



Second Quarter Report 2019

For the three month period
ended June 30, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three and six months ended June 30, 2019 and the audited consolidated financial statements and MD&A for the year ended December 31, 2018. The information and opinions concerning the future outlook are based on information available at August 2, 2019.

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 unaudited interim consolidated financial statements for the three and six months ended June 30, 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.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Conventional				
Petroleum and natural gas sales	56.1	88.8	126.1	174.0
Daily sales volumes (boe/d) ⁽¹⁾	22,296	25,027	23,147	25,209
Deep Basin Partnership				
Daily sales volumes (boe/d)	4,525	3,988	5,020	3,985
Harvest's share of daily sales volumes (boe/d) ⁽³⁾	3,777	3,309	4,189	3,305
Average realized price ⁽²⁾				
Oil and NGLs (\$/bbl)	55.51	63.34	50.96	57.78
Gas (\$/mcf)	1.09	1.28	1.94	1.77
Operating netback prior to hedging(\$/boe) ⁽³⁾	12.41	15.87	12.69	15.12
Operating loss	(25.3)	(22.8)	(41.6)	(42.3)
Cash contribution from operations ⁽³⁾	11.5	25.1	31.7	49.4
Capital expenditures	4.7	6.9	12.5	30.7
Property acquisitions, net of dispositions ⁽⁴⁾	(6.1)	(0.5)	(6.1)	(0.4)
Net wells rig released	—	0.4	0.6	6.6
Oil Sands				
Blended bitumen sales	42.2	—	69.3	—
Daily sales volumes blended bitumen (boe/d)	8,902	—	8,375	—
Average realized price				
Blended bitumen (\$/bbl)	60.35	—	52.15	—
Operating netback prior to hedging(\$/boe) ⁽³⁾	28.68	—	20.31	—
Operating income (loss)	4.9	(1.9)	0.4	(3.6)
Cash contribution from operations ⁽³⁾	14.5	(1.9)	17.2	(3.5)
Capital expenditures	1.0	36.9	1.5	59.7
NET LOSS	(21.5)	(75.0)	(41.3)	(163.0)

(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 and six months ended June 30, 2019 decreased by \$32.7 million and \$47.9 million, respectively, over the same periods in 2018. The decrease during the three months ended June 30, 2019 was primarily a result of reduced oil sales volumes and lower realized commodity prices. The decrease during the six months ended June 30, 2019 was primarily a result of reduced oil sales volumes and lower realized oil and NGL prices, partially offset by an increase in the natural gas realized price.
- Sales volumes for the three and six months ended June 30, 2019 decreased by 2,731 boe/d and 2,062 boe/d, respectively, as compared to the same periods in 2018. The decrease during the three months ended June 30, 2019 is primarily due to natural declines, third party turnarounds and forest fires in Northern Alberta during May and June 2019 resulting in shut-ins, which were partially offset by production resulting from new wells drilled in the fourth quarter of 2018. The decrease during the six months ended June 30, 2019 is primarily due to natural declines, cold weather issues in the first quarter of 2019, third party turnarounds and shut-in of production resulting from the forest fires in Northern Alberta during the second quarter of 2019, which were partially offset by production resulting from new wells drilled in the fourth quarter of 2018.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three and six months ended June 30, 2019 increased 468 boe/d and 884 boe/d, respectively, as compared to the same periods in 2018. These increases were primarily due to additional production from new wells brought online during the fourth quarter of 2018 and gas lift optimization activities in 2019, partially offset by downtime caused by third party fracking during the second quarter of 2019.
- Operating loss for the three and six months ended June 30, 2019 were \$25.3 million (2018 - \$22.8 million) and \$41.6 million (2018 - \$42.3 million), respectively. Operating losses were relatively consistent with prior periods.
- Capital expenditures totaled \$4.7 million and \$12.5 million for the three and six months ended June 30, 2019. Capital expenditures during the three months ended June 30, 2019 were primarily related to drilling and completions for partner wells drilled during the first quarter of 2019. Capital expenditures during the six months ended June 30, 2019 were mainly related to drilling and completions for wells drilled during the fourth quarter of 2018 and first quarter of 2019, and asset optimization and revitalization projects in the Hay area. During the three and six months ended June 30, 2019, nil wells and two gross (0.6 net) wells were rig-released, respectively.
- Operating netback per boe prior to hedging for the three and six months ended June 30, 2019 was \$12.41/boe and \$12.69/boe, respectively, a decrease of \$3.46/boe and \$2.43/boe from the same periods in 2018. The decreases are primarily due to a decrease in realized price before hedging, partially offset by a decrease in royalties, operating and transportation and marketing per boe.
- Cash contributions from Harvest's Conventional operations for the three and six months ended June 30, 2019 were \$11.5 million and \$31.7 million, respectively (2018 - \$25.1 million and \$49.4 million). The decrease in cash contributions for the three and six months ended June 30, 2019 was mainly due to a decrease in revenues, partially offset by lower royalties, operating, transportation and general and administrative expenses.

