



Full Year and Fourth Quarter Report 2019

For the full year and
three month periods
ended December 31, 2019



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 25, 2020. 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, 2019.

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, 2019, our internal controls over financial reporting were effective.

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

The consolidated financial statements have been examined in 2019 by our auditors, Ernst & Young LLP and in 2018 by 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)

Byeongil Kim
President & Chief Executive Officer

(Signed)

Cheolwoong Choi
Chief Financial Officer

Calgary, Alberta
February 25, 2020

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Harvest Operations Corp.

Opinion

We have audited the consolidated financial statements of Harvest Operations Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of comprehensive loss, consolidated statement of changes in shareholder's deficit and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Other matter

The consolidated financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 14, 2019.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this

other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kim Wiggins.

Ernst & Young LLP

Calgary, Canada
February 25, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	December 31, 2019	December 31, 2018
Assets			
Current assets			
Accounts receivable		\$ 35.2	\$ 19.2
Prepaid expenses and other		6.3	6.6
Derivative contracts	12	—	4.4
		41.5	30.2
Non-current assets			
Deferred income tax asset	17	790.7	711.5
Exploration and evaluation assets	8	10.9	11.2
Property, plant and equipment	7	2,124.5	2,216.5
Investments in joint ventures	9	56.5	—
		2,982.6	2,939.2
Total assets		\$ 3,024.1	\$ 2,969.4
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 139.2	\$ 166.3
Taxes payable	17	0.9	0.9
Derivative contracts	12	8.3	—
Current portion of provisions	13	16.3	11.7
Contract liability	16	5.9	—
Current portion of long-term debt	10	500.0	—
		670.6	178.9
Non-current liabilities			
Long-term debt	10,11	2,150.7	2,646.5
Long-term liability	14	52.9	46.1
Investments in joint ventures	9	—	0.1
Lease obligations	15	19.5	—
Non-current provisions	13	688.3	657.4
		2,911.4	3,350.1
Total liabilities		\$ 3,582.0	\$ 3,529.0
Shareholder's deficit			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus		11.3	11.3
Deficit		(5,154.6)	(5,157.2)
Accumulated other comprehensive loss	24	(7.9)	(7.0)
Total shareholder's deficit		(557.9)	(559.6)
Total liabilities and shareholder's deficit		\$ 3,024.1	\$ 2,969.4

Subsequent events [Note 10]

Commitments [Note 23]

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>(millions of Canadian dollars)</i>	Notes	Year ended December 31	
		2019	2018
Petroleum and natural gas sales	16	\$ 376.2	\$ 317.7
Royalties		(24.0)	(31.8)
Revenues		352.2	285.9
Expenses			
Operating	18	185.6	171.0
Cost of diluent		19.9	2.8
Transportation and marketing		34.9	18.7
General and administrative	18	33.6	36.5
Depletion, depreciation and amortization	7	173.3	170.9
Exploration and evaluation	8	0.3	2.1
Loss (gain) from joint ventures	9	(64.6)	33.0
Gain on disposition of assets	7	(12.2)	(7.7)
Finance costs	19	107.2	104.0
Derivative contract loss (gain)	12	16.6	(33.1)
Foreign exchange loss (gain)	20	(69.9)	125.3
Gain on onerous contract	13	—	(1.6)
Impairment	7	4.1	44.2
Net loss from operations		(76.6)	(380.2)
Income tax recovery	17	79.2	—
Net income		\$ 2.6	\$ (380.2)
Other comprehensive loss ("OCL")			
<i>Items that may be reclassified to net income</i>			
Loss on designated cash flow hedges, net of tax	24	0.9	7.0
Comprehensive income (loss)		\$ 1.7	\$ (387.2)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIT

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss ("AOCL")	Total Shareholder's Deficit
Balance at December 31, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ —	\$ (172.4)
Net loss		—	—	(380.2)	—	(380.2)
Loss on designated hedges	24	—	—	—	(7.0)	(7.0)
As at December 31, 2018		\$ 4,593.3	\$ 11.3	\$ (5,157.2)	\$ (7.0)	\$ (559.6)
Net income		—	—	2.6	—	2.6
Loss on designated hedges	24	—	—	—	(0.9)	(0.9)
As at December 31, 2019		\$ 4,593.3	\$ 11.3	\$ (5,154.6)	\$ (7.9)	\$ (557.9)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(millions of Canadian dollars)</i>	Notes	Year ended December 31	
		2019	2018
Cash provided by (used in)			
Operating Activities			
Net income		\$ 2.6	\$ (380.2)
Items not requiring cash			
Loss from joint ventures	9	(64.6)	33.0
Depletion, depreciation and amortization	7	173.3	170.9
Non-cash finance costs	19	19.7	22.0
Unrealized loss (gain) on derivative contracts	12	16.6	(36.3)
Unrealized loss (gain) on foreign exchange	20	(70.5)	107.5
Non-cash exploration and evaluation costs	8	0.3	2.1
Gain on disposition of assets	7	(12.2)	(7.7)
Deferred income tax recovery	17	(79.2)	—
Gain on onerous contract	13	—	(1.6)
Impairment	7	4.1	44.2
Other non-cash items		0.1	(7.2)
Realized foreign exchange loss on senior notes repayment	10	—	19.7
Settlement of decommissioning and environmental remediation liabilities	13	(12.3)	(11.0)
Change in non-cash working capital	21	(39.4)	36.3
Cash used in operating activities		\$ (61.5)	\$ (8.3)
Financing Activities			
Credit facility borrowing, net	10	77.4	184.3
Issuance of senior notes	10	—	512.2
Repayment of senior notes	10	—	(811.7)
Borrowings from term loan	10	—	298.9
Senior notes transaction costs	10	—	(4.1)
Payment of lease obligations	15	(5.3)	—
Change in non-cash working capital	21	(4.0)	—
Cash from financing activities		\$ 68.1	\$ 179.6
Investing Activities			
Additions to property, plant and equipment	7	(23.9)	(150.3)
Property dispositions, net	7	13.6	6.2
Investment in joint ventures	9	(9.9)	(31.0)
Distributions received from joint ventures	9	17.9	15.9
Change in non-cash working capital	21	(4.3)	(12.1)
Cash used in investing activities		\$ (6.6)	\$ (171.3)
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 87.5	\$ 82.3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. ("Harvest", "HOC" or the "Company") is an energy company in the business of the exploration, development, and production of crude oil, bitumen, natural gas and natural gas liquids in western Canada. Harvest has two reportable segments, Conventional and Oil Sands. For further information regarding these reportable segments, see note 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 25, 2020.

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 Accounting standards**

IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that meet the requirements of a lease.

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

The adoption of IFRS 16 included the following elections:

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

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

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

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". These amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. This will be effective for annual periods beginning on or after January 1, 2020. Harvest will apply this guidance to all future acquisitions.

In May 2017, the IASB issued IFRS 17 "Insurance Contracts" to replace IFRS 4 for accounting related to insurance contracts. This will be effective for annual periods beginning on or after January 1, 2021. In November, 2019, the IASB proposed a delay of the effective date until January 1, 2022. Harvest does not anticipate any material impact from this new standard.

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 from the sale of crude oil, natural gas and natural gas liquids are measured based on the consideration specified in contracts with customers. Harvest recognizes revenue when it transfers control of the product to the buyer and collection is reasonably assured. This is generally considered to occur when legal title to the product passes to customers, which is when it is physically transferred to the pipeline or other transportation method agreed upon. Revenues are recognized on a monthly basis, based on the completion of the performance obligations. The nature of each of its performance obligations, including roles of third parties and partners, are evaluated to determine if the Company acts as a principal, and therefore recognizes revenue on a gross basis, or as an agent, and therefore recognizes revenue on a net basis. The Company acts as the principal when it controls the product delivered before the control passes to its customer. Revenues from processing activities are recognized over time as processing occurs, and generally billed monthly.

(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.

Costs related to Oil Sands Central Processing Facility (CPF) are depleted using the unit-of-production basis over the proved developed reserves.

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. 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.

(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.

(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 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 liabilities are derecognized 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, 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.

- **Amortized cost**
A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.
- **Fair value through other comprehensive income ("FVTOCI")**
A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI") on the principal amount outstanding.
- **Fair value through profit or loss ("FVTPL")**
All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, including all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. For financial assets and liabilities, the Company may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

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.

Financial assets are assessed with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

(k) Hedges

Harvest periodically uses derivative financial instruments such as foreign currency contracts, interest rate contracts and financial commodity contracts to hedge its foreign currency risks, interest rate risk and commodity price risks. The quantity of derivative instruments entered into to address risk is determined in accordance with parent company policy and targets.

A hedging relationship qualifies for hedge accounting only if all the following criteria are met; the hedging relationship consists only of eligible instruments and eligible hedged items, at inception of the hedging relationship there is a formal designation, and the hedging relationship meets the hedge effectiveness requirements. 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 requirements. The hedge effectiveness requirements are that there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instruments that the entity actually uses to hedge the quantity of hedged item. Harvest will only discontinue hedge accounting prospectively if the hedging relationship ceases to meet the qualifying criteria.

There are two types of hedging relationships that the Company could designate; fair value hedge and, cash flow hedge.

Fair value hedges

The carrying value of the hedged item is adjusted for fair value changes attributable to the risk being hedged, and those fair value changes are recognised in comprehensive income ("CI"). The hedging instrument is measured at fair value, with changes in fair value also recognised in CI.

Cash flow hedges

Changes in the fair value of the hedging instrument are initially recognised in other comprehensive income ("OCI"). The ineffective portion of the change in the fair value of the hedging instrument (if any) is recognized directly in CI.

The amount recognised in OCI should be the lower of:

- The cumulative gain or loss on the hedging instrument from the inception of the hedge, and
- The cumulative change in the fair value (present value) of the expected cash flows on the hedged item from the inception of the hedge.

Cash flow hedges of a forecast transaction which result in the recognition of a financial asset or liability, the accumulated gains and losses recorded in OCI are reclassified to CI in the same period or periods during which the hedged expected future cash flows affect CI. Where there is a cumulative loss on the hedging instrument and it is no longer expected that the loss will be recovered, it is immediately recognised in CI.

(l) Lease obligations and right-of-use assets

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset is recognized at the amount of the lease obligation. Harvest does not recognize leases for short-term leases with a lease term less than 12 months or less, or leases for low-value assets.

Lease payments are applied against the lease obligation and interest expense is recognized on the lease obligation using the effective interest rate method. Depreciation is recognized on the right-of-use asset on a straight-line basis over the lease term. Harvest assesses the right-of-use asset for impairment when such indicators exist.

(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), 9 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 9). 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)

Depletion and depreciation of Conventional and Oil Sands assets are 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 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 (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 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(g) and 13)

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(h) and 17)

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(m), 7, 9 and 12)

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.

(g) The amount of finance lease obligations recognized on adoption of IFRS 16 (note 4(l) and 15)

Effective January 1, 2019, Harvest adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$23.7 million increase to right-of-use assets (included in PP&E) with a corresponding increase to lease obligations (non-current portion of \$23.8 million recorded in "Long term Liability" and the current portion of \$5.1 million recorded in "Accounts Payable and Accrued Liabilities"). The amount of lease obligation (and therefore the amount of right-of-use-asset) recognized was calculated as the present value of future lease payments, discounted using our estimated incremental borrowing rate. The estimated incremental borrowing rate reflects the interest rate we would estimate receiving to borrow funds for a similar term and security to acquire the right-of-use-asset. Changes in the estimated incremental borrowing rate would change the amount of lease obligation and right-of-use assets recognized on the initial adoption and, to a significantly lesser degree, would impact future interest expense and depreciation expense. Based on attributes of our identified leases (including the term of the lease), we applied a weighted average incremental borrowing rate of 3.64%. A 1% increase or decrease in the estimated incremental borrowing rate would have decreased or increased lease obligations and right-of-use assets recognized on initial adoption by approximately \$0.7 million.

(h) Going concern

In the preparation of financial statements, management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the balance sheet date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The Company's ability to continue as a going concern for the next twelve months involves significant judgment and is dependent on its ability to raise external financing through issuances of third-party debt, asset sales, structured financing arrangements and/or intra-affiliate funding agreements (or a combination thereof). After considering assurances of continued support from its parent and the Company's plans to mitigate the going concern risk, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for a period of twelve months from the balance sheet date.

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. During Q4 2018 the oil sands project began operating in the manner intended by management.

	Year ended December 31					
	Conventional		Oil Sands		Total ⁽¹⁾	
	2019	2018	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 239.8	\$ 317.7	\$ 136.4	\$ —	\$ 376.2	\$ 317.7
Royalties	(20.3)	(31.8)	(3.7)	—	(24.0)	(31.8)
Revenues	219.5	285.9	132.7	—	352.2	285.9
Expenses						
Operating	133.0	156.0	52.6	15.0	185.6	171.0
Cost of diluent	—	—	19.9	2.8	19.9	2.8
Transportation and marketing	9.6	16.3	25.3	2.4	34.9	18.7
General and administrative	24.7	35.6	8.9	0.9	33.6	36.5
Depletion, depreciation and amortization	134.1	167.1	35.5	3.8	173.3	170.9
Exploration and evaluation	0.3	2.1	—	—	0.3	2.1
Gains on disposition of assets	(12.2)	(7.7)	—	—	(12.2)	(7.7)
Derivative contracts loss (gain)	16.6	(31.2)	—	—	16.6	(31.2)
Impairment	4.1	44.2	—	—	4.1	44.2
Gain on onerous contract	—	(1.6)	—	—	—	(1.6)
Loss (gain) from joint ventures	(64.6)	33.0	—	—	(64.6)	33.0
Segment Operating loss	\$ (26.1)	\$ (127.9)	\$ (9.5)	\$ (24.9)	\$ (39.3)	\$ (152.8)
Finance costs					107.2	104.0
Foreign exchange (gains) losses					(69.9)	125.3
Derivative contract gains ⁽²⁾					—	(1.9)
Income tax recovery					(79.2)	—
Net income (loss)					2.6	(380.2)

⁽¹⁾ Depreciation related to leased head office assets included in total.

⁽²⁾ Relates to realized and unrealized losses on foreign exchange swaps. See note 12 – Financial Instruments.

	Year ended December 31					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Capital Additions						
Additions to PP&E	\$ 16.7	\$ 56.2	\$ 7.2	\$ 94.1	\$ 23.9	\$ 150.3
PP&E acquisitions, net of dispositions	(11.5)	(2.0)	—	—	(11.5)	(2.0)
Net capital additions	\$ 5.2	\$ 54.2	\$ 7.2	\$ 94.1	\$ 12.4	\$ 148.3

	Investments in Joint Ventures	PP&E ⁽¹⁾	E&E	Total Assets
December 31, 2018				
Conventional	\$ (0.1)	\$ 1,110.3	\$ 11.2	\$ 1,863.3
Oil Sands	—	1,106.2	—	1,106.0
Total	\$ (0.1)	\$ 2,216.5	\$ 11.2	\$ 2,969.3
December 31, 2019				
Conventional	\$ 56.5	\$ 1,023.6	\$ 10.9	\$ 1,932.9
Oil Sands	—	1,080.9	—	1,091.2
Total	\$ 56.5	\$ 2,104.5	\$ 10.9	\$ 3,024.1

⁽¹⁾ Leased head office assets included in PP&E on the balance sheet.

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

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2017	\$ 4,979.3	\$ 1,506.3	\$ 6,485.6
Additions	56.2	94.1	150.3
Disposals, net of acquisitions	(2.0)	—	(2.0)
Change in decommissioning liabilities	(38.0)	2.0	(36.0)
As at December 31, 2018	\$ 4,995.5	\$ 1,602.4	\$ 6,597.9
Additions	16.7	7.2	23.9
Additions right-of-use assets ⁽¹⁾	—	—	23.7
Disposals, net of acquisitions	(23.5)	—	(23.5)
Change in decommissioning liabilities	46.3	3.0	49.3
As at December 31, 2019	\$ 5,035.0	\$ 1,612.6	\$ 6,671.3

Accumulated depletion, depreciation and amortization:

As at December 31, 2017	\$ 3,673.9	\$ 492.4	\$ 4,166.3
Depreciation, depletion and amortization	167.1	3.8	170.9
Disposals	—	—	—
Impairment	44.2	—	44.2
As at December 31, 2018	\$ 3,885.2	\$ 496.2	\$ 4,381.4
Depreciation, depletion and amortization ⁽²⁾	134.1	35.5	173.3
Disposals	(12.0)	—	(12.0)
Impairment	4.1	—	4.1
As at December 31, 2019	\$ 4,011.4	\$ 531.7	\$ 4,546.8

Net Book Value:

As at December 31, 2018	\$ 1,110.3	\$ 1,106.2	\$ 2,216.5
As at December 31, 2019 ⁽³⁾	\$ 1,023.6	\$ 1,080.9	\$ 2,124.5

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

⁽²⁾ Depreciation of leased corporate assets included in total.

