



Full Year and Fourth Quarter Report 2017

For the full year and
three month periods
ended December 31, 2017



MANAGEMENT'S REPORT

In management's opinion, the accompanying consolidated financial statements of Harvest Operations Corp. (the "Company") have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Since a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 14, 2018. Management is responsible for the consistency, therewith, of all other financial and operating data presented in Management's Discussion and Analysis for the year ended December 31, 2017.

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

Under the supervision of our President and Chief Executive Officer and our Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have concluded that as of December 31, 2017, our internal controls over financial reporting were effective.

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

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

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

(Signed)

Jeff Tooth
President & Chief Executive Officer

(Signed)

Sungki Lee
Chief Financial Officer

Calgary, Alberta
February 14, 2018



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Directors of Harvest Operations Corp.

We have audited the accompanying consolidated financial statements of Harvest Operations Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive loss, consolidated statements of changes in shareholder's equity (deficiency) and the consolidated statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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



appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Harvest Operations Corp. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the IASB.

KPMG LLP

Chartered Professional Accountants

February 14, 2018
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets			
Accounts receivable	13	\$ 48.4	\$ 44.3
Prepaid expenses and other		6.4	7.0
Derivative contracts	13	—	1.1
		54.8	52.4
Non-current assets			
Deferred income tax asset	16	711.5	711.5
Exploration and evaluation assets	8	13.3	14.1
Property, plant and equipment	7	2,319.3	2,388.9
Investments in joint ventures	10	17.0	107.7
Goodwill	9	—	100.3
		3,061.1	3,322.5
Total assets		\$ 3,115.9	\$ 3,374.9
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 157.8	\$ 131.0
Taxes payable	16	3.7	3.7
Derivative contracts	13	5.1	—
Current portion of provisions	14	15.0	16.0
Current portion of long-term debt	11, 13	791.5	1,272.3
		973.1	1,423.0
Non-current liabilities			
Long-term debt	11, 13	1,538.7	1,106.8
Long-term liability	13, 15	85.6	66.0
Non-current provisions	14	690.9	675.1
		2,315.2	1,847.9
Total liabilities		\$ 3,288.3	\$ 3,270.9
Shareholder's equity (deficit)			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus	12, 22	11.3	5.5
Deficit		(4,777.0)	(4,494.8)
Total shareholder's equity (deficit)		(172.4)	104.0
Total liabilities and shareholder's equity (deficit)		\$ 3,115.9	\$ 3,374.9

Commitments [Note 22]

Subsequent Event [Note 13]

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

<i>(millions of Canadian dollars)</i>	Notes	Years ended December 31	
		2017	2016
Petroleum and natural gas sales		\$ 318.4	\$ 322.3
Royalties		(33.2)	(35.0)
Revenues		285.2	287.3
Expenses			
Operating	17	154.0	166.6
Transportation and marketing		12.3	11.0
General and administrative	17	39.1	53.3
Depletion, depreciation and amortization	7	188.3	289.7
Exploration and evaluation	8	0.1	19.9
Loss from joint ventures	10	84.9	43.8
Gains on disposition of assets	7	(1.3)	(35.2)
Finance costs	18	98.6	145.4
Derivative contract losses	13	43.0	5.2
Foreign exchange gain	19	(116.9)	(39.9)
Gain on senior notes exchange	11	—	(36.0)
Loss (gain) on onerous contract	14	(1.3)	10.7
Impairment	7, 9	66.6	1.0
Loss before income tax		(282.2)	(348.2)
Income tax recovery	16	—	—
Net loss and comprehensive loss		\$ (282.2)	\$ (348.2)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (DEFICIENCY)

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Total Shareholder's Equity (Deficiency)
As at December 31, 2015		\$ 3,860.8	\$ 10.5	\$ (4,146.6)	\$ (275.3)
Net loss		—	—	(348.2)	(348.2)
Shareholder cash contribution	21	—	5.3	—	5.3
Shareholder loan	21	732.5	(10.3)	—	722.2
As at December 31, 2016		\$ 4,593.3	\$ 5.5	\$ (4,494.8)	\$ 104.0
Net loss		—	—	(282.2)	(282.2)
Shareholder cash contribution	21	—	5.8	—	5.8
As at December 31, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ (172.4)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)		Year ended December 31	
	Notes	2017	2016
Cash provided by (used in)			
Operating Activities			
Net loss		\$ (282.2)	\$ (348.2)
Items not requiring cash			
Loss from joint ventures	10	84.9	43.8
Depletion, depreciation and amortization	7	188.3	289.7
Non-cash finance costs	14, 18	22.7	53.0
Unrealized loss on derivative contracts	13	31.9	3.6
Unrealized gain on foreign exchange	19	(72.5)	(23.8)
Non-cash exploration and evaluation costs	8	0.1	19.9
Gain on disposition of assets	7	(1.3)	(35.2)
Gain on senior notes exchange	11	—	(36.0)
Loss (gain) on onerous contract	14	(1.3)	10.7
Impairment	7, 9	66.6	1.0
Other non-cash items		(5.7)	6.9
Realized foreign exchange gain on senior notes repayment	20	(28.2)	—
Settlement of decommissioning and environmental remediation liabilities	14	(8.0)	(6.5)
Change in non-cash working capital	20	(0.5)	(12.2)
Cash from (used in) operating activities		\$ (5.2)	\$ (33.3)
Financing Activities			
Credit facility repayment, net	11	(698.5)	(42.1)
Issuance of senior notes, net of issue costs	11	600.0	—
Repayment of senior notes	11	(353.1)	—
Borrowings from term loan, net of issue costs	11	499.2	—
Senior notes exchange costs	11	—	(5.2)
Borrowings from related party loans	21	—	65.3
Capital contribution	21	5.8	5.3
Cash from (used in) financing activities		\$ 53.4	\$ 23.3
Investing Activities			
Additions to property, plant and equipment	7	(70.2)	(19.9)
Additions to exploration and evaluation assets	8	—	(1.0)
Property dispositions, net	7	0.8	74.3
Investment in joint ventures	10	(22.3)	(47.4)
Distributions received from joint ventures	10	27.8	16.7
Change in non-cash working capital	20	15.7	(12.7)
Cash from (used in) investing activities		\$ (48.2)	\$ 10.0
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 76.0	\$ 92.4

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

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

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. ("Harvest", "HOC" or the "Company") is an energy company in the business of the exploration, development, and production of crude oil, bitumen, natural gas and natural gas liquids in western Canada. Harvest has two reportable segments, Conventional and Oil Sands. For further information regarding these reportable segments, see note 6.

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

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved and authorized for issue by the Board of Directors on February 14, 2018.

Basis of Measurement

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

Functional and Presentation Currency

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

3. Changes in Accounting Policy**(a) New and amended accounting standards adopted**

There were no new or amended accounting standards or interpretations that had a significant impact on the consolidated financial statements during the year ended December 31, 2017.

(b) New standards and interpretation issued but not yet adopted

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. In April 2016, the IASB issued its final amendments that provide new examples and clarification on how the principles should be applied. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning January 1, 2018. Application of the standard is mandatory and early adoption is permitted. Harvest has substantially completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on Harvest's net income and financial position. Harvest will expand the disclosures in Q1 2018 in the notes to its financial statements as required by IFRS 15.

On July 24, 2014, the IASB issued IFRS 9 "Financial Instruments" to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2018. Harvest has determined that there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9.

In January 2016, the IASB issued IFRS 16 "Leases" to replace IAS 17 "Leases". IFRS 16 requires lessees to recognize most leases on the statement of financial position using a single recognition and measurement model. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also

applying IFRS 15. IFRS 16 will be applied by Harvest on January 1, 2019. Harvest is currently evaluating the impact on its consolidated financial statements.

4. Significant Accounting Policies

(a) Consolidation

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

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

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

Subsidiary	Principal activities	Country of incorporation	% Equity interest
Harvest Breeze Trust No. 1	Oil exploration and production	Canada	100
Harvest Breeze Trust No. 2	Oil exploration and production	Canada	100
Breeze Resources Partnership	Oil exploration and production	Canada	100
Hay River Partnership	Oil exploration and production	Canada	100

(b) Interests in Joint Arrangements

A joint arrangement is an arrangement in which two or more parties have joint control established by a contractual agreement. Joint control requires unanimous consent for decisions regarding the relevant activities of the arrangement. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

Interests in joint operations are recognized in the consolidated financial statements by including Harvest's share of assets, liabilities, revenues and expenses of the arrangement.

Interests in joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognized at cost, with the carrying value subsequently increased or decreased to reflect the Company's proportionate share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying value of the Company's investment. When necessary, adjustments are made to investee financial statements to align accounting policies of investees with those applied by the Company in its consolidated financial statements.

The carrying values of Harvest's equity accounted investments are reviewed at each reporting date to determine whether any indicators of impairment are present. If an indicator of impairment is identified, the recoverable amount of the investment is estimated. If the carrying value of the investment exceeds the estimated recoverable amount, an impairment charge is recognized.

Unrealized gains resulting from transactions with joint ventures are eliminated, to the extent of the Company's interest in the joint venture. For sales of products or services from the Company to its joint ventures, unrealized gains are eliminated against the carrying value of the investment.

(c) Revenue Recognition

Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recognized when significant risk and rewards of ownership have been transferred, which is considered to occur when title passes to customers and payment has either been received or collection is reasonably certain. Revenues are measured at the fair value of the consideration received or receivable.

(d) Property, Plant, and Equipment (“PP&E”) and Exploration and Evaluation (“E&E”) Assets

(i) Conventional and Oil sands

Exploration and evaluation expenditures

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

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

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

Development costs

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

Major capital maintenance projects such as well work-overs, major overhauls and turnarounds are capitalized but general maintenance and repair costs are charged against income. The costs of the day-to-day servicing of PP&E are recognized in net income as incurred.

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

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

Depletion, Depreciation and Amortization

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

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

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

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

(ii) Disposal of assets

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

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

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

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

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

(e) Capitalized Interest

Interest on major development projects is capitalized until the project is complete, ready for its intended use, or if development is suspended using the weighted-average interest rate on Harvest's general borrowings. In situations where Harvest borrows funds specifically to acquire a qualifying asset or project, interests on these funds are also capitalized. Capitalized interest is limited to the actual interest incurred.

(f) Business Combinations and Goodwill

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

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

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

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

operation and the portion of the CGU retained, unless the Company determines there is a better method of allocating the goodwill on disposition.

(g) Provisions

(i) General

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

(ii) Decommissioning Liabilities

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

(iii) Environmental Remediation Liabilities

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

(iv) Contingencies

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

(h) Income Taxes

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

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

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

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

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

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that future taxable profits will be available against which

the temporary difference can be utilized. Deferred tax assets, both recognized and unrecognized are reviewed at each reporting date and are adjusted to the extent that it is probable that the related tax benefit will be realized.

(i) Currency Translation

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

(j) Financial Instruments

Harvest recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. Financial liabilities are removed from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership.

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- **Fair value through profit or loss**
Financial assets and liabilities classified as held-for-trading or designated as at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to earnings.
- **Held-to-maturity investments, loans and receivables and other financial liabilities**
Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.
- **Available-for-sale financial assets**
Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in the statements of income. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is a significant or prolonged decrease in the value of the asset.

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

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

(k) Hedges

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

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

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

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

(l) Leases

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

(m) Fair Value Measurement

Harvest measures derivatives at fair value at each balance sheet date and, for the purposes of business combinations and impairment testing, uses FVLCD to determine the fair value of some of its non-financial assets.

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

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

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

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

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and

in any future periods affected. Harvest has identified the following areas where significant estimates and judgments are required. Further information on each of these areas and how they impact various accounting policies are described below and also in relevant notes to the consolidated financial statements. Changes in estimates are accounted for prospectively.

(a) Joint arrangements (note 4(b), 10 and 14)

Judgment is required to determine whether or not Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 4 for more details.

In addition, judgment is required in determining whether joint arrangement structured through a separate vehicle is a joint operation or joint venture and involves determining whether the legal form and contractual arrangements give the Company direct rights to the assets and obligations for the liabilities. Other facts and circumstances are also assessed by management, including but not limited to, the Company's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement. This often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint venture or joint operation may materially impact the accounting.

On April 23, 2014, Harvest entered into two joint arrangements with KERR Canada Co. Ltd. ("KERR"): Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") (also see note 10). Unanimous consent must be obtained from the shareholders for decisions about relevant activities that impact the returns on investment. Such activities include but are not limited to the approval of the overall capital program and budget. Based on management's assessment, Harvest concluded that both joint arrangements are joint ventures as neither KERR nor Harvest has a direct interest in the underlying assets or liabilities. These joint ventures have been recognized using the equity method of accounting. However, based on the terms of the agreement, which provide for differing proportions of earnings based on ownership percentages that are not representative of the economic substance, Harvest cannot simply apply its percentage ownership to pick up the net income from these joint ventures. Therefore, Harvest applies a hypothetical liquidation at book value ("HLBV") method to calculate its equity share of net income for each reporting period. HLBV takes a balance sheet approach in calculating the earnings Harvest should recognize based on the change in Harvest's economic interest in the net assets in the partnerships under the provisions of the joint venture agreements in a liquidation scenario.

(b) Reserves (note 4(d), 7 and 9)

The provision for depletion and depreciation of Conventional assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Conventional and Oil Sand's decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to the Conventional and Oil Sands segments may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets.

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

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

As the economic assumptions used may change, such changes may impact the reported financial position and results, which include E&E, PP&E, goodwill, DD&A, provisions for decommissioning liabilities and deferred tax assets. On an annual basis, the Company engages qualified, independent reserves evaluators to evaluate Harvest's reserves data. Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production ("UOP") calculation and the matching of capitalized costs with the benefit of production. The calculation of the UOP rate of DD&A will be impacted to the extent that actual production in the future is different from current forecasted production based on total proved reserves or future development cost estimate changes.

(c) Impairment of long-lived assets (note 4(d), 7 and 9)

Long-lived assets (goodwill and PP&E) are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to significant judgment; product type, internal operational teams, geology and geography were key factors considered when grouping Harvest's oil and gas assets into the CGUs. During 2016, Harvest re-aligned certain CGUs with its current asset base as a result of ongoing divestiture activity and corporate re-organization.

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. The determination of whether such indicators exist requires significant judgment.

E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment and directly impact the timing and amount of impairment. These assumptions may change as new information become available. If, after E&E expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in the consolidated statements of comprehensive loss in the period when the new information becomes available.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCD. To determine the recoverable amounts under VIU, Harvest uses reserve estimates for both the Conventional and Oil Sands operating segments. In determining the recoverable amount the estimates of reserves, future commodity prices, discount rates, operating expenses and future development costs require significant judgments. FVLCD is determined using judgments, see note 5(f) below for further discussion.

(d) Provisions (note 4(h) and 14)

In the determination of the decommissioning liability provision, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E. The provisions at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(e) Income taxes (note 4(i) and 16)

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

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, capital expenditures, general and administrative expenses and finance costs) and the judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(f) Fair value measurements (note 4(d), 4(o), 7, 9 and 13)

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

6. Segment Information

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

- Conventional, which consists of exploration, development, production and subsequent sale of petroleum, natural gas and natural gas liquids in western Canada.
- Oil Sands, which is the BlackGold oil sands project located near Conklin, Alberta. Phase 1 of the project is designed to produce 10,000 barrels of bitumen per day. Harvest recommenced construction activities in the fourth quarter of 2017.

	Year ended December 31					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
Petroleum and natural gas sales	\$ 318.4	\$ 322.3	\$ —	\$ —	\$ 318.4	\$ 322.3
Royalties	(33.2)	(35.0)	—	—	(33.2)	(35.0)
Revenues	285.2	287.3	—	—	285.2	287.3
Expenses						
Operating	143.5	155.9	10.5	10.7	154.0	166.6
Transportation and marketing	12.3	11.0	—	—	12.3	11.0
General and administrative	37.3	51.1	1.8	2.2	39.1	53.3
Depletion, depreciation and amortization	188.0	289.1	0.3	0.6	188.3	289.7
Exploration and evaluation	0.1	19.9	—	—	0.1	19.9
Gains on disposition of assets	(1.3)	(35.2)	—	—	(1.3)	(35.2)
Derivative contract losses	26.7	6.3	—	—	26.7	6.3
Impairment	66.6	1.0	—	—	66.6	1.0
Loss (gain) on onerous contract	(1.3)	10.7	—	—	(1.3)	10.7
Loss from joint ventures	84.9	43.8	—	—	84.9	43.8
Operating/Pre-operating loss	\$ (271.6)	\$ (266.3)	\$ (12.6)	\$ (13.5)	\$ (284.2)	\$ (279.8)
Finance costs					98.6	145.4
Foreign exchange gains					(116.9)	(39.9)
Derivative contract losses ⁽¹⁾					16.3	(1.1)
Gain on senior notes exchange					—	(36.0)
Net loss	\$ (282.2)	\$ (348.2)				

⁽¹⁾ Relates to realized and unrealized losses on foreign exchange swaps. See note 13 – Financial Instruments.

	Year ended December 31					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
Capital Additions						
Additions to PP&E	\$ 65.6	\$ 18.0	\$ 4.6	\$ 1.9	\$ 70.2	\$ 19.9
Additions to E&E	—	1.0	—	—	—	1.0
PP&E & E&E dispositions, net of acquisitions	(0.4)	(170.2)	—	—	(0.4)	(170.2)
Net capital additions (disposals)	\$ 65.2	\$ (151.2)	\$ 4.6	\$ 1.9	\$ 69.8	\$ (149.3)

	Investments in Joint Ventures	PP&E	E&E	Goodwill	Total Assets
December 31, 2016					
Conventional	\$ 107.7	\$ 1,380.1	\$ 14.1	\$ 100.3	\$ 2,366.0
Oil Sands	—	1,008.8	—	—	1,008.9
Total	\$ 107.7	\$ 2,388.9	\$ 14.1	\$ 100.3	\$ 3,374.9
December 31, 2017					
Conventional	\$ 17.0	\$ 1,305.4	\$ 13.3	\$ —	\$ 2,102.0
Oil Sands	—	1,013.9	—	—	1,013.9
Total	\$ 17.0	\$ 2,319.3	\$ 13.3	\$ —	\$ 3,115.9

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

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2015	\$ 5,342.3	\$ 1,501.6	\$ 6,843.9
Additions	18.0	1.9	19.9
Disposals, net of acquisitions	(410.5)	—	(410.5)
Change in decommissioning liabilities	(50.1)	(2.6)	(52.7)
As at December 31, 2016	\$ 4,899.7	\$ 1,500.9	\$ 6,400.6
Additions	65.6	4.6	70.2
Transfers of E&E	0.7	—	0.7
Disposals, net of acquisitions	(0.4)	—	(0.4)
Change in decommissioning liabilities	13.7	0.8	14.5
As at December 31, 2017	\$ 4,979.3	\$ 1,506.3	\$ 6,485.6

Accumulated depletion, depreciation, amortization and impairment losses:			
As at December 31, 2015	\$ 3,506.8	\$ 491.5	\$ 3,998.3
Depreciation, depletion and amortization	289.1	0.6	289.7
Disposals	(240.3)	—	(240.3)
Impairment reversal	(36.0)	—	(36.0)
As at December 31, 2016	\$ 3,519.6	\$ 492.1	\$ 4,011.7
Depreciation, depletion and amortization	188.0	0.3	188.3
Impairment reversal	(33.7)	—	(33.7)
As at December 31, 2017	\$ 3,673.9	\$ 492.4	\$ 4,166.3

Net Book Value:

As at December 31, 2016	\$ 1,380.1	\$ 1,008.8	\$ 2,388.9
As at December 31, 2017	\$ 1,305.4	\$ 1,013.9	\$ 2,319.3

General and administrative costs directly attributable to PP&E addition activities of \$4.4 million have been capitalized during the year ended December 31, 2017 (2016 - \$2.4 million). No borrowing costs relating to the development of Oil Sands assets have been capitalized within PP&E during the years ended December 31, 2017 and 2016.

For the year ended December 31, 2017, Harvest evaluated its conventional assets for indicators of potential impairment or related reversal. A decrease in commodity pricing used by our reserve evaluators was the primary trigger that indicated further testing was necessary.

During the year ended December 31, 2017, an impairment expense of \$28.4 million was recorded for the West Gas Conventional segment CGU. The recoverable amount for the West Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate of 12% was used to determine the recoverable amount of \$83.0 million for the CGU impaired during the year ended December 31, 2017.

Changes in timing and amount of cash flows from the reserve report were deemed to be the main triggers indicating impairment reversals. Previously recognized impairment charge on the Conventional assets was reversed for the North Oil CGU and the South Gas CGU in the amount of \$22.6 million and \$39.5 million, respectively. The recoverable amounts for the CGUs were estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator.

During 2016, Harvest reviewed and adjusted its CGUs as a result of the Company's ongoing divestiture activity and corporate re-organization. CGU's were aggregated based on proximity of operations, product composition, cash flows and management monitoring.