Oil Sands

- Sales volumes of blended bitumen for the three and six months ended June 30, 2019 were 8,902 boe/d and 8,375 boe/d, respectively (2018 – nil), with 12 well pairs converted to SAGD operations by June 30, 2019. On May 1, 2019 BlackGold produced 10,000 boe/d, achieving its original design capacity for Phase one.
- Operating netback per boe prior to hedging for the three and six months ended June 30, 2019 were \$28.68/boe (2018 – nil) and \$20.31/boe (2018 – nil), respectively.
- Cash contributions from the Oil Sands segment for the three and six months ended June 30, 2019 were \$14.5 million and \$17.2 million, respectively (2018 - \$1.9 million and \$1.8 million deficiency). Up until the fourth quarter of 2018, oil sands operations were capitalized. With the project now operating as intended by management, 2019 results now reflect operating revenue and expenses in the current period, while in 2018 there were pre-operating losses.
- Capital expenditures for the three and six months ended June 30, 2019 were \$1.0 million (2018 - \$36.9 million) and \$1.5 million (2018 - \$59.7 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.
- Operating income for the three and six months ended June 30, 2019 were \$4.9 million (2018 - \$1.9 million loss) and \$0.4 million (2018 - \$3.6 million loss). The operating income increased from prior periods as a result of the project now operating as intended by management.

Corporate

- 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.
- The strengthening of the Canadian dollar against the U.S. dollar as at June 30, 2019 compared to March 31, 2019, resulted in net unrealized foreign exchange gain of \$27.4 million (2018 - \$4.1 million loss) which is primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars. The strengthening of the Canadian dollar against the U.S. dollar as at June 30, 2019 compared to December 31, 2018 resulted in net unrealized foreign exchange gain of \$58.9 million (2018 - \$53.4 million loss) which is primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars.
- Harvest's net change to the credit facility during the three and six months ended June 30, 2019 were \$7.1 million net drawings (2018 - \$57.5 million) and \$66.0 million net drawings (2018 - \$87.9 million), respectively. The net drawings were primarily related to financing Harvest's operations and capital additions. At June 30, 2019, Harvest had \$443.8 million drawn under the credit facility (December 31, 2018 - \$386.8 million) excluding letters of credit totaling \$14.6 million (December 31, 2018 - \$15.1 million).
- The Alberta Government's mandatory oil production curtailment came into effect in January 2019. Harvest's physical oil production was not impacted by the mandated production curtailment during the six months ended June 30, 2019. Currently, the Company does not believe the production curtailment order will have a material impact for the remainder of 2019. Harvest is fully cooperating with the Alberta Government and will be prepared to adjust its 2019 work plan and budget program, if and as required.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONVENTIONAL

Summary of Financial and Operating Results

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
FINANCIAL				
Petroleum and natural gas sales	56.1	88.8	126.1	174.0
Royalties	(4.9)	(8.8)	(11.1)	(17.3)
Revenues and other income⁽¹⁾	51.2	80.0	115.0	156.7
Expenses				
Operating	33.4	41.3	67.4	80.4
Transportation and marketing	1.4	4.5	4.7	7.7
Operating netback after hedging ⁽¹⁾	16.4	34.2	42.9	68.6
General and administrative	5.3	8.9	12.6	18.1
Depreciation, depletion and amortization	34.3	43.7	69.3	87.3
Loss from joint ventures	4.8	3.8	5.3	6.9
Exploration and evaluation	0.3	—	0.3	—
Unrealized derivative contract losses ⁽²⁾	0.4	0.9	2.0	1.7
Gains on disposition of assets	(3.4)	(0.3)	(5.0)	(3.1)
Operating loss	(25.3)	(22.8)	(41.6)	(42.3)
Capital asset expenditures	4.7	6.9	12.5	30.7
Property acquisitions, net of dispositions ⁽⁴⁾	(6.1)	(0.5)	(6.1)	(0.4)
OPERATING				
Light to medium oil (bbl/d)	3,429	4,666	3,431	4,532
Heavy oil (bbl/d)	4,559	6,314	4,955	6,596
Natural gas liquids (bbl/d)	3,218	3,055	3,379	3,071
Natural gas (mcf/d)	66,542	65,955	68,291	66,059
Total (boe/d) ⁽³⁾	22,296	25,027	23,147	25,209

(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 June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	59.82	67.88	(12%)	57.36	65.37	(12%)
West Texas Intermediate crude oil (\$/bbl)	79.97	87.59	(9%)	76.48	83.49	(8%)
Edmonton Light Sweet crude oil (\$/bbl)	73.84	80.58	(8%)	70.19	76.29	(8%)
Western Canadian Select ("WCS") crude oil (\$/bbl)	65.76	62.83	5%	61.21	55.80	10%
AECO natural gas daily (\$/mcf)	1.03	1.18	(13%)	1.83	1.63	12%
U.S. / Canadian dollar exchange rate	0.748	0.775	(3%)	0.750	0.783	(4%)
Differential Benchmarks						
EDM differential to WTI (\$/bbl)	6.13	7.01	(13%)	6.29	7.20	(13%)
EDM differential as a % of WTI	7.7%	8.0%	(4%)	8.2%	8.6%	(5%)
WCS differential to WTI (\$/bbl)	14.21	24.76	(43%)	15.27	27.69	(45%)
WCS differential as a % of WTI	17.8%	28.3%	(37%)	20.0%	33.2%	(40%)

For the three and six months ended June 30, 2019, the average WTI benchmark price decreased 12% as compared to the same periods in 2018. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and six months ended June 30, 2019, decreased 8%, respectively as compared to the same periods in 2018 due to a decrease in the WTI price, partially offset by the narrowing of the average Edmonton Light differential and strengthening of the average U.S. dollar against the Canadian dollar.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The increases in the average WCS price for the three and six months ended June 30, 2019 were 5% and 10%, respectively, as compared to the same periods in 2018. The increases were primarily due to the narrowing of the average WCS differential to WTI and a strengthening of the average U.S. dollar against the Canadian dollar, partially offset by a decrease in the average WTI price. The narrowing of the average WCS differential to WTI was also impacted by the production curtailment that was issued by the Alberta government in response to low crude oil prices.

Harvest's realized natural gas price is referenced to the AECO hub, the average of which decreased by 13% for the three months ended June 30, 2019, and increased by 12% for the six months ended June 30, 2019, as compared to the same periods in 2018.