⁽³⁾ Includes corporate leased assets.

The following table discloses the carrying balance and depreciation charge relating to right-of-use assets by class of underlying asset as at and for the twelve months ended December 31, 2019 included in the table above:

	As at January 1, 2019		Depreciation	As at December 31, 2019	
Office space	\$	22.6	\$ (3.4)	\$	19.2
Vehicles and equipment		1.1	(0.3)		0.8
	\$	23.7	\$ (3.7)	\$	20.0

General and administrative costs directly attributable to PP&E addition activities of \$2.8 million have been capitalized during the year ended December 31, 2019 (2018 - \$7.2 million). No borrowing costs relating to the development of Oil Sands assets have been capitalized within PP&E during the years ended December 31, 2019 and 2018.

For the year ended December 31, 2019, Harvest evaluated its conventional assets for indicators of impairment. A decrease in natural gas pricing was the primary trigger that indicated impairment testing was necessary for the West Gas and South Gas Conventional CGUs.

For the year ended December 31, 2019, an impairment expense of \$4.1 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated as FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2019. A discount rate of 11% was applied to calculate the recoverable amount of \$21.3 million.

For the year ended December 31, 2019, nil impairment was recorded for the South Gas CGU. The recoverable amount for the South Gas CGU was estimated as FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2019. A discount rate of 11% was applied to calculate the recoverable amount which was greater than the carrying amount and no impairment was recorded, neither was any reversal as no write-up room existed for the CGU at year-end December 31, 2019.

During the year ended December 31, 2018, an impairment expense of \$44.2 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated as FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 16% was applied to calculate the recoverable amount of \$40.1 million.

At December 31, 2019, the Oil Sands assets had a carrying value of \$1.1 billion (December 31, 2018 – \$1.1 billion). Harvest evaluated its Oil Sands CGU for indicators of impairment and none were noted. In Q4 2018, the project began operating in the manner intended by management and the asset base was subject to depletion.

The following forecast commodity prices were used at December 31, 2019:

Year	WTI Crude Oil (\$US/bbl)	Edmonton Light Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	US\$/Cdn\$ Exchange Rate
2020	61.00	72.64	57.57	2.04	0.7600
2021	63.75	76.06	62.35	2.32	0.7700
2022	66.18	78.35	64.33	2.62	0.7850
2023	67.91	80.71	66.23	2.71	0.7850
2024	69.48	82.64	67.97	2.81	0.7850
2025	71.07	84.60	69.72	2.89	0.7850
2026	72.68	86.57	71.49	2.96	0.7850
2027	74.24	88.49	73.20	3.03	0.7850
2028	75.73	90.31	74.80	3.09	0.7850
2029	77.24	92.17	76.43	3.16	0.7850
2030	78.26	93.38	77.43	3.22	0.7850
2031	78.78	94.01	77.94	3.24	0.7850
2032	79.30	94.65	78.46	3.26	0.7850
2033	79.84	95.30	78.99	3.28	0.7850
Thereafter	2%/year	2%/year	2%/year	2%/year	0.7850

The following forecast commodity prices were used at December 31, 2018:

Year	WTI Crude Oil (\$US/bbl)	Edmonton Light Crude Oil (\$Cdn/bbl)	WCS Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/Mmbtu)	US\$/Cdn\$ Exchange Rate
2019	58.58	69.75	53.88	1.88	0.7567
2020	64.60	75.84	59.58	2.31	0.7817
2021	68.20	80.17	65.89	2.74	0.7967
2022	71.00	83.22	68.61	3.05	0.8033
2023	72.81	85.34	70.53	3.21	0.8067
2024	74.59	87.33	72.34	3.31	0.8083
2025	76.42	89.50	74.31	3.39	0.8083
2026	78.40	91.89	76.44	3.46	0.8083
2027	79.98	93.76	78.10	3.54	0.8083
2028	81.59	95.68	79.81	3.62	0.8083
2029	83.22	97.57	81.40	3.70	0.8083
2030	84.87	99.52	83.00	3.78	0.8083
2031	86.57	101.52	84.69	3.85	0.8083
2032	88.30	103.55	86.37	3.92	0.8083
Thereafter	2%/year	2%/year	2%/year	2%/year	0.8083

During the year ended December 31, 2019, Harvest disposed of non-core assets for net proceeds of \$13.6 million and recognized gains on disposals of \$12.2 million (2018 - \$6.2 million and \$7.7 million respectively) relating to the de-recognition of PP&E and decommissioning liabilities.

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

As at December 31, 2017	\$	13.3
Impairment		(2.1)
As at December 31, 2018	\$	11.2
Impairment		(0.3)
As at December 31, 2019	\$	10.9

During the year ended December 31, 2019, \$0.3 million (2018 - \$2.1 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, 2019 and 2018.

9. 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 the external reserve report volumes, commodity prices (see note 7 – PP&E), royalties, operating costs and capital expenditures specific to the DBP. As at December 31, 2019, the fair value of the top-up obligation was estimated as \$18.8 million (December 31, 2018 - \$2.2 million), using a discount rate of 24% (December 31, 2018 – 20%). A 1% increase or decrease in the discount rate of top-up obligation would result in an increase or decrease in the liability of \$0.5 million respectively. The increase in the top-up obligation from the previous year is related primarily to a change in timing in forecasted reserve cash flows and volumes partially offset by an increase in discount rate. This top-up obligation has been included in the derivative contract losses (gain) in the statement of comprehensive loss and in the long-term liability at December 31, 2019 (see note 14 – 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.

For the year ended December 31, 2019, Deep Basin Partnership evaluated its assets for indicators of potential impairment or reversal. A decrease in discount rates based on market transactions was the primary indicator of reversal and a test was performed.

The recoverable amount was estimated as FVLCD based on the net present value of after-tax cash flows from proved plus probable reserves estimated by an independent reserve evaluator as at December 31, 2019 (see note 7 – PP&E). A discount rate of 13% (2018 – 19%) was used to determine the recoverable amount of \$171.7 million. The recoverable amount exceeded the carrying amount and an impairment reversal of \$76.9 million (2018 - \$22.2 million impairment expense) was recorded.

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

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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, 2019	Ownership Interest	December 31, 2018	Ownership Interest
Deep Basin Partnership ("DBP")	\$ 19.6	83.47%	\$ (43.4)	83.45%
HK MS Partnership ("HKMS")	36.9	68.21%	43.3	68.15%
Investments in joint ventures	\$ 56.5		\$ (0.1)	

	DBP	HKMS	Total
As at December 31, 2017	\$ (39.4)	\$ 56.4	\$ 17.0
Additional investments	38.4	(6.6)	31.8
Share of income (loss)	(42.4)	9.4	(33.0)
Distributions	—	(15.8)	(15.8)
As at December 31, 2018	\$ (43.4)	\$ 43.3	\$ (0.1)
Additional investments	9.9	—	9.9
Share of income	54.7	9.9	64.6
Distributions	(1.6)	(16.3)	(17.9)
As at December 31, 2019	\$ 19.6	\$ 36.9	\$ 56.5

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, 2019 and 2018, Harvest recognized a dilution gain of \$nil.

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

	December 31, 2019		December 31, 2018	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —
Other current assets	17.4	11.2	18.5	7.8
Total current assets	\$ 17.4	\$ 11.2	\$ 18.5	\$ 7.8
Non-current assets	263.0	91.0	102.2	210.4
Total assets ⁽¹⁾	\$ 280.4	\$ 102.2	\$ 120.7	\$ 218.2
Current liabilities	\$ 37.7	\$ 5.3	\$ 20.7	\$ 1.9
Non-current financial liabilities	141.2	82.0	138.7	207.4
Other non-current liabilities	84.1	6.0	6.9	4.7
Total liabilities ⁽¹⁾	\$ 263.0	\$ 93.3	\$ 166.3	\$ 214.0
Net assets (liabilities) ⁽¹⁾	\$ 17.4	\$ 8.9	\$ (45.6)	\$ 4.2

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

Year ended December 31					
	2019		2018		
	DBP	HKMS	DBP	HKMS	
Revenues	\$ 40.2	\$ 26.3	\$ 39.9	\$ 26.6	
Impairment reversal (impairment)	76.9	—	(22.2)	—	
Depletion, depreciation and amortization	(39.5)	(3.5)	(17.7)	(3.5)	
Operating expenses and other	(17.7)	(2.3)	(39.7)	(2.9)	
Finance costs	(5.2)	(15.8)	(2.9)	(17.0)	
Net income (loss) ⁽¹⁾	\$ 54.7	\$ 4.7	\$ (42.6)	\$ 3.2	

(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, 2019:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 155.0	\$ 155.0
Firm processing commitment	24.0	48.0	32.0	—	104.0
Decommissioning and environmental liabilities ⁽¹⁾	—	—	—	15.4	15.4
Total	\$ 24.0	\$ 48.0	\$ 32.0	\$ 170.4	\$ 274.4

(1) Represents the undiscounted obligation by period.

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

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 11.8	\$ 11.8
Total	\$ —	\$ —	\$ —	\$ 11.8	\$ 11.8

(1) Represents the undiscounted obligation by period.

Related party transactions

Deep Basin Partnership

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the year ended December 31, 2019, Harvest charged DBP a marketing fee of \$0.4 million (2018 - \$0.7 million) and general and administrative expenses of \$0.7 million (2018 - \$1.7 million). As at December 31, 2019, \$6.5 million remains outstanding to DBP from Harvest (December 31, 2018 - \$11.6 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.2 million for the year ended December 31, 2019 (2018 - \$0.4 million). As at December 31, 2019, \$4.3 million remains outstanding to Harvest from HKMS (December 31, 2018 - \$0.9 million payable).

10. Long-Term Debt

	December 31, 2019	December 31, 2018
Credit Facility	\$ 457.3	\$ 386.4
Term Loan due 2020	500.0	499.7
Term Loan due 2023	299.2	299.0
2½% senior notes due 2021 (US\$195.8 million)	254.2	266.8
3% senior notes due 2022 (US\$485 million)	626.5	656.3
4.2% senior notes due 2023 (US\$397.5 million)	513.5	538.3
Long-term debt outstanding	\$ 2,650.7	\$ 2,646.5
Less current portion	(500.0)	-
Non-current long-term debt	\$ 2,150.7	\$ 2,646.5

a) 2½% Senior Notes

On June 16, 2016 Harvest completed the partial exchange of its 6½% senior notes due 2017 for new 2½% senior notes due 2021, at an exchange ratio of US\$900 principal amount of the new 2½% senior notes for each US\$1,000 principal amount of the old 6½% senior notes. US\$217.5 million of the old 6½% senior notes were exchanged for US\$195.8 million new 2½% senior notes. On October 2, 2017, Harvest repaid the remaining US\$ 282.5 million fully matured 6½% senior notes.

The new 2½% 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 payable to KNOC was reduced to zero effective January 1, 2019. See note 22 – Related Party Transactions.

b) 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 payable to KNOC was reduced to zero effective January 1, 2019. Also see note 22 – Related Party Transactions.

c) 4.2% Senior Notes

On May 1, 2018, Harvest issued US\$397.5 million 4.2% senior notes for net proceeds of US\$395.8 million. The 4.2% senior notes are unsecured and mature on June 1, 2023, with interest payable semi-annually on June 1 and December 1 of each year. The notes are unconditionally and irrevocably guaranteed by KNOC. A guarantee fee of 0.37% per annum of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. Proceeds from these notes were used to repay a portion the 2½% senior notes that matured on May 14, 2018.

d) Credit Facility and Term Loans

On February 24, 2017, Harvest entered into a new three year \$500 million revolving credit facility with a syndicate of banks. The credit facility is 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 of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. Harvest pays 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, 2019, interest charges on the credit facility borrowings aggregated to \$15.0 million (2018 - \$8.2 million), reflecting an effective interest rate of 2.72% (2018 – 2.90%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings during the first nine months of the year, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. See note 12 – Financial Instruments. On July 29, 2019, Harvest closed the extension of the credit facility from the original maturity date of February 24, 2020 to July 29, 2022.

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 of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. On February 24, 2017 the loan was fully drawn. Proceeds from this term loan were used to partially re-pay the credit facility. On February 24, 2020, Harvest and the Korean based bank agreed to amend and extend the \$500 million term loan. The maturity date was extended to February 24, 2021 and the interest rate on the term loan was reduced to 2.25%. The term loan continues to be guaranteed by KNOC and contains no financial covenants.

On May 11, 2018, Harvest entered into an agreement with a Japanese based bank to borrow \$300 million through a five year term loan at a variable rate. To manage the risks associated with the variable interest component of the term loan due 2023 Harvest entered into an interest rate swap contract, see note 12 – Financial Instruments. The term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 0.37% per annum of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. On May 11, 2018 the loan was fully drawn. Proceeds from this term loan were used to repay the remainder of the 2½% senior notes that matured on May 14, 2018.

11. Shareholder's Capital & Capital Structure

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

	December 31, 2019	December 31, 2018
Credit facility ⁽¹⁾⁽²⁾	\$ 457.9	\$ 386.8
Term Loan due 2020 ⁽¹⁾	500.0	500.0
Term Loan due 2023 ⁽¹⁾	300.0	300.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽³⁾	254.3	267.0
3% senior notes (US\$485 million) ⁽¹⁾⁽³⁾	630.0	661.4
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽³⁾	516.4	542.1
	\$ 2,658.6	\$ 2,657.3
Shareholder's deficit	(557.9)	(559.6)
	\$ 2,100.7	\$ 2,097.7

(1) Excludes capitalized financing fees.

(2) Excludes letters of credit issued in the amount of \$10.3 million at December 31, 2019 (December 31, 2018 - \$15.1 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 and assists with financing needs of the company as requested. KNOC guarantees the interest and principal of the Company's credit facility, term loans and senior notes. The Company's capital structure and liquidity needs are met through cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility, long-term debt issuances and capital injections by KNOC. Harvest evaluates its capital structure using the same financial covenants as the ones under the Company's debt commitments.

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, 2018 was 458,766,467. During 2019 and 2018, no additional common shares were issued.

12. 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, term loans 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, 2019, all financial instruments are level 2, except for the 2½ % and 3%, and 4.2% senior notes, which are level 1 and \$18.8 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. There were no transfers during the year ended December 31, 2019. All of the senior notes are traded on the Singapore Stock Exchange. Also see note 9 – Investment in Joint Ventures and note 14 – Long-Term Liability.

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Derivative contracts	—	\$ —	\$ 4.4	\$ 4.4
Total Financial Assets	\$ —	\$ —	\$ 4.4	\$ 4.4
Financial Liabilities				
<u>Fair value through profit or loss</u>				
Derivative contracts	\$ 8.3	\$ 8.3	\$ —	\$ —
Long-term liability	18.8	18.8	2.2	2.2
<u>Amortised Cost</u>				
Credit Facility	457.3	457.9	386.4	386.8
Term Loan due 2020	500.0	500.0	499.7	500.0
Term Loan due 2023	299.2	300.0	299.0	300.0
2½% senior notes	254.2	254.8	266.8	259.8
3% senior notes	626.5	642.6	656.3	650.2
4.2% senior notes	513.5	547.0	538.3	556.4
Long-term liability	25.6	14.5	33.9	24.9
Total Financial Liabilities	\$ 2,703.4	\$ 2,743.9	\$ 2,682.6	\$ 2,680.3

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 \$0.6 million of deferred financing charges at December 31, 2019 (December 31, 2018 – \$0.5 million). See note 10 – Long Term Debt.

The fair value of the 2½ % and 3%, and 4.2% senior notes was based on the quoted market price of the notes on the Singapore Exchange as at December 31, 2019 (Level 1 fair value input), which includes the benefit of the guarantee offered by KNOC.

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, 2019, the rate used in determining the fair value of the long-term liability was 24% (December 31, 2018 – 20%).