Subsequent to December 31, 2016 an indicative bid was received from an arm's length party to purchase certain oil and gas assets in Southern Alberta. The assets included in the bid were in the South Oil and South Gas CGUs. The estimated proceeds, which is the recoverable amount based on the FVLCD (level 2 fair value input) of the assets included in the proposed transaction was estimated at \$1.3 million. This triggered an impairment reversal during the year ended December 31, 2016, of \$38.8 million to PP&E in Harvest's Conventional segment, which was been included in Impairment, net of reversal line in the statement of comprehensive loss.

At December 31, 2017, the Oil Sands assets of \$1.0 billion (December 31, 2016 – \$1.0 billion) were excluded from the asset base subject to depreciation, depletion and amortization. In early 2015, the Oil Sands central processing facility was substantially completed, however, no depletion expense was incurred for years ended December 31, 2017 and 2016, as Harvest uses the unit-of-production method and the Oil Sands assets currently have no production. Changes in timing and amount of cash flows from the reserve report were deemed to be the main triggers behind running an impairment test. During the year ended December 31, 2017, \$nil impairment (after-tax discount rate of 9.3% for proved plus probable reserves and 10.9% for possible reserves) was recorded against the Oil Sands CGU. During the year ended December 31, 2016, \$nil impairment (after-tax discount rate of 9.5% for proved plus probable reserves and 12% for possible reserves) was recorded against the Oil Sands CGU.

During the year ended December 31, 2016, Harvest recognized an impairment expense of \$2.8 million against leasehold improvements and furniture and fixtures in its Head Office, relating to an operating lease that was classified as an onerous contract. See note 14 – Provisions.

The following forecast commodity prices were used at December 31, 2017:

Year	Edmonton Light				
	WTI Crude Oil (\$US/bbl)	Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	US\$/Cdn\$ Exchange Rate
2018	57.50	68.60	50.61	2.43	0.7900
2019	60.90	72.02	56.59	2.77	0.8000
2020	64.13	74.48	60.86	3.19	0.8167
2021	68.33	78.60	64.56	3.48	0.8283
2022	71.19	80.84	66.63	3.67	0.8400
2023	73.15	82.83	68.49	3.76	0.8433
2024	75.16	85.17	70.63	3.85	0.8433
2025	77.17	87.53	72.79	3.93	0.8433
2026	79.01	89.66	74.72	4.02	0.8433
2027	80.60	91.49	76.31	4.10	0.8433
2028	82.20	93.31	77.84	4.19	0.8433
2029	83.83	95.15	79.38	4.28	0.8433
2030	85.52	97.09	80.99	4.37	0.8433
2031	87.22	99.02	82.61	4.45	0.8433
2032	88.98	101.01	84.25	4.53	0.8433
Thereafter ⁽¹⁾	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.8433

The following forecast commodity prices were used at December 31, 2016:

Year	Edmonton Light				
	WTI Crude Oil (\$US/bbl)	Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	US\$/Cdn\$ Exchange Rate
2017	55.00	68.24	53.38	3.43	0.7600
2018	60.90	73.16	58.95	3.17	0.7900
2019	65.47	76.25	62.70	3.26	0.8167
2020	69.13	79.37	65.48	3.67	0.8333
2021	73.21	82.56	68.39	3.86	0.8500
2022	75.19	84.85	70.49	3.97	0.8500
2023	77.19	87.15	72.58	4.11	0.8500
2024	79.23	89.50	74.73	4.23	0.8500
2025	81.28	91.89	76.88	4.31	0.8500
2026	83.39	94.01	79.08	4.41	0.8500
2027	85.03	95.85	80.64	4.51	0.8500
Thereafter ⁽¹⁾	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.8500

During the year ended December 31, 2017, Harvest disposed of non-core assets for net proceeds of \$0.8 million and recognized gains on disposals of \$1.3 million relating to the de-recognition of PP&E and decommissioning liabilities. Harvest closed the disposition of its oil and gas assets in Saskatchewan for net proceeds of \$61.6 million on June 30, 2016 and the disposition of its oil and gas assets in South Alberta for net proceeds of \$6.7 million on August 16, 2016. Together with other insignificant dispositions of Exploration and Production assets and total net proceeds of \$74.3 million, Harvest recognized a gain of \$35.2 million for the year ended December 31, 2016, relating to the de-recognition of PP&E, E&E, goodwill and decommissioning and environmental liabilities.

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

As at December 31, 2015	\$	33.0
Additions		1.0
Impairment		(19.9)
As at December 31, 2016	\$	14.1
Transfer to PP&E		(0.7)
Impairment		(0.1)
As at December 31, 2017	\$	13.3

During the year ended December 31, 2017, \$0.1 million (2016 - \$19.9 million), of E&E costs were impaired as they were no longer deemed to be technically feasible or commercially viable to pursue. There were no pre-licensing costs incurred for the years ended December 31, 2017 and 2016.

9. Goodwill

As at December 31, 2015	\$	149.0
Disposals		(11.7)
Impairment		(37.0)
As at December 31, 2016	\$	100.3
Impairment		(100.3)
As at December 31, 2017	\$	—

Goodwill has been allocated to the Conventional operating segment. In assessing whether goodwill has been impaired, the carrying amount of the operating segment (including goodwill) is compared with the recoverable amount of the operating segment. The estimated recoverable amount of the segment is determined based on its FVLCD.

Market participants generally apply the market multiple enterprise value per barrel of proved and probable reserves ("EV/2P") when estimating the fair value of an oil and gas company. As such, Harvest determined the fair value of its Conventional segment by applying the observed EV/2P multiple of comparable public companies to its proved and

probable reserves (Level 3 fair value input). Harvest's proved and probable reserves were estimated by an independent qualified reserves evaluator and are subject to significant judgment.

At December 31, 2017, the impairment test of goodwill concluded that the carrying amount exceeded the estimated recoverable amount. An impairment loss of \$100.3 million was recorded.

At December 31, 2016, the EV/2P multiples ranged from \$5.60 to \$17.61 per barrel of proved and probable reserves for a group of comparable companies of similar size, operating metrics and production profile. Harvest used an average EV/2P multiple of \$6.00 per barrel of proved and probable reserves when determining the implied fair value of Harvest's Conventional segment. As at December 31, 2016, the carrying value exceeded the recoverable amount by \$37.0 million, as such, goodwill impairment was recorded.

10. Investment in Joint Ventures

On April 23, 2014, Harvest entered into the DBP and HKMS joint ventures with KERR. The principal place of operations for both DBP and HKMS is in Canada. DBP was established for the purposes of exploring, developing and producing from oil and gas properties in the Deep Basin area in Northwest Alberta.

Amounts contributed by KERR were 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 development program, each partner is entitled to participate in and fund the additional work programs, however to the extent only one partner funds, its partnership interest will be increased and the other partner's interest will be diluted proportionately. Harvest will be obligated to fund the balance of the program to the extent of its share of partnership distributions received.

The preferred partnership units issued to KERR at inception provides 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 specified internal rate of return. 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 (noted below), royalties, operating costs and capital expenditures specific to the DBP. As at December 31, 2017, the fair value of the top-up obligation was estimated as \$33.4 million (December 31, 2016 - \$6.7 million), using a discount rate of 12% (December 31, 2016 - 10%). The increase in the top-up obligation from the previous year is related primarily to a decrease in forecasted commodity prices as shown in the table below. This top-up obligation has been included in the derivative contract losses in the statement of comprehensive loss and in the long-term liability at December 31, 2017 (see note 15 - Long-Term Liability). Once KERR achieves the minimum after-tax internal rate of return on its investment, Harvest is entitled to increased return on its investment.

The following forecast commodity prices were used at December 31, 2017:

Year	Natural Gas Liquids (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)
2018	46.45	2.43
2019	50.96	2.77
2020	54.61	3.19
2021	58.58	3.48
2022	62.42	3.67
2023	64.42	3.76
2024	66.06	3.85
2025	67.78	3.93
2026	69.54	4.02
2027	70.95	4.10
Thereafter ⁽¹⁾	+2.0%/year	+2.0%/year

(1) Represents the average escalation percentage in each year after 2027 to the end of reserve life

The following forecast commodity prices were used at December 31, 2016:

Year	Natural Gas Liquids (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)
2017	49.82	3.43
2018	53.49	3.17
2019	56.22	3.26
2020	58.24	3.67
2021	60.97	3.86
2022	63.10	3.97
2023	65.36	4.11
2024	67.43	4.23
2025	69.71	4.31
2026	71.46	4.41
Thereafter ⁽¹⁾	+2.0%/year	+2.0%/year

(1) Represents the average escalation percentage in each year after 2026 to the end of reserve life

HKMS was formed for the purposes of constructing and operating a gas processing facility, which is now primarily used to process the gas produced from the properties owned by the DBP. A gas processing agreement was entered by the two partnerships which provides HKMS with a minimum guaranteed return. On the earlier of 10.5 years after the formation of HKMS or when KERR achieves a specified internal rate of return, Harvest will have the right but not the obligation to purchase all of KERR's interest in HKMS for nominal consideration.

	December 31, 2017	Ownership Interest	December 31, 2016	Ownership Interest
DBP	\$ (39.4)	82.59%	\$ 45.0	82.32%
HKMS	56.4	70.47%	62.7	70.23%
Investments in joint ventures	\$ 17.0		\$ 107.7	

	DBP	HKMS	Total
As at December 31, 2015	\$ 50.5	\$ 69.0	\$ 119.5
Additional investments	47.7	1.0	48.7
Share of income (losses)	(51.6)	7.8	(43.8)
Distributions	(1.6)	(15.1)	(16.7)
As at December 31, 2016	\$ 45.0	\$ 62.7	\$ 107.7
Additional investments	21.5	0.8	22.3
Share of income (losses)	(94.8)	9.9	(84.9)
Distributions	(11.1)	(17.0)	(28.1)
As at December 31, 2017	\$ (39.4)	\$ 56.4	\$ 17.0

As KERR's ownership interest in DBP is considered a liability and not an equity interest, Harvest's initial unrecognized dilution gain on the transaction of approximately \$91.5 million will be recognized over 10.5 years based on KERR's interest being converted to equity as distributions are made to KERR during the term. For the years ended December 31, 2017 and 2016, Harvest recognized a dilution gain of \$nil.

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2017		December 31, 2016	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ 0.1	\$ —	\$ 0.1	\$ —
Other current assets	22.6	14.3	25.5	14.4
Total current assets	\$ 22.7	\$ 14.3	\$ 25.6	\$ 14.4
Non-current assets	94.2	96.1	184.9	98.4
Total assets ⁽¹⁾	\$ 116.9	\$ 110.4	\$ 210.5	\$ 112.8
Current liabilities	\$ 17.4	\$ 2.4	\$ 27.3	\$ 1.2
Non-current financial liabilities	136.0	102.3	135.6	107.1
Other non-current liabilities	5.1	4.6	4.9	4.4
Total liabilities ⁽¹⁾	\$ 158.5	\$ 109.3	\$ 167.8	\$ 112.7
Net assets ⁽¹⁾	\$ (41.6)	\$ 1.1	\$ 42.7	\$ 0.1

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

	Year ended December 31			
	2017		2016	
	DBP	HKMS	DBP	HKMS
Revenues	\$ 51.0	\$ 27.7	\$ 37.2	\$ 24.6
Impairment	(59.6)	—	(1.4)	—
Depletion, depreciation and amortization	(42.7)	(3.4)	(40.7)	(3.5)
Operating expenses and other	(40.8)	(4.2)	(34.8)	(1.5)
(Gain) loss on disposition of assets	0.1	—	(9.8)	—
Finance costs	(2.8)	(19.1)	(2.8)	(19.6)
Net income (loss) ⁽¹⁾	\$ (94.8)	\$ 1.0	\$ (52.3)	\$ —

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

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at December 31, 2017:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 156.0	\$ 156.0
Firm processing commitment	23.2	46.4	46.4	30.9	146.9
Decommissioning and environmental liabilities ⁽¹⁾	—	0.1	—	12.9	13.0
Total	\$ 23.2	\$ 46.5	\$ 46.4	\$ 199.8	\$ 315.9

(1) Represents the undiscounted obligation by period.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at December 31, 2017:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 13.2	\$ 13.2
Total	\$ —	\$ —	\$ —	\$ 13.2	\$ 13.2

(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 year

ended December 31, 2017, Harvest charged DBP a marketing fee of \$0.7 million (2016 - \$0.4 million) and general and administrative expenses of \$1.3 million (2016 - \$1.0 million). As at December 31, 2017, \$14.4 million remains outstanding to DBP from Harvest (December 31, 2016 - \$14.2 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.3 million for the year ended December 31, 2017 (2016 - \$0.2). As at December 31, 2017, \$0.5 million remains outstanding to HKMS from Harvest (December 31, 2016 - \$2.1 million).

11. Long-Term Debt

	December 31, 2017	December 31, 2016
Credit facility	\$ 189.7	\$ 892.6
Term loan	499.5	-
6 $\frac{1}{8}$ % senior notes due 2017 (US\$282.5 million)	-	379.7
2 $\frac{1}{8}$ % senior notes due 2018 (US\$630 million)	791.5	844.2
2 $\frac{1}{8}$ % senior notes due 2021 (US\$195.8 million)	245.9	262.6
3% senior notes due 2022 (US\$485 million)	603.6	-
Long-term debt outstanding	\$ 2,330.2	\$ 2,379.1
Less current portion	(791.5)	(1,272.3)
Long-term debt	\$ 1,538.7	\$ 1,106.8

a) 6 $\frac{1}{8}$ % and 2 $\frac{1}{8}$ % Senior Notes

On October 4, 2010, Harvest issued US\$500 million of 6 $\frac{1}{8}$ % senior notes for net cash proceeds of US\$484.6 million. The senior notes were unsecured with interest payable semi-annually on April 1 and October 1 and matured on October 1, 2017. The senior notes were unconditionally guaranteed by Harvest and all of its wholly-owned subsidiaries that guarantee the revolving credit facility and every future restricted subsidiary that guarantees certain debt. The notes were redeemable at a redemption price equal to 100% of the principal amount of the notes plus a make-whole redemption premium, plus accrued and unpaid interest to the redemption date.

There were covenants restricting, among other things, the sale of assets and the incurrence of additional indebtedness if such issuance would result in an interest coverage ratio, as defined, of less than 2.0 to 1. Notwithstanding the interest coverage ratio limitation, the incurrence of additional indebtedness may be permitted under certain incurrence tests. One provision allowed Harvest's incurrence of indebtedness under the credit facility or other future bank debt in an aggregate principal amount not to exceed the greater of \$1.0 billion and 15% of total assets. In addition, the covenants of the senior notes restricted the amount of dividends Harvest could pay to shareholders; no dividends have been paid during the years ended December 31, 2017 and 2016.

On June 16, 2016 Harvest completed the partial exchange of its 6 $\frac{1}{8}$ % senior notes due 2017 for new 2 $\frac{1}{8}$ % senior notes due 2021, at an exchange ratio of US\$900 principal amount of the new 2 $\frac{1}{8}$ % senior notes for each US\$1,000 principal amount of the old 6 $\frac{1}{8}$ % senior notes. US\$217.5 million of the old 6 $\frac{1}{8}$ % senior notes were exchanged for US\$195.8 million new 2 $\frac{1}{8}$ % senior notes. The extinguishment of the old 6 $\frac{1}{8}$ % senior notes resulted in a net gain of \$36.0 million, after the deduction of \$5.2 million of related costs. At December 31, 2016, the remaining 6 $\frac{1}{8}$ % senior notes were classified as a current liability and on October 2, 2017 Harvest repaid the fully matured 6 $\frac{1}{8}$ % senior notes.

The new 2 $\frac{1}{8}$ % senior notes are unsecured and mature on April 14, 2021, with interest payable semi-annually on April 14 and October 14 of each year. They are unconditionally and irrevocably guaranteed by Harvest's parent company, KNOC. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually on April 14 and October 14 of each year. See note 21 – Related Party Transactions.

b) 2 $\frac{1}{8}$ % Senior Notes

On May 14, 2013, Harvest issued US\$630 million senior unsecured notes due May 14, 2018 with a coupon rate of 2 $\frac{1}{8}$ % for net proceeds of US\$626.1 million. Interest on the 2 $\frac{1}{8}$ % senior notes is paid semi-annually on May 14 and November 14 of each year.

The senior notes are unconditionally and irrevocably guaranteed by Harvest's parent company KNOC. A guarantee fee of 0.52% per annum of the principal balance is payable to KNOC semi-annually on May 14 and November 14 of each year. See note 21 - Related Party Transactions. At December 31, 2017 the senior notes were classified as a current liability.

c) 3% Senior Notes

On September 21, 2017, Harvest issued US\$285 million 3% senior notes for net proceeds of US\$283.2 million. On November 6, 2017, Harvest issued an additional US\$200 million of 3% senior notes for net proceeds of US\$198.5 million. The 3% senior notes are unsecured and mature on September 21, 2022, with interest payable semi-annually on March 21 and September 21 of each year. They are unconditionally and irrevocably guaranteed by KNOC. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually on March 21 and September 21 of each year. Also see note 21 – Related Party Transactions. Proceeds from these notes were used to re-pay the 6¼% senior notes that matured on October 2, 2017.

d) Credit Facility and Term Loan

On July 15, 2015 Harvest secured a \$60 million commitment from a new lender that increased the borrowing capacity of the \$940 million revolving credit facility to \$1 billion, maturing on April 30, 2017. 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. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually. Also see note 21 - Related Party Transactions.

On February 24, 2017, Harvest replaced its \$1 billion revolving credit facility due April 30, 2017, with a new three year \$500 million revolving credit facility with a syndicate of banks. The credit facility continues to be guaranteed by KNOC up to \$500 million and is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries. A guarantee fee of 0.37% per annum payable semi-annually on the principal balance is payable to KNOC. Harvest continues to pay a floating interest rate based on a margin pricing grid based on the credit ratings of KNOC. Based on KNOC's current credit ratings, the interest rates are Canadian Dollar Offered Rate plus 90 basis points on Canadian dollar drawn balances and LIBOR plus 90 basis points on US dollar drawn balances. The credit facility contains no financial covenants. The most restrictive limitations of Harvest's credit facility include no financial assistance and/or capital contributions to parties other than Harvest or its restricted subsidiaries, a limitation on conducting business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to the shareholder in certain circumstances such as an event of default. For the year ended December 31, 2017, interest charges on the credit facility borrowings aggregated to \$7.9 million (2016 - \$14.2 million), reflecting an effective interest rate of 1.7% (2016 – 1.6%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. See note 13 – Financial Instruments.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allowed Harvest to borrow \$500 million through a three year term loan, at a fixed rate of 2.27% per annum. Interest is paid semi-annually in February and August and the loan matures on February 24, 2020. This term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 0.37% per annum payable semi-annually on the principal balance is payable to KNOC. On February 24, 2017 the loan was fully drawn. Proceeds from this term loan were used to partially re-pay the credit facility.

12. Shareholder's Capital & Capital Structure

Harvest considers its capital structure to be its credit facility, term loan, senior notes and shareholder's equity (deficit).

	December 31, 2017	December 31, 2016
Credit facility ⁽¹⁾⁽²⁾	\$ 190.6	\$ 893.5
Term Loan ⁽¹⁾	500.0	—
6¼% senior notes (US\$282.5 million) ⁽¹⁾⁽³⁾	—	379.3
2½% senior notes (US\$630 million) ⁽¹⁾⁽³⁾	792.0	845.9
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽³⁾	246.1	262.9
3% senior notes (US\$485 million) ⁽¹⁾⁽³⁾	609.7	—
	\$ 2,338.4	\$ 2,381.6
Shareholder's equity (deficit)	(172.4)	104.0
	\$ 2,166.0	\$ 2,485.6

(1) Excludes capitalized financing fees.

(2) Excludes letters of credit issued in the amount of \$14.9 million at December 31, 2017 (December 31, 2016 - \$9.9 million).

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

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future operating and capital activities. Harvest prepares annual operational and capital budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices,

production levels, the success of the capital expenditures program and other general industry conditions. Harvest monitors its capital structure and makes adjustments according to market conditions to remain flexible while meeting these objectives. Accordingly, Harvest may adjust its capital spending programs, issue equity, issue new debt or repay existing debt.

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

Harvest's authorized capital consists of an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series. Opening share balance as of January 1, 2016 was 386,078,649. During 2016, 72,687,818 common shares were issued to KNOC to settle the related party loans, resulting in a total of 458,766,467 common shares outstanding at December 31, 2017 and 2016. See note 21 – Related Party Transactions.