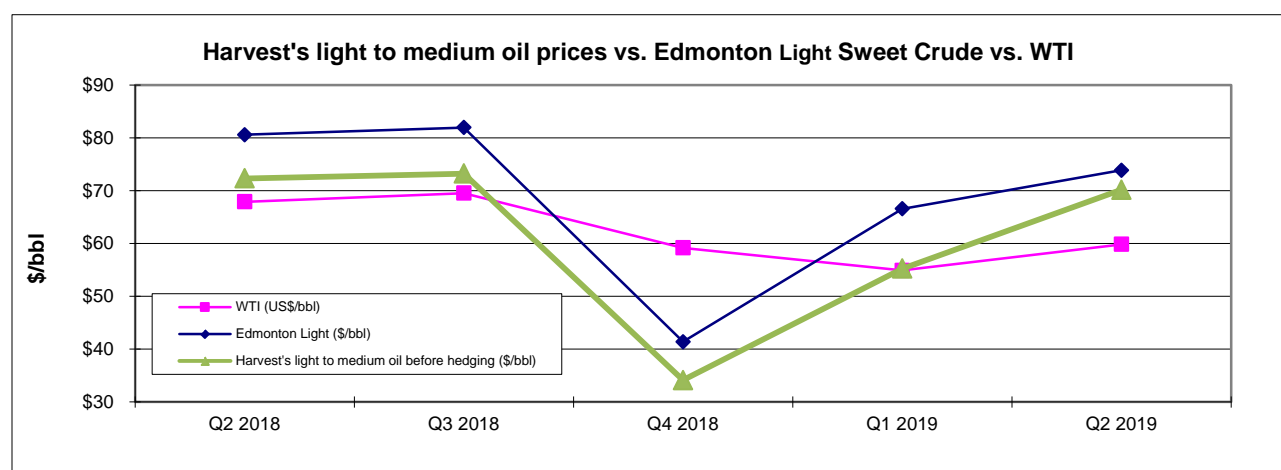
Realized Commodity Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Light to medium oil (\$/bbl)	70.16	72.31	(3%)	62.73	67.63	(7%)
Heavy oil prior to hedging (\$/bbl)	61.94	65.48	(5%)	54.53	57.59	(5%)
Natural gas liquids (\$/bbl)	30.80	45.23	(32%)	33.78	43.66	(23%)
Natural gas (\$/mcf)	1.09	1.28	(15%)	1.94	1.77	10%
Average realized price prior to hedging (\$/boe) ⁽¹⁾	31.91	39.82	(20%)	32.53	38.21	(15%)
Light to medium oil after hedging (\$/bbl) ⁽²⁾	54.09	64.87	(17%)	50.66	63.74	(21%)
Heavy oil after hedging (\$/bbl) ⁽²⁾	53.83	64.04	(16%)	49.07	56.90	(14%)
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	27.78	38.07	(27%)	29.57	37.33	(21%)

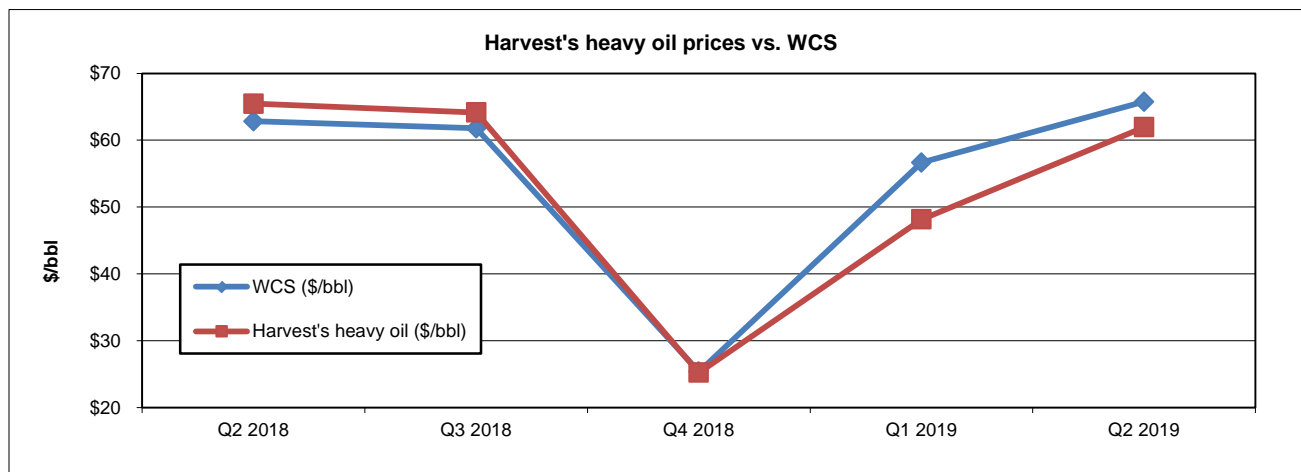
(1) Inclusive of sulphur revenue.