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 9 – 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, 2019:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair value of asset (liability) at December 31, 2019
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	(8.3)
					\$ (8.3)

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, 2019 and 2018, 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				Related financial instruments that are not offset	Net
	Gross assets (liabilities)	Gross assets (liabilities) offset	Net amount presented			
December 31, 2019						
Financial assets						
Account receivable ⁽¹⁾	\$ 1.0	\$ 0.6	\$ 1.6	\$ —	\$ 1.6	
Risk management contracts ⁽²⁾	(1.7)	—	(1.7)	—	(1.7)	
	\$ (0.7)	\$ 0.6	\$ (0.1)	\$ —	\$ (0.1)	
Financial Liabilities						
Account payable and accrued liabilities ⁽¹⁾	\$ 0.6	\$ (0.6)	\$ —	\$ —	\$ —	
Risk management contracts ⁽²⁾	(8.3)	—	(8.3)	—	(8.3)	
	\$ (7.7)	\$ (0.6)	\$ (8.3)	\$ —	\$ (8.3)	
December 31, 2018						
Financial assets						
Account receivable ⁽¹⁾	\$ 1.2	\$ (2.1)	\$ (0.9)	\$ —	\$ (0.9)	
Risk management contracts ⁽²⁾	11.7	—	11.7	—	11.7	
	\$ 12.9	\$ (2.1)	\$ 10.8	\$ —	\$ 10.8	
Financial Liabilities						
Account payable and accrued liabilities ⁽¹⁾	\$ (2.1)	\$ 2.1	\$ —	\$ —	\$ —	
Risk management contracts ⁽²⁾	(7.3)	—	(7.3)	—	(7.3)	
	\$ (9.4)	\$ 2.1	\$ (7.3)	\$ —	\$ (7.3)	

- (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, interest rate and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases.

Harvest periodically enters into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the year ended was lowered to 2.64% (2018 – 2.48%). Also see note 10 – Long-Term Debt for effective interest rates before the effect of these swaps.

To manage the risk associated with the variable component of the Term Loan – Due 2023, Harvest entered into an interest rate swap contract during the year ended December 31, 2018. As the result of this transaction the Company has effectively fixed the interest rate on \$300 million of the loan at approximately 3.971% for the term of the loan.

Derivative contracts (gains) losses recorded to income include the gains or losses on derivatives that were not designated as hedges:

	Year ended December 31					
	2019			2018		
	Realized losses	Unrealized losses	Total	Realized losses	Unrealized losses (gains)	Total
Foreign exchange	—	—	—	3.2	—	3.2
Derivative contract	—	—	—	—	(5.1)	(5.1)
Top-up obligation (note 9)	—	16.6	16.6	—	(31.2)	(31.2)
	\$ —	\$ 16.6	\$ 16.6	\$ 3.2	\$ (36.3)	\$ (33.1)

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. 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 assessed to have high credit risk or is in default. Generally, the only instances of default are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Harvest uses the simplified expected credit loss (ECL) model. Harvest's joint venture receivables are segregated by age, with a specified default rate that is applied to determine the ECL. The default rate is assessed based on historical default rates based on the aging of the receivable. These rates are updated based on changing macroeconomic information within the industry. Below are the rates used at December 31, 2019:

AR Aging	Default rate
Current	0.00%
JV >30-days	1.00%
JV >60-days	3.00%
JV >90-days	10.00%

Harvest's expected credit loss at December 31, 2019 and December 31, 2018 on joint venture receivables is not material. Receivables from crude oil and natural gas purchasers are assumed to have a 0% default rate as they are collected on the 25th day of the following month. Harvest has no history of issues with its crude oil and natural gas purchases and Harvest considers the balance of accounts receivable to be collectible.

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, 2019 and 2018 is the carrying value of accounts receivable and derivative contracts. 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	Total
December 31, 2019⁽¹⁾	\$ 30.0	\$ 1.9	\$ 2.4	\$ 0.8	\$ 0.1	\$ 35.2
December 31, 2018⁽¹⁾	14.4	0.6	1.5	0.7	2.0	19.2

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 12(b).

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 loans 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 11.

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, 2019 and 2018:

December 31, 2019						
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total	
Accounts payable and accrued liabilities	\$ 139.2	\$ —	\$ —	\$ —	\$ 139.2	
Credit facility, term loans and interest	500.0	497.7	304.7	—	1,302.4	
3% senior notes and interest	9.4	665.2	—	—	674.6	
4.2% senior notes and interest	10.8	43.2	525.6	—	579.6	
2½% senior notes and interest	3.0	257.3	—	—	260.3	
Long-term liability	44.0	19.2	88.2	—	151.4	
Risk management contracts liability	8.3	—	—	—	8.3	
Lease Liabilities	5.4	9.9	8.9	2.9	27.1	
Total	\$ 720.1	\$ 1,492.5	\$ 927.4	\$ 2.9	\$ 3,142.9	

December 31, 2018						
	<1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total	
Accounts payable and accrued liabilities	\$ 166.3	\$ —	\$ —	\$ —	\$ 166.3	
Credit facility, term loans and interest	30.9	935.0	326.7	—	1,292.6	
3% senior notes and interest	22.2	44.3	691.1	—	757.6	
4.2% senior notes and interest	24.7	49.4	589.3	—	663.4	
2½% senior notes and interest	7.2	281.4	—	—	288.6	
Long-term liability	39.1	19.4	19.1	6.4	84.0	
Risk management contracts liability	7.3	—	—	—	7.3	
Total	\$ 297.7	\$ 1,329.5	\$ 1,626.2	\$ 6.4	\$ 3,259.8	

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 loans 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, 2019 increased or decreased by approximately 25 basis points with all other variables held constant, pre-tax loss for the year would change by \$2.1 million (2018 - \$1.7 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.

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\$1.1 billion

(2018 - US\$1.3 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, 2019	December 31, 2018
10% strengthening in U.S. dollar relative to Canadian dollar	\$ (140.5)	\$ (183.7)
10% weakening in U.S. dollar relative to Canadian dollar	\$ 140.5	\$ 183.7

13. Provisions

	Conventional (1)	Oil Sands (2)	Head Office lease (3)	Total
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9
Liabilities incurred	1.7	—	—	1.7
Acquisition	0.3	—	—	0.3
Settled during the period	(11.0)	—	(1.8)	(12.8)
Revisions (change in estimated costs and discount rate)	(40.0)	2.0	(1.6)	(39.6)
Disposals	(3.4)	—	—	(3.4)
Accretion	14.7	1.2	1.1	17.0
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1
Liabilities incurred	—	—	—	—
January 1, 2019 adoption of IFRS 16 adjustment	—	—	(5.3)	(5.3)
Settled during the period	(12.3)	—	(0.4)	(12.7)
Revisions (change in estimated costs and discount rate)	46.3	3.0	—	49.3
Disposals	(9.8)	—	—	(9.8)
Accretion	12.5	1.1	0.4	14.0
As at December 31, 2019	\$ 645.3	\$ 57.8	\$ 1.5	\$ 704.6
Current portion as at December 31, 2018	\$ 9.9	\$ —	\$ 1.8	\$ 11.7
Non-current provisions as at December 31, 2018	598.7	53.7	5.0	657.4
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1
Current portion as at December 31, 2019	\$ 16.0	\$ —	\$ 0.3	\$ 16.3
Non-current provisions as at December 31, 2019	629.3	57.8	1.2	688.3
As at December 31, 2019	\$ 645.3	\$ 57.8	\$ 1.5	\$ 704.6

(1) Conventional includes balance of both decommissioning liabilities and environmental liability.

(2) Oil Sands includes balance of decommissioning liability.

(3) Head office includes provision related to variable lease payments previously determined to be onerous.

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.1 billion at December 31, 2019 (December 31, 2018 – \$1.2 billion), which will be incurred between 2020 and 2078. A risk-free discount rate of 1.76% (December 31, 2018 – 2.18%) and inflation rate of 1.50% (December 31, 2018 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities. 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, 2019, Harvest recognized an onerous contract provision of \$1.5 million (December 31, 2018 - \$6.8 million), relating to future variable lease payments under a head office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future lease operating cost payments

that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate of 24% (December 31, 2018 – 20%), specific to the liability. Nil gain resulted from changes in the discount rate and an amendment to a sublease contract was recorded during the year ended December 31, 2019 (2018 – \$1.6 million). The onerous contract provision will be settled in periods up to the year 2025.

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.

14. Long-Term Liability

	December 31, 2019	December 31, 2018
BlackGold liability ⁽¹⁾	\$ 69.1	\$ 71.4
Less: current portion of BlackGold liability ⁽¹⁾	(43.5)	(37.9)
Deferred rent and other ⁽²⁾	8.5	10.4
Top-up obligation ⁽³⁾	18.8	2.2
	\$ 52.9	\$ 46.1

⁽¹⁾ Calculated using a discount rate of 4.5% at December 31, 2019 and 2018. The current portion of the liability has been included with accounts payable and accrued liabilities.

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

⁽³⁾ See note 9 – 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. Harvest withheld the third, fourth, fifth and sixth deferred payments due April 30, 2019, 2018, 2017 and 2016 while negotiating a settlement with the contractor. Following an arbitration hearing on the matter, a deposit of \$10 million on the withheld deferred payments was paid in September 2019 which was partially offset by additional interest owed on the withheld payments and legal fees arising from the settlement.

At December 31, 2019 \$18.8 million (December 31, 2018 - \$2.2 million) was included in the long-term liability relating to the top-up obligation to KERR. See note 9 - Investment in Joint Ventures.

15. Lease Obligation

The following table summarizes Harvest's future lease payments as at December 31, 2019 and January 1, 2019:

	December 31, 2019	January 1, 2019
Less than 1 year	\$ 5.4	\$ 5.3
1 - 3 years	9.9	10.7
4 - 5 years	8.9	9.0
After 5 years	2.9	7.4
Total lease payments	27.1	32.4
Amounts representing interest	(2.5)	(3.5)
Present value of net lease payments	24.6	28.9
Current portion of lease obligations ⁽¹⁾	(5.1)	(5.1)
Non-current portion of lease obligations	\$ 19.5	\$ 23.8

⁽¹⁾ Included in Accounts payable and accrued liabilities.

The increase in lease obligations relates to the adoption of IFRS 16 effective January 1, 2019. Please refer to note 3 for additional information. For the year ended December 31, 2019, Harvest recorded interest expense of \$1.0 million and incurred cash outflows of \$5.3 million related to lease obligations.

In addition to the fixed head office lease payments, which have been included in the lease obligation, Harvest pays variable consideration for operating costs and property taxes that are not included in the lease obligation. During the year ended December 31, 2019, Harvest paid \$2.3 million for variable operating costs for its head office lease.

16. Revenue

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

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

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

	Year ended December 31			
	2019		2018	
Light to medium oil sales after hedging ⁽¹⁾	\$	\$	59.2	\$ 96.0
Heavy oil sales after hedging ⁽¹⁾			90.7	118.9
Bitumen sales after hedging ⁽¹⁾			136.4	—
Natural gas sales			44.6	38.7
Natural gas liquids sales			38.6	46.6
Other ⁽²⁾			6.7	17.5
Petroleum and natural gas sales	\$	\$	376.2	\$ 317.7

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

⁽²⁾ Inclusive of sulphur revenue and pipeline arbitrage

Included in accounts receivable at December 31, 2019 is \$36.1 million (December 31, 2018 – \$15.8 million for December 2018 sales) of accrued oil and gas sales related to December 2019 sales. The increase in the amount of accrued revenue is related primarily to the increase in oil price and BlackGold bitumen volumes.

Harvest has a contract liability at December 31, 2019, arising from the prepayment of \$5.9 million (2018 - \$ nil) for a portion of January BlackGold bitumen sales. Revenue will be recognized when the contracted volumes of bitumen are delivered to the buyer at the delivery point which is expected to occur in January 2020.

17. Income Taxes

Income tax recovery recognized in net income from continuing operations:

	Year Ended December 31			
	2019		2018	
Current income tax expense	\$	—	\$	—
Deferred income tax ("DIT") recovery		79.2		—
Income tax recovery from continuing operations	\$	79.2	\$	—

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:

	Twelve Months Ended December 31			
	2019		2018	
Loss before income tax from continuing operations	\$	(76.6)	\$	(380.2)
Combined Canadian federal and provincial statutory income tax rate		26.51%		27.00%
Computed income tax recovery at statutory rates	\$	(20.3)	\$	(102.7)
Increased expense (recovery) resulting from the following:				
Difference between current and expected tax rates		109.3		—
Foreign exchange impact not recognized in income		(6.9)		12.9
Amended returns and pool balances		(4.9)		(6.0)
Change in unrecognized deferred tax asset		(155.7)		96.5
Non-deductible expenses		(0.6)		0.7
Other		(0.1)		(1.4)
Income tax recovery	\$	(79.2)	\$	—

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, 2019 and 2018.

Movements in the DIT asset are as follows:

	PP&E	Decommissioning liabilities	Non-capital tax losses	Other	Total deferred asset
As at December 31, 2017	\$ 457.9	\$ 136.1	\$ 104.4	\$ 13.1	\$ 711.5
Recognized in profit or loss	64.7	(5.4)	(51.3)	(8.0)	—
As at December 31, 2018	\$ 522.6	\$ 130.7	\$ 53.1	\$ 5.1	\$ 711.5
Recognized in profit or loss	(74.0)	34.0	114.9	4.3	79.2
As at December 31, 2019	\$ 448.6	\$ 164.7	\$ 168.0	\$ 9.4	\$ 790.7

As at December 31, 2019, Harvest had approximately \$755 million (December 31, 2018 - \$734 million) of carry-forward tax losses and approximately \$4.2 billion (December 31, 2018 - \$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 2038. 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, 2019 Harvest has not recognized approximately \$209 million (December 31, 2018 - \$244 million) of temporary difference arising from foreign exchange, \$73 million (December 31, 2018 - \$528 million) of non-capital losses, \$ nil (December 31, 2018 - \$200 million) arising from asset retirement obligation and \$753 million (December 31, 2018 - \$796 million) of capital losses.

As at December 31, 2019 a balance of \$0.9 million was recorded in taxes payable, relating to amounts owing to the Canada Revenue Agency (December 31, 2018 - \$0.9 million).

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

	Year ended December 31	
	2019	2018
Operating expenses		
Power and purchased energy	\$ 42.0	\$ 37.6
Well servicing	7.9	7.4
Repairs and maintenance	27.0	35.4
Lease rentals and property taxes	24.7	23.9
Salaries and benefits	21.3	25.7
Professional and consultation fees	11.3	14.1
Chemicals	11.2	11.6
Processing fees	28.7	29.9
Trucking	5.4	4.9
Capitalized Operating Costs ⁽¹⁾	—	(23.0)
Other	6.1	3.5
	\$ 185.6	\$ 171.0

⁽¹⁾ Operating costs related to commissioning of Blackgold oil sands project.

	Year ended December 31	
	2019	2018
General and administrative expenses		
Salaries and benefits	\$ 25.3	\$ 30.1
Professional and consultation fees	6.8	5.8
Other	5.5	8.5
G&A capitalized and recovery	(4.0)	(7.9)
	\$ 33.6	\$ 36.5

19. Finance Costs

	Year ended December 31	
	2019	2018
Interest and other financing charges ⁽¹⁾	\$ 91.0	\$ 86.1
Lease interest expense (note 15)	1.0	—
Accretion of decommissioning and environmental remediation liabilities (note 13)	13.6	15.9
Accretion of BlackGold long-term liability (note 14)	1.6	2.0
	\$ 107.2	\$ 104.0

⁽¹⁾ Includes \$0.4 million of accretion on the onerous contract during the year ended December 31, 2019 (\$1.1 million for the year ended December 31, 2018). See note 13 – Provisions.