13. Financial Instruments

a) Fair Values

Financial instruments of Harvest consist of accounts receivable, accounts payable and accrued liabilities, borrowings under the credit facility, derivative contracts, senior notes, related party loans, term loan and long term liability. Cash and derivative contracts are the only financial instruments that are measured at fair value on a recurring basis. Harvest classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

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

At December 31, 2017, all financial instruments are level 2, except for the 2½% and 3% senior notes, which are level 1 and \$33.4 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. As at December 31, 2017 and 2016, the 2½% senior notes were classified as level 1, however, during the year ended December 31, 2017 due to the infrequency and volume of trades the 2½% senior notes have been considered to be level 2. The 3% senior notes are classified as level 1 due to frequency and volume of trades. There were no other transfers during the year ended December 31, 2017. All of the senior notes are traded on the Singapore Stock Exchange. Also see note 10 – Investment in Joint Ventures and note 15 – Long-Term Liability.

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
<u>Held for Trading</u>				
Derivative contracts	\$ —	\$ —	\$ 1.1	\$ 1.1
Total Financial Assets	\$ —	\$ —	\$ 1.1	\$ 1.1
Financial Liabilities				
<u>Held for Trading</u>				
Derivative contracts	\$ 5.1	\$ 5.1	\$ —	\$ —
Long-term liability	33.4	33.4	6.7	6.7
<u>Measured at Amortized Cost</u>				
Credit facility	189.7	190.6	892.6	893.5
Term loan	499.5	500.0	—	—
6½% senior notes	-	-	379.7	379.3
2½% senior notes	791.5	791.2	844.2	847.1
2½% senior notes	245.9	238.4	262.6	255.6
3% senior notes	603.6	603.0	—	—
Long-term liability	41.7	34.9	48.4	41.6
Total Financial Liabilities	\$ 2,410.4	\$ 2,396.6	\$ 2,434.2	\$ 2,423.8

Non-derivative financial instruments

The credit facility bears a floating market rate, thus, the fair value approximates the carrying value (excluding deferred financing charges). The carrying value of the credit facility includes \$0.9 million of deferred financing charges at December 31, 2017 (December 31, 2016 – \$0.8 million). See note 11 – Long Term Debt.

The fair value of the 2½% and 3% senior notes was based on the quoted market price of the notes on the Singapore Exchange as at December 31, 2017 (Level 1 fair value input), which includes the benefit of the guarantee offered by KNOC. The fair value of the 2½% senior notes was based on the average of the bid price (Level 2 fair value input).

The fair value of the long-term liability measured at amortized cost is estimated by discounting the future interest and principal payments using the current market interest rates of instruments with similar terms. At December 31, 2017, the rate used in determining the fair value of the long-term liability was 12% (December 31, 2016 – 10%).

Derivative financial instruments

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

See note 10 – Investment in Joint Ventures for the fair value estimation of the top-up obligation portion of the long-term liability.

The following is a summary of Harvest's derivative contracts outstanding at December 31, 2017:

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of liability
US\$147 million	Foreign exchange swap	January 2018	1.29 Cdn/US	\$ (5.1)
				\$ (5.1)

b) Financial Assets and Liabilities Subject to Offsetting

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2017 and 2016, and shows in the "net" column what the net impact would be on Harvest's statement of financial position if all set-off rights were exercised.

	Amounts offset						
	Gross assets (liabilities)	Gross assets (liabilities) offset	Net amount presented	Related financial instruments that are not offset		Net	
December 31, 2017							
Financial assets							
Account receivable ⁽¹⁾	\$ 0.4	\$ (0.6)	\$ (0.2)	\$ —	\$	(0.2)	
	\$ 0.4	\$ (0.6)	\$ (0.2)	\$ —	\$	(0.2)	
Financial Liabilities							
Account payable and accrued liabilities ⁽¹⁾	\$ (0.6)	\$ 0.6	\$ —	\$ —	\$	—	
Risk management contracts ⁽²⁾	(5.1)	—	(5.1)	—		(5.1)	
	\$ (5.7)	\$ 0.6	\$ (5.1)	\$ —	\$	(5.1)	
December 31, 2016							
Financial assets							
Account receivable ⁽¹⁾	\$ 1.6	\$ (0.5)	\$ 1.1	\$ —	\$	1.1	
Risk management contracts ⁽²⁾	1.1	—	1.1	—		1.1	
	\$ 2.7	\$ (0.5)	\$ 2.2	\$ —	\$	2.2	
Financial Liabilities							
Account payable and accrued liabilities ⁽¹⁾	\$ (0.5)	\$ 0.5	\$ —	\$ —	\$	—	
	\$ (0.5)	\$ 0.5	\$ —	\$ —	\$	—	

(1) Various master netting agreements with counterparties that allow net settlement of payments in the normal course of business.

(2) Harvest entered into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is settled for all transactions. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position as Harvest does not have currently enforceable right to offset recognized amounts because the rights to offset is enforceable only on the occurrence of future events such as a default on the bank loan or other credit events.

c) Risk Exposure

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

Derivative Contracts

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

included in petroleum and natural gas sales. The ineffective portion of the unrealized and realized gains and losses are recognized in the consolidated statement of comprehensive loss. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the year ended December 31, 2017 was lowered to 1.6% (2016 – 1.5%). Also see note 11 – Long Term Debt for effective interest rate before the effect of these swaps.

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

	Year ended December					
	2017			2016		
	Realized losses	Unrealized losses (gains)	Total	Realized losses	Unrealized losses	Total
Power	\$ —	\$ —	\$ —	\$ 1.6	\$ —	\$ 1.6
Currency	11.2	5.1	16.3	—	(1.1)	(1.1)
Top-up obligation (note 10)	—	26.8	26.8	—	4.7	4.7
	\$ 11.2	\$ 31.9	\$ 43.1	\$ 1.6	\$ 3.6	\$ 5.2

Credit Risk

Accounts Receivable

Accounts receivable in Harvest's Conventional operations are due from crude oil and natural gas purchasers as well as joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad customer base, which includes a significant number of companies engaged in joint operations with Harvest. Harvest periodically assesses the financial strength of its crude oil and natural gas purchasers and will adjust its marketing plan to mitigate credit risks. This assessment involves a review of external credit ratings of the counterparty; however, if external ratings are not available, Harvest performs an internal credit review based on the purchaser's past financial performance. Credit is allocated to a counterparty dependent on the external and internal credit rating, and if required, parent guarantees, letter of credit or prepayments are requested. The credit risk associated with joint venture partners is mitigated by reviewing the credit history of partners and requiring some partners to provide cash prior to incurring significant capital costs on their behalf. Additionally, most agreements have a provision enabling Harvest to use the proceeds from the sale of production that would otherwise be taken in kind by the partner to offset amounts owing from the partner that is in default. Generally, the only instances of impairment are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Derivative Contract Counterparties

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

Harvest's maximum exposure to credit risk relating to the above classes of financial assets at December 31, 2017 and 2016 is the carrying value of accounts receivable. The tables below provide an analysis of Harvest's current and past due but not impaired receivables.

	Current		< 30 days		> 30 days, ≤ 60 days		> 60 days, ≤ 90 days		> 90 days ⁽²⁾		Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
December 31, 2017 ⁽¹⁾	37.8	0.7	2.6	3.8	3.5	48.4					
December 31, 2016 ⁽¹⁾	31.8	5.5	5.1	0.4	1.4	44.3					

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 13(b).

(2) Net of \$0.7 million and \$0.7 million of allowance for doubtful accounts as at December 31, 2017 and 2016 respectively.

Liquidity Risk

Harvest is exposed to liquidity risk due to the Company's accounts payables and accrued liabilities, risk management contracts liability, borrowings under its credit facility, senior notes, term loan and long-term liability. This risk is mitigated by managing the maturity dates on the Company's obligations, utilizing the undrawn borrowing capacity in the credit facility and managing the Company's cash flow by entering into price risk management contracts. Additionally, when Harvest enters into price risk management contracts it selects counterparties that are also lenders in its syndicated credit facility thereby using the security provided in the credit agreement and eliminating the requirement for margin calls

and the pledging of collateral. The majority of the financial liabilities are an integral part of Harvest's capital structure which is monitored and managed as discussed in note 12.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly and indirectly invested and provided financial support to Harvest since 2009 and as at the date of preparation of these audited financial statements, it is the Company's expectation that such support will continue for at least the next twelve months so that Harvest is able to continue as a going concern.

The following tables provide an analysis of Harvest's financial liability maturities based on the remaining terms of the liabilities including the related interest charges as at December 31, 2017 and 2016:

December 31, 2017						
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years		Total
Accounts payable and accrued liabilities	\$ 157.8	\$ —	\$ —	\$ —	\$	157.8
Credit facility and interest	19.7	720.8	—	—		740.5
3% senior notes and interest	20.5	40.8	646.6	—		707.9
2%% senior notes and interest	802.4	—	—	—		802.4
2½% senior notes and interest	6.6	13.3	249.4	—		269.3
Long-term liability	29.9	19.6	19.0	9.5		78.0
Risk management contracts liability	5.1	—	—	—		5.1
Total	\$ 1,042.0	\$ 794.5	\$ 915.0	\$ 9.5	\$	2,761.0

December 31, 2016						
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years		Total
Accounts payable and accrued liabilities	\$ 131.0	\$ —	\$ —	\$ —	\$	131.0
Credit facility and interest	898.5	—	—	—		898.5
6%% senior notes and interest	405.8	—	—	—		405.8
2%% senior notes and interest	22.4	857.1	—	—		879.5
2½% senior notes and interest	7.1	14.2	273.5	—		294.8
Long-term liability	20.5	19.3	19.0	19.0		77.8
Total	\$ 1,485.3	\$ 890.6	\$ 292.5	\$ 19.0	\$	2,687.4

Market Risk & Sensitivity Analysis

Interest rate risk

Harvest is exposed to interest rate risk on its credit facility as interest rates are determined in relation to floating market rates based on KNOC's credit rating. Harvest's term loan and senior notes have fixed interest rates and therefore do not have any additional interest rate risk prior to maturity. Harvest manages its interest rate risk by targeting appropriate levels of debt relative to its expected cash flow from operations.

If the interest rate applicable to Harvest's credit facility at December 31, 2017 increased or decreased by approximately 25 basis points with all other variables held constant, pre-tax loss for the year would change by \$0.5 million (2016 - \$1.8 million) as a result of change in interest expense on variable rate borrowings under the credit facility.

Commodity price risk

Harvest is exposed to natural gas and crude oil price movements as part of its normal business operations. The Company periodically uses derivative contracts to protect a portion of the Company's future cash flows and net income against unfavorable movements in commodity prices. These contracts are recorded on the consolidated statement of financial position at their fair value as of the reporting date. These fair values are generally determined as the difference between the stated fixed price of the contract and an expected future price of the commodity. Variances in expected future prices expose Harvest to commodity price risk as changes will result in a gain or loss that Harvest will realize on settlement of these contracts. This risk is mitigated by continuously monitoring the effectiveness of these contracts. Harvest had no commodity derivative contracts in place at December 31, 2017 and 2016.

Currency exchange rate risk

Harvest is exposed to the risk of changes in the U.S. dollar exchange rate on its U.S. dollar denominated revenues. In addition, Harvest's senior notes and LIBOR based loans are denominated in U.S. dollars, collectively US\$1.5 billion (2016 - US\$1.5 billion). Interest on such debt is also payable in U.S. dollars and accordingly, the future cash payments of the principal and interest obligations will be sensitive to fluctuations in the U.S. dollars relative to the Canadian dollars.

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

	Increase (decrease) in income before tax	
	December 31, 2017	December 31, 2016
10% strengthening in U.S. dollar relative to Canadian dollar	\$ (184.0)	\$ (200.0)
10% weakening in U.S. dollar relative to Canadian dollar	\$ 184.0	\$ 200.0

Subsequent to the year ended December 31, 2017 management entered into a hedging agreement for light crude oil. The agreement locks in a price of \$71.75/bbl on approximately 900 bbl/d of light crude oil effective March 1, 2018 through the end of the year.

14. Provisions

	Conventional	Oil Sands	Head Office operating lease	Total
As at December 31, 2015	\$ 803.3	\$ 50.1	—	\$ 853.4
Liabilities incurred	0.5	—	—	0.5
Settled during the period	(6.5)	—	—	(6.5)
Revisions (change in estimated costs and discount rate)	(44.6)	(2.6)	—	(47.2)
Disposals	(141.5)	—	—	(141.5)
Additions	5.0	—	10.7	15.7
Accretion	15.6	1.1	—	16.7
As at December 31, 2016	\$ 631.8	\$ 48.6	\$ 10.7	\$ 691.1
Liabilities incurred	1.6	—	—	1.6
Settled during the period	(13.0)	—	(1.4)	(14.4)
Revisions (change in estimated costs and discount rate)	12.1	0.8	(1.3)	11.6
Disposals	(0.5)	—	—	(0.5)
Accretion	14.3	1.1	1.1	16.5
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9
Current portion as at December 31, 2016	\$ 14.7	\$ —	\$ 1.3	\$ 16.0
Non-current provisions as at December 31, 2016	617.1	48.6	9.4	675.1
As at December 31, 2016	\$ 631.8	\$ 48.6	\$ 10.7	\$ 691.1
Current portion as at December 31, 2017	\$ 13.5	\$ —	\$ 1.5	\$ 15.0
Non-current provisions as at December 31, 2017	632.8	50.5	7.6	690.9
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9

(1) Conventional includes balance of both decommissioning liabilities and environmental liability. For the year ended December 31, 2016 provision also includes \$5 million related to legal claim.

(2) Oil Sands includes balance of decommissioning liability.

(3) Head office includes provision related to operating lease.

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.2 billion at December 31, 2017 (December 31, 2016 – \$1.2 billion), which will be incurred between 2018 and 2077. A risk-free discount rate of 2.26% (December 31, 2016 – 2.31%) and inflation rate of 1.50% (December 31, 2016 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities. The actual decommissioning and environmental remediation costs will ultimately

depend upon future market prices for the necessary decommissioning and remediation work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

At December 31, 2017, Harvest recognized an onerous contract provision of \$9.1 million (December 31, 2016 - \$10.7 million), relating to a Head Office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future lease payments that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate of 12% (December 31, 2016 – 10%), specific to the liability. A gain of \$1.3 million resulted from changes in the discount rate and an amendment to a sublease contract was recorded during the year ended December 31, 2017 (2016 – \$10.7 million loss). The onerous contract provision will be settled in periods up to the year 2025. In addition to the onerous contract loss, in the period ended December 31, 2016 Harvest impaired certain PP&E assets relating to this operating lease agreement. See note 7 - PP&E.

Harvest is defendant and plaintiff in legal actions that arise in the normal course of business and the Company believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial statements.

15. Long-Term Liability

	December 31, 2017	December 31, 2016
BlackGold liability ⁽¹⁾	\$ 69.4	\$ 67.2
Less: current portion of BlackGold liability ⁽¹⁾	(28.5)	(19.0)
Deferred rent and other ⁽²⁾	11.3	11.1
Top-up obligation ⁽³⁾	33.4	6.7
	\$ 85.6	\$ 66.0

⁽¹⁾ Calculated using a discount rate of 4.5% at December 31, 2017 and 2016. The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third and fourth deferred payments due April 30, 2017 and 2016 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work.

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

⁽³⁾ See note 10 – Investment in Joint Ventures.

Under the BlackGold oil sands engineering, procurement and construction ("EPC") contract, \$94.9 million of EPC costs are to be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work. The first two installments were paid on April 30, 2015.

At December 31, 2017 \$33.4 million (December 31, 2016 - \$6.7 million) was included in the long-term liability relating to the top-up obligation to KERR. See note 10 - Investment in Joint Ventures.

16. Income Taxes

Income tax recovery recognized in net loss from continuing operations:

	Year ended December 31	
	2017	2016
Current income tax expense	\$ —	\$ —
Deferred income tax ("DIT") recovery	—	—
Income tax recovery from continuing operations	\$ —	\$ —

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

	Year Ended December 31	
	2017	2016
Loss before income tax from continuing operations	\$ (282.2)	\$ (348.2)
Combined Canadian federal and provincial statutory income tax rate	26.96%	26.96%
Computed income tax recovery at statutory rates	\$ (76.1)	\$ (93.9)
Increased expense (recovery) resulting from the following:		
Difference between current and expected tax rates	(1.8)	—
Foreign exchange impact not recognized in income	(15.8)	(8.7)
Amended returns and pool balances	0.5	7.4
Change in unrecognized deferred tax asset	59.9	(23.0)
Non-deductible goodwill impairment	26.7	10.0
Non-deductible expenses (recoveries)	6.4	9.4
Gain on related party loan conversion to equity	—	96.1
Other	0.2	2.7
Income tax recovery	\$ —	\$ —

The tax rate is comprised of the Federal and Provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2017 and 2016.

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

	PP&E	Decommissioning liabilities	Non-capital tax losses	Other	Total deferred asset/(liability)
As at December 31, 2015	\$ 291.5	\$ 232.2	\$ 187.6	\$ 0.2	\$ 711.5
Recognized in profit or loss	115.5	(48.2)	(74.6)	7.3	—
As at December 31, 2016	\$ 407.0	\$ 184.0	\$ 113.0	\$ 7.5	\$ 711.5
Recognized in profit or loss	50.9	(47.9)	(8.6)	5.6	(0.0)
As at December 31, 2017	\$ 457.9	\$ 136.1	\$ 104.4	\$ 13.1	\$ 711.5

As at December 31, 2017, Harvest had approximately \$644 million (December 31, 2016 - \$649 million) of carry-forward tax losses and approximately \$4.2 billion (December 31, 2016 - \$4.2 billion) of tax pools that would be available to offset against future taxable profit. The carry-forward losses will expire between the years 2024 and 2037. DIT assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. As at December 31, 2017 Harvest has not recognized approximately \$193 million (December 31, 2016 - \$226 million) of temporary difference arising from foreign exchange, \$244 million (December 31, 2016 - \$191 million) of non-capital losses, \$200 million (December 31, 2016 - \$Nil) arising from asset retirement obligation and \$796 million (December 31, 2016 - \$796 million) of capital losses.

As at December 31, 2017 a balance of \$3.7 million was recorded in taxes payable, relating to amounts owing to the Canada Revenue Agency (December 31, 2016 - \$3.7 million).

17. Operating and General and Administrative (“G&A”) Expenses

	Year ended December 31	
	2017	2016
Operating expenses		
Power and purchased energy	\$ 29.5	\$ 26.4
Well servicing	7.6	7.1
Repairs and maintenance	24.3	23.2
Lease rentals and property taxes	26.3	25.4
Salaries and benefits	20.4	22.0
Professional and consultation fees	8.7	9.3
Chemicals	9.7	9.8
Processing fees	21.4	27.5
Trucking	2.7	3.9
Other	3.4	12.0
	\$ 154.0	\$ 166.6

	Year ended December 31	
	2017	2016
General and administrative expenses		
Salaries and benefits	\$ 28.1	\$ 35.7
Professional and consultation fees	6.2	7.1
Other	9.2	12.9
G&A capitalized and recovery	(4.4)	(2.4)
	\$ 39.1	\$ 53.3

18. Finance Costs

	Year ended December 31	
	2017	2016
Interest and other financing charges ⁽¹⁾	\$ 80.9	\$ 125.6
Accretion of decommissioning and environmental remediation liabilities (note 14)	15.4	16.7
Accretion of BlackGold long-term liability (note 15)	2.3	3.1
	\$ 98.6	\$ 145.4

⁽¹⁾ Includes \$0.6 million of a loss on extinguishment on the \$1.0 billion credit facility and \$1.1 million of accretion on the onerous contract during the year ended December 31, 2017 (2016 - \$nil). See note 11- Long Term Debt and note 14 – Provisions.

19. Foreign Exchange

	Year ended December 31	
	2017	2016
Realized loss (gain) on foreign exchange	\$ (44.4)	\$ (16.1)
Unrealized loss (gain) on foreign exchange	(72.5)	(23.8)
	\$ (116.9)	\$ (39.9)

20. Supplemental Cash Flow Information

	Year ended December 31	
	2017	2016
Source (use) of cash:		
Accounts receivable	\$ (4.1)	\$ 13.6
Prepaid expenses, long-term deposit and other	0.6	4.6
Accounts payable and accrued liabilities	26.8	(35.8)
Net changes in non-cash working capital	\$ 23.3	\$ (17.6)
Changes relating to operating activities	\$ (0.5)	\$ (12.2)
Changes relating to investing activities	15.7	(12.7)
Add: Other non-cash changes	8.1	7.3
	\$ 23.3	\$ (17.6)

	Credit Facility	Term Loan	6 ⁷ / ₈ % senior notes	2 ¹ / ₈ % senior notes	2 ¹ / ₃ % senior notes	3% senior notes	Total
As at December 31, 2015	\$ 923.8	-	685.7	868.9	-	-	2,478.4
Net borrowing (repayment)	(42.1)	-	(280.8)	-	256.1	-	(66.8)
Foreign exchange	8.6	-	(27.9)	(25.9)	6.8	-	(38.4)
Other non-cash movements	2.3	-	2.7	1.2	(0.3)	-	5.9
As at December 31, 2016	\$ 892.6	-	379.7	844.2	262.6	-	2,379.1
Net borrowing (repayment)	(698.5)	499.2	(353.1)	-	-	600.0	47.6
Foreign exchange	-	-	(28.2)	(53.9)	(16.8)	3.4	(95.5)
Other non-cash movements	(4.4)	0.3	1.6	1.2	0.1	0.2	(1.0)
As at December 31, 2017	\$ 189.7	499.5	-	791.5	245.9	603.6	2,330.2

21. Related Party Transactions

Related party loans

On December 22, 2016, KNOC converted all its outstanding loans to common shares of Harvest. The carrying value of the loans plus accrued interest at December 22, 2016 of \$722.2 million was converted to equity and \$10.3 million previously recognized in contributed surplus relating to these loans was transferred to shareholder's capital. As a result, 72,687,818 common shares were issued to KNOC. As at December 31, 2017 and 2016 there were no related party loans outstanding.