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

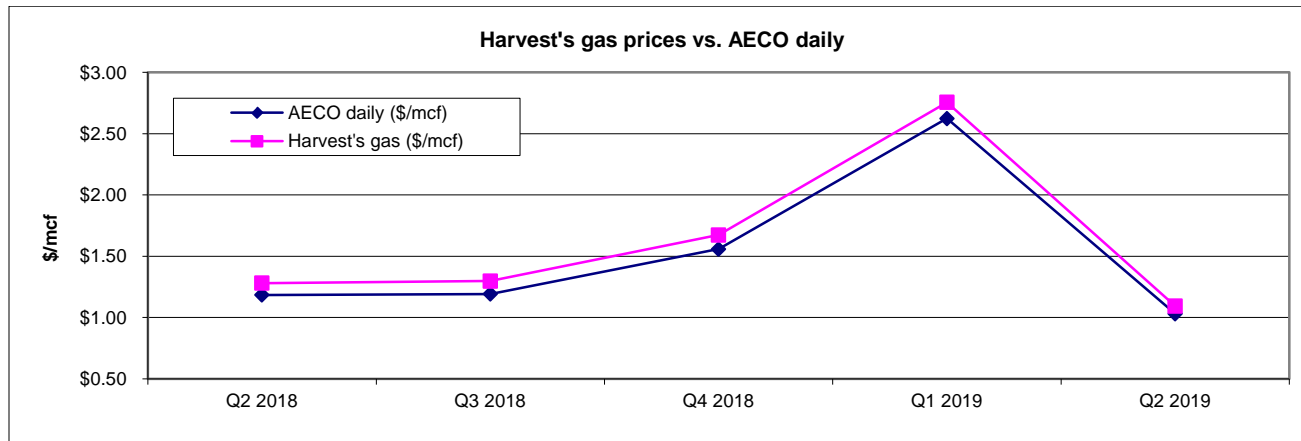
For the three and six months ended June 30, 2019, Harvest's realized price for light to medium oil trended relatively consistent with the Edmonton Light benchmark price.



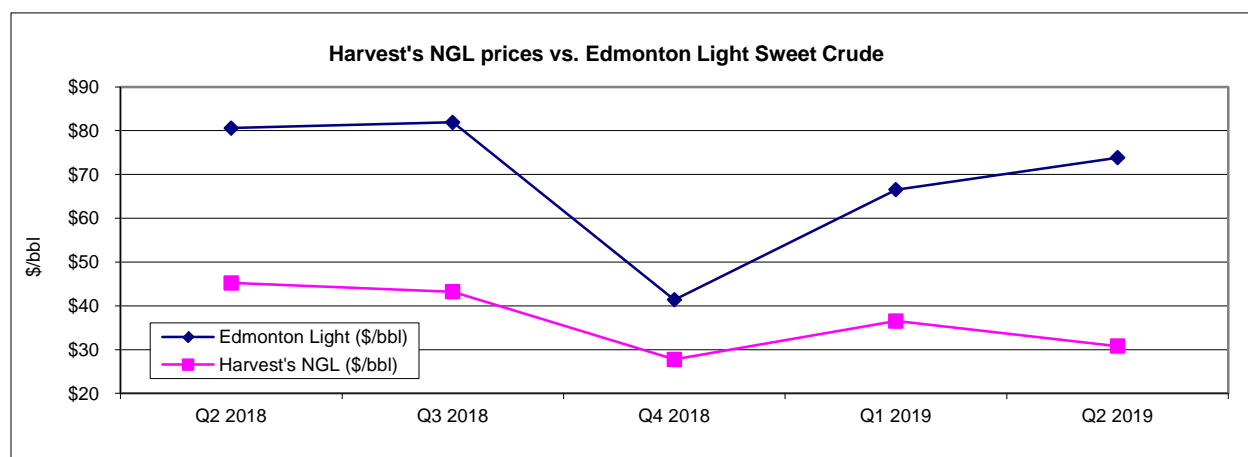
During the three and six months ended June 30, 2019, Harvest's realized price before hedging for heavy oil decreased by 5% in both periods compared to the same periods in 2018, while the WCS benchmark price, increased by 5% and 10%, respectively. This is primarily due to the majority of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which did not narrow as substantially as the WCS differential during the three and six months ended June 30, 2019.



For the three and six months ended June 30, 2019, Harvest's realized gas price was relatively consistent to the AECO benchmark.



Harvest's decrease in the realized natural gas liquids price for the three and six months ended June 30, 2019 were 32% and 23% respectively, while the Edmonton Light Sweet Crude benchmark decreased by 8% for both periods. The decreases in the realized natural gas liquids price were primarily due to the decrease in propane and butane prices. For the three and six months ended June 30, 2019, the propane price decreased 63% and 59%, respectively, as compared to 2018. For the three and six months ended June 30, 2019, the butane price decreased 87% and 93%, respectively, as compared to 2018. As Harvest's propane and butane sales volumes make up approximately 10% to 20%, each of total natural gas liquids sales volumes, this caused Harvest's natural gas liquids realized price before hedging to decrease at a higher rate than 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") and WCS and AECO derivative contracts. During the three and six months ended June 30, 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.

