.8 million of interest payable remained outstanding as at March 31, 2015 (December 31, 2014 - \$4.9 million).

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 March 31, 2015, Harvest's related party loan from ANKOR included \$215.3 million (December 31, 2014 - \$197.2 million) of principal and \$5.9 million (December 31, 2014 - \$3.1 million) of accrued interest. Interest expense was \$2.4 million for the three months ended March 31, 2015 (2014 - \$2.2 million).

On April 2, 2015, Harvest entered into an US\$171 million loan agreement with KNOC repayable within one year from the date of the first drawing, which was on April 10, 2015. As at May 14, 2015, Harvest had drawn US\$120 million under this loan agreement.

The related party loans are unsecured and the loan agreements contain no restrictive covenants.

b) Other related party transactions

	Transactions		Balance Outstanding			
	Three months ended		Accounts receivable as at		Accounts payable as at	
	March 31	March 31,	December 31,	March 31,	December 31,	
	2015	2014	2015	2014	2015	2014
G&A Expenses						
KNOC ⁽¹⁾	\$ (1.8)	\$ (1.1)	\$ 0.3	\$ 0.5	\$ 2.1	\$ 3.7
Finance costs						
KNOC ⁽²⁾	\$ 1.1	\$ 1.0	\$ —	\$ —	\$ 1.7	\$ 2.7

⁽¹⁾ Global Technology and Research Centre ("GTRC") is used as a training and research facility for KNOC. Amounts relate to the reimbursement from KNOC for general and administrative expenses incurred by the GTRC. Also included is Harvest's reimbursement to KNOC for secondee salaries paid by KNOC on behalf of Harvest.

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