On June 30, 2016 Harvest entered into a US\$184.8 million loan agreement with KNOC, originally due on October 2, 2017, with an interest rate of 4.66% per annum. Interest was due upon maturity. On July 6, 2016, Harvest drew down the US\$184.8 million KNOC loan and used the proceeds to re-pay the US\$170 million ANKOR loan, including accrued interest. Harvest had originally entered into a subordinated loan agreement with ANKOR, which is a fully-owned subsidiary of KNOC, in 2012 at a fixed interest rate of 4.62% per annum. Both principal and accrued interest was originally due on October 2, 2017. As a result of the repayment of the ANKOR loan, a \$15.7 million realized foreign exchange gain was recognized during the year ended December 31, 2016.

On April 2, 2015, Harvest entered into an US\$171 million loan agreement with KNOC, repayable within a year from the date of the first drawing which was on April 10, 2015, at an interest rate of 3.42% per annum. During the year ended December 31, 2015, the maturity date was extended to December 31, 2017 and the interest rate was increased to 5.91% per annum effective December 31, 2015. At December 31, 2015, US\$120 million was drawn from the loan and the remainder of the loan was drawn during the year ended December 31, 2016.

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 was payable on December 30, 2018. 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. The difference between the fair value and the loan amount was recognized in contributed surplus. In the year ended December 31, 2016 total of \$10.3 million was recorded in contributed surplus relating to this loan.

The related party loans were unsecured and the loan agreements contained no restrictive covenants. The following table summarizes the interest expense on each related party loan:

Related Party	Principal	Interest Rate	2017	2016
KNOC	US\$171	5.91%	\$ -	\$ 14.1
KNOC	\$200	5.30%	-	14.0
ANKOR	US\$170	4.62%	-	5.9
KNOC	US\$184.8	4.66%	-	5.9
			\$ -	\$ 39.9

Directors and Key Management Personnel Remuneration

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

	Year Ended December 31	
	2017	2016
Short-term benefits	\$ 2.0	\$ 2.5
Other long-term benefits	0.1	0.1
Other	—	1.3
	\$ 2.1	\$ 3.9

Other Related Party Transactions

	Balance Outstanding					
	Year Ended December 31		Accounts Receivable		Accounts Payable	
	2017	2016	2017	as at December 31 2016	2017	2016
G&A Expenses						
KNOC ⁽¹⁾	\$ 0.7	\$ 0.4	\$ —	\$ 0.1	\$ 0.3	\$ 0.4
Finance costs						
KNOC ⁽²⁾	\$ 10.2	\$ 9.0	\$ —	\$ —	\$ 2.9	\$ 1.7

⁽¹⁾ Amounts relate to payments to (reimbursement from) KNOC for secondees salaries.

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 2½%, 3% senior notes, the credit facility and term loan. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes and 37 basis points per annum on the 2½% and 3% senior notes. A guarantee fee of 37 basis points per annum continues to be charged by KNOC on the credit facility and term loan. See note 11 – Long Term Debt.

During the year ended December 31, 2016, Harvest entered into an agreement with KNOC to drill a well and provide technical data to KNOC. KNOC initially provided Harvest with \$5.3 million in cash to drill a well, and any additional amounts incurred relating to the well will be billed to KNOC for reimbursement up to a maximum of 9.4 billion Korean Won equivalent. In the year ended December 31, 2017 funds of \$5.8 million (2016 - \$5.3 million) provided by KNOC were recorded in contributed surplus.

22. Commitments

The following is a summary of Harvest's estimated commitments as at December 31, 2017:

	Payments Due by Period					Total
	1 year	2-3 years	4-5 years	After 5		
Purchase commitments ⁽¹⁾	\$ 29.1	\$ 19.4	\$ 19.0	\$ 82.0	\$	149.5
Operating leases	6.9	16.2	15.5	19.9		58.5
Firm processing commitments	11.0	22.0	20.9	24.6		78.5
Firm transportation agreements	25.8	40.4	26.0	28.6		120.8
Employee benefits ⁽²⁾	1.5	0.7	—	—		2.2
Total ⁽³⁾	\$ 74.3	\$ 98.7	\$ 81.4	\$ 155.1	\$	409.5

⁽¹⁾ Relates to BlackGold oil sands project commitment and the DBP top-up obligation (see note 10 - Investment in Joint Ventures).

⁽²⁾ Relates to the long-term incentive plan payments.

⁽³⁾ See note 11 - Long Term Debt, note 12 – Shareholder's Capital & Capital Structure and note 21 – Related Party Transactions for Harvest's debt obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the year ended December 31, 2017 together with the accompanying notes. The information and opinions concerning the future outlook are based on information available at February 14, 2018.

In this MD&A, all dollar amounts are expressed in Canadian dollars unless otherwise indicated. Tabular amounts are in millions of dollars, except where noted.

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

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

ADVISORY

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Conventional				
Petroleum and natural gas sales	83.2	90.8	318.4	322.3
Daily sales volumes (boe/d) ⁽¹⁾	25,902	26,589	26,588	31,996
Deep Basin Partnership				
Daily sales volumes (boe/d)	4,381	5,553	5,779	5,802
Harvest's share of daily sales volumes (boe/d) ⁽³⁾	3,618	4,571	4,769	4,762
Average realized price ⁽²⁾				
Oil and NGLs (\$/bbl)	52.86	45.12	47.36	37.14
Gas (\$/mcf)	1.78	4.27	2.35	2.22
Operating netback prior to hedging(\$/boe) ⁽³⁾	15.04	15.97	13.35	10.22
Operating loss ⁽³⁾	(176.2)	(75.7)	(271.6)	(266.3)
Cash contribution from operations ⁽³⁾	24.5	33.3	84.3	74.6
Capital expenditures	30.1	13.7	65.6	19.0
Property dispositions, net ⁽⁴⁾	(0.4)	—	(0.4)	(170.2)
Net wells drilled	5.0	2.1	9.7	2.4
Oil Sands				
Capital expenditures	3.8	1.9	4.6	1.9
Pre-operating loss ⁽³⁾	(2.7)	(3.5)	(12.6)	(13.5)
NET LOSS	(207.3)	(162.5)	(282.2)	(348.2)

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

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

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

(4) This represents the historical cost of oil and gas assets disposed net of accumulated depreciation and depletion.

REVIEW OF OVERALL PERFORMANCE

Harvest is an energy company with a petroleum and natural gas business focused on the exploration, development and production of assets in western Canada ("Conventional") and an in-situ oil sands project in the pre-commissioning phase in northern Alberta ("Oil Sands"). Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). Our earnings and cash flow from operations are largely determined by the realized prices for our crude oil and natural gas production.

Conventional

- Petroleum and natural gas sales for the three months ended December 31, 2017 decreased by \$7.6 million over the same period in 2016 as a result of reduced sales volumes and a decrease in realized prices. Petroleum and natural gas sales for the twelve months ended December 31, 2017 decreased by \$3.9 million as compared to the same period in 2016 as a result of decreased sales volumes, partially offset by an increase in realized prices.
- Sales volumes for the three and twelve months ended December 31, 2017 decreased by 687 boe/d and 5,408 boe/d, respectively, as compared to the same periods in 2016. The decrease for the three months ended December 31, 2017 was primarily due to natural declines which were partially offset by production resulting from new wells drilled and completed over the fourth quarter of 2016 and the twelve months of 2017. The decrease for the twelve months ended December 31, 2017 was primarily due to dispositions of certain producing properties during 2016 and natural declines, which were partially offset by production resulting from new wells drilled and completed over the fourth quarter of 2016 and the twelve months of 2017.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three months ended December 31, 2017 decreased 953 boe/d as compared to the same period in 2016. This decrease was primarily due to natural declines, downtime for maintenance and third party pipeline and facility restrictions, partially offset by production added by new wells drilled in the fourth quarter of 2016 that began producing in the first quarter of 2017. For the twelve months ended December 31, 2017, Harvest's share of DBP volumes increased 7 boe/d primarily due to an increase in Harvest's ownership interest.
- Operating loss for the three months ended December 31, 2017 was \$176.2 million (2016 - \$75.7 million). The increase in operating loss from 2016 was primarily due to higher impairment and loss from joint ventures, partially offset by reduced depreciation, depletion and amortization expense, exploration and evaluation expense, and transportation and marketing expenses. Operating losses for the twelve months ended December 31, 2017 was \$271.6 million (2016 - \$266.3 million). The increase in operating loss compared to 2016 was primarily due to an increase in impairment and loss from joint ventures, partially offset by a decrease in depreciation, depletion and amortization expense, exploration and evaluation expense, general and administration expense, and a decrease in loss on onerous contract.
- Capital expenditures totaled \$30.1 million and \$65.6 million for the three and twelve months ended December 31, 2017, respectively, and were mainly related to drilling and completion, well equipment, pipelines and facilities. During the three and twelve months ended December 31, 2017, five gross wells (5 net) and twelve gross wells (9.7 net), respectively, were rig-released.
- Operating netback per boe prior to hedging for the three months ended December 31, 2017 was \$15.04, a decrease of \$0.93 from the same period in 2016. This decrease was mainly due to a decrease in petroleum and natural gas sales prices per boe and an increase in royalties per boe and, partially offset by a decrease in transportation and marketing expense per boe. Operating netback per boe prior to hedging for the twelve months ended December 31, 2017 was \$13.35, an increase of \$3.13 from the same period in 2016. This increase is mainly due to an increase in petroleum and natural gas sales prices per boe partially offset by higher operating expenses per boe, higher per royalties per boe and higher transportation and marketing expense per boe.
- Cash contributions from Harvest's Conventional operations for the three and twelve months ended December 31, 2017 was \$24.5 million and \$84.3 million, respectively (2016 - \$33.3 million and \$74.6 million, respectively). The decrease in cash contributions for the three months ended December 31, 2017

was mainly due to a decrease in revenues and other income, partially offset by a decrease in transportation and marketing expenses. The increase in cash contributions for the twelve months ended December 31, 2017 was mainly due to decreases in operating expenses and general and administrative expenses, partially offset by an increase in transportation and marketing expenses.

Oil Sands

- The central processing facility ("CPF") was substantially completed in early 2015, but completion of sanctioning and commissioning activities were subsequently postponed due to the bitumen price environment. On December 21, 2017, Harvest announced its decision to re-sanction and complete construction of its 10,000 bbl/d BlackGold facility due to improved bitumen price environment. Construction activities were recommenced in the fourth quarter of 2017. Commissioning and first steam injection is expected to be completed in the second quarter of 2018, with first production anticipated in the third quarter of 2018.
- Capital expenditures for the three and twelve months ended December 31, 2017 were \$3.8 million and \$4.6 million, respectively, and mainly related to facility expenditures relating to construction and preliminary commissioning costs on the CPF.
- Pre-operating losses for the three and twelve months ended December 31, 2017 were \$2.7 million and \$12.6 million, respectively (2016 - \$3.5 million and \$13.5 million, respectively). The pre-operating losses were mainly due to pre-operating and general and administrative expenses.

Corporate

- On September 21, 2017, Harvest issued US \$285 million 3% senior notes due September 21, 2022 that are unconditionally and irrevocably guaranteed by KNOC. The proceeds of this issuance were used to repay the US \$282.5 million 6% senior notes on October 2, 2017. This refinancing provides significant savings to Harvest by reducing interest expense by approximately US \$10.9 million annually, and is further evidence of KNOC's continuing support of Harvest.
- On November 6, 2017, Harvest issued an additional US \$200 million of 3% senior notes due September 21, 2022 for net proceeds of US \$198.5 million. The proceeds from the upsized offering will be used for general corporate purposes, including funding the completion and commissioning of Harvest's BlackGold oil sands project.
- The weakening of the Canadian dollar against the U.S. dollar for the three months ended December 31, 2017 resulted in net unrealized foreign exchange losses of \$28.2 million (2016 - \$45.5 million) which is primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars. The strengthening of the Canadian dollar against the U.S. dollar for the twelve months ended December 31, 2017 resulted in net unrealized foreign exchange gains of \$72.5 million (2016 - \$23.8 million) which is primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars.
- The net change to the credit facility during the three and twelve months ended December 31, 2017 was \$227.7 million net repayment and \$698.5 million net repayment, respectively (2016 - \$6.8 million net borrowing and \$42.1 million net repayment). The net repayment for the three months ended December 31, 2017 was primarily related to the proceeds of the senior notes issued November 6, 2017. The net repayment on the credit facility for the twelve months ended December 31, 2017 was made with \$500 million in funds drawn from the term loan facility in the first quarter of 2017, the proceeds from the US \$200 million 3% senior notes issued on November 6, 2017, and cash flows from operations. As at



MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017, the term loan facility had an outstanding balance of \$500 million (December 31, 2016 - \$nil). At December 31, 2017, Harvest had \$190.6 million drawn under the credit facility (December 31, 2016 - \$893.5 million) excluding letters of credit of \$14.9 million (December 31, 2016 - \$9.9 million).

CONVENTIONAL

Summary of Financial and Operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
FINANCIAL				
Petroleum and natural gas sales	83.2	90.8	318.4	322.3
Royalties	(7.9)	(6.4)	(33.2)	(35.0)
Revenues and other income	75.3	84.4	285.2	287.3
Expenses				
Operating	35.8	36.2	143.5	155.9
Realized derivative contract losses ⁽²⁾	—	0.3	—	1.6
Transportation and marketing	4.2	9.1	12.3	11.0
Operating netback after hedging ⁽¹⁾	35.3	38.8	129.4	118.8
General and administrative	10.5	11.2	37.3	51.1
Depreciation, depletion and amortization	43.2	86.4	188.0	289.1
Loss from joint ventures	65.4	8.1	84.9	43.8
Exploration and evaluation	—	17.4	0.1	19.9
Unrealized derivative contract (gains) losses ⁽²⁾	26.1	(7.9)	26.7	4.7
Impairment (recovery)	66.6	(1.7)	66.6	1.0
Loss (gain) on onerous contract	(0.2)	1.3	(1.3)	10.7
Gains on disposition of assets	(0.1)	(0.3)	(1.3)	(35.2)
Operating loss ⁽¹⁾	(176.2)	(75.7)	(271.6)	(266.3)
Capital asset expenditures	30.1	13.7	65.6	19.0
Property dispositions, net ⁽⁴⁾	(0.4)	—	(0.4)	(170.2)
OPERATING				
Light to medium oil (bbl/d)	4,102	3,821	4,039	5,548
Heavy oil (bbl/d)	6,754	7,760	7,147	9,158
Natural gas liquids (bbl/d)	3,667	3,188	3,269	3,527
Natural gas (mcf/d)	68,276	70,923	72,799	82,583
Total (boe/d) ⁽³⁾	25,902	26,589	26,588	31,996

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

(2) Derivative contract losses include the settlement amounts for power derivative contracts and Harvest's top-up obligation to KERR.

See "Risk Management, Financing and Other" section of this MD&A for details.

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

(4) This represents the historical cost of oil and gas assets disposed net of accumulated depreciation and depletion.

Commodity Price Environment

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	55.40	49.29	12%	50.95	43.32	18%
West Texas Intermediate crude oil (\$/bbl)	70.39	65.81	7%	66.08	57.38	15%
Edmonton Light Sweet crude oil (\$/bbl)	69.01	61.58	12%	62.91	52.96	19%
Western Canadian Select ("WCS") crude oil (\$/bbl)	54.87	46.63	18%	50.60	38.96	30%
AECO natural gas daily (\$/mcf)	1.69	3.09	(45%)	2.16	2.16	0%
U.S. / Canadian dollar exchange rate	0.787	0.749	5%	0.771	0.755	2%
Differential Benchmarks						
EDM differential to WTI (\$/bbl)	1.38	4.23	(67%)	3.17	4.42	(28%)
EDM differential as a % of WTI	2.0%	6.4%	(69%)	4.8%	7.7%	(38%)
WCS differential to WTI (\$/bbl)	15.52	19.18	(19%)	15.48	18.42	(16%)
WCS differential as a % of WTI	22.0%	29.1%	(24%)	23.4%	32.1%	(27%)

For the three and twelve months ended December 31, 2017, the average WTI benchmark price increased 12% and 18%, respectively, as compared to the same periods in 2016. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and twelve months ended December 31, 2017, increased 12% and 19%, respectively, compared to the same periods in 2016 due to an increase in the WTI price and a narrowing of the Edmonton Light differential, which was partially offset by a weakening of the U.S. dollar against the Canadian dollar.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The 18% and 30% increases in the WCS price for the three and twelve months ended December 31, 2017, respectively, as compared to the same period in 2016 was mainly the result of an increase in the WTI price and a narrowing of the WCS differential to WTI, which was partially offset by a weakening of the U.S. dollar against the Canadian dollar.

Harvest's realized natural gas price is referenced to the AECO hub, which decreased by 45% and 0% for the three and twelve months ended December 31, 2017.