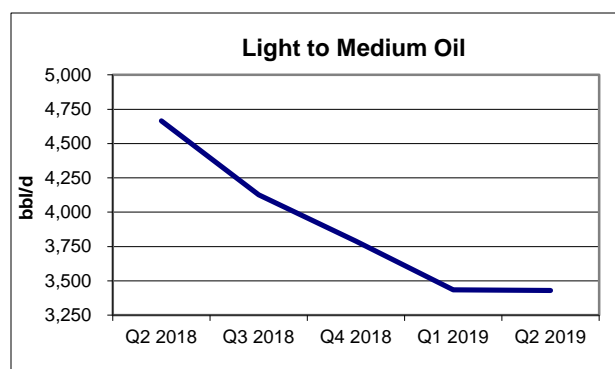
The impact from the MSW hedge on Harvest's realized light oil price for the three and six months ended June 30, 2019 was a hedging loss of \$16.07/boe (2018 - \$7.44/boe) and \$12.07/boe (2018 - \$3.89/boe), respectively. The impact from the WCS hedge on Harvest's realized heavy oil price for the three and six months ended June 30, 2019 was a hedging loss of \$8.11/boe (2018 - \$1.44/boe) and \$5.46/boe (2018 - \$0.69/boe), respectively. Harvest had no natural gas derivative contracts in place during the three and six months ended June 30, 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

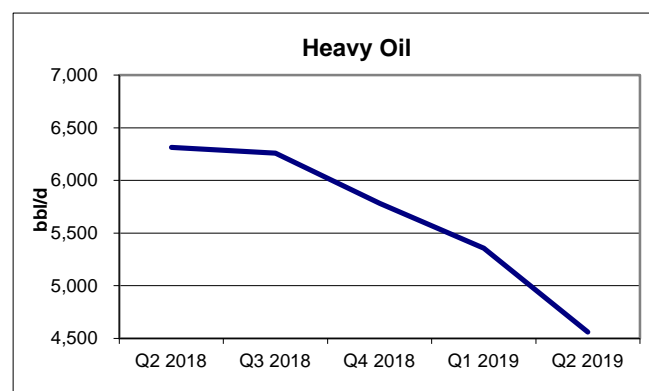
	Three Months Ended June 30				
	2019		2018		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	3,429	15%	4,666	19%	(27%)
Heavy oil (bbl/d)	4,559	20%	6,314	25%	(28%)
Natural gas liquids (bbl/d)	3,218	14%	3,055	12%	5%
Total liquids (bbl/d)	11,206	49%	14,035	56%	(20%)
Natural gas (mcf/d)	66,542	51%	65,955	44%	1%
Total oil equivalent (boe/d)	22,296	100%	25,027	100%	(11%)

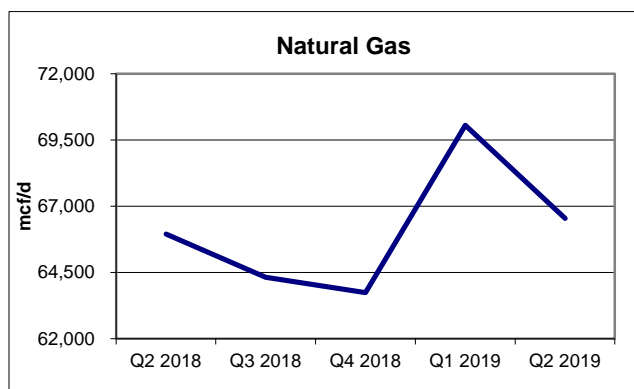
	Six Months Ended June 30				
	2019		2018		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	3,431	15%	4,532	18%	(24%)
Heavy oil (bbl/d)	4,955	21%	6,596	26%	(25%)
Natural gas liquids (bbl/d)	3,379	15%	3,071	12%	10%
Total liquids (bbl/d)	11,765	51%	14,199	56%	(17%)
Natural gas (mcf/d)	68,291	49%	66,059	44%	3%
Total oil equivalent (boe/d)	23,147	100%	25,209	100%	(8%)



Harvest's average daily sales of light to medium oil decreased 27% in the second quarter of 2019 as compared to the same period in 2018. This decrease was primarily due to the sale of Crooked Creek assets and natural declines, reflecting a minimal drilling program in 2019, partially offset by new wells brought on stream in the Royce and Loon Lake areas in 2018.