20. Foreign Exchange

	Year ended December 31	
	2019	2018
Realized loss on foreign exchange	\$ 0.6	\$ 17.8
Unrealized loss (gain) on foreign exchange	(70.5)	107.5
	\$ (69.9)	\$ 125.3

21. Supplemental Cash Flow Information

	Twelve months ended December 31			
	2019		2018	
Source (use) of cash:				
Accounts receivable	\$	(16.0)	\$	29.2
Prepaid expenses, long-term deposit and other		0.3		(0.2)
Accounts payable and accrued liabilities		(27.1)		8.5
Net changes in non-cash working capital	\$	(42.8)	\$	37.5
Changes relating to operating activities	\$	(39.4)	\$	36.3
Changes relating to financing activities		(4.0)		(12.1)
Changes relating to investing activities		(4.3)		—
Reclass of long-term liability to accounts payable		9.5		9.5
Add: Other non-cash changes		(4.6)		3.8
	\$	(42.8)	\$	37.5

		Credit Facility	Term Loan	Term Loan	2½% Senior Notes	3% Senior Notes	4.2% Senior Notes	Total
As at December 31, 2017	\$	189.7	499.5	-	245.9	603.6	-	2,330.2
Net borrowing (repayment)		178.8	-	300.0	-	-	508.3	195.5
Foreign exchange		13.1	-	-	20.9	52.2	29.8	116.0
Other non-cash movements		4.5	0.3	(1.0)	0.1	0.5	0.3	4.8
As at December 31, 2018	\$	386.1	499.8	299.0	266.9	656.3	538.4	2,646.5
Net borrowing (repayment)		77.4	-	-	-	-	-	77.4
Foreign exchange		(6.3)	-	-	(12.8)	(30.3)	(25.3)	(74.7)
Other non-cash movements		0.1	0.2	0.2	0.1	0.5	0.4	1.5
As at December 31, 2019	\$	457.3	500.0	299.2	254.2	626.5	513.5	2,650.7

22. Related Party Transactions
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			
	2019		2018	
Short-term benefits	\$	2.4	\$	2.2
Other long-term benefits		0.1		0.2
Other		0.6		1.4
	\$	3.1	\$	3.8

Other Related Party Transactions

	Twelve months ended December 31		Accounts Payable	
	2019	2018	as at December 31, 2019	as at December 31, 2018
Diluent Expenses				
DBP ⁽¹⁾	\$ 3.1	\$ 0.9	\$ —	\$ 0.2
G&A Expenses				
KNOC ⁽²⁾	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Finance costs				
KNOC ⁽³⁾	\$ —	\$ 12.9	\$ 2.7	\$ 4.7

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

⁽²⁾ Amounts relate to payments to KNOC for secondees salaries.

⁽³⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 3%, 4.2% senior notes, the credit facility and term loans. See note 10 – Long Term Debt. On July 29, 2019, KNOC and Harvest entered into an agreement, effective January 1, 2019 to reduce the Guarantee Fee charged by KNOC on all of Harvest's Long-term Debt from 0.37% to zero.

23. Commitments

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

	Payments Due by Period					Total
	1 year	2-3 years	4-5 years	After 5 years		
Firm processing commitments	10.0	18.9	18.3	2.3		49.5
Firm transportation agreements	13.8	22.0	20.0	16.5		72.3
Total	\$ 23.8	\$ 40.9	\$ 38.3	\$ 18.8	\$	121.8

24. Accumulated Other Comprehensive Income ("AOCI")

	Designated Cash Flow Hedges, Net of Tax	Total
As at December 31, 2017	\$ —	\$ —
Loss on derivatives designated as cash flow hedges, net of tax ⁽¹⁾	(7.0)	(7.0)
As at December 31, 2018	\$ (7.0)	\$ (7.0)
Reclassification to net loss of losses on cash flow hedges	39.0	39.0
Loss on derivatives designated as cash flow hedges, net of tax ⁽¹⁾	(39.9)	(39.9)
As at December 31, 2019	\$ (7.9)	\$ (7.9)

⁽¹⁾ Related to Interest Rate and Commodity Price Risk

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

	Twelve months ended December 31	
	After-tax ⁽¹⁾	
	2019	2018
(Losses) Gains re-classified from OCL		
Interest Rate Risk	(2.3)	(1.7)
Commodity Price Risk	(36.7)	0.7
Losses (Gains) recognized in OCL		
Interest Rate Risk	3.2	8.7
Commodity Price Risk	36.7	(0.7)
Total	\$ 0.9	\$ 7.0

⁽¹⁾ Net of nil tax paid for twelve months ended December 31 2019 and 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the year ended December 31, 2019. The information and opinions concerning the future outlook are based on information available at February 25, 2020.

Effective January 1, 2019, Harvest adopted IFRS 16 "Leases". Prior year comparatives have not been restated. Please refer to the "Critical Accounting Estimates" section of this MD&A and in note 3 of the audited consolidated financial statements for the year ended December 31, 2019 for further information.

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

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

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

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	
	2019	2018	2019	2018
Conventional				
Petroleum and natural gas sales	59.5	58.6	239.8	317.7
Daily sales volumes (boe/d) ⁽¹⁾	17,152	23,580	21,470	24,632
Deep Basin Partnership				
Daily sales volumes (boe/d)	3,867	6,207	4,615	4,563
Harvest's share of daily sales volumes (boe/d) ⁽³⁾	3,228	5,180	3,852	3,797
Average realized price ⁽²⁾				
Oil and NGLs (\$/bbl)	48.63	28.48	49.81	51.82
Gas (\$/mcf)	4.29	1.67	2.04	1.63
Operating netback prior to hedging(\$/boe) ⁽³⁾	13.90	(1.28)	12.15	11.83
Operating income (loss)	45.0	12.2	(26.1)	(127.9)
Cash contribution from operations ⁽³⁾	11.4	0.1	53.8	80.3
Capital expenditures	2.7	13.2	16.7	56.2
Property acquisitions, net of dispositions ⁽⁴⁾	(4.7)	(1.6)	(23.5)	(2.0)
Net wells rig released	—	2.1	1.1	11.6
Oil Sands				
Blended bitumen sales	36.3	—	136.4	—
Daily sales volumes blended bitumen (bbl/d)	9,394	3,120	8,440	3,120
Average realized price				
Blended bitumen (\$/bbl)	48.36	(0.43)	49.46	(0.43)
Operating netback prior to hedging(\$/bbl) ⁽³⁾	18.80	(0.43)	16.55	(0.43)
Operating loss	(3.2)	(18.8)	(9.5)	(24.9)
Cash contribution (deficiency) from operations ⁽³⁾	7.2	(15.3)	26.0	(21.1)
Capital expenditures	3.4	8.8	7.2	94.1
NET INCOME (LOSS) FROM OPERATIONS	44.0	(114.2)	(76.6)	(380.2)

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

REVIEW OF OVERALL PERFORMANCE

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

Conventional

- Petroleum and natural gas sales for the three months ended December 31, 2019 increased by \$0.9 million over the same periods in 2018. The increase during the three months ended December 31, 2019 was primarily a result of increased realized commodity prices offset by reduced sales volumes. Sales for the twelve months ended December 31, 2019 decreased by \$77.9 million compared to the 2018 period. The decrease was primarily a result of reduced oil sales volumes and lower realized prices.
- Sales volumes for the three and twelve months ended December 31, 2019 decreased by 6,428 boe/d and 3,162 boe/d, respectively, as compared to the same periods in 2018. The decreases are primarily due to natural declines, third party turnarounds, forest fires in Northern Alberta during May and June 2019 resulting in shut-ins and non-core asset sales during the second and fourth quarter of 2019. The decreases in production were partially offset by production from new wells drilled in the fourth quarter of 2018 and Harvest's participation in four gross non-operated wells in 2019.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three and twelve months ended December 31, 2019 decreased 1,952 boe/d and increased 55 boe/d, respectively, as compared to the same periods in 2018. The decrease in volumes for the three months ended December 31, 2019 was primarily the result of natural declines. The increase for the twelve months ended December 31, 2019 were primarily due to additional production from new wells brought online during the fourth quarter of 2018 and gas lift optimization in 2019.
- Operating income (loss) for the three and twelve months ended December 31, 2019 was \$45.0 million of income (2018 - \$12.2 million income) and \$26.1 million loss (2018 - \$127.9 million loss), respectively. Operating income for the three months ended December 31, 2019 was higher than the prior comparative period in 2018 due to increased income from joint ventures partially offset by increased impairment expenses. The decrease in the operating loss for the twelve months ended December 31, 2019 was primarily due to increased income from joint ventures and decreased impairment expense, partially offset by a decrease in revenue and increased derivative contract losses.
- Capital expenditures totaled \$2.7 million and \$16.7 million for the three and twelve months ended December 31, 2019. Capital expenditures during the twelve months ended December 31, 2019 were mainly related to drilling and completions for wells drilled during the fourth quarter of 2018, four gross partner operated wells drilled in 2019 and asset optimization and revitalization projects. During the three and twelve months ended December 31, 2019, nil gross wells (nil net) and 4.0 gross (1.1 net) wells were rig-released, respectively.
- Operating netback per boe prior to hedging for the three and twelve months ended December 31, 2019 was \$13.90/boe and \$12.15/boe, respectively, an increase of \$15.18/boe and \$0.32/boe from the same periods in 2018. The increase in the three months ended December 31, 2019, was primarily the result of increased average realized prices and decreased transportation and marketing expenses, partially offset by increased royalties and operating expenses per boe. The increase for the twelve month period is primarily due to decreases in all expenses per boe, partially offset by decreased average realized prices.
- Cash contributions from Harvest's Conventional operations for the three and twelve months ended December 31, 2019 were \$11.4 million and \$53.8 million, respectively (2018 - \$0.1 million and \$80.3 million). The increase in cash contributions for the three months ended December 31, 2019 was mainly due to a decrease in operating and G&A expenses. Cash contributions for the twelve months ended December 31, 2019 decreased primarily due to decreased revenue partially offset by lower royalties, operating and G&A expenses.

Oil Sands

- Sales volumes of blended bitumen for the three and twelve months ended December 31, 2019 were 9,394 bbl/d and 8,440 bbl/d, respectively (2018 – 3,120 bbl/d and 3,120 bbl/d), with 13 well pairs converted to SAGD operations by December 31, 2019. BlackGold's first turnaround occurred during the third quarter of 2019, which resulted in lower average production for the quarter when compared to the fourth quarter of 2019. During the month of October 2019, BlackGold produced in excess of 10,000 bbl/d, surpassing the original design capacity for that period.
- Operating netback per barrel prior to hedging for the three and twelve months ended December 31, 2019 were \$18.80/bbl (2018 – \$0.43/bbl loss) and \$16.55/bbl (2018 – \$0.43/bbl loss), respectively. Up until the fourth quarter of 2018, operating costs associated with Oil Sands operations were capitalized.
- Cash contributions from the Oil Sands segment for the three and twelve months ended December 31, 2019 were \$7.2 million and \$26.0 million, respectively (2018 - \$15.3 million and \$21.1 million cash deficiency). Up until the fourth quarter of 2018, operating costs associated with Oil Sands operations were capitalized. With the project now operating as intended by management, 2019 results reflect operating revenue and expenses, while in 2018 there were pre-operating losses.
- Capital expenditures for the three and twelve months ended December 31, 2019 were \$3.4 million (2018 - \$8.8 million) and \$7.2 million (2018 - \$94.1 million), respectively. The decrease in capital expenditures over the comparative periods is the result of completing facility construction and commissioning during the first half of 2018 and continued capitalization of operating losses until the fourth quarter of 2018.
- Operating loss for the three and twelve months ended December 31, 2019 were \$3.2 million (2018 - \$18.8 million) and \$9.5 million (2018 - \$24.9 million), respectively.

Corporate

- On February 24, 2020, Harvest and the Korean based bank agreed to amend and extend the \$500 million term loan. The maturity date was extended to February 24, 2021 and the interest rate on the term loan was reduced to 2.25%. The term loan continues to be guaranteed by KNOC and contains no financial covenants.
- Harvest's unrealized foreign exchange gains and losses are primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars. The strengthening of the Canadian dollar against the U.S. dollar in the fourth quarter of 2019 resulted in net unrealized foreign exchange gain of \$27.3 million (2018 - \$78.6 million loss) for the three months ended December 31, 2019. The strengthening of the Canadian dollar against the U.S. dollar as at December 31, 2019 compared to December 31, 2018 resulted in net unrealized foreign exchange gain of \$70.5 million (2018 - \$107.5 million loss).
- Harvest's net change to the credit facility during the three and twelve months ended December 31, 2019 were \$4.3 million net repayment (2018 - \$48.3 million net drawing) and \$77.4 million net drawings (2018 - \$184.3 million), respectively. The net drawings were primarily related to financing Harvest's operations and capital additions. At December 31, 2019, Harvest had \$457.9 million drawn under the credit facility (December 31, 2018 - \$386.8 million) excluding letters of credit totaling \$10.3 million (December 31, 2018 - \$15.1 million).
- On August 20, 2019, the Alberta Government's mandatory oil production curtailment was extended to December 31, 2020. Harvest's physical oil production was not impacted by the mandated production curtailment during the twelve months ended December 31, 2019. Currently, the Company does not believe the production curtailment order will have a material impact on 2020 production. Harvest is fully cooperating with the Alberta Government and will be prepared to adjust its 2020 work plan and budget program, if and as required.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONVENTIONAL

Summary of Financial and Operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
FINANCIAL				
Petroleum and natural gas sales	59.5	58.6	239.8	317.7
Royalties	(4.3)	(5.1)	(20.3)	(31.8)
Revenues and other income⁽¹⁾	55.2	53.5	219.5	285.9
Expenses				
Operating	35.3	41.0	133.0	156.0
Transportation and marketing	2.4	4.6	9.6	16.3
Operating netback after hedging ⁽¹⁾	17.5	7.9	76.9	113.6
General and administrative	6.0	10.2	24.7	35.6
Depreciation, depletion and amortization	29.6	37.8	134.1	167.1
Loss (income) from joint ventures	(74.3)	1.9	(64.6)	33.0
Exploration and evaluation	—	1.7	0.3	2.1
Unrealized derivative contract losses (gains) ⁽²⁾	14.1	(34.9)	16.6	(31.2)
Impairment (recovery)	4.1	(14.9)	4.1	44.2
Gain on onerous contract	—	(1.6)	—	(1.6)
Gains on disposition of assets	(7.0)	(4.5)	(12.2)	(7.7)
Operating Income (loss)	45.0	12.2	(26.1)	(127.9)
Capital asset expenditures	2.7	13.2	16.7	56.2
Property acquisitions, net of dispositions ⁽⁴⁾	(4.7)	(1.6)	(23.5)	(2.0)
OPERATING				
Light to medium oil (bbl/d)	2,890	3,790	3,193	4,243
Heavy oil (bbl/d)	4,915	5,783	5,013	6,306
Natural gas liquids (bbl/d)	3,206	3,385	3,304	3,244
Natural gas (mcf/d)	36,840	63,737	59,756	65,036
Total (boe/d)⁽³⁾	17,152	23,580	21,470	24,632

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

(2) Derivative contract losses include the settlement amounts for derivative contracts and Harvest's top-up obligation to KERR. See "Risk Management, Financing and Other" section of this MD&A for details.

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

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

Commodity Price Environment

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	56.96	59.14	(4%)	57.03	64.85	(12%)
West Texas Intermediate crude oil (\$/bbl)	75.15	78.12	(4%)	75.64	84.00	(10%)
Edmonton Light Sweet crude oil (\$/bbl)	68.10	41.39	65%	69.22	68.97	0%
Western Canadian Select ("WCS") crude oil (\$/bbl)	54.30	25.36	114%	58.77	49.68	18%
AECO natural gas daily (\$/mcf)	2.48	1.56	59%	1.76	1.50	17%
U.S. / Canadian dollar exchange rate	0.758	0.757	0%	0.754	0.772	(2%)
Differential Benchmarks						
EDM differential to WTI (\$/bbl)	7.05	36.73	(81%)	6.42	15.03	(57%)
EDM differential as a % of WTI	9.4%	47.0%	(80%)	8.5%	17.9%	(53%)
WCS differential to WTI (\$/bbl)	20.85	52.76	(60%)	16.87	34.32	(51%)
WCS differential as a % of WTI	27.7%	67.5%	(59%)	22.3%	40.9%	(45%)

For the three and twelve months ended December 31, 2019, the average WTI benchmark price decreased 4% and 12%, respectively as compared to the same periods in 2018. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and twelve months ended December 31, 2019, increased 65% and was flat, respectively as compared to the same periods in 2018. The increase in price for the three month period was primarily related to the narrowing of the average Edmonton Light differential. The benchmark was flat for the twelve month period as the narrowing average Edmonton Light differential was affected by a decrease in the WTI price.