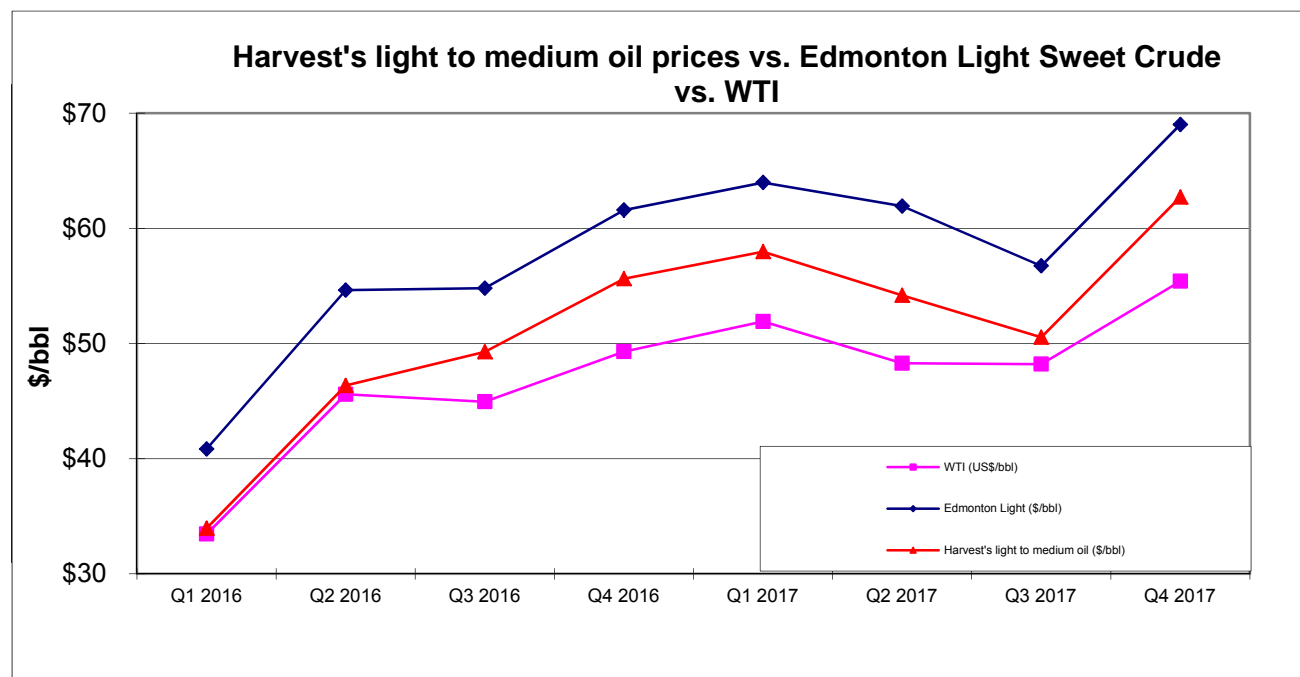
Realized Commodity Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Light to medium oil (\$/bbl)	62.72	55.63	13%	56.69	44.41	28%
Heavy oil prior to hedging(\$/bbl)	52.98	46.94	13%	47.72	37.19	28%
Natural gas liquids (\$/bbl)	41.63	28.08	48%	35.04	25.58	37%
Natural gas (\$/mcf)	1.78	4.27	(58%)	2.35	2.22	6%
Average realized price prior to hedging (\$/boe) ⁽¹⁾	35.15	37.06	(5%)	32.83	27.45	20%
Heavy oil after hedging (\$/bbl) ⁽²⁾	52.98	46.23	15%	47.72	37.15	28%
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	35.15	36.85	(5%)	32.83	27.43	20%

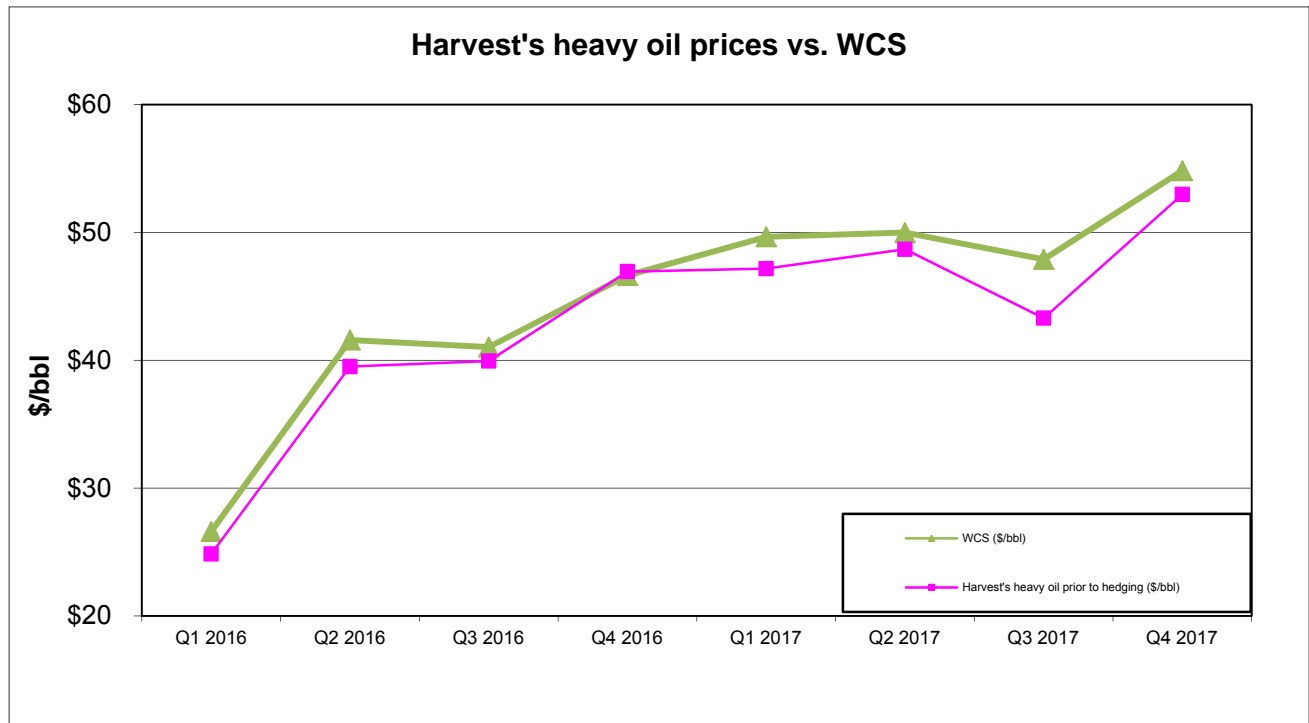
(1) Inclusive of sulphur revenue.

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

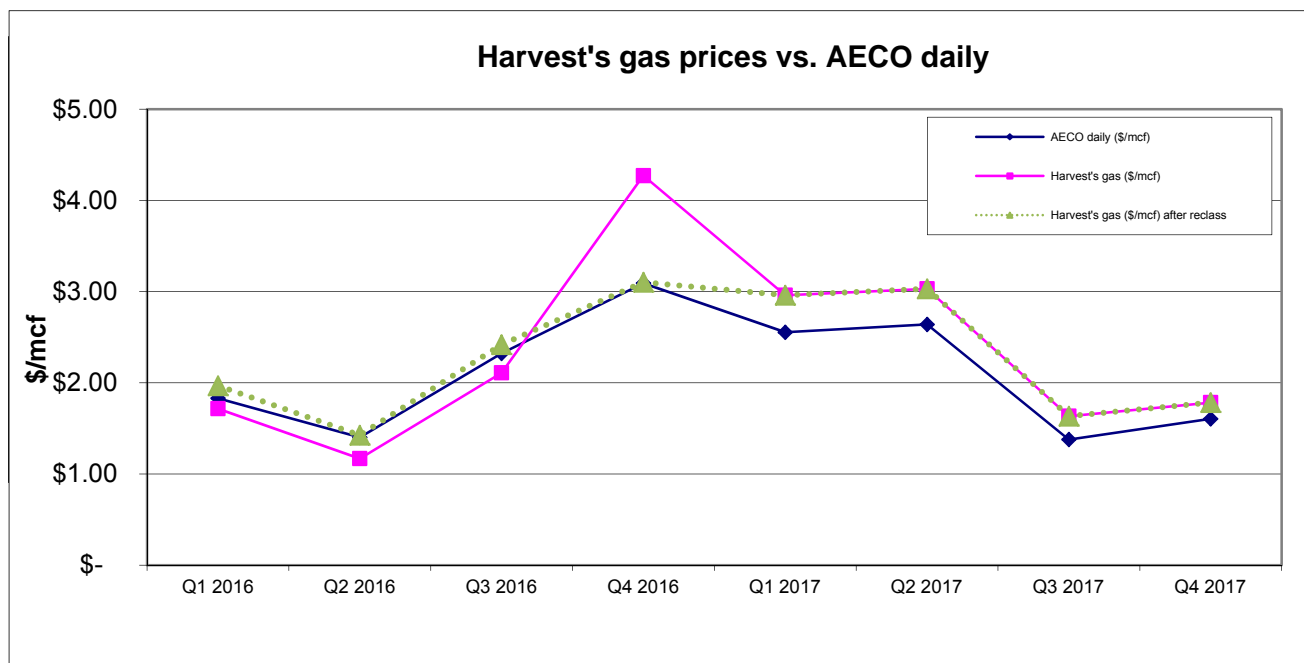
For the three months ended December 31, 2017, Harvest's realized price for light to medium oil trended relatively in line with the Edmonton Light benchmark price. For the twelve months ended December 31, 2017, Harvest's realized price for light to medium oil increased more than the Edmonton Light benchmark price as a result of the disposition of Saskatchewan assets in 2016 whose production sold at a larger discount to the benchmark as compared to Harvest's Alberta assets.



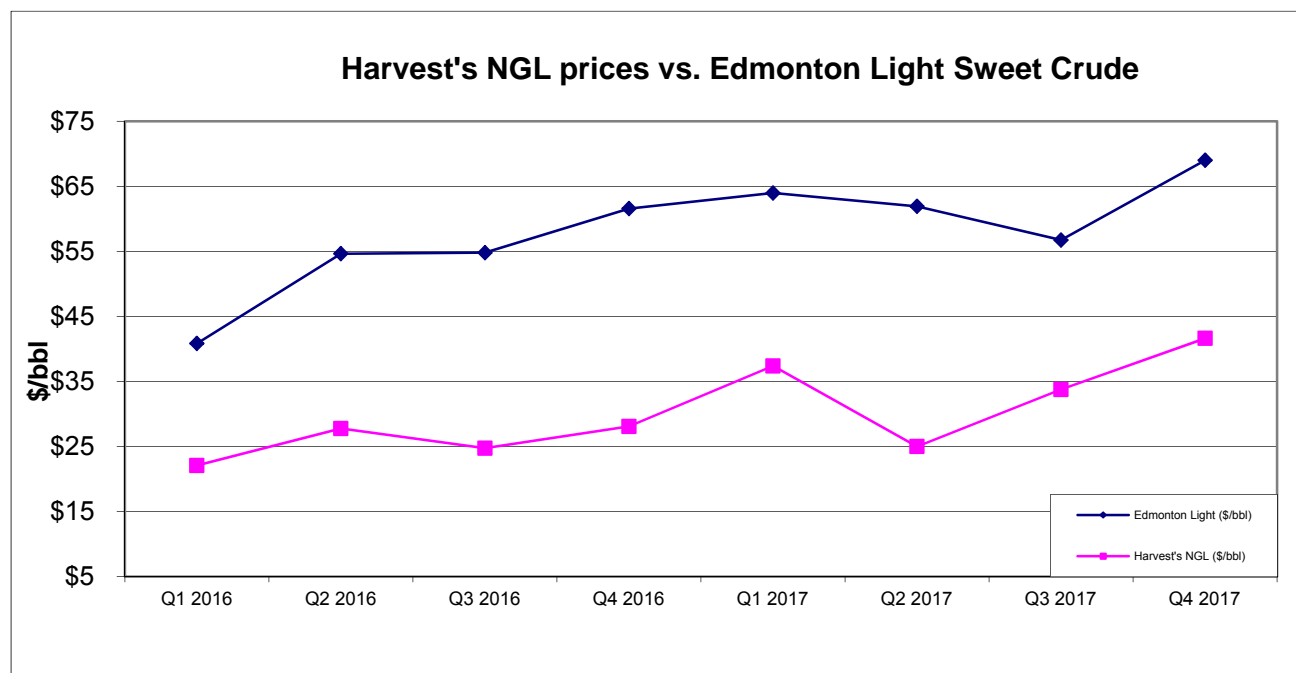
In the second quarter of 2017, Harvest changed the classification of a property group in the Cecil area from Heavy Oil to Light Oil. The property groups' legacy production was heavy oil, however new development on the property that was brought online part way through the first quarter of 2017 is light oil. As Harvest identified this as a core property for future development, and due to the change product mix, management made the decision to change the classification. During the three and twelve months ended December 31, 2017, the property group produced 550 boe/d and 393 boe/d, respectively. This change in classification had a negative effect on both the realized pricing and volumes for heavy and light oil during the latter part of 2017.



Harvest's realized natural gas prices decreased 58% and increased 6% for the three and twelve months ended December 31, 2017, respectively. In the fourth quarter of 2016, Harvest reclassified prior quarters' transportation charges previously netted against revenue that are now being presented on a gross basis. For the three months ended December 31, 2016, Harvest's realized gas price was \$3.10 per mcf before the reclassification of prior quarters' transportation charges. For the three months ended December 31, 2017, Harvest's realized natural gas prices decreased by 43% in comparison to its comparative period's realized price when adjusted for prior period classifications, which is relatively consistent with the AECO benchmark. For the twelve months ended December 31, 2017, Harvest's realized gas prices fluctuated relatively consistently with the AECO benchmark.



Realized natural gas liquids prices increased by 48% and 37% for the three and twelve months ended December 31, 2017, respectively, as compared to the same periods in 2016. Harvest's realized natural gas liquids prices for the three and twelve months ended December 31, 2017 increased more than its benchmark price, Edmonton Light Sweet Crude, primarily due to significant increases in the sales price of propane and butane.



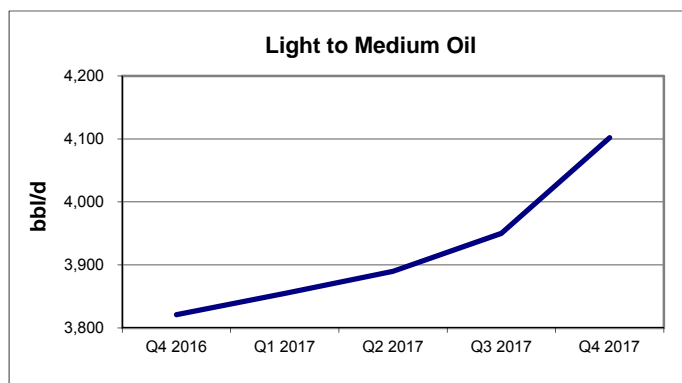
In order to partially mitigate the risk of fluctuating cash flows due to natural gas and heavy oil pricing volatility, Harvest will periodically enter into WCS and AECO derivative contracts. During the three and twelve months ended December 31, 2017, Harvest did not have any derivative contracts in place. For the same periods in 2016, Harvest had WCS derivative contracts in place for a portion of its production.

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

Sales Volumes

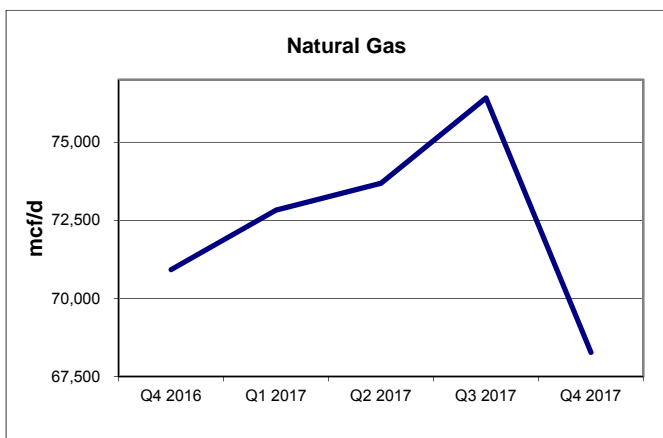
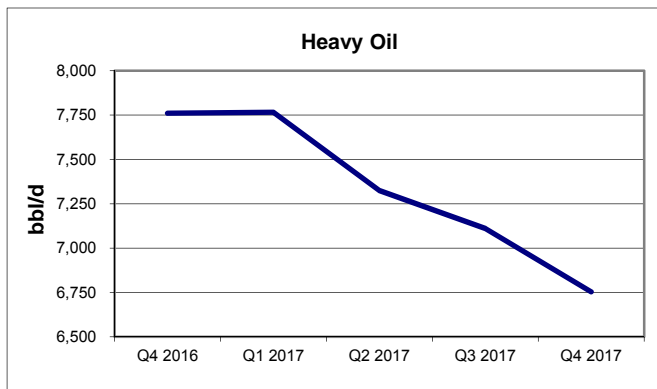
Three Months Ended December 31					
	2017		2016		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	4,102	16%	3,821	14%	7%
Heavy oil (bbl/d)	6,754	26%	7,760	29%	(13%)
Natural gas liquids (bbl/d)	3,667	14%	3,188	12%	15%
Total liquids (bbl/d)	14,523	56%	14,769	55%	(2%)
Natural gas (mcf/d)	68,276	44%	70,923	45%	(4%)
Total oil equivalent (boe/d)	25,902	100%	26,589	100%	(3%)

Twelve Months Ended December 31					
	2017		2016		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	4,039	15%	5,548	17%	(27%)
Heavy oil (bbl/d)	7,147	27%	9,158	29%	(22%)
Natural gas liquids (bbl/d)	3,269	12%	3,527	11%	(7%)
Total liquids (bbl/d)	14,455	54%	18,233	57%	(21%)
Natural gas (mcf/d)	72,799	46%	82,583	43%	(12%)
Total oil equivalent (boe/d)	26,588	100%	31,996	100%	(17%)



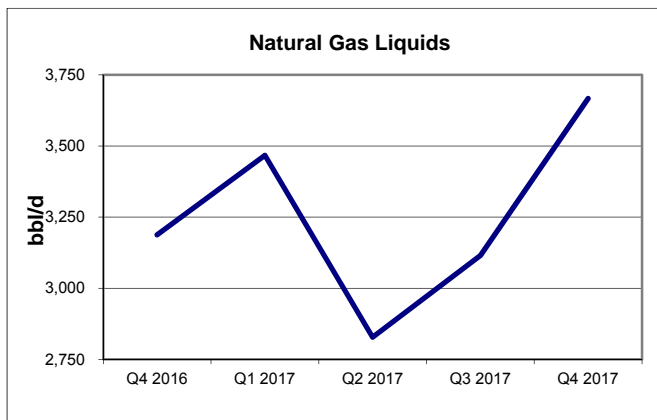
Harvest's average daily sales of light to medium oil increased 7% in the fourth quarter of 2017 as compared to the same period in 2016. This increase was mainly due to production from new wells drilled in 2017, and a reclassification of a property group in the Cecil area as discussed in the realized commodities pricing section, partially offset by natural declines.

Heavy oil sales for the fourth quarter of 2017 decreased 13% as compared to the same period in 2016 mainly due to natural declines, the reclassification of a property group in the Cecil area as discussed in the realized commodities pricing section, and reflects a greatly reduced drilling program in 2016 and 2017.



Natural gas sales during the fourth quarter of 2017 decreased 4% as compared to the same period in 2016. Production for the first three quarters of 2017 increased as a result of Harvest's participation in new wells in the Deep Basin area. The decrease in the fourth quarter of 2017 is primarily the result of downtime resulting from third party restrictions, cold weather issues, natural declines, and a portion of Harvest's Deep Basin wells entering a Deep Cut facility resulting in higher liquids but lower gas volumes.

Natural gas liquids sales for the fourth quarter of 2017 increased by 15% from the same period in 2016. This increase is due to new wells Harvest participated in since Q4 2016 in the Deep Basin area and a portion of Harvest's Deep Basin wells entering a Deep Cut facility resulting in higher natural gas liquids and lower gas production, partially offset by natural declines. In Q2 2017, a volumetric adjustment in non-operated wells related to 2013 and 2014 fiscal years led to a negative production variance.



Revenues

Sales Revenue by Product

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Light to medium oil sales	23.7	19.6	21%	83.6	90.2	(7%)
Heavy oil sales after hedging ⁽¹⁾	32.9	33.0	0%	124.5	124.5	0%
Natural gas sales after hedging ⁽¹⁾	11.2	27.8	(60%)	62.4	67.1	(7%)
Natural gas liquids sales	14.0	8.2	71%	41.8	33.0	27%
Other ⁽²⁾	1.4	2.2	(36%)	6.1	7.5	(19%)
Petroleum and natural gas sales	83.2	90.8	(8%)	318.4	322.3	(1%)

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

(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. Total petroleum and natural gas sales decreased for the three months ended December 31, 2017, as compared to 2016, primarily due to a decrease in sales volumes and realized prices, most notably a significant decrease in natural gas prices during the period. Total petroleum and natural gas sales decreased in the twelve months ended December 31, 2017, as compared to 2016, mainly due to a decrease in volumes, partially offset by an increase in realized prices.

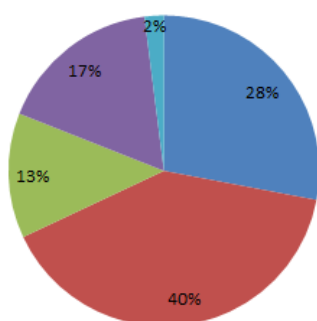
Sulphur revenue represented \$2.0 million of the total in other revenues for the fourth quarter of 2017 (2016 - \$1.5 million) and \$6.3 million for the twelve months ended December 31, 2017 (2016 - \$6.4 million).

Revenue by Product Type as % of Total Revenue

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Light to medium oil sales	28%	22%	26%	28%
Heavy oil sales after hedging	40%	36%	39%	39%
Natural gas sales	13%	31%	20%	21%
Natural gas liquids sales	17%	9%	13%	10%
Other	2%	2%	2%	2%
Total Sales Revenue	100%	100%	100%	100%

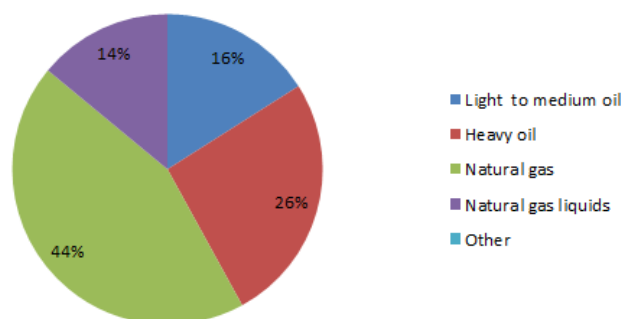
Sales Revenue by Product

(Three months ended December 31, 2017)



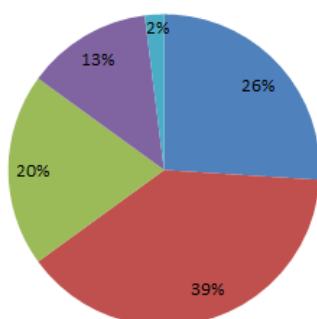
Sales Volumes by Product

(Three months ended December 31, 2017)



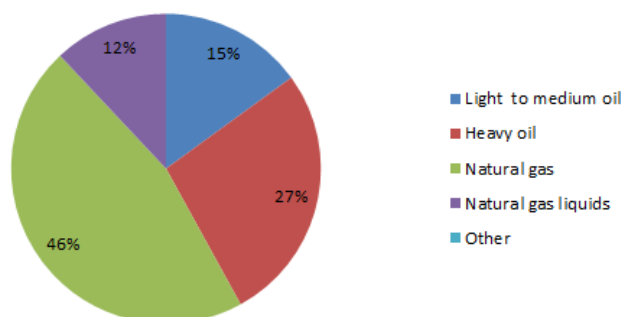
Sales Revenue by Product

(Year ended December 31, 2017)



Sales Volumes by Product

(Year ended December 31, 2017)



Although Harvest's product mix on a volumetric basis is slightly weighted heavier towards crude oil and natural gas liquids than natural gas, revenue contribution is more heavily weighted to crude oil and liquids as shown by the charts above. Revenue contributions by product for the three months ended December 31, 2017 has fluctuated in comparison to the same period of 2016 as a result of changes in commodity prices, particularly the decrease in Harvest's realized gas prices, and the increase in realized natural gas liquids prices. For the twelve months ended December 31, 2017, revenue contributions by product remained relatively consistent period over period.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Royalties

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Royalties	7.9	6.4	33.2	35.0
Royalties as a percentage of revenue	9.5%	7.0%	10.4%	10.9%

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

For the three and twelve months ended December 31, 2017, royalties as a percentage of gross revenue averaged 9.5% and 10.4% respectively (2016 - 7.0% and 10.9%). The increase in royalties as a percentage of gross revenue on the three month basis was primarily related to the comparative period's revenues being increased by a reclassification of gas transportation costs that were previously netted against revenues, and 2016 royalties being reduced by a favorable adjustment to gas cost allowance. For the year ended December 31, 2017, royalties as a percentage of revenue was relatively consistent with the same period in 2016.