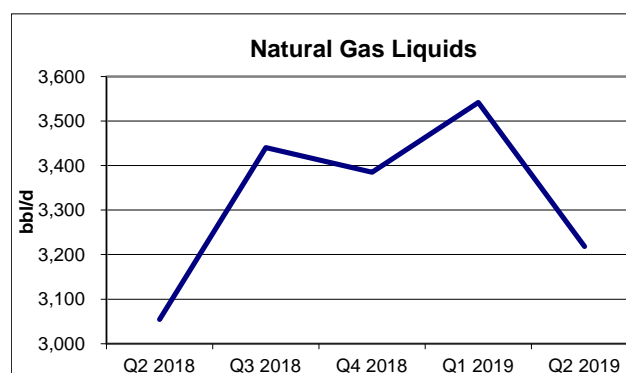
Heavy oil sales for the second quarter of 2019 decreased 28% as compared to the same period in 2018. The decrease was primarily due to natural declines, reflecting a minimal drilling program for 2019, shut-in production in May and June 2019 resulting from a third party turnaround and forest fires in Northern Alberta.





Natural gas sales during the second quarter of 2019 were relatively consistent 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 in 2018, however, this was primarily offset by natural declines and additional downtime caused by various partner turnarounds during the second quarter of 2019.

Natural gas liquids sales for the second quarter of 2019 increased by 5% from the same period in 2018. The increase is primarily due to Harvest's participation in new wells in the Rocky Mountain House area in 2018, partially offset by natural declines and partner turnarounds during the second quarter of 2019.



Revenues

Sales Revenue by Product

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Light to medium oil sales after hedging ⁽¹⁾	16.9	27.5	(39%)	31.5	52.3	(40%)
Heavy oil sales after hedging ⁽¹⁾	22.3	36.8	(39%)	44.0	67.9	(35%)
Natural gas sales	6.6	7.7	(14%)	24.0	21.2	13%
Natural gas liquids sales	9.0	12.6	(29%)	20.7	24.3	(15%)
Other ⁽²⁾	1.3	4.2	(69%)	5.9	8.3	(29%)
Petroleum and natural gas sales	56.1	88.8	(37%)	126.1	174.0	(28%)

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

(2) Inclusive of sulphur revenue and miscellaneous income.

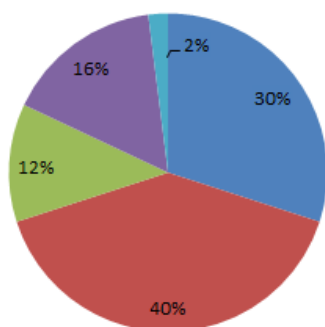
Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. Total petroleum and natural gas sales revenue decreased for the three and six months ended June 30, 2019, as compared to 2018. The decrease during the three months ended June 30, 2019 is primarily due to lower oil sales volumes and lower realized commodity prices compared to 2018. The decrease during the six months ended June 30, 2019 was primarily due to lower oil sales volumes and decreased oil prices after hedging and natural gas liquids prices, partially offset by an increase in natural gas prices.

Sulphur revenue for the three and six months ended June 30, 2019 represented \$1.5 million (2018 – \$2.1 million) and \$3.7 million (2018 – \$4.6 million), respectively, of the total in other revenues.