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 WCS benchmark price increased by 114% and 18% for the three and twelve months ended December 31, 2019 respectively, as compared to the same periods in 2018. These increases were primarily due to the narrowing of the WCS differential, partially offset by a decrease in the average WTI price. The narrowing of the average WCS differentials to WTI in 2019 reflected the production curtailment that was issued by the Alberta government in response to low crude oil prices.

Harvest's realized natural gas price is referenced to the AECO hub, the average of which increased by 59% and 17% for the three and twelve months ended December 31, 2019 gas compared to the same periods in 2018.

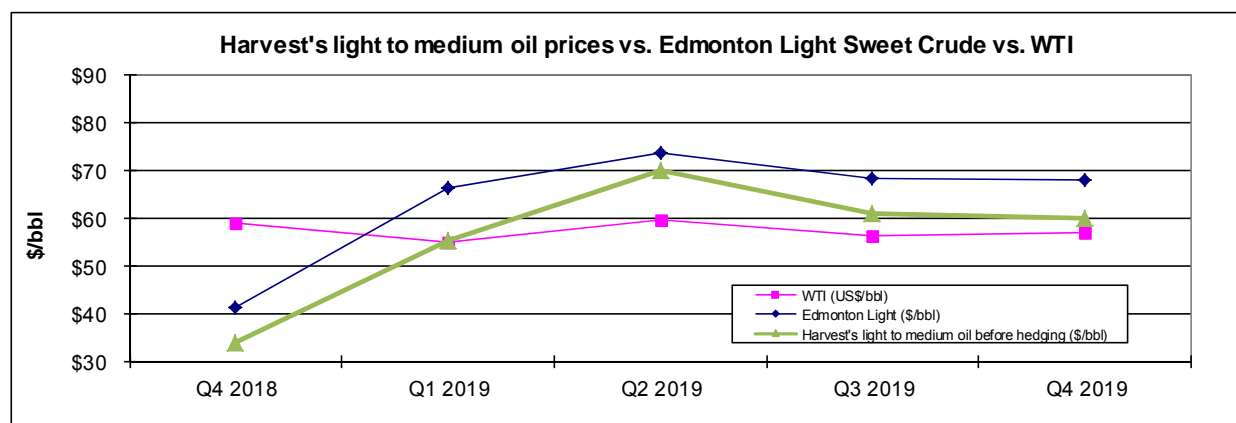
Realized Commodity Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Light to medium oil prior to hedging (\$/bbl)	60.03	34.10	76%	61.69	61.45	0%
Heavy oil prior to hedging (\$/bbl)	53.14	25.21	111%	53.95	51.75	4%
Natural gas liquids (\$/bbl)	31.45	27.78	13%	32.04	39.36	(19%)
Natural gas (\$/mcf)	4.29	1.67	157%	2.04	1.63	25%
Average realized price prior to hedging (\$/boe) ⁽¹⁾	40.42	22.10	83%	32.93	34.53	(5%)
Light to medium oil after hedging (\$/bbl) ⁽²⁾	49.78	54.86	(9%)	50.76	62.01	(18%)
Heavy oil after hedging (\$/bbl) ⁽²⁾	50.34	27.05	86%	49.58	51.66	(4%)
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	37.90	25.89	46%	30.28	34.60	(12%)

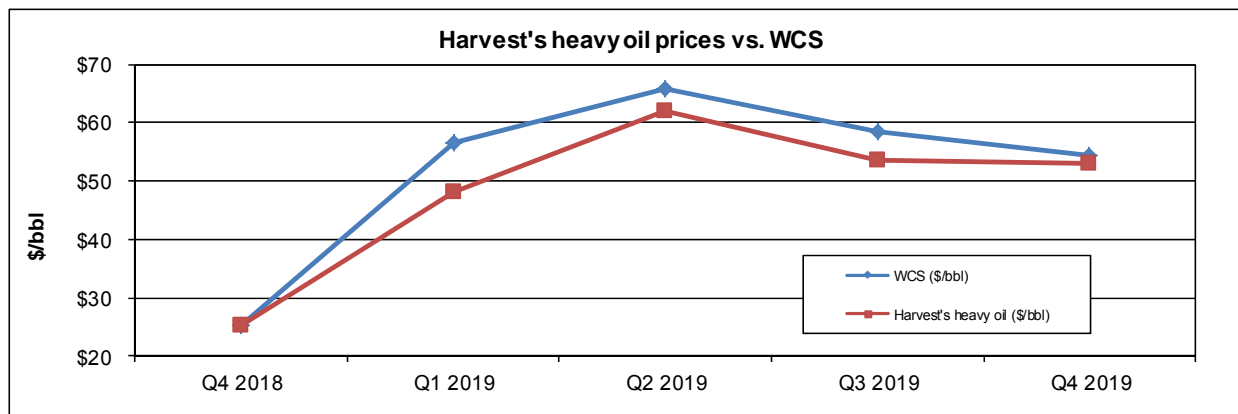
(1) Inclusive of sulphur revenue.

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

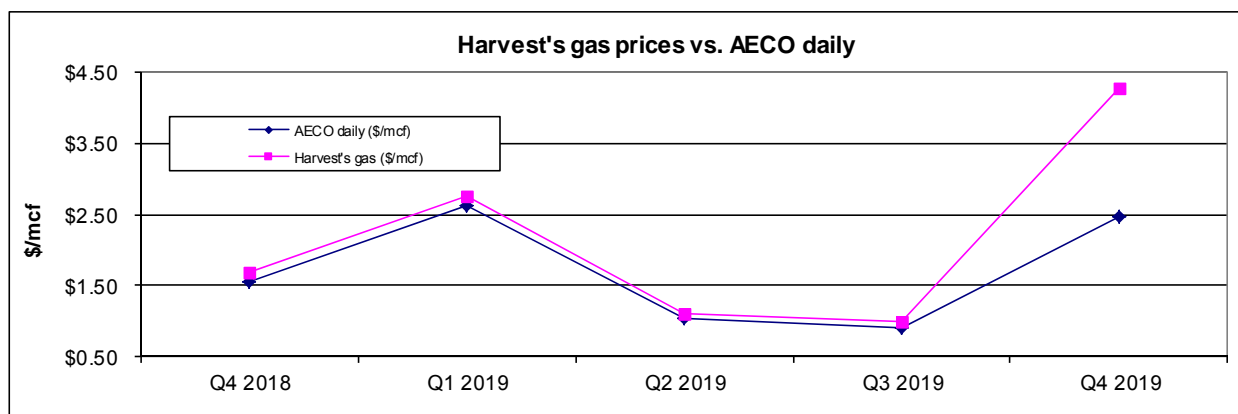
For the twelve months ended December 31, 2019, Harvest's realized price for light to medium oil trended relatively consistently with the Edmonton Light benchmark price. The realized price for light to medium oil increased 76% for the three months ended December 31, 2019 while the Edmonton Light benchmark price increased by 65%. This is primarily due to the narrowing of the Edmonton Light differential as a percentage of WTI to 9.4% during the three months ended December 31, 2019.



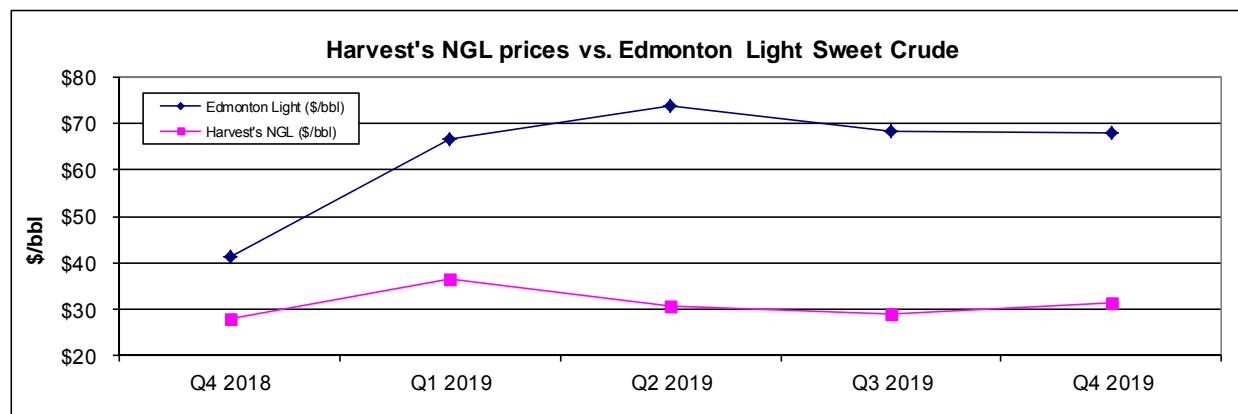
During the three months ended December 31, 2019, Harvest's realized price before hedging for heavy oil trended relatively consistently with the WCS benchmark. During the twelve months ended December 31, 2019, Harvest's realized price for heavy oil increased by 4%, while the WCS benchmark price increased by 18%. This is primarily due to the majority of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which was unchanged during the twelve months ended December 31, 2019.



For the three and twelve months ended December 31, 2019, Harvest's realized gas price was relatively consistent to the AECO benchmark. Realized gas prices for the three months ended December 31, 2019 were higher than the AECO benchmark as the result of net favorable prior period revenue equalization adjustments.



Harvest's realized natural gas liquids price for the three and twelve months ended December 31, 2019 trended consistently with the Edmonton benchmark.



In order to partially mitigate the risk of fluctuating cash flows due to natural gas and oil pricing volatility, Harvest will periodically enter into Mixed Sweet Blend ("MSW"), WCS and AECO derivative contracts. During the three and twelve months ended December 31, 2019, Harvest had MSW derivative contracts in place for a portion of its light oil production and WCS derivative contracts in place for a portion of its heavy oil production.

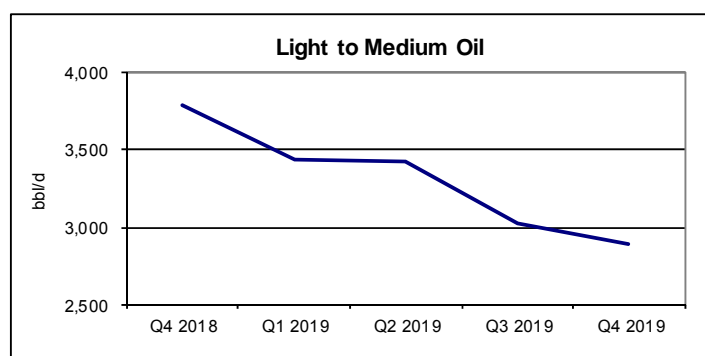
The impact from the MSW hedge on Harvest's realized light oil price for the three and twelve months ended December 31, 2019 was a hedging loss of \$10.25/bbl (2018 - \$20.76/bbl hedging gain) and hedging loss of \$10.94/bbl (2018 - \$0.56/bbl hedging gain), respectively. The impact from the WCS hedge on Harvest's realized heavy oil price for the three and twelve months ended December 31, 2019 was a hedging loss of \$2.80/bbl (2018 - \$1.84/bbl hedging gain) and a hedging loss of \$4.36/bbl (2018 - \$0.09/bbl hedging loss), respectively. Harvest had no natural gas derivative contracts in place during the three and twelve months ended December 31, 2019 and 2018.

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

Sales Volumes

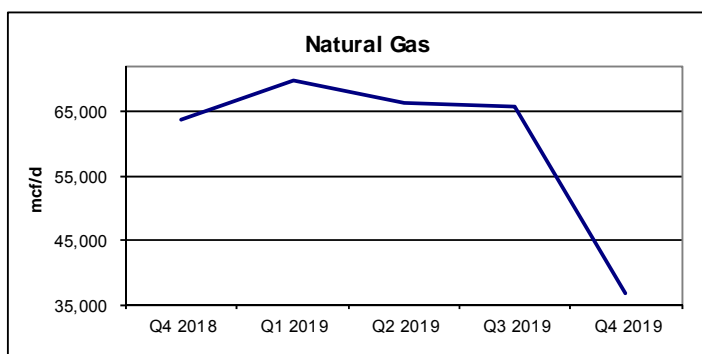
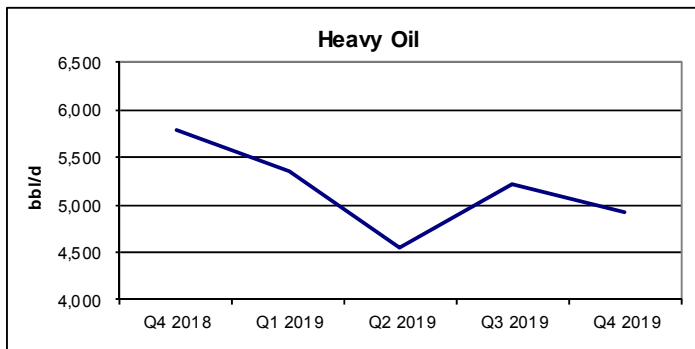
Three Months Ended December 31					
	2019		2018		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	2,890	17%	3,790	16%	(24%)
Heavy oil (bbl/d)	4,915	29%	5,783	25%	(15%)
Natural gas liquids (bbl/d)	3,206	19%	3,385	14%	(5%)
Total liquids (bbl/d)	11,011	65%	12,958	55%	(15%)
Natural gas (mcf/d)	36,840	35%	63,737	45%	(42%)
Total oil equivalent (boe/d)	17,152	100%	23,580	100%	(27%)

Twelve Months Ended December 31					
	2019		2018		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	3,193	15%	4,243	17%	(25%)
Heavy oil (bbl/d)	5,013	23%	6,306	26%	(21%)
Natural gas liquids (bbl/d)	3,304	15%	3,244	13%	2%
Total liquids (bbl/d)	11,510	53%	13,793	56%	(17%)
Natural gas (mcf/d)	59,756	47%	65,036	44%	(8%)
Total oil equivalent (boe/d)	21,470	100%	24,632	100%	(13%)



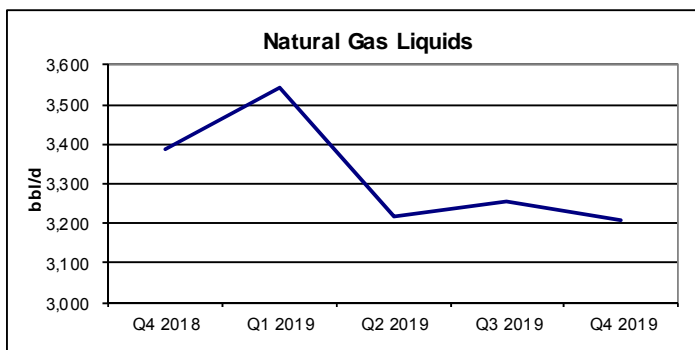
Harvest's average daily sales of light to medium oil decreased 24% in the fourth quarter of 2019 as compared to the same period in 2018. This decrease was primarily due to natural declines, reflecting a minimal drilling program in 2019 and the sale of non-core assets in the second quarter of 2019. Declines in the fourth quarter of 2019 were partially offset by Harvest's participation in two gross wells in the Rocky Mountain House area during the third quarter of 2019.

Heavy oil sales for the fourth quarter of 2019 decreased 15% as compared to the same period in 2018. The decrease was primarily due to natural declines, reflecting a minimal drilling program for 2019, shut-in production in the second quarter of 2019 resulting from a third party turnaround and forest fires in Northern Alberta. The increase in sales volumes from the second to third quarter of 2019 was primarily due to the recovery of production from the turnaround and forest fires.



Natural gas sales during the fourth quarter of 2019 declined 42% compared with the same period in 2018. Sales volumes increased during the first quarter of 2019 due to Harvest's participation in new wells in the Rocky Mountain House and Deep Basin areas at the end of 2018. These increases were offset by natural declines and additional downtime caused by various partner turnarounds during the second and third quarters of 2019. Sales volumes in Q4 2019 also reflected the impact of net negative prior period volume equalization adjustments.

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



Revenues

Sales Revenue by Product

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Light to medium oil sales after hedging ⁽¹⁾	13.4	19.1	(30%)	59.2	96.0	(38%)
Heavy oil sales after hedging ⁽¹⁾	22.2	14.4	54%	90.7	118.9	(24%)
Natural gas sales	14.5	9.8	48%	44.6	38.7	15%
Natural gas liquids sales	9.3	8.7	7%	38.6	46.6	(17%)
Other ⁽²⁾	0.1	6.6	(98%)	6.7	17.5	(62%)
Petroleum and natural gas sales	59.5	58.6	2%	239.8	317.7	(25%)

(1) Inclusive of the effective portion of realized losses on crude oil contracts designated as hedges.