Operating Expenses

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Operating expense	35.8	36.2	143.5	155.9
Operating expense (\$/boe)	15.04	14.81	14.79	13.31

Operating expenses for the three months ended December 31, 2017 decreased by \$0.4 million as compared to the same period in 2016. This decrease is primarily a result of lower activity levels. Operating expenses for the twelve months ended December 31, 2017 decreased by \$12.4 million as compared to the same period in 2016. This decrease was mainly due to lower overall activity associated with lower relative production levels and a reduction in processing fees as a result of equalization payments, which was partially offset by increased power costs.

Operating expenses on a per barrel basis increased by 2% to \$15.04 per boe and 11% to \$14.79 per boe for the three and twelve months ended December 31, 2017, respectively, when compared to the same periods in 2016, mainly due to lower volumes, partially offset by reduced operating expense.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation and Marketing Expense

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Transportation and marketing	4.2	9.1	12.3	11.0
Transportation and marketing (\$/boe)	1.75	3.69	1.27	0.94

Transportation and marketing expenses relate primarily to the cost of delivery of natural gas and natural gas liquids, as well as trucking crude oil to pipeline or rail receipt points. In the fourth quarter of 2016, there was a reclassification of prior quarters' gas transportation costs from being netted against revenue to transportation and marketing. The fourth quarter of 2016 had a total transportation and marketing expense of \$2.7 million net of the effect of this presentation change. Transportation and marketing expenses in the three months ended December 31, 2017 were \$4.9 million lower in comparison to the same period in 2016 as a result of the reclassification of prior quarters' gas and transportation costs, partially offset by an increase in unutilized delivery charges. For the year ended December 31, 2017, transportation and marketing expenses were \$1.3 million higher than the same period in 2016 primarily as a result of an increase in unutilized delivery charges.

Operating Netback⁽¹⁾

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$/boe)	2017	2016	Change	2017	2016	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	35.15	37.06	(5%)	32.83	27.45	20%
Royalties	(3.32)	(2.59)	28%	(3.42)	(2.98)	15%
Operating expenses	(15.04)	(14.81)	2%	(14.79)	(13.31)	11%
Transportation and marketing	(1.75)	(3.69)	(53%)	(1.27)	(0.94)	35%
Operating netback prior to hedging ⁽¹⁾	15.04	15.97	(6%)	13.35	10.22	31%
Hedging loss ⁽³⁾	—	(0.35)	(100%)	—	(0.15)	(100%)
Operating netback after hedging ⁽¹⁾	15.04	15.62	(4%)	13.35	10.07	33%

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

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

(3) Includes the settlement amounts for crude oil and power contracts.

For the three and twelve months ended December 31, 2017 operating netback after hedging was \$15.04 per boe and \$13.35 per boe, respectively, representing a 4% decrease and 33% increase compared to the same periods in 2016. The decrease in the three month period was mainly due to decreased natural gas prices as well as higher royalties and operating expenses, partially offset by a decrease in transportation and marketing costs. The increase in the twelve month period was mainly due to an increase in realized commodity prices, partially offset by an increase in operating expenses, royalties, and transportation and marketing.

General and Administrative ("G&A") Expenses

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Gross G&A expenses	11.6	11.7	(1%)	41.4	53.5	(23%)
Capitalized G&A and recoveries	(1.1)	(0.5)	120%	(4.1)	(2.4)	71%
Net G&A expenses	10.5	11.2	(6%)	37.3	51.1	(27%)
Net G&A expenses (\$/boe)	4.41	4.58	(4%)	3.85	4.36	(12%)

For the three and twelve months ended December 31, 2017, G&A expenses net of capitalized G&A decreased by \$0.7 million and \$13.8 million respectively, while gross G&A expenses decreased \$0.1 million and \$12.1 million respectively, when compared to the same periods in the prior year. The decrease in the gross G&A expenses on a twelve month basis is the result of lower staffing levels and related expenses, a reduction in consulting expenses, information systems expense, and reduced office rent due to subleased rental income and a reduction in head office operating costs.

On a per boe basis, G&A expenses decreased \$0.17 and \$0.51 for the three and twelve months ended December 31, 2017, in comparison to the same periods in the prior year mainly due to decreased G&A costs, partially offset by lower sales volumes in the current year.

Harvest does not have a stock option program, however there is a long-term incentive program which is a cash settled plan that has been included in the G&A expense.

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
DD&A	43.2	86.4	188.0	289.1
DD&A (\$/boe)	18.14	35.33	19.36	24.69

DD&A expense for the three and twelve months ended December 31, 2017 decreased by \$43.2 million and \$101.1 million, respectively as compared to the same periods in 2016, mainly due to lower sales volumes and reduced DD&A rate per boe.

For the three and twelve months ended December 31, 2017, DD&A per boe decreased as compared to the same periods in the prior year as a result of increased reserves and changes in estimates relating to the decommissioning liabilities leading to a reduction in the asset base for depletion, partially offset by an increase in capital expenditures.

Impairment Expense/Reversal

Impairment is recognized when the carrying value of a Cash Generating Unit ("CGU") exceeds its recoverable amount, defined as the higher of its value in use ("VIU") or fair value less costs of disposal ("FVLCD"). A reversal of impairment occurs when the carrying value of a CGU previously impaired is less than this

recoverable amount. It is recorded to the extent impairment to that CGU was recorded in a prior period minus depletion, depreciation and amortization that would have been taken. The Company used a risk adjusted discount rate that varied based on the nature of the assets held in each of its CGUs to determine the fair value at the measurement date. For the three and twelve months ended December 31, 2017, a decrease in commodity pricing used by our reserve evaluators was the primary trigger that indicated impairment testing was necessary. As a result, the West Gas CGU recorded impairment in the amount of \$28.4 million. Changes in timing and amount of cash flows from the reserve report were deemed to be the main triggers indicating impairment reversals. Previously recognized impairment charge on the Conventional assets was reversed in the amounts of \$22.6 million and \$39.5 million in the North Oil and South Gas CGUs, respectively. The net effect of the impairment and reversals to Harvest's Conventional assets is an impairment reversal of \$33.7 million for the three and twelve months ended December 31, 2017.

At December 31, 2017, Harvest tested all of its Conventional CGUs for impairment as a result of changes in the outlook of future commodity prices. The recoverable amounts were based on the assets' FVLCD, which is classified as a level 3 fair value measurement based on net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate in the range of 11% to 15% was used to determine the recoverable amount for the Conventional CGUs for the year ended December 31, 2017.

For the three and twelve months ended December 31, 2016, the South Oil and South Gas CGUs were assessed for impairment resulting from an indicative bid that was received from an arm's length party to purchase certain oil and gas assets in these CGUs. The estimated proceeds, which was the recoverable amount based on the FVLCD (level 3 fair value input) of the assets included in the proposed transaction was estimated at \$1.3 million. This triggered an impairment reversal for the three and twelve months ended December 31, 2016, of \$38.8 million to PP&E in Harvest's Conventional segment, which has been included in Impairment, net of reversal line in the statement of comprehensive loss.

For the three and twelve months ended December 31, 2017 as a result of changes in future development plans and lease expirations, exploration and evaluation assets were impaired in the amount of \$nil and \$0.1 million, respectively (2016 - \$17.4 million and \$19.9 million, respectively).

The results of the impairment assessments conducted during the twelve months ended December 31, 2017, and December 31, 2016 are sensitive to changes in any of the key management judgments and estimates inherent to the assessments made. These judgments and estimates include revisions in reserves or resources, a change in forecast commodity prices, expected royalty rates, required future development expenditures, and expected future production costs all of which could increase or decrease the recoverable amount of the assets.

Goodwill

Goodwill is recorded when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of that acquired business. At December 31, 2017, Harvest had \$nil (2016 - \$100.3 million) of goodwill on the balance sheet related to the Conventional segment. The decrease in Goodwill since December 31, 2016 was the result of a provision for impairment in the amount of \$100.3 million (2016 - \$37 million).

Goodwill has been allocated to the Conventional operating segment. In assessing whether goodwill has been impaired, the carrying amount of the operating segment (including goodwill) is compared with the recoverable amount of the operating segment. The estimated recoverable amount of the segment is determined based on its FVLCD.

Market participants generally apply the market multiple enterprise value per barrel of proved and probable reserves ("EV/2P") when estimating the fair value of an oil and gas company. As such, Harvest determined the fair value of its Conventional segment by applying the observed EV/2P multiple of comparable public companies to its proved and probable reserves (Level 2 fair value input). Harvest's proved and probable reserves were estimated by an independent qualified reserves evaluator and are subject to significant judgment.

At December 31, 2017, the impairment test of goodwill concluded that the carrying amount exceeded the estimated recoverable amount. The full balance of goodwill was not recoverable and an impairment loss of \$100.3 million was recorded.

At December 31, 2016, the EV/2P multiples ranged from \$5.60 to \$17.61 per barrel of proved and probable reserves for a group of comparable companies of similar size, operating metrics and production profile. Harvest used an average EV/2P multiple of \$6.00 per barrel of proved and probable reserves when determining the implied fair value of Harvest's Conventional segment. As at December 31, 2016, the carrying value exceeded the recoverable amount by \$37.0 million; as such, goodwill impairment was recorded.

Capital Expenditures

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Drilling and completion	13.4	7.0	29.8	4.9
Well equipment, pipelines and facilities	15.2	5.3	30.2	10.9
Land and seismic	—	0.7	—	1.2
Geological and geophysical	—	—	0.7	—
Corporate	—	0.3	—	—
Other	1.5	0.4	4.9	2.0
Total capital expenditures	30.1	13.7	65.6	19.0

Total capital expenditures were higher for the three and twelve months ended December 31, 2017 compared to 2016 mainly due to increased capital activity for the current year as a result of the drilling and completion of new wells, and the addition of capital expenditures related to well equipment, pipeline, and facilities.

During the three months ended December 31, 2017, Harvest rig released five gross wells, including four horizontal wells in the Cecil area targeting light oil in the Charlie Lake formation, and one multi-stage fractured well in the Rocky Mountain House area targeting gas and natural gas liquids in the Glauconitic formation. During the twelve months ended December 31, 2017, Harvest rig released twelve gross wells, including seven horizontal wells in the Cecil area targeting light oil in the Charlie Lake formation, two (1.1 net) wells in the Rocky Mountain house area including one multi-stage horizontal well targeting gas and natural gas liquids in the Glauconitic formation and one partner operated horizontal multi-stage horizontal well targeting oil in the

Cardium formation, and participated in three partner operated horizontal multi-stage fractured wells (1.6 net) in the Deep Basin area to develop the Falher gas formation.

During the three and twelve months ended December 31, 2017, Harvest's net undeveloped land additions were 158 acres and 10,439 acres, respectively (2016 – 3,608 acres and 15,513 acres, respectively), and there were no net undeveloped land dispositions (2016 - 3,794 acres and 43,842 acres, respectively).

Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at December 31, 2017 were \$632.8 million (December 31, 2016 - \$615.4 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities is based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The increase in the balance as at December 31, 2017 is mainly due to revisions to the estimate as a result of changes in timing of future remediation expenditures, changes in the Bank of Canada long term interest rates, and accretion, partially offset by liabilities settled in the year. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Investments in Joint Ventures

Harvest has investments in Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") joint ventures with KERR Canada Co. Ltd. ("KERR") which are accounted for as equity investments. Harvest derives its income or loss from these investments based upon Harvest's share in the change of the net assets of the joint ventures. Harvest's share of the change in the net assets does not directly correspond to its ownership interest because of contractual preference rights to KERR and changes based on contributions made by either party during the year. For the three and twelve months ended December 31, 2017, Harvest recognized a loss of \$65.4 million and \$84.9 million (\$8.1 million and \$43.8 million) from its investment in the DBP and HKMS joint ventures.

Below is an overview of operational and financial highlights of the DBP and HKMS joint ventures for the three and twelve months ended December 31, 2017. Unless otherwise noted the following discussion relates to 100% of the joint venture results.

Deep Basin Partnership

DBP was established for the purposes of exploring, developing and producing from certain oil and gas properties in the Deep Basin area in Northwest Alberta. During the twelve month periods ended December 31, 2016 and December 31, 2017 Harvest made various contributions to the DBP that resulted in increase in its ownership percentage as reflected in the table below.

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Harvest's ownership interest	82.59%	82.55%	82.52%	82.50%	82.32%
KERR's ownership interest	17.41%	17.45%	17.48%	17.50%	17.68%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at December 31, 2017, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$33.4 million (December 31, 2016 - \$6.7 million).

At December 31, 2017, Harvest received a total of \$17.0 million (December 31, 2016 - \$6.0 million) in distributions from the DBP from inception of the joint venture.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Natural gas liquids (\$/bbl)	56.89	42.37	34%	51.76	34.06	52%
Natural gas (\$/mcf)	1.88	4.41	(57%)	2.55	2.33	9%
Average realized price(\$/boe)	23.35	30.02	(22%)	25.50	18.27	40%

For the three and twelve months ended December 31, 2017, average realized prices for natural gas liquids increased 34% and 52% over the same period in the prior year as a result of increases in benchmark prices, increases in sales prices for propane and butane, and a higher percentage of condensates in the natural gas liquids mix.

For the three and twelve months ended December 31, 2017, average realized prices for natural gas decreased 57% and increased 10% over the same periods in the prior year as a result of fluctuations in benchmark prices and a reclassification of transport charges. Starting in Q4 2016, transportation expense was presented on a gross basis, where in the comparative periods of 2016, such costs were netted against gas revenues.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Natural gas (mcf/d)	19,339	25,835	(25%)	24,981	27,375	(9%)
Natural gas liquids (bbl/d)	1,153	1,246	(7%)	1,612	1,238	30%
Light to medium oil (bbl/d)	5	2	150%	3	2	50%
Total (boe/d)	4,381	5,553	(21%)	5,779	5,802	0%
Harvest's share (boe/d) ⁽¹⁾	3,618	4,571	(21%)	4,769	4,762	0%

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

Total sales volumes for the three months ended December 31, 2017 decreased by 1,172 boe/d as compared to the same period in 2016. This decrease was primarily due to natural declines, as well as downtime for maintenance and third party restrictions, partially offset by production added by new wells drilled in the fourth quarter of 2016 which were brought onto production during the first quarter of 2017. Total sales volumes for the twelve months ended December 31, 2017 decreased by 23 boe/d due to downtime for maintenance and third party restrictions, and natural declines, partially offset by new production resulting from DBP's drilling program in the fourth quarter of 2016.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Revenues ⁽¹⁾	9.0	14.7	(39%)	51.0	37.2	37%
Impairment	(58.7)	—	—	(59.6)	(1.4)	4,157%
Depletion, depreciation and amortization	(8.1)	(11.3)	(28%)	(42.7)	(40.7)	5%
Operating and transportation expenses	(9.5)	(12.8)	(26%)	(40.8)	(34.8)	17%
Finance costs	(0.7)	(0.7)	—	(2.8)	(2.8)	—
Loss on disposition of assets	—	—	—	0.1	(9.8)	(101%)
Net loss ⁽²⁾	(68.0)	(10.1)	573%	(94.8)	(52.3)	81%

(1) Revenue is presented net of royalties.

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

The lower sales revenues for the three months ended December 31, 2017 reflect reduced volumes and natural gas prices. The higher sales revenues for the twelve months ended December 31, 2017 reflect an increase in commodity prices and higher natural gas liquids volumes.

Operating and transportation expenses for the three and twelve months ended December 31, 2017 were \$23.31 per boe and \$19.35 per boe, respectively, a decrease of \$1.52 per boe and an increase of \$2.95 per boe from the same periods in 2016. The decrease for the three months ended December 31, 2017 was primarily due to a decrease in expenses, partially offset by a decrease in volumes. The decrease in expenses was primarily related to a reclassification of gas transportation costs in the comparative quarter which were previously netted against revenues, partially offset by increases in trucking expenses due to pipeline restrictions, and chemicals expense due to new wells brought online having a higher sulphuric acid ("H₂S") content. Operating and transportation expenses per boe for the twelve months ended December 31, 2017 increased primarily as a result of a write down of exploration and evaluation assets and an increase in costs. The increased costs are primarily due to additional costs resulting from increases in trucking expenses due to pipeline restrictions, and increased chemicals expense due to new wells brought online having a higher H₂S content. In addition, for the twelve months ended December 31, 2017, operating and transportation expenses also include increased processing fees charged from the HKMS partnership.

Depletion for the three and twelve months ended December 31, 2017 were \$20.08 per boe and \$20.23 per boe, respectively (\$22.12 per boe and \$19.18 per boe). The decrease in depletion per boe for the three months ended December 31, 2017 was mainly the result of the addition of reserves and changes in estimates relating to the decommissioning liabilities in the third quarter of 2017, partially offset by capital expenditures. The increase in depletion on an annual basis was mainly due to capital expenditures resulting from Deep Basin's winter drilling program.

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Drilling and completion	1.4	9.6	9.0	17.4
Well equipment, pipelines and facilities	0.3	2.8	2.4	6.4
Total ⁽¹⁾	1.7	12.4	11.4	23.8

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

Capital expenditures of \$1.7 million for the three months ended December 31, 2017 were primarily related to one new well (0.2 net) rig released in the quarter. Capital expenditures of \$11.4 million for the twelve months ended December 31, 2017, mainly related to the completion and tie in activity of 4 wells (3.2 net) rig released over the fourth quarter of 2016 to the fourth quarter 2017.

For the three and twelve months ended December 31, 2017 DBP recognized an impairment loss of \$58.7 million and \$59.6 million, respectively. For the three and twelve months ended December 31, 2017, \$52.9 million in impairment was recorded as a result of decreases in the outlook of future commodity prices compared to those at December 31, 2016. For the three and twelve months ended December 31, 2017, DBP also recorded impairment on its exploration and evaluation assets in the amount of \$5.8 million and \$6.7 million, respectively, as a result of changes in future development plans and lease expirations. For the twelve months of 2016, the DBP recognized an impairment loss of \$1.4 million relating to a final statement of adjustments for a corporate acquisition completed in the fourth quarter of 2015. As the partnerships property, plant and equipment (PP&E) assets were impaired as at December 31, 2015 the additions to PP&E as a result of the statement of adjustment were flowed through as an expense in the first quarter of 2016.

HKMS Partnership

HKMS was established for owning and operating a gas plant in the Deep Basin area in Northwest Alberta. During the three and twelve months ended December 31, 2017 Harvest made various contributions to the HKMS that resulted in increase in its ownership percentage as reflected in the table below.

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Harvest's ownership interest	70.47%	70.44%	70.28%	70.25%	70.23%
KERR's ownership interest	29.53%	29.56%	29.72%	29.75%	29.77%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At December 31, 2017, Harvest received a total of \$40.2 million (December 31, 2016 - \$23.4 million) in distributions from the HKMS from inception of the joint venture.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2017	2016	Change	2017	2016	Change
Revenues	6.4	6.7	(4%)	27.7	24.6	13%
Operating expenses and other	(0.7)	(0.7)	—	(4.2)	(1.5)	180%
Depreciation and amortization	(0.9)	(0.9)	—	(3.4)	(3.5)	(3%)
Finance costs	(4.8)	(4.9)	(2%)	(19.1)	(19.6)	(3%)
Net income ⁽¹⁾	—	0.2	(100%)	1.0	—	—

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

The Gas Processing Agreement between the HKMS and DBP ensures that HKMS receives an 18% internal rate of return on capital deployed over the term of the contract, which equates to a minimum monthly capital fee that is currently \$1.9 million. This capital fee is accounted for as revenue for HKMS and an operating expense for the DBP. In addition HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and twelve months ended December 31, 2017 the partnership generated revenues of \$6.4 million and \$27.7 million, respectively (2016 - \$6.7 million and \$24.6 million).