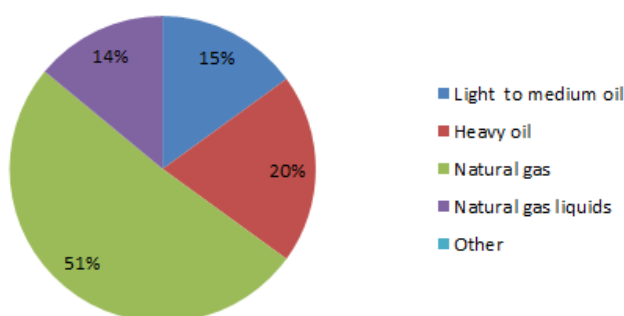
Revenue by Product Type as % of Total Revenue

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Light to medium oil sales after hedging	30%	31%	25%	30%
Heavy oil sales after hedging	40%	41%	35%	39%
Natural gas sales	12%	9%	19%	12%
Natural gas liquids sales	16%	14%	16%	14%
Other	2%	5%	5%	5%
Total Sales Revenue	100%	100%	100%	100%

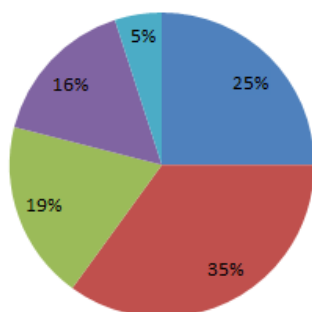
Sales Revenue by Product
(Three months ended June 30, 2019)



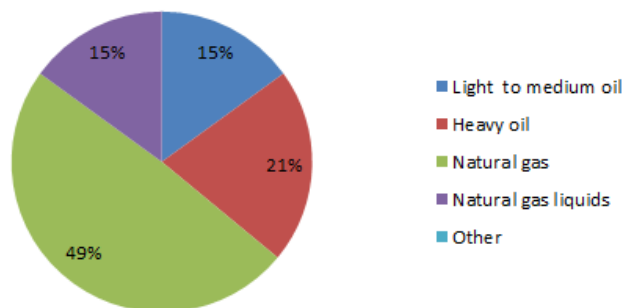
Sales Volumes by Product
(Three months ended June 30, 2019)



Sales Revenue by Product
(Six months ended June 30, 2019)



Sales Volumes by Product
(Six months ended June 30, 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 six months ended June 30, 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.

Royalties

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Royalties	4.9	8.8	44%	11.1	17.3	36%
Royalties as a percentage of revenue	8.7%	9.9%	12%	8.8%	9.9%	11%
Royalties (\$/boe)	2.42	3.85	1.43	2.64	3.79	1.15

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 six months ended June 30, 2019, royalties as a percentage of gross revenue averaged 8.7% (2018 – 9.9%) and 8.8% (2018 – 9.9%), respectively. Royalties as a percentage of gross revenue were lower than the comparative period, primarily due to a decrease in average realized prices prior to hedging for oil and natural gas liquids. Royalties on a per barrel basis decreased \$1.43/boe and \$1.15/boe during the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018, primarily due to lower royalty expense, partially offset by the decrease in sales volumes and the higher hedging losses in 2019, which have been included in revenues.

Operating Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Operating expense	33.4	41.3	67.4	80.4
Operating expense (\$/boe)	16.46	18.13	16.11	17.61

Operating expenses for the three and six months ended June 30, 2019 decreased by \$7.9 million and \$13.0 million as compared to the same periods in 2018, respectively. This is primarily the result of reduced labor, lease rentals and property taxes, well servicing, and repairs and maintenance costs due to lower activity levels and cost reduction efforts.

Operating expenses on a per barrel basis decreased by \$1.67 per boe and \$1.50 per boe, for the three and six months ended June 30, 2019, respectively, when compared to the same periods in 2018. This decrease is primarily due to lower operating expense, partially offset by lower sales volumes.

Transportation and Marketing Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Transportation and marketing expense	1.4	4.5	4.7	7.7
Transportation and marketing expense (\$/boe)	0.62	1.97	1.09	1.69

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 six months ended June 30, 2019 have decreased compared to the same periods in 2018. The decrease is a result of reducing contracted pipeline volumes as well as third parties utilizing Harvest's capacity during 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 six months ended June 30, 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 June 30			Six Months Ended June 30		
(\$/boe)	2019	2018	Change	2019	2018	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	31.91	39.82	(20%)	32.53	38.21	(15%)
Royalties	(2.42)	(3.85)	(37%)	(2.64)	(3.79)	(30%)
Operating expenses	(16.46)	(18.13)	(9%)	(16.11)	(17.61)	(9%)
Transportation and marketing	(0.62)	(1.97)	(69%)	(1.09)	(1.69)	(36%)
Operating netback prior to hedging ⁽¹⁾	12.41	15.87	(22%)	12.69	15.12	(16%)
Hedging