(2) Inclusive of sulphur revenue and miscellaneous income.

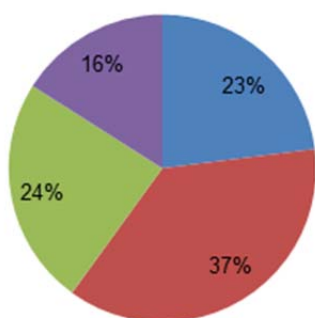
Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. Total petroleum and natural gas sales revenue increased for the three months ended December 31, 2019, as compared to 2018 due to higher realized commodity prices compared to 2018 partially offset by lower sales volumes. The decrease in revenue during the twelve months ended December 31, 2019 was primarily due to lower sales volumes and decreased oil prices after hedging and lower natural gas liquids prices.

Sulphur revenue for the three and twelve months ended December 31, 2019 represented \$nil million (2018 – \$2.0 million) and \$4.2 million (2018 – \$11.0 million), respectively, of the total in other revenues.

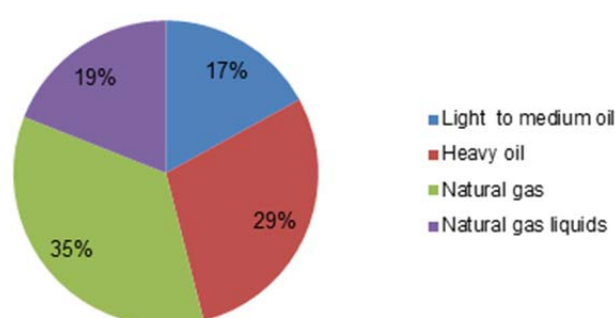
Revenue by Product Type as % of Total Revenue

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Light to medium oil sales after	23%	33%	25%	30%
Heavy oil sales after hedging	37%	25%	38%	37%
Natural gas sales	24%	17%	19%	12%
Natural gas liquids sales	16%	15%	16%	15%
Other	0%	10%	2%	6%
Total Sales Revenue	100%	100%	100%	100%

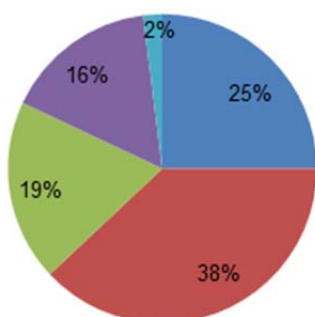
Sales Revenue by Product
(Three months ended December 31, 2019)



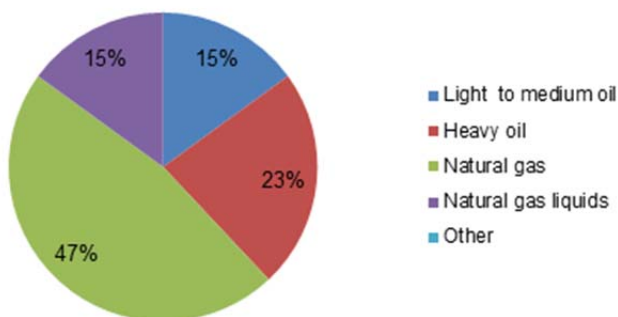
Sales Volumes by Product
(Three months ended December 31, 2019)



Sales Revenue by Product
(Twelve months ended December 31, 2019)



Sales Volumes by Product
(Twelve months ended December 31, 2019)



Harvest's product mix on a volumetric basis is about half crude oil and natural gas liquids and half natural gas. Revenue contribution is more heavily weighted to crude oil and liquids as shown by the charts above. Revenue contributions by product for the three and twelve months ended December 31, 2019 have fluctuated in comparison to the same periods in 2018, primarily as a result of changes in commodity prices and increases in natural gas and natural gas liquids volumes.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Royalties

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Royalties	4.3	5.1	16%	20.3	31.8	36%
Royalties as a percentage of revenue	7.2%	8.7%	(17%)	8.5%	10.0%	(15%)
Royalties (\$/boe)	2.74	2.35	0.39	2.59	3.54	(0.95)

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, 2019, royalties as a percentage of gross revenue averaged 7.3% (2018 – 8.7%) and 8.5% (2018 – 10.0%), respectively. Royalties as a percentage of gross revenue were lower than the comparative period, primarily due to the impact of favorable prior period gas cost allowance recoveries received in the year.

Royalties on a per barrel basis increased \$0.39/boe and decreased \$0.95/boe during the three and twelve months ended December 31, 2019, respectively, as compared to the same periods in 2018. The increase in the three months ended December 31, 2019 was primarily due to increased average realized prices partially offset by a decrease in sales volumes resulting in an increase in royalty expense on a per barrel basis. The decrease in the twelve months ended December 31, 2019 was primarily due to lower royalty expense which reflect the impact of favorable prior period gas cost allowances recoveries received in the year, partially offset by the decrease in sales volumes.

Operating Expenses

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Operating expense	35.3	41.0	133.0	156.1
Operating expense (\$/boe)	22.32	18.91	16.97	17.35

Operating expenses for the three and twelve months ended December 31, 2019, decreased by \$5.7 million and \$23.1 million as compared to the same periods in 2018, respectively. This is primarily the result of reduced labor, well servicing, and repairs and maintenance costs due to lower activity levels and cost reduction efforts.

Operating expenses on a per barrel basis increased by \$3.41 per boe and decreased by \$0.38 per boe, for the three and twelve months ended December 31, 2019, when compared to the same periods in 2018. This decrease is primarily due to lower operating expense, partially offset by lower sales volumes.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation and Marketing Expense

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Transportation and marketing expense	2.4	4.6	9.6	16.3
Transportation and marketing expense (\$/boe)	1.46	2.12	1.22	1.81

Transportation and marketing expenses relate primarily to the cost of delivery of natural gas and natural gas liquids, as well as trucking crude oil to pipeline or rail receipt points. Transportation and marketing expenses for the three and twelve months ended December 31, 2019 have decreased compared to the same periods in 2018. The decrease is a result of lower sales volumes, reducing contracted pipeline volumes as well as third parties utilizing Harvest's capacity since the first quarter of 2019 and therefore reducing the amount of the unutilized demand charges paid.

Transportation and marketing per boe for the three and twelve months ended December 31, 2019 decreased over its comparative period as a result of lower transportation and marketing expense, partially offset by lower sales volumes.

Operating Netback⁽¹⁾

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$/boe)	2019	2018	Change	2019	2018	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	40.42	22.10	83%	32.93	34.53	(5%)
Royalties	(2.74)	(2.35)	17%	(2.59)	(3.54)	(27%)
Operating expenses	(22.32)	(18.91)	18%	(16.97)	(17.35)	(2%)
Transportation and marketing	(1.46)	(2.12)	(31%)	(1.22)	(1.81)	(33%)
Operating netback prior to hedging ⁽¹⁾	13.90	(1.28)	(1,186%)	12.15	11.83	3%
Hedging (loss) gain ⁽³⁾	(2.53)	3.79	(167%)	(2.65)	0.08	(3,413%)
Operating netback after hedging ⁽¹⁾	11.37	2.51	353%	9.50	11.91	(20%)

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

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

(3) Includes the settlement amounts for crude oil.

For the three and twelve months ended December 31, 2019, operating netback after hedging was \$11.37 per boe and \$9.50 per boe, respectively, representing a 353% increase and 20% decrease respectively, compared to the same periods in 2018. The increase in the three month ended December 31, 2019 operating netback price was primarily the result of higher realized prices partially offset by higher expenses compared to the 2018 period. The decreases in the twelve months ended December 31, 2019 were primarily due to decreased realized prices partially offset by lower expenses compared to the 2018 period.



MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative ("G&A") Expenses

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Gross G&A expenses	6.4	11.2	(43%)	26.7	38.9	(31%)
Capitalized G&A and recoveries	(0.4)	(1.0)	(60%)	(2.0)	(3.3)	(39%)
Net G&A expenses	6.0	10.2	(41%)	24.7	35.6	(31%)
Net G&A expenses (\$/boe)	3.78	4.72	(20%)	3.15	3.95	(20%)

For the three and twelve months ended December 31, 2019, G&A expense net of capitalized G&A decreased 41% and 31%, respectively, compared to the same periods in 2018. The decrease during the three and twelve month periods ended December 31, 2019, as compared to 2018 were primarily due to lower staffing levels and related expenses, and the re-classification of rent payments into depletion, depreciation and amortization expense and a finance cost as a result of IFRS 16. Rent payments (\$1.2 million and \$4.9 million during the three and twelve months ended December 31, 2019, respectively) were applied against the lease liability recognized on January 1, 2019, rather than in general and administration expenses in the comparative periods in 2018. Also see "Critical Accounting Estimates" in this MD&A for the implications of the adoption of IFRS 16.

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

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

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
DD&A expense	29.6	37.8	134.1	167.1
DD&A expense (\$/boe)	18.83	17.43	17.11	18.59

DD&A expense for the three and twelve months ended December 31, 2019 decreased by \$8.2 million and \$33.0 million, respectively, compared to the same periods in 2018. This was mainly due to net impairments booked in 2018, a change in estimate in the decommissioning liability at December 31, 2018, lower sales volumes, as well as reserve additions in the fourth quarter of 2018, which led to reduced DD&A rates during the three and twelve months ended December 31, 2019.

For the three months ended December 31, 2019, DD&A per boe increased as compared to the same periods in the prior year reflecting the impact of lower sales volumes resulting from a prior period equalization adjustment.

Impairment Expense

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"). The Company uses a risk adjusted discount rate that varies based on the nature of the assets held in each of its CGUs to determine the fair value at the measurement date.

For the year ended December 31, 2019, Harvest evaluated its conventional assets for indicators of impairment. A decrease in natural gas pricing was the primary trigger that indicated further testing was necessary for the West Gas and South Gas Conventional CGUs. For the year ended December 31, 2019, an impairment expense of \$4.1 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated as FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2019. A discount rate of 11% was applied to calculate the recoverable amount of \$21.3 million.

For the year ended December 31, 2019, nil impairment was recorded for the South Gas CGU. The recoverable amount for the South Gas CGU was estimated as FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2019. A discount rate of 11% was applied to calculate the recoverable amount which exceeded the carrying amount and no impairment was recorded, neither was any reversal as no write-up room existed for the CGU at year-end December 31, 2019.

For the year ended December 31, 2018, Harvest evaluated its conventional assets for indicators of impairment. A decrease in natural gas pricing and an increase in reserve value were the primary triggers that indicated further testing was necessary for the West Gas and South Gas Conventional CGUs. For the year ended December 31, 2018, an impairment expense of \$44.2 million was recorded for the West Gas 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 after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 16% was applied to calculate the recoverable amount of \$40.1 million.

The results of the impairment assessments conducted during the twelve months ended December 31, 2019, and December 31, 2018 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.

Capital Expenditures

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Drilling and completion	—	4.8	8.1	32.3
Well equipment, pipelines and facilities	1.9	7.7	4.9	22.2
Land and seismic	0.2	—	0.2	0.1
Geological and geophysical	—	—	0.2	—
Corporate	—	0.1	0.3	0.3
Other	0.6	0.6	3.0	1.3
Total additions excluding acquisitions	2.7	13.2	16.7	56.2

Total capital expenditures were lower for the three and twelve months ended December 31, 2019 compared to 2018 reflecting a minimal capital program for 2019.

During the three and twelve months ended December 31, 2019, Harvest rig released nil gross (nil net) and four gross wells (1.1 net), respectively. All wells drilled during 2019 were partner operated wells in the Rocky Mountain House area. The capital spent during the fourth quarter of 2019 primarily related to drilling and completions costs for the partner operated wells drilled during the third quarter of 2019. Capital costs incurred during the twelve months ended December 31, 2019 related to drilling and completions costs for the four gross partner operated wells drilled in during 2019, and in addition, completion costs incurred during the first quarter of 2019 for wells drilled at the end of 2018.

During the three and twelve months ended December 31, 2019, Harvest's net undeveloped land additions were 601 acres and 2,693 acres, respectively (2018 – 796 acres and 3,993 acres), and there were 1,711 acres and 66,135 acres of net undeveloped land dispositions, respectively (2018 – 316 acres and 2,159 acres).

Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at December 31, 2019 were \$645.3 million (December 31, 2018 - \$608.6 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities is based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The increase in the balance at December 31, 2019, is mainly due to the change in estimate resulting from the decrease in the risk-free discount rate as at December 31, 2018, changes in estimates relating to reserve life and accretion, partially offset by abandonment work performed during the year and the disposal of assets during 2019. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Investments in Joint Ventures

Harvest has investments in Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") joint ventures with KERR Canada Co. Ltd. ("KERR") which are accounted for as equity investments. Harvest derives its income or loss from these investments based upon Harvest's share in the change of the net assets of the joint ventures. Harvest's share of the change in the net assets does not directly correspond to its ownership interest because of

contractual preference rights to KERR and changes based on contributions made by either party during the year. For the three and twelve months ended December 31, 2019, Harvest recognized income of \$74.3 million and \$64.6 million, respectively (2018 - \$1.9 million and \$33.0 million loss, respectively) 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, 2019. Unless otherwise noted the following discussion relates to 100% of the joint venture results.

Deep Basin Partnership

DBP was established for the purposes of exploring, developing and producing from certain natural gas properties in the Deep Basin area in Northwest Alberta. Harvest has made various contributions to the DBP that resulted in changes in its ownership percentage as reflected in the table below.

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

As at December 31, 2019, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$18.8 million (December 31, 2018 - \$2.2 million). The increase over the prior year is the result of a change in the expected timing of future projected cash flows, partially offset by a higher discount rate of 24% (2018 – 20%).

As of December 31, 2019, Harvest has received a total of \$18.6 million (December 31, 2018 - \$17.0 million) in distributions from the DBP from inception of the joint venture. Distributions of \$1.6 million were paid to partners in 2019.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Natural gas liquids (\$/bbl)	48.43	42.03	15%	54.73	55.01	(1%)
Natural gas (\$/mcf)	2.66	1.76	51%	1.92	1.69	14%
Average realized price(\$/boe)	25.21	21.90	15%	23.78	23.61	1%

For the three and twelve months ended December 31, 2019, average realized prices for natural gas liquids increased 15% and decreased 1%, respectively, as compared to the same periods in 2018, while the Edmonton Light benchmark price increased by 65% and 0%. The increase in realized price for the three months ended December 31, 2019 was primarily the result of an increase in the butane prices of 123%, partially offset by a decrease in propane prices of 51%.

For the three and twelve months ended December 31, 2019, average realized prices for natural gas increased 51% and increased 14%, respectively over the same periods in 2018. These changes were consistent with the 59% increase and 17% increase in the AECO benchmark price for the three and twelve months ended December 31, 2019, respectively.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Natural gas (mcf/d)	16,608	23,802	(30%)	19,825	19,172	3%
Natural gas liquids (bbl/d)	1,099	2,237	(51%)	1,310	1,366	(4%)
Light to medium oil (bbl/d)	—	2	(100%)	—	3	(100%)
Total (boe/d)	3,867	6,207	(38%)	4,615	4,563	1%
Harvest's share (boe/d) ⁽¹⁾	3,228	5,180	(38%)	3,852	3,797	1%

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

Total sales volumes for the three and twelve months ended December 31, 2019, decreased by 2,340 boe/d and increased by 52 boe/d, as compared to the same periods in 2018. The decrease during the three months ended December 31, 2019, was primarily due to natural declines, non-op well outages and third party processing facility restrictions and maintenance.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Revenues ⁽¹⁾	9.2	12.4	(26%)	40.2	39.9	1%
Impairment	76.9	—	(100%)	76.9	(22.2)	446%
Depletion, depreciation and amortization	(9.0)	(5.7)	58%	(39.5)	(17.7)	123%
Operating and transportation expenses	(4.1)	(10.1)	(59%)	(17.7)	(39.7)	(55%)
Finance costs	(1.3)	(0.7)	86%	(5.2)	(2.9)	79%
Net loss ⁽²⁾	71.7	(4.1)	(1,849%)	54.7	(42.6)	(228%)

(1) Revenue is presented net of royalties.

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

Sales revenues for the three months ended December 31, 2019, decreased as compared to the same period in 2018, primarily due to the decrease in sales volumes offset by an increase in average realized pricing compared to the prior period. Sales revenues for the twelve months ended December 31, 2019 remained relatively consistent compared to the same period in 2018.

For the year ended December 31, 2019, Deep Basin Partnership evaluated its assets for indicators of potential impairment or reversal. A decrease in discount rates based on market transactions was the primary indicator of reversal and a test was performed.

For the three and twelve months ended December 31, 2019, DBP recognized a reversal of impairment losses of \$76.9 million (2018 - \$nil and \$22.2 million loss, respectively). The recoverable amount was estimated as FVLCD based on the net present value of after-tax cash flows from proved plus probable reserves estimated by an independent reserve evaluator as at December 31, 2019. A discount rate of 13% (2018 – 19%) was used to determine the recoverable amount of \$171.7 million. The recoverable amount exceeded the carrying amount and an impairment reversal of \$76.9 million (2018 - \$22.2 million impairment expense) was recorded.

As a result of applying IFRS 16 to the gas processing agreement between DBP and HKMS (as discussed in the "HKMS Partnership" section below), a lease liability and right of use asset were put onto DBP's balance sheet, using the modified retrospective approach on January 1, 2019. DBP's capital fee payments to HKMS (\$6.0 million and \$24.0 million for the three and twelve months ended December 31, 2019, respectively), which were previously included in "operating and transportation expense", were applied against the lease liability effective January 1, 2019. Therefore these lease payments were bifurcated between amortization expense on the right of use asset and finance costs for the accretion of the lease liability during the three and twelve months ended December 31, 2019. As a result of this IFRS 16 adjustment and a change in sales volumes as discussed above, operating and transportation expenses decreased from \$17.67 per boe and \$23.84 per boe for the three and twelve months ended December 31, 2018, respectively to \$11.39 per boe and \$10.49 per boe in 2019. This decrease was partially offset by an increase in processing fees paid to non-affiliate third parties.

Depletion for the three and twelve months ended December 31, 2019 was \$25.23 per boe and \$23.48 per boe, respectively (2018 - \$10.06 per boe and \$10.62 per boe). The increase in depletion per boe was mainly the result of the partial re-classification of the capital fee payments to HKMS from operating expense to amortization expense for IFRS 16, as discussed above, during the three and twelve months ended December 31, 2019. This increase was partially offset by the impact of impairments recorded in 2018 and reserve additions from new wells in 2018.

Finance costs have also increased 86% and 79% during the three and twelve months ended December 31, 2019 as compared to the same periods in 2018 due to the inclusion of accretion on the lease liability on a portion of the capital fee payments to HKMS in finance costs, as a result of IFRS 16 effective January 1, 2019.

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Drilling and completion	0.2	0.6	—	33.8
Well equipment, pipelines and facilities	1.0	1.6	1.6	5.9
Geological and geophysical	—	0.2	—	0.2
Total ⁽¹⁾	1.2	2.4	1.6	39.9

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

Capital expenditures for the twelve months ended December 31, 2019 focused primarily on gas lift optimization activity during 2019.

HKMS Partnership

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

	December 31 2019	September 30, 2019	June 30 2019	March 31 2019	December 31, 2018
Harvest's ownership interest	68.21%	68.19%	68.15%	68.15%	68.15%
KERR's ownership interest	31.79%	31.81%	31.85%	31.85%	31.85%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At December 31, 2019, Harvest has received a total of \$72.4 million (December 31, 2018 - \$56.1 million) in distributions from the HKMS Partnership from inception of the joint venture.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Revenues	6.8	6.5	5%	26.3	26.6	(1%)
Operating expenses and other	(0.8)	(0.8)	—	(2.3)	(2.9)	(21%)
Depreciation and amortization	(0.9)	(0.9)	—	(3.5)	(3.5)	—
Finance costs	(3.8)	(4.2)	(10%)	(15.8)	(17.0)	(7%)
Net income ⁽¹⁾	1.3	0.6	117%	4.7	3.2	47%

(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 approximately \$2.0 million. This capital fee is accounted for as revenue for HKMS. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and twelve months ended December 31, 2019 the Partnership generated revenues of \$6.8 million and \$26.3 million, respectively (2018 - \$6.5 million and \$26.6 million).

Operating expenses of the facility are recovered through charging an operating fee to users of the facility. For the three and twelve months ended December 31, 2019, the Partnership operating expenses were \$0.8 million and \$2.3 million, respectively, (2018 - \$0.8 million and \$2.9 million). Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and twelve months ended December 31, 2019 the partnership depreciation expense was \$0.9 million and \$3.5 million, respectively.

Finance costs mainly represent an accounting charge resulting from the partner's contributions being classified as liabilities, as a result of the Gas Processing Agreement guaranteed returns. For the three and twelve months ended December 31, 2019 the partnership finance costs were \$3.8 million and \$15.8 million, respectively, (2018 - \$4.2 million and \$17.0 million).

See note 9 of the December 31, 2019 consolidated financial statements for discussion of the accounting implications of these joint ventures.

OIL SANDS

Operating Results

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Blended bitumen sales ⁽¹⁾⁽²⁾	36.3	—	136.4	—
Cost of diluent	(5.0)	(2.8)	(19.9)	(2.8)
Bitumen sales⁽¹⁾	31.3	(2.8)	116.5	(2.8)
Expenses				
Royalties	0.8	—	3.7	—
Operating	13.1	9.2	52.6	15.0
Transportation and marketing	6.5	2.4	25.3	2.4
General and administrative	3.7	0.9	8.9	0.9
Depreciation and amortization	10.4	3.5	35.5	3.8
Operating loss	(3.2)	(18.8)	(9.5)	(24.9)

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

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

The capitalization period of the Oil Sands project came to an end during the fourth quarter of 2018 once the asset was operating as intended by management. Therefore, there are no comparable numbers for operating results for prior periods. Prior period results relate to costs during the pre-commissioning startup period, the majority of which were capitalized during the three and twelve months ended December 31, 2018.

Commodity Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Western Canadian Select ("WCS") crude oil (\$/bbl)	54.30	25.36	114%	58.77	49.68	18%

Realized Commodity Prices

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Blended bitumen prior to hedging (\$/bbl)	48.36	(0.43)	(11,346%)	49.46	(0.43)	(11,603%)
Blended bitumen after hedging (\$/bbl) ⁽¹⁾	45.21	(0.43)	(100%)	44.28	(0.43)	(10,398%)
Bitumen prior to hedging (\$/bbl) ⁽²⁾	42.40	(0.48)	(8,880%)	43.01	(0.48)	(9,006%)

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

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

Bitumen produced by Harvest must be blended with diluent in order to reduce its viscosity and allow for transportation to the final point of sale. The Blended Bitumen sales price represents the total value of the blended bitumen and diluent product sold. Harvest's bitumen sales price represents the theoretical price received for bitumen sales, after the deduction of costs and revenues from the diluent required to be added. The costs of diluent include the costs associated with the transportation of diluent to the CPF.

Volumes

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Blended bitumen sales (bbl/d)	9,394	3,120	201%	8,440	3,120	171%
Bitumen sales (bbl/d)	8,736	2,783	214%	7,862	2,783	183%
Bitumen production (bbl/d)	8,680	3,176	173%	7,615	3,176	140%

Sales volumes in the fourth quarter of 2019 were higher than the twelve months ended December 31, 2019, reflecting the production ramp up of the BlackGold project during the year. As at December 31, 2019, 16,197 barrels of blended bitumen was in inventory at a value of \$0.5 million (December 31, 2018 – 53,534 barrels at a value of \$nil).

Operating Netback⁽¹⁾

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$/boe)	2019	2018	Change	2019	2018	Change
Bitumen prior to hedging	42.40	(0.43)	9,960%	43.01	(0.43)	10,102%
Royalties	(0.93)	—	100%	(1.19)	—	100%
Operating expense	(15.12)	—	100%	(17.08)	—	100%
Transportation and marketing	(7.55)	—	100%	(8.19)	—	100%
Operating netback prior to hedging ⁽¹⁾	18.80	(0.43)	4,472%	16.55	(0.43)	3,949%
Hedging loss ⁽²⁾	(2.93)	—	100%	(5.18)	—	100%
Operating netback after hedging ⁽¹⁾	15.87	(0.43)	3,790%	11.37	(0.43)	2,744%

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

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

Operating expenses on a per barrel basis for the three months ended December 31, 2019 were lower than the twelve months of 2019, reflecting the impact of production ramp-up of the BlackGold project during the year.

Capital Expenditures

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Well equipment, pipelines and facilities	1.9	1.0	2.6	57.5
Pre-operating costs	—	—	0.1	—
Drilling and completion	0.9	0.7	2.8	4.2
Other ⁽¹⁾	0.6	7.1	1.7	32.4
Total Oil Sands capital expenditures	3.4	8.8	7.2	94.1

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

On December 21, 2017, Harvest announced its decision to re-sanction and complete construction of its 10,000 bbl/d BlackGold facility. The capital expenditures for the three and twelve months ended December 31, 2018, mainly related to construction activities to complete and commission the CPF. During the three and twelve months ended December 31, 2019, limited capital was spent as the CPF was operating as intended by management in the fourth quarter of 2018. The majority of the capital spent during the three and twelve months

ended December 31, 2019, primarily related to the installation of submersible pumps ("ESP"), injector retrofit installations and other subsurface optimization activities.

Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at December 31, 2019 was \$57.8 million (December 31, 2018 - \$53.7 million) relating to the future remediation, abandonment, and reclamation of the steam assisted gravity drainage ("SAGD") wells and CPF. The increase in balance is mainly due to a change in estimate resulting from a decrease in the risk-free discount rate as at December 31, 2019. Please see the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Project Development

Harvest has been developing its Oil Sands CPF under the engineering, procurement and construction ("EPC") contract. Initial drilling of 30 SAGD wells (15 well pairs) was completed and more SAGD wells will be drilled in the future to compensate for the natural decline in production of the initial well pairs and maintain the Phase 1 design production capacity of 10,000 bbl/d. During the first quarter of 2015, construction had been substantially completed, including the building of the CPF plant site, well pads, and connecting pipelines but activities were suspended with the decline in bitumen pricing. Construction activities were recommenced in the fourth quarter of 2017 with more optimistic bitumen pricing forecasts. Formal commissioning began on May 21, 2018, and first steam into the well pairs commenced June 19, 2018. After first steam, twelve well pairs were circulated in preparation for conversion to SAGD. First oil was achieved on September 3, 2018. By December 31, 2018, ten well pairs had been converted to full SAGD operation, and by December 31, 2019, 13 well pairs had been converted to full SAGD operation. On May 1, 2019, BlackGold produced 10,000 bbl/d, achieving its original design capacity for Phase 1.

BlackGold underwent its first turnaround during the third quarter of 2019. During the month of October 2019, BlackGold produced in excess of 10,000 bbl/d, surpassing the original design capacity for that period.

Since inception, Harvest has incurred over \$1 billion of costs on this project which was originally acquired in 2010. This amount includes certain Phase 2 pre-investment costs which are expected to improve the capital efficiency over the project lifecycle. Under the EPC contract, \$94.9 million of the EPC costs will be paid in equal installments, without interest, over 10 years. Payments commenced during the second quarter of 2015 with two payments made on April 30, 2015. Harvest withheld the third, fourth, fifth and sixth deferred payments due April 30, 2016, 2017, 2018 and 2019 as it was in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor while negotiating a settlement with the Contractor. Following an arbitration hearing on the matter, a deposit of \$10 million on the withheld deferred payments was paid in September 2019, which was partially offset by additional interest owed on the withheld payments and legal fees arising from the settlement. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2019, Harvest recognized a liability of \$69.1 million (December 31, 2018 - \$71.4 million) using a discount rate of 4.5% (December 31, 2018 - 4.5%).

Harvest uses the unit of production method for depletion. Capitalization of pre-operating costs stopped, and depletion on the Oil Sands property, plant and equipment commenced in the fourth quarter of 2018, when the CPF was deemed to be operating in the manner intended by management.

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and interest payments and when allowable, will designate these contracts as hedges. Harvest's crude oil price swaps mitigate crude oil price risk by fixing a certain dollar price per barrel on certain crude oil volumes. Harvest additionally enters into foreign exchange swaps to mitigate currency exchange risk by swapping the U.S. dollar notional value of concurrent U.S. dollar denominated borrowings back to Harvest's functional currency, the Canadian dollar. The following is a summary of Harvest's risk management contracts outstanding at December 31, 2019:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair Value of asset (liability) at December 31, 2019
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	\$ (8.3)
					\$ (8.3)

Harvest periodically enters into U.S. dollar currency swap transactions related to a LIBOR borrowing, which results in fixing an exchange rate for the amount drawn.

The swap also results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the twelve months ended December 31, 2019 was 2.84% (2018 – 2.48%).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended December 31,									
Realized (gains) losses recognized in:	2019				2018				
	Crude Oil	Interest	Top-Up Obligation	Total	Crude Oil	Currency	Interest	Top-Up Obligation	Total
Revenues	6.5	—	—	6.5	(8.2)	—	—	—	(8.2)
Finance costs	—	0.6	—	0.6	—	—	0.6	—	0.6
Derivative contract (gains) losses ⁽¹⁾	—	—	—	—	—	—	—	—	—
Unrealized (gains) losses recognized in:									
OCI, before tax	(5.5)	(3.0)	—	(8.5)	(1.4)	—	5.2	—	3.8
Derivative contract (gains) losses ⁽¹⁾	—	—	14.1	14.1	—	—	—	(35.0)	(35.0)

Twelve Months Ended December 31,									
Realized (gains) losses recognized in:	2019				2018				
	Crude Oil	Interest	Top-Up Obligation	Total	Crude Oil	Currency	Interest	Top-Up Obligation	Total
Revenues	36.7	—	—	36.7	(0.7)	—	—	—	(0.7)
Finance costs	—	2.3	—	2.3	—	—	1.7	—	1.7
Derivative contract (gains) losses ⁽¹⁾	—	—	—	—	—	3.2	—	—	3.2
Unrealized (gains) losses recognized in:									
OCI, before tax	—	0.9	—	0.9	—	—	7.0	—	7.0
Derivative contract (gains) losses ⁽¹⁾	—	—	16.6	16.6	—	(5.1)	—	(31.2)	(36.3)

(1) Derivative contract (gains) losses are the result of foreign exchange hedges that have been entered into in order to eliminate foreign exchange fluctuations on Harvest's US dollar denominated LIBOR borrowings. Harvest periodically enters into U.S. dollar denominated LIBOR borrowings instead of other Canadian denominated borrowing options in order to realize lower interest rates on its revolving credit facility. During a portion of the first quarter of 2018, Harvest did not designate these financial instruments as a hedging relationship. The offsetting foreign exchange (gains) losses resulting from this relationship were therefore classified as realized and unrealized (gains) losses on foreign exchange during this period. Refer to "Currency Exchange" in this MD&A for further details.

Finance Costs

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Credit facility ⁽¹⁾	3.4	3.0	12.6	8.6
Term loan facility - due 2020 ⁽¹⁾	2.8	3.4	11.3	13.0
Term loan facility - due 2023 ⁽¹⁾	3.0	3.3	12.0	8.3
2½% senior notes ⁽¹⁾	—	—	—	8.3
2⅓% senior notes ⁽¹⁾	1.6	1.8	6.1	7.0
3% senior notes ⁽¹⁾	5.1	5.7	20.2	22.3
4.2% senior notes ⁽¹⁾	5.7	6.2	22.6	16.4
Amortization of deferred finance charges and other	(1.5)	0.7	5.8	2.2
Interest and other financing charges	20.1	24.1	90.6	86.1
Accretion of decommissioning and environmental remediation liabilities	3.3	4.0	13.6	15.9
Accretion of long-term liability	0.3	0.5	1.6	2.0
Accretion on onerous contract	0.2	—	0.4	—
Accretion of lease liability	0.2	—	1.0	—
Total finance costs	24.1	28.6	107.2	104.0

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

Currency Exchange

	Three Months Ended December 31		Twelve Months Ended December	
	2019	2018	2019	2018
Realized losses on foreign exchange	0.1	0.2	0.6	17.8
Unrealized (gains) losses on foreign exchange	(27.3)	78.6	(70.5)	107.5
Total (gains) losses on foreign exchange	(27.2)	78.8	(69.9)	125.3

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 2½% (matured in 2018), 2⅓%, 3% and 4.2% senior notes, LIBOR loan and on any U.S. dollar denominated monetary assets or liabilities. As of December 31, 2019, the Canadian dollar had strengthened compared to the US dollar at September 30, 2019, resulting in an unrealized foreign exchange gain of \$27.3 million for the three months ended December 31, 2019 (2018 - \$78.6 million loss). As at December 31, 2019, the Canadian dollar had strengthened compared to the US dollar at December 31, 2018, resulting in an unrealized foreign exchange gain of \$70.5 million for the twelve months ended December 31, 2019 (2018 - \$107.5 million loss). Harvest recognized realized foreign exchange losses of \$0.1 million and \$0.6 million for the three and twelve months ended December 31, 2019 (2018 - \$0.2 million and \$17.8 million) on settlement of U.S. dollar denominated transactions.

Income Taxes

For the three and twelve months ended December 31, 2019 Harvest recorded a deferred income tax recovery of \$79.2 million (2018 - \$nil). The increase is related to changes in the temporary differences between the book value and tax basis of assets and liabilities. The principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

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

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the three and twelve months ended December 31, 2019:

	Transactions				Balance Outstanding	
	Three Months Ended		Twelve Months Ended		Accounts Payable as at	
	December 31		December 31		December 31	December 31
	2019	2018	2019	2018	2019	2018
Diluent Expenses						
DBP ⁽¹⁾	—	—	3.1	—	—	—
G&A Expenses						
KNOC ⁽²⁾	0.1	0.1	0.5	0.5	0.5	0.5
Finance costs						
KNOC ⁽³⁾	—	2.9	—	12.9	2.7	4.7

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

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

(3) Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 2½%, 3% and 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum was charged by KNOC on the senior notes, credit facility and term loans during the 2018 calendar year.

The Company identifies its related party transactions by making inquiries of management and the Board of Directors, reviewing KNOC's subsidiaries and associates, and performing a comprehensive search of transactions recorded in the accounting system. Material related party transactions require the Board of Directors' approval. Also see note 9, "Investment in Joint Ventures" in the December 31, 2019 audited consolidated financial statements for details of related party transactions with DBP and HKMS.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL RESOURCES

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

	December 31, 2019	December 31, 2018
Credit facility ⁽¹⁾⁽³⁾	457.9	386.8
Term loan facility - due 2020 ⁽¹⁾	500.0	500.0
Term loan facility - due 2023 ⁽¹⁾	300.0	300.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽²⁾	254.3	267.0
3% senior notes (US\$485.0 million) ⁽¹⁾⁽²⁾	630.0	661.4
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽²⁾	516.4	542.1
	2,658.6	2,657.3
Shareholder's deficit		
458,766,467 common shares issued	(557.9)	(559.6)
	2,100.7	2,097.7

(1) Excludes capitalized financing fees

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

(3) Excludes letters of credit in the amount of \$10.3 million at December 31, 2019 (December 31, 2018 - \$15.1 million)

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

KNOC has directly and indirectly invested and provided financial support to Harvest since 2009 and as at the date of preparation of this management discussion and analysis, it is the Company's expectation that such support will continue. KNOC guarantees the interest and principal of the Company's Credit Facility, Term Loans and Senior Notes. The Company's capital structure and liquidity needs are met through cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility and long-term debt issuances.

LIQUIDITY

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

Cash flows used in operating activities for the three and twelve months ended December 31, 2019 were \$2.2 million and \$61.5 million, respectively (2018 – cash flows generated of \$16.4 million and \$8.3 million). The increase in the cash flows used in operating activities is primarily due to increased working capital requirements in 2019.

Cash contributions from Harvest's operations for the three and twelve months ended December 31, 2019 were \$18.6 million and \$79.8 million, respectively (2018 - \$15.2 million deficiency and \$59.2 million contribution). The

increase in cash contributions for the three months ended December 31, 2019 was mainly due to an increase in the Conventional and Oil Sands cash contributions compared to the same periods in 2018, as the result of increased commodity prices and decreased expenses. For the twelve months ended December 31, 2019 the increase in cash contributions were primarily due to the increase in the Oil Sands cash contribution due to BlackGold commencing production during the fourth quarter of 2018, partially offset by decreases to the Conventional cash contribution resulting from losses associated with derivative contracts.

Harvest funded capital expenditures for the three and twelve months ended December 31, 2019 of \$6.1 million and \$23.9 million, respectively (2018 - \$22.0 million and \$150.3 million) with the borrowings under the credit facility.

Harvest's net change to the credit facility was \$4.3 million net repayment and \$77.4 million net drawings during the three and twelve months ended December 31, 2019 (2018 - \$48.3 million and \$184.3 million net drawings).

Harvest had a working capital deficiency of \$629.1 million as at December 31, 2019, as compared to a \$148.7 million deficiency at December 31, 2018. The increase in the working capital deficiency from December 31, 2018 is primarily due to the re-classification of the term loan facility due 2020 to current liabilities on the balance sheet and the presence of a derivative liability on the balance sheet at December 31, 2019. On July 29, 2019, Harvest closed the extension of the credit facility from the original maturity date of February 24, 2020 to July 29, 2022, therefore it is now included in long-term debt. Harvest's working capital, excluding senior notes, is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility managing the collection and payment of accounts receivables and accounts payables respectively and using the proceeds from possible sale of assets, as required. Refer to "Capital Resources" section of this MD&A for further discussion of Harvest's liquidity management of senior notes.

On February 24, 2020, Harvest and the Korean based bank agreed to amend and extend the \$500 million term loan. The maturity date was extended to February 24, 2021 and the interest rate on the term loan was reduced to 2.25%. The term loan continues to be guaranteed by KNOC and contains no financial covenants.

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

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at December 31, 2019, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments ⁽¹⁾	500.0	1,339.2	814.8	—	2,654.0
Debt interest payments ^{(1) (2)}	74.0	124.2	15.6	—	213.8
Purchase commitments ⁽³⁾	43.6	19.0	9.5	78.8	150.9
Operating leases	8.5	15.6	14.9	5.0	44.0
Firm processing commitments	10.0	18.9	18.3	2.3	49.5
Firm transportation agreements	13.8	22.0	20.0	16.5	72.3
Employee benefits ⁽⁴⁾	0.5	0.3	—	—	0.8
Decommissioning and environmental liabilities ⁽⁵⁾	16.0	83.7	45.6	937.9	1,083.2
Total	666.4	1,622.9	938.7	1,040.5	4,268.5

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates at December 31, 2019 will be applicable to future interest payments.

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

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

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

Off Balance Sheet Arrangements

See "Investments in Joint Ventures" section in this MD&A and note 9, "Investment in Joint Ventures" in the December 31, 2019 audited consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

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

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Revenue and other income, Conventional	55.2	49.2	51.2	63.9	53.5	75.7	80.0	76.7
Bitumen sales	31.3	25.3	36.0	23.9	—	—	—	—
Total Revenues and other income ⁽²⁾	86.5	74.5	87.2	87.8	53.5	75.7	80.0	76.7
Net Income (loss) From Operations ⁽¹⁾	44.0	(79.4)	(21.5)	(19.7)	(114.2)	(102.8)	(75.0)	(88.2)
Operating netback prior to hedging, Conventional (\$/boe) ⁽²⁾	13.90	9.73	12.41	12.95	(1.28)	17.82	15.87	14.35
Operating netback prior to hedging, Oil Sands (\$/boe) ⁽²⁾	18.80	9.81	28.68	11.56	—	—	—	—
OPERATIONS								
Daily sales volumes (boe/d), Conventional	17,152	22,489	22,296	24,007	23,580	24,549	25,027	25,394
Realized price prior to hedging (\$/boe), Conventional	40.42	28.02	31.91	33.10	22.10	39.08	39.82	36.60
Daily sales volumes blended bitumen (boe/d), Oil Sands	9,394	7,615	8,902	7,843	3,120	—	—	—
Realized price prior to hedging (\$/boe), Oil Sands	48.36	49.20	60.35	46.14	(0.43)	—	—	—

(1) Includes Conventional and Oil Sands segments

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

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

- Total revenues were highest in the first quarter of 2019, as a result of revenue from Harvest's Oil Sands segment and strong Conventional results. Revenue from the Conventional segment was the highest in the second quarter of 2018 as a result of increased realized commodity prices and lowest in the third quarter of 2019 due to reduced commodity prices and low sales volumes.
- Conventional sales volumes have declined since 2018 due to asset dispositions and drilling programs that did not offset natural declines, partially offset by new wells and asset optimization and revitalization projects.

Net loss reflects both cash and non-cash items. Changes in non-cash items include deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, accretion of lease obligations, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on derivative contracts impact net loss from period to period. For these reasons, the net loss may not necessarily

reflect the same trends as revenues or cash from operating activities, nor is it expected to. Significant items that impacted net loss include:

- Net income in the fourth quarter of 2019 included unrealized foreign exchange gains of \$70.5 million.
- Net income in the fourth quarter of 2019 includes an impairment of \$4.1 million, and an income from joint ventures of \$74.3 million which was primarily the result of a \$76.9 million impairment reversal in DBP.

SELECTED ANNUAL INFORMATION

	Twelve Months Ended December 31		
	2019	2018	2017
Revenue	352.2	285.9	285.2
Net loss from continuing operations	(76.6)	(380.2)	(282.2)
Total assets	3,024.1	2,969.4	3,115.9
Total financial liabilities, non-current ⁽¹⁾	2,911.4	3,350.1	2,315.2

(1) Total financial liabilities, non-current consist of the non-current portion of long-term debt and the 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 9 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, 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 (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.

g) The amount of finance lease obligations recognized on adoption of IFRS 16

Effective January 1, 2019, Harvest adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$23.7 million increase to right-of-use assets (included in PP&E) with a corresponding increase to lease obligations (non-current portion of \$23.8 million recorded in "Long term Liability" and the current portion of \$5.1 million recorded in "Accounts Payable and Accrued Liabilities"). The amount of lease obligation (and therefore the amount of right-of-use-asset) recognized was calculated as the present value of future lease payments, discounted using our estimated incremental borrowing rate. The estimated incremental borrowing rate reflects the interest rate we would

estimate receiving to borrow funds for a similar term and security to acquire the right-of-use-asset. Changes in the estimated incremental borrowing rate would change the amount of lease obligation and right-of-use assets recognized on the initial adoption and, to a significantly lesser degree, would impact future interest expense and depreciation expense. Based on attributes of our identified leases (including the term of the lease), we applied a weighted average incremental borrowing rate of 3.64%. A 1% increase or decrease in the estimated incremental borrowing rate would have decreased or increased lease obligations and right-of-use assets recognized on initial adoption by approximately \$0.7 million.

CHANGES IN ACCOUNTING POLICIES

New Standards Adopted

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

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

The adoption of IFRS 16 included the following elections:

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". These amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. This will be effective for annual periods beginning on or after January 1, 2020. Harvest will apply this guidance to all future acquisitions.

In May 2017, the IASB issued IFRS 17 "Insurance Contracts" to replace IFRS 4 for accounting related to insurance contracts. This will be effective for annual periods beginning on or after January 1, 2021. In November, 2019, the IASB proposed a delay of the effective date until January 1, 2022. Harvest does not anticipate any material impact from this new standard.

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 supply and demand fluctuations in the local, North American, and 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 had a \$500 million fixed rate term loan with a Korean based bank which matured in February 2020. On February 24, 2020, Harvest and the Korean based bank agreed to amend and extend the \$500 million term loan. The maturity date was extended to February 24, 2021 and the interest rate on the loan was reduced to 2.25%. In addition, Harvest has term loans and a syndicated revolving credit facility, all guaranteed by KNOC, which mature between 2021 and 2023. 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 \$1,400.7 million of senior notes outstanding with required repayments in 2021 through to 2023. 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 both the commodities and 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 development of crude oil and drilling of liquid rich gas properties in some areas of the province which may limit production and depress sales prices.
- 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.
- Timing of Oil sands project activities including timing of the ramp-up production to nameplate capacity, and future expansion.

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 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's debt is guaranteed by KNOC. If KNOC's credit rating materially declines, it could restrict or impair Harvest's ability to refinance its debt or access to capital markets to raise debt.
- 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 third 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.

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 fund 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, 2019 as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of December 31, 2019, 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 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, 2019. 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, 2019.

In connection with the adoption of IFRS 16, Harvest has established additional controls over financial reporting, as necessary, in regards to lease contracts that fall within the scope of this new guidance for the year ended December 31, 2019.

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

NON-GAAP MEASURES

Throughout this MD&A, Harvest uses certain terms or performance measure commonly used in the oil and natural gas industry that are not defined under IFRS (hereinafter also referred to as "GAAP"). These non-GAAP measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures of other companies. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for cash contribution (deficiency) which is shown below.

BOE presentation

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

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

"Operating netbacks prior to hedging" is calculated on a per boe basis and presents Harvest's operating netback, as defined above, prior to realized commodity hedging gains or losses. Operating netback prior to

hedging is utilized by Harvest and others in conjunction with operating netbacks after hedging to analyze the performance of its oil and natural gas assets.

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

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

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

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

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

"Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of each segment of Harvest to generate the cash from operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: operating, general and administrative, exploration and evaluation, depletion, depreciation and amortization, gains on disposition of assets, derivative contracts gains or losses, impairment and other charges, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included in operating income (loss). The measure demonstrates the ability of Harvest's Conventional segment to generate cash from operations and is calculated before changes in non-cash working capital. Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended December 31					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating (income) loss	45.0	12.2	(3.2)	(18.8)	41.8	(6.6)
Adjustments:						
Loss (income) from joint ventures	(74.3)	1.9	—	—	(74.3)	1.9
General and administrative, non-cash	(0.1)	2.4	—	—	(0.1)	2.4
Exploration and evaluation, non-cash	—	1.7	—	—	—	1.7
Depletion, depreciation and amortization	29.6	37.8	10.4	3.5	40.0	41.3
Gains on disposition of assets	(7.0)	(4.5)	—	—	(7.0)	(4.5)
Unrealized derivative contract losses	14.1	(34.9)	—	—	14.1	(34.9)
Loss (gain) on onerous contract	—	(1.6)	—	—	—	(1.6)
Impairment and other charges, non-cash	4.1	(14.9)	—	—	4.1	(14.9)
Cash contribution (deficiency) from operations	11.4	0.1	7.2	(15.3)	18.6	(15.2)
Inclusion of items not attributable to segments:						
Lease liability amortization					0.8	—
Net cash interest expense					(19.3)	(23.0)
Realized foreign exchange gains (losses) from operations					(0.1)	(0.2)
Consolidated cash contribution from (used in) operations					(0.0)	(38.4)
Other non-cash items					(4.6)	(14.6)
Change in non-cash working capital					2.4	36.6
Cash from (used in) operating activities					(2.2)	(16.4)

	Twelve Months Ended December 31					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating (income) loss	(26.1)	(127.9)	(9.5)	(24.9)	(35.6)	(152.8)
Adjustments:						
Loss (income) from joint ventures	(64.6)	33.0	—	—	(64.6)	33.0
Operating, non-cash	—	—	—	—	—	—
General and administrative, non-cash	1.6	2.3	—	—	1.6	2.3
Exploration and evaluation, non-cash	0.3	2.1	—	—	0.3	2.1
Depletion, depreciation and amortization	134.1	167.1	35.5	3.8	169.6	170.9
(Gains) losses on disposition of assets	(12.2)	(7.7)	—	—	(12.2)	(7.7)
Unrealized derivative contract losses	16.6	(31.2)	—	—	16.6	(31.2)
Gain on onerous contract	—	(1.6)	—	—	—	(1.6)
Impairment and other charges, non-cash	4.1	44.2	—	—	4.1	44.2
Cash contribution (deficiency) from operations	53.8	80.3	26.0	(21.1)	79.8	59.2
Inclusion of items not attributable to segments:						
Lease liability amortization					3.7	—
Net cash interest					(87.5)	(82.0)
Realized derivative contract losses					—	(3.2)
Realized foreign exchange gains (losses) from operations					(0.6)	1.9
Consolidated cash contribution from (used in) operations					(4.6)	(24.1)
Other non-cash items					(17.5)	(20.5)
Change in non-cash working capital					(39.4)	36.3
Cash from (used in) operating activities					(61.5)	(8.3)

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, 2019 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

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

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

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

Company's capital and operating requirements as needed; and the extent of Harvest's liabilities. Harvest believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

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

ADDITIONAL INFORMATION

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