Operating expenses of the facility are recovered through charging an operating fee to the producers. For the three and twelve months ended December 31, 2017 the partnership operating expenses were \$0.7 million and \$4.2 million, respectively (2016 - \$0.7 million recovery and \$1.5 million expense). Operating expenses for the three months ended December 31, 2017 were consistent with the same period in the prior year. Operating expenses for the twelve months ended December 31, 2017 increased as a result of repairs and maintenance at the gas plant. These expenses were offset by revenue recoveries from the Deep Basin Partnership.

Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and twelve months ended December 31, 2017 the partnership depreciation expense were \$0.9 million and \$3.4 million, respectively (2016 - \$0.9 million and \$3.5 million).

Finance costs mainly represent an accounting charge resulting from the Partner's contributions being classified as liabilities, as a result of the Gas Processing Agreement guaranteed returns. For the three and twelve months ended December 31, 2017 the partnership finance costs were \$4.8 million and \$19.1 million, respectively (2016 - \$4.9 million and \$19.6 million).

See note 10 of the December 31, 2017 audited annual consolidated financial statements for discussion of the accounting implications of these joint ventures.

OIL SANDS
Pre-operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Expenses				
Pre-operating	2.3	2.9	10.5	10.7
General and administrative	0.4	0.5	1.8	2.2
Depreciation and amortization	—	0.1	0.3	0.6
Pre-Operating loss ⁽¹⁾	(2.7)	(3.5)	(12.6)	(13.5)

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

For the three and twelve months ended December 31, 2017, Harvest recognized an operating loss of \$2.7 million and \$12.6 million (2016 - \$3.5 million and \$13.5 million) respectively, mainly relating to pre-operating and general and administrative expenses.

For the fourth quarter and twelve months of 2017 and 2016, no impairments were charged to the Oil Sands segment.

Capital Expenditures

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Well equipment, pipelines and facilities	3.0	(0.1)	3.8	0.1
Other ⁽¹⁾	0.8	2.0	0.8	1.8
Total Oil Sands capital expenditures	3.8	1.9	4.6	1.9

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

On December 21, 2017, Harvest announced its decision to re-sanction and complete construction of its 10,000 bbl/d BlackGold facility. The capital expenditures for the three and twelve months ended December 31, 2017, mainly related to construction activities which were recommenced in the fourth quarter of 2017, and preliminary commissioning costs. Commissioning and first steam injection is expected to be completed in the second quarter of 2018, with first production anticipated in the third quarter of 2018.

Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at December 31, 2017 was \$50.5 million (December 31, 2016 - \$48.6 million) relating to the future remediation, abandonment, and reclamation of the steam assisted gravity drainage ("SAGD") wells and CPF. The increase in balance as at December 31, 2017 is mainly due to revisions to the estimate as a result of changes in timing of future remediation expenditures, changes in the Bank of Canada long term interest rates and accretion. Please see the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Project Development

Harvest has been developing its Oil Sands CPF under the engineering, procurement and construction ("EPC") contract. Initial drilling of 30 SAGD wells (15 well pairs) was completed by the end of 2012 and the majority of the well completion activities were completed by the end of 2014. More SAGD wells will be drilled in the future

to compensate for the natural decline in production of the initial well pairs and maintain the Phase 1 design production capacity of 10,000 bbl/d. During the first quarter of 2015 construction had been substantially completed, including the building of the CPF plant site, well pads, and connecting pipelines. Construction activities were recommenced in the fourth quarter of 2017. Commissioning and first steam injection is expected to be completed in the second quarter of 2018, with first production anticipated in the third quarter of 2018.

Harvest has recorded \$1,087.1 million of costs on the entire project since acquiring the Oil Sands assets in 2010. This amount includes certain Phase 2 pre-investment which is expected to improve the capital efficiency over the project lifecycle. Under the EPC contract, \$94.9 million of the EPC costs will be paid in equal installments, without interest, over 10 years. Payments commenced during the second quarter of 2015 with two payments made on April 30, 2015. Harvest withheld the third and fourth deferred payments due April 30, 2016, and April 30, 2017 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2017, Harvest recognized a liability of \$69.4 million (December 31, 2016 - \$67.2 million) using a discount rate of 4.5% (December 31, 2016 - 4.5%).

As Harvest uses the unit of production method for depletion and the Oil Sands assets currently have no production, no depletion on the Oil Sands property, plant and equipment has been recorded. Minor depreciation has been recorded during the three and twelve months ended December 31, 2017 on administrative assets.

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 derivative contracts outstanding at December 31, 2017:

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of liability
US\$147 million	Foreign exchange swap	January 2018	\$1.29 CDN/US	(5.1)
				\$ (5.1)

Harvest has entered into U.S. dollar currency swap transactions related to a LIBOR borrowing, which results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and twelve months ended December 31, 2017 was 1.8% and 1.6%, respectively (2016 – 1.3% and 1.5%, respectively). These effective interest rates include the impact of the U.S. dollar currency swap transactions related to

LIBOR borrowings, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility.

	Three Months Ended December 31							
	2017				2016			
Realized (gains) losses recognized in:	Top-Up Currency	Obligation	Total	Power	Crude Oil	Currency	Top-Up Obligation	Total
Revenues	—	—	—	—	0.5	—	—	0.5
Derivative contract (gains) losses ⁽¹⁾	(14.4)	—	(14.4)	0.3	—	—	—	0.3
Unrealized (gains) losses recognized in:								
OCI, before tax	—	—	—	—	0.1	—	—	0.1
Derivative contract (gains) losses ⁽¹⁾	10.9	26.1	37.0	(0.1)	—	(4.3)	(7.8)	(12.2)

	Twelve Months Ended December 31							
	2017			2016				
Realized (gains) losses recognized in:		Top-Up			Crude		Top-Up	
	Currency	Obligation	Total	Power	Oil	Currency	Obligation	Total
Revenues	—	—	—	—	0.1	—	—	0.1
Derivative contract (gains) losses ⁽¹⁾	11.2	—	11.2	1.6	—	—	—	1.6
Unrealized (gains) losses recognized in:								
OCI, before tax	—	—	—	—	0.1	—	—	0.1
Derivative contract (gains) losses ⁽¹⁾	5.1	26.8	31.9	—	—	(1.1)	4.7	3.6

(1) Derivative contract (gains) losses are the result of foreign exchange hedges that have been entered into in order to eliminate foreign exchange fluctuations on Harvest's US dollar denominated LIBOR borrowings. Harvest enters into U.S. dollar denominated LIBOR borrowings instead of other Canadian denominated borrowing options in order to realize lower interest rates on its revolving credit facility. As Harvest does not apply hedge accounting to these financial instruments, the offsetting foreign exchange (gains) losses resulting from this hedging relationship are classified as realized and unrealized (gains) losses on foreign exchange. Refer to "Currency Exchange" in this MD&A for further details.

Finance Costs

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Credit facility ⁽¹⁾	2.0	3.9	10.8	17.7
Term loan facility ⁽¹⁾	3.3	—	11.6	—
6 $\frac{7}{8}$ % senior notes	—	7.1	20.4	37.4
2 $\frac{1}{8}$ % senior notes ⁽¹⁾	5.6	6.0	23.1	23.7
2 $\frac{1}{3}$ % senior notes ⁽¹⁾	1.7	1.8	7.0	3.8
3% senior notes ⁽¹⁾	5.6	—	5.9	—
Related party loans	—	11.9	—	39.9
Amortization of deferred finance charges and other	0.6	1.0	2.1	3.1
Interest and other financing charges	18.8	31.7	80.9	125.6
Accretion of decommission and environmental remediation liabilities	3.9	3.4	15.4	16.7
Accretion of long-term liability	0.5	0.7	2.3	3.1
Total finance costs	23.2	35.8	98.6	145.4

(1) Includes guarantee fee to KNOC.

Currency Exchange

	Three Months Ended December 31		Twelve Months Ended December 31	
	2017	2016	2017	2016
Realized (gains) losses on foreign exchange	(19.5)	6.3	(44.4)	(16.1)
Unrealized (gains) losses on foreign exchange	28.2	45.5	(72.5)	(23.8)
Total (gains) losses on foreign exchange	8.7	51.8	(116.9)	(39.9)

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 $\frac{7}{8}$ %, 2 $\frac{1}{8}$ %, 2 $\frac{1}{3}$ % and 3% senior notes and on any U.S. dollar denominated monetary assets or liabilities. For the three months ended December 31, 2017, the Canadian dollar had weakened compared to the US dollar resulting in an unrealized foreign exchange loss of \$28.2 million (2016 - \$45.5 million). For the year ended December 31, 2017 the Canadian dollar had strengthened, leading to a \$72.5 million unrealized foreign exchange gain (2016 - \$23.8 million). Harvest recognized realized foreign exchange gains of \$19.5 million and \$44.4 million for the three and twelve months ended December 31, 2017 (2016 - \$6.3 million loss and \$16.1 million gain) on settlement of U.S. dollar denominated transactions including the repayment of 6 $\frac{7}{8}$ % senior notes which resulted in a \$28.1 million gain.

Income Taxes

For the three and twelve months ended December 31, 2017 Harvest did not record a deferred income tax recovery (2016 - \$nil and \$0.1 million, respectively). Harvest's deferred income tax asset will fluctuate from time to time to reflect changes in the temporary differences between the book value and tax basis of assets and liabilities. The principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the quarter ended December 31, 2017:

Related Party Loans

During the third quarter of 2016, Harvest drew down the U.S. \$184.8 million loan with KNOC to repay the ANKOR loan.

On December 22, 2016, KNOC converted all its outstanding related party loans to common shares of Harvest.

As at December 31, 2017 and December 31, 2016, there were no related party loans outstanding. The following is the interest expense relating to each related party loan for the three and twelve months ended December 31, 2016:

Related Party	Principal	Interest Rate	Interest expense	
			Three months ended	Twelve months ended
			December 31	December 31
			2016	2016
KNOC	US\$171	5.91%	5.1	14.1
KNOC	\$200	5.30%	3.6	14.0
KNOC	US\$184.8	4.66%	3.3	5.9
ANKOR	US\$170	4.62%	-	5.9

	Transactions				Balance Outstanding			
	Three Months Ended		Twelve Months Ended		Accounts Receivable as at		Accounts Payable as at	
	December 31		December 31		December 31		December 31	
	2017	2016	2017	2016	2017	2016	2017	2016
G&A								
KNOC ⁽¹⁾	0.4	0.1	0.7	0.4	—	0.1	0.3	0.4
Finance costs								
KNOC ⁽²⁾	2.9	2.3	10.2	9.0	—	—	2.9	1.7

⁽¹⁾ Amounts relate to the payments to (reimbursement from) KNOC for secondees salaries.

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's senior notes, the credit facility and term loan. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes, 37 basis points per annum on the 2¼% senior notes, and 37 basis points on the 3% senior notes. A guarantee fee of 37 basis points per annum is charged by KNOC on the credit facility and term loan.

During the year ended December 31, 2016, Harvest entered into an agreement with KNOC to drill a well and provide technical data to KNOC. KNOC initially provided Harvest with \$5.3 million in cash to drill a well, and any additional amounts incurred relating to the well will be billed to KNOC for reimbursement up to a maximum of 9.4 billion Korean Won equivalent. In the year ended December 31, 2017 funds of \$5.8 million (2016 - \$5.3 million) provided by KNOC were recorded in contributed surplus.

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 10, "Investment in Joint Ventures" in the December 31, 2017 audited annual consolidated financial statements for details of related party transactions with DBP and HKMS.

CAPITAL RESOURCES

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

	December 31, 2017	December 31, 2016
Credit facility ⁽¹⁾⁽³⁾	190.6	893.5
Term loan facility ⁽¹⁾	500.0	—
6 $\frac{7}{8}$ % senior notes (US\$282.5 million) ⁽¹⁾⁽²⁾	—	379.3
2 $\frac{1}{8}$ % senior notes (US\$630 million) ⁽¹⁾⁽²⁾	792.0	845.9
2 $\frac{1}{3}$ % senior notes (US\$195.8 million) ⁽²⁾	246.1	262.9
3% senior notes (US\$485.0 million) ⁽²⁾	609.7	—
	2,338.4	2,381.6
Shareholder's equity (deficiency)		
458,766,467 common shares issued	(172.4)	104.0
	2,166.0	2,485.6

(1) Excludes capitalized financing fees

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

(3) Excludes letters of credit in the amount of \$14.9 million at December 31, 2017 (December 31, 2016 - \$9.9 million)

On September 21, 2017, Harvest issued US \$285 million 3% senior notes due September 21, 2022 that are unconditionally and irrevocably guaranteed by KNOC. The proceeds of this issuance were used to repay the US \$282.5 million 6 $\frac{7}{8}$ % senior notes on October 2, 2017. This refinancing provides significant savings to Harvest by reducing interest expense by approximately US \$10.9 million annually, and is further evidence of KNOC's continuing support of Harvest.

On November 6, 2017, Harvest issued an additional US \$200 million of 3% senior notes due September 21, 2022 for net proceeds of US \$198.5 million. The proceeds from the upsized offering will be used for general corporate purposes, including funding the completion and commissioning of Harvest's BlackGold oil sands project.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allowed Harvest to borrow \$500 million through a three year 2.27% term loan. The proceeds from the term loan were used to partially repay credit facility borrowings. In addition, on February 24, 2017, Harvest entered into a new three year \$500 million revolving credit facility with a syndicate of banks that replaced the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC. A guarantee fee of 37 basis points per annum payable semi-annually on the principal balance of each facility is payable to KNOC. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries. Both facilities contain no financial covenants. Harvest continues to pay a floating interest rate based on a margin pricing grid based on the credit ratings of

KNOC. The current rates are Canadian Dollar Offered Rate plus 90 basis point on Canadian dollar drawn balances and LIBOR plus 90 basis points on US dollar drawn balances.

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future operating and capital activities. Harvest prepares annual operational and capital budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production levels, the success of the capital expenditures program and other general industry conditions. Harvest monitors its capital structure and makes adjustments according to market conditions to remain flexible while meeting these objectives. Accordingly, Harvest may adjust its capital spending programs, issue equity, issue new debt or repay existing debt.

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

LIQUIDITY

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

Cash flows used in operating activities for the three months ended December 31, 2017 was \$21.3 million (2016 - \$15.2 million generated in operations). The decrease as compared to the fourth quarter of 2016 is mainly a result of changes in working capital requirements and cash contribution from operations, partially offset by reduced finance costs. Cash used in operating activities for the twelve months ended December 31, 2017 was \$5.2 million (2016 - \$33.3 million). The decrease for the twelve month period is mainly the result of changes in working capital, an increase in cash contributions from operations and reduced finance costs. For analysis of changes in cash contributions from operations, refer to below.

Cash contributions from Harvest's Conventional operations for the three and twelve months ended December 31, 2017 were \$24.5 million and \$84.3 million, respectively (2016 - \$33.3 million and \$74.6 million). The decrease in cash contributions for the three months ended December 31, 2017 was mainly due to a decrease in revenues and other income, partially offset by a decrease in transportation and marketing expenses. The increase in cash contributions for the twelve months ended December 31, 2017 was mainly due to decreases in operating expenses and general and administrative expenses, partially offset by an increase in transportation and marketing expenses.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Harvest funded capital expenditures for the three and twelve months ended December 31, 2017 of \$33.9 million and \$70.2 million, respectively (2016 - \$15.6 million and \$20.9 million) with the borrowings under both the credit facility and term loan.

Harvest's net change to the credit facility and term loan were \$227.7 million and \$199.3 million net repayments, respectively, during the three and twelve months ended December 31, 2017 (\$6.8 million net drawings and \$42.1 million net repayments).

Harvest had a working capital deficiency of \$918.3 million as at December 31, 2017, as compared to a \$1,370.9 million deficiency at December 31, 2016. The working capital deficiency at December 31, 2017 includes the 2½% senior notes. The working capital deficiency at December 31, 2016 included the credit facility and 6½% senior notes. Harvest's working capital, excluding senior notes, is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility managing the collection and payment of accounts receivables and accounts payables respectively and using the proceeds from possible sale of assets, as required. Refer to "Capital Resources" section of this MD&A for further discussion of Harvest's liquidity management of senior notes.

Harvest ensures its liquidity through the management of its capital structure, seeking to balance the amount of debt and equity used to fund investment in each of our operating segments. The Company continually monitors its credit facility covenants and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating covenants as and when required.

In response to improvements in the commodity price environment, Harvest has begun to reinvest in a conservatively budgeted drilling program, targeting specified core areas of development. In addition, Harvest has re-commenced construction activities on its Oil Sands project during the fourth quarter of 2017.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly or indirectly invested and provided financial support to Harvest since 2009 and, as at the date of preparation of this MD&A, it is the Company's expectation that such support will continue. KNOC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company's credit facility, term loan and senior notes.

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at December 31, 2017, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments ⁽¹⁾	792.0	690.6	851.8	—	2,334.4
Debt interest payments ^{(1) (2)}	57.2	84.3	44.1	—	185.6
Purchase commitments ⁽³⁾	29.1	19.4	19.0	82.0	149.5
Operating leases	6.9	16.2	15.5	19.9	58.5
Firm processing	11.0	22.0	20.9	24.6	78.5
Firm transportation	25.8	40.4	26.0	28.6	120.8
Employee benefits ⁽⁴⁾	1.5	0.7	—	—	2.2
Decommissioning and liabilities ⁽⁵⁾	13.6	110.1	44.0	1,023.7	1,191.4
Total	937.1	983.7	1,021.3	1,178.8	4,120.9

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at December 31, 2017 will be applicable to future interest payments.

(3) Relates to the Oil Sands deferred payment under the EPC contract (see "Oil Sands Oil Sands" section of this MD&A for details) and the top-up obligation to KERR.

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

(5) Represents the undiscounted obligation by period cash flow.

Environmental Initiatives Impacting Harvest

On January 1, 2017, the Government of Alberta implemented an economy wide carbon emissions tax. The tax was set at \$20 per tonne for 2017 and increased to \$30 per tonne on January 1, 2018. In addition, as part of the Climate Leadership Plan, the Government of Alberta implemented an oil sands emission production cap of 100 megatonnes a year, and have a plan to phase out of coal-fired power production by 2030, and initiated a program to reduce methane gas emissions by 45% from Alberta's oil and gas operations by the year 2025. Harvest anticipates these initiatives will result in an increase in the cost of operating its properties located in Alberta.

Off Balance Sheet Arrangements

See "Investments in Joint Ventures" section in this MD&A and note 10, "Investment in Joint Ventures" in the December 31, 2017 audited annual consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the fourth quarter of 2017 results relative to the preceding 7 quarters:

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Revenue, Conventional	75.3	63.4	69.3	77.2	84.4	65.8	72.7	64.4
Net loss ⁽¹⁾	(207.3)	(17.6)	(26.5)	(30.8)	(162.5)	(106.9)	(65.7)	(13.1)
Operating netback prior to hedging (\$/boe), Conventional ⁽²⁾	15.04	10.84	13.04	14.61	15.97	13.16	8.85	4.85
OPERATIONS								
Daily sales volumes (boe/d), Conventional	25,902	26,912	26,324	27,226	26,589	30,051	34,440	36,986
Realized price prior to hedging (\$/boe), Conventional	35.15	27.80	33.59	34.91	37.06	28.03	26.50	20.86

(1) Includes Conventional and Oil Sands segments

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

The quarterly revenues and cash from operating activities are mainly impacted by the Conventional sales volumes, realized prices and operating expenses, which are the primary drivers of Harvest's operating netback prior to hedging. Significant items that impacted Harvest's quarterly revenues include:

- Total revenues were highest in the fourth quarter of 2016, as a result of increased realized commodity prices and lowest in the third quarter of 2017 due to reduced commodity prices and low sales volumes.
- The declines in Conventional sales volumes from the first quarter of 2016 to the fourth quarter of 2016 were mainly due to asset dispositions and a capital program that was insufficient to offset declines in production. Harvest began reinvesting in the drilling of new wells in the fourth quarter of 2016, resulting in an increase in volumes for the first quarter of 2017 which has shown a natural decline to the fourth quarter of 2017.

Net loss reflects both cash and non-cash items. Changes in non-cash items include deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, accretion of onerous contracts, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on derivative contracts impact net loss from period to period. For these reasons, the net loss may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to. Significant items that impacted net loss include:

- Net loss in the fourth quarter of 2017 includes a \$100.3 million impairment of Goodwill, and a loss from joint-ventures of \$64.5 million primarily resulting from a \$52.9 million impairment in DBP.

- Net loss in the fourth quarter of 2016 includes a \$17.4 million write off of exploration and evaluation assets, and \$51.8 million of unrealized foreign exchange losses on the Company's U.S. denominated debt.

SELECTED ANNUAL INFORMATION

	Twelve Months Ended December 31		
	2017	2016	2015
Revenue	285.2	287.3	461.6
Net loss from continuing operations	(282.2)	(348.2)	(1,793.4)
Net loss from discontinued operations ⁽¹⁾	—	—	(15.5)
Net loss	(282.2)	(348.2)	(1,808.9)
Total assets	3,115.9	3,374.9	3,928.1
Total financial liabilities, non-current ⁽²⁾	2,315.2	1,847.9	2,252.2

(1) Downstream operations ended on November 13, 2014, and have been classified as "Discontinued Operations"

(2) Total financial liabilities, non-current, consists of the non-current portion of long-term debt, related party loans and long-term liability.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Harvest has identified the following areas where significant estimates and judgments are required. Further information on each of these areas and how they impact various accounting policies are described below and also in relevant notes to the audited annual consolidated financial statements. Changes in estimates are accounted for prospectively.

(a) Joint arrangements

Judgment is required to determine whether or not Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 5 of the audited annual consolidated financial statements for more details.

In addition, judgment is required in determining whether joint arrangement structured through a separate vehicle is a joint operation or joint venture and involves determining whether the legal form and contractual arrangements give the Company direct rights to the assets and obligations for the liabilities. Other facts and circumstances are also assessed by management, including but not limited to, the Company's rights to the economic benefits of assets and its involvement and responsibility for settling

liabilities associated with the arrangement. This often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint venture or joint operation may materially impact the accounting.

On April 23, 2014, Harvest entered into two joint arrangements with KERR Canada Co. Ltd. ("KERR"): Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") (also see note 10 of the audited annual consolidated financial statements). Unanimous consent must be obtained from the shareholders for decisions about relevant activities that impact the returns on investment. Such activities include but are not limited to the approval of the overall capital program and budget. Based on management's assessment, Harvest concluded that both joint arrangements are joint ventures as neither KERR nor Harvest has a direct interest in the underlying assets or liabilities. These joint ventures have been recognized using the equity method of accounting. However, based on the terms of the agreement, which provide for differing proportions of earnings based on ownership percentages that are not representative of the economic substance, Harvest cannot simply apply its percentage ownership to pick up the net income from these joint ventures. Therefore, Harvest applies a hypothetical liquidation at book value ("HLBV") method to calculate its equity share of net income for each reporting period. HLBV takes a balance sheet approach in calculating the earnings Harvest should recognize based on the change in Harvest's economic interest in the net assets in the partnerships under the provisions of the joint venture agreements in a liquidation scenario.

(b) Reserves

The provision for depletion and depreciation of Conventional assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Conventional and Oil Sands' decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to Conventional and Oil Sands may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets.

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

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

As the economic assumptions used may change, such changes may impact the reported financial position and results, which include E&E, PP&E, goodwill, DD&A, provisions for decommissioning liabilities and deferred tax assets.

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

Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production ("UOP") calculation and the matching of capitalized costs with the benefit of production. The calculation of the UOP rate of DD&A will be impacted to the extent that actual production in the future is different from current forecasted production based on total proved reserves or future development cost estimate changes.

(c) Impairment of long-lived assets

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

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. The determination of whether such indicators exist requires significant judgment.

E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment and directly impact the timing and amount of impairment. These assumptions may change as new information become available. If, after E&E expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in the statement of comprehensive loss in the period when the new information becomes available.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCD. To determine the recoverable amounts under VIU, Harvest uses reserve estimates for both the Conventional and Oil Sands operating segments. The estimates of reserves, future commodity prices, discount rates, operating expenses and future development costs require significant judgments. FVLCD is determined using judgments, see note 5(c) of the audited annual consolidated financial statements for further discussion.

(d) Provisions

In the determination of the decommissioning liability provision and provision for onerous contract, management is required to make a significant number of estimates and assumptions with respect to

activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E. The provisions at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(e) Income taxes

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

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, capital expenditures, general and administrative expenses and finance costs) and the judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(f) Fair value measurements

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

RECENT ACCOUNTING PRONOUNCEMENTS

Future Accounting Policy Changes

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. In April 2016, the IASB issued its final amendments that provide new examples and clarification on how the principles should be applied. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning January 1, 2018. Application of the standard is mandatory and early adoption is permitted. Harvest has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that

the adoption of IFRS 15 will not have a material impact on Harvest's net income and financial position. Harvest will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15.

On July 24, 2014, the IASB issued IFRS 9 "Financial Instruments" to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2018. Harvest has determined that there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9.

In January 2016, the IASB issued IFRS 16 "Leases" to replace IAS 17 "Leases". IFRS 16 requires lessees to recognize most leases on the statement of financial position using a single recognition and measurement model. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 will be applied by Harvest on January 1, 2019. Harvest is currently evaluating the impact on its consolidated financial statements.

OPERATIONAL AND OTHER BUSINESS RISKS FOR CONTINUING OPERATIONS

Harvest's Conventional and Oil Sands operations are conducted in the same business environment as most other operators in the respective businesses and the business risks are very similar. Harvest has a risk management committee that meets on a regular basis to assess and manage operational and business risks and has a corporate Environment, Health and Safety ("EH&S") policy. For further risk discussion, refer to Harvest's AIF, which can be found on SEDAR at www.sedar.com. The Harvest management team is focused on long-term strategic planning and has identified the key risks and uncertainties associated with the business that could impact the financial results. The following summarizes the significant risks:

Risks Associated with Commodity Prices

- Prices received for petroleum and natural gas have fluctuated widely in recent years. Natural gas prices have experienced significant declines since 2010 and crude oil prices have been depressed since 2014. Crude oil differentials continue to be volatile due to fluctuations in the world market for oil. Further or prolonged decreases in commodity prices could reduce Harvest's earnings and cash flow and could result in shut-in of certain producing properties. Low commodity prices and/or wide crude oil differentials may also result in asset impairment. Commodity prices are determined by economic, political and supply and demand factors. Harvest manages commodity price risks by entering into various commodity price risk management contracts. Refer to the "Cash Flow Risk Management" section of this MD&A for further information. To the extent that Harvest engages in risk management activities related to commodity prices, it will be subject to credit risks associated with the counterparties of the contracts.

Risks Associated with Refinancing

- Harvest currently has a \$500 million three year fixed rate term loan with a Korean based bank. In addition, as at February 24, 2017, Harvest received a new three year \$500 million revolving credit facility with a syndicate of banks. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC. The syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants. In the event that Harvest is unable to fund future principal repayments on its term loan, it could impact Harvest's ability to fund its ongoing operations.
- Harvest currently has \$1,647.8 million of senior notes outstanding with required repayments in 2018 through to 2022. These notes are unconditionally guaranteed by Harvest's parent company, KNOC. Harvest intends to fund these principal repayments with issuance of new long-term debt. In the event that Harvest is unable to fund future principal repayments, it could impact Harvest's ability to fund its ongoing operations.

Risks Associated with Operations

- The markets for petroleum and natural gas produced in Western Canada are dependent upon available capacity to refine crude oil and process natural gas as well as pipeline or other methods to transport the products to consumers.
- Exploration and development activities may not yield anticipated production, and the associated cost outlay may not be recovered.
- Pipeline capacity and natural gas liquids fractionation capacity in Alberta has not kept pace with the drilling of liquid rich gas properties in some areas of the province which may limit production periodically.
- The production of petroleum and natural gas may involve a significant use of electrical power which has been volatile in price since deregulation of the electric system in Alberta. Increases in power prices reduce our cash flow and earnings. From time to time, Harvest may enter into electricity price swaps to manage our exposure to power price volatility.
- Certain of Harvest's properties are held in the form of licences and leases and working interests in licences and leases. If Harvest or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire.
- Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. Harvest is not aware that any claims have been made in respect of its properties and assets. However, if a claim arose and was successful, such claim may have a material adverse effect on Harvest's business, financial condition, results of operations and prospects.
- Decommissioning liabilities are calculated using estimated costs and timelines based upon current operational plans, technology and reclamation practices, and environmental regulations. These factors are subject to change and such changes may impact the actual timing and amount of Harvest's decommissioning costs.

Risks Associated with Reserve Estimates

- The reservoir and recovery information in reserve reports prepared by independent reserve evaluators are estimates and actual production and recovery rates may vary from the estimates and

the variations may be significant. The actual production and ultimate reserves and resources from Harvest's properties may be greater or less than the estimates prepared.

- Reserve and resource reports are prepared using certain commodity price assumptions for crude oil, natural gas, and natural gas liquids. If Harvest's realized price for the commodity is lower than the estimated amount, then the amount of reserves and resources and cash flows generated would be reduced and the decrease could be significant.
- Prices paid for acquisitions are based in part on reserve report estimates and the assumptions made preparing the reserve reports are subject to change as well as geological and engineering uncertainty. The actual reserves acquired may be lower than expected, which could adversely impact our cash flow and earnings.

Risks Associated with the Oil Sands Project

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

Risks Associated with Acquisitions and Dispositions

- Harvest makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Harvest's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Harvest.
- Non-core assets are periodically disposed of, so that Harvest can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets, if disposed of, could be expected to realize less than their carrying value on the financial statements.

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

- The operations of petroleum and natural gas properties involves a number of operating and natural hazards which may result in health and safety incidents, environmental damage and other unexpected and/or dangerous conditions.
- The operations of petroleum and natural gas properties are subject to environmental regulation pursuant to local, provincial and federal legislation. Changes in these regulations could have a material adverse effect as regards to operating costs and capital costs. A breach of such legislation may result in the imposition of fines as well as higher operating standards that may increase costs.
- Harvest's corporate EH&S program has a number of specific policies and practices to minimize the risk of safety hazards and environmental incidents. It also includes an emergency response program should an incident occur. If areas of higher risk are identified, Harvest will undertake to analyze and recommend changes to reduce the risk including replacement of specific infrastructure. In addition, our business units conduct emergency response training on a regular basis in all of our operating

fields to ensure a high level of response capability when placed in a challenging situation. Harvest also performs safety and environmental audits of our operating facilities. In addition to the above, Harvest maintains business interruption insurance, commercial general liability insurance as well as specific environmental liability insurance, in amounts consistent with industry standards.

- Harvest carries industry standard property and liability insurance on its Conventional operations. Losses associated with potential incidents described above could exceed insurance coverage limits.

Risks Associated with Liquidity

- Absent capital reinvestment or acquisition, Harvest's reserves and production levels from petroleum and natural gas properties will decline over time as a result of natural declines. As a result, cash generated from operating these properties may decline.
- Fluctuations in interest rates and the U.S./Canada exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.
- Harvest is required to comply with covenants under the credit facility. In 2017, the syndicate of financial institutions consented to eliminate the credit facility financial covenants. In the event that the Company does not comply with the covenants, its access to capital may be restricted or repayment may be required.
- Although the Company monitors the credit worthiness of third parties it contracts with through a formal risk management policy, there can be no assurance that the Company will not experience a loss for nonperformance by any counterparty with whom it has a commercial relationship. Such events may result in material adverse consequences on the business of the Company.
- Harvest's ability to make scheduled repayments or refinance its debt obligations will depend upon its financial and operating performance, which in turn will partially depend upon prevailing industry and general economic conditions. There can be no assurance that our operating performance, cash flow and capital resources will be sufficient to service and/or repay the Company's debt in the future, in which case the Company may sell assets, enter into joint ventures with 3rd parties to support current and future capital projects, defer capital expenditures, and/or raise additional debt, to the extent available.

Harvest monitors its cash flow projections and covenants on a routine basis and will adjust its development plans accordingly in response to changes in commodity prices and cash flows. Harvest has sought financial support from KNOC as and when required, while KNOC has demonstrated its commitment to support Harvest through liquidity injections and guarantees, in the event KNOC withdraws or curtails its future financial support, this could result in material adverse consequences to Harvest. In 2015, Harvest postponed completion of the BlackGold Oil Sands project in response to the unfavorable heavy oil prices. Construction has recommenced in the fourth quarter of 2017. Commissioning, first steam, and first production is expected in 2018.

Risks Associated with Investment in Joint Arrangement

- As KERR has the ability to 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, there is a risk that Harvest would have to meet this obligation if DBP does not have sufficient funds to complete the redemption obligation. This obligation could also arise upon the termination of this arrangement.

General Business Risks

- The operation of petroleum and natural gas properties requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- Skilled labor is necessary to run operations (both those employed directly by Harvest and by our contractors) and there is a risk that we may have difficulty in sourcing skilled labor which could lead to increased operating and capital costs.
- The loss of a member of our senior management team and/or key technical operations employee could result in a disruption to our operations.
- In the future, Harvest may acquire or move into new industry related activities or new geographical areas or may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase Harvest's exposure to one or more existing risk factors, which may in turn result in Harvest's future operational and financial conditions being adversely affected.
- Conventional crude oil sales and a large portion of Harvest's long-term debt are denominated in US dollars while the Company incurs operating and capital costs in Canadian dollars which results in a currency exchange exposure.
- The operations of Harvest operate under permits issued by the federal and provincial governments and these permits must be renewed periodically. The federal and provincial governments may make operating requirements more stringent which may require additional spending.
- Income tax laws, other laws or government incentive programs relating to the oil and gas industry, may in the future be changed or interpreted in a manner that affects Harvest or its stakeholders.
- In the normal course of operations, Harvest may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and it is possible that there could be material adverse developments in pending or future proceedings and as a result, could have a material adverse effect on Harvest's assets, liabilities, business, financial condition and results of operations.
- Harvest may disclose confidential information relating to its business, operations or affairs while discussing potential business relationships or other transactions with third parties. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put us at competitive risk and may cause significant damage to the business. The harm to the business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages.

CHANGES IN REGULATORY ENVIRONMENT

The oil and gas industry is subject to extensive regulations imposed by many levels of government in Canada. Harvest currently operates in Alberta and British Columbia, both of which have different legislations and royalty programs which may be amended from time to time. A change in the royalty programs or legislations may have adverse impacts on Harvest's future earnings and cash flows.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2017 as defined under the rules adopted by the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission. Based on this evaluation, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of December 31, 2017, the disclosure controls and procedures were effective to ensure that information required to be disclosed by Harvest in reports that it files or submits to Canadian and U.S. securities authorities was recorded, processed, summarized and reported within the time period specified in Canadian securities laws and was accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. The Company's DC&P are designed to provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS as issued by IASB. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operation of the Company's DC&P and ICFR as of December 31, 2017. The evaluation was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on the evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

There were no significant changes in internal controls over financial reporting for the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Because of its inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

NON-GAAP MEASURES

Throughout this MD&A, Harvest uses certain terms or performance measure commonly used in the oil and natural gas industry that are not defined under IFRS (hereinafter also referred to as "GAAP"). These non-

GAAP measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures of other companies. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for cash contribution (deficiency) which is shown below.

BOE presentation

Boe means barrel of oil equivalent. All boe conversions in this MD&A are derived by converting gas to oil at the ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("Bbl") of oil. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Bbl : 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Bbl : 6 Mcf, utilizing a conversion ratio of 1 Bbl : 6 Mcf may be misleading as an indication of value.

"Operating income (loss)" and "pre-operating loss" is a non-GAAP measure which Harvest uses as a performance measure to provide comparability of financial performance between periods excluding non-operating items. Harvest also uses this measure to assess and compare the performance of its operating segments. The amounts disclosed in the MD&A reconcile to segmented information in the financial statements.

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

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

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

"Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of each segment of Harvest to generate the cash from operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: operating, general and administrative, exploration



MANAGEMENT'S DISCUSSION AND ANALYSIS

and evaluation, depletion, depreciation and amortization, gains on disposition of assets, derivative contracts gains or losses, impairment and other charges, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included in operating income (loss). The measure demonstrates the ability of Harvest's Conventional segment to generate cash from operations and is calculated before changes in non-cash working capital. 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.

"Harvest's share of daily sales volume" represents DBP's total daily production times Harvest's quarterly economic interest in DBP. This is used by Harvest and others in assessing the performance of Harvest's investment in DBP to determine Harvest's total daily production.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended December 31					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
Operating loss	(176.2)	(75.7)	(2.7)	(3.5)	(178.9)	(79.2)
Adjustments:						
Loss from joint ventures	65.4	8.1	—	—	65.4	8.1
Operating, non-cash	0.2	5.8	—	—	0.2	5.8
General and administrative, non-cash	(0.5)	(0.1)	—	—	(0.5)	(0.1)
Exploration and evaluation, non-cash	—	17.4	—	—	—	17.4
Depletion, depreciation and amortization	43.2	86.4	—	0.1	43.2	86.5
Gains on disposition of assets	(0.1)	(0.3)	—	—	(0.1)	(0.3)
Unrealized derivative contract (gains) losses	26.1	(7.9)	—	—	26.1	(7.9)
Loss (gain) on onerous contract	(0.2)	1.3	—	—	(0.2)	1.3
Impairment (recovery)	66.6	(1.7)	—	—	66.6	(1.7)
Cash contribution (deficiency) from operations	24.5	33.3	(2.7)	(3.4)	21.8	29.9
Inclusion of items not attributable to segments:						
Net cash interest expense					(17.6)	(25.4)
Realized derivative contract gains					14.4	—
Realized foreign exchange losses from operations					(8.6)	(6.3)
Consolidated cash contribution from (used in) operations					10.0	(1.8)
Other non-cash items					(3.5)	(2.2)
Change in non-cash working capital					(27.1)	19.2
Cash from (used in) operating activities					(20.6)	15.2

	Twelve Months Ended December 31					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
Operating loss	(271.6)	(266.3)	(12.6)	(13.5)	(284.2)	(279.8)
Adjustments:						
Loss from joint ventures	84.9	43.8	—	—	84.9	43.8
Operating, non-cash	(0.1)	6.1	—	—	(0.1)	6.1
General and administrative, non-cash	(7.7)	0.8	—	—	(7.7)	0.8
Exploration and evaluation, non-cash	0.1	19.9	—	—	0.1	19.9
Depletion, depreciation and amortization	188.0	289.1	0.3	0.6	188.3	289.7
(Gains) losses on disposition of assets	(1.3)	(35.2)	—	—	(1.3)	(35.2)
Unrealized derivative contract losses	26.7	4.7	—	—	26.7	4.7
Gain on onerous contract	(1.3)	10.7	—	—	(1.3)	10.7
Impairment	66.6	1.0	—	—	66.6	1.0
Cash contribution (deficiency) from operations	84.3	74.6	(12.3)	(12.9)	72.0	61.7
Inclusion of items not attributable to segments:						
Net cash interest					(75.9)	(92.4)
Realized derivative contract losses					(11.1)	—
Realized foreign exchange gains from operations					16.3	16.1
Consolidated cash contribution from (used in) operations					1.3	(14.6)
Other non-cash items					(5.9)	(6.5)
Change in non-cash working capital					(0.6)	(12.2)
Cash used in operating activities					(5.2)	(33.3)

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three and twelve months ended December 31, 2017 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

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

Forward-looking statements in this MD&A include, but are not limited to: commodity prices, price risk management activities, acquisitions and dispositions, capital spending and allocation of such to various projects, reserve estimates and ultimate recovery of reserves, potential timing and commerciality of Harvest's capital projects, the extent and success rate of Conventional and Oil Sands drilling programs, the ability to achieve the maximum capacity from the Oil Sands central processing facilities, availability of the credit facility, access and ability to raise capital, ability to maintain debt covenants, debt levels, recovery of long-lived assets, the timing and amount of decommission and environmental related costs, income taxes, cash from operating activities, regulatory approval of development projects and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "target", "plan", "potential", "intend", and similar expressions.

All of the forward-looking statements in this MD&A are qualified by the assumptions that are stated or inherent in such forward-looking statements. Although Harvest believes that these assumptions are reasonable based on the information available to us on the date such assumptions were made, this list is not exhaustive of the factors that may affect any of the forward-looking statements and the reader should not place an undue reliance on these assumptions and such forward-looking statements. The key assumptions that have been made in connection with the forward-looking statements include the following: that the Company will conduct its operations and achieve results of operations as anticipated; that its development plans and sustaining maintenance programs will achieve the expected results; the general continuance of current or, where applicable, assumed industry conditions; the continuation of assumed tax, royalty and regulatory regimes; the accuracy of the estimates of the Company's reserve volumes; commodity price, operation level, and cost assumptions; the continued availability of adequate cash flow and debt and/or equity financing to fund the Company's capital and operating requirements as needed; and the extent of Harvest's liabilities. Harvest

believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

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

ADDITIONAL INFORMATION

Further information about us can be accessed under our public filings found on SEDAR at www.sedar.com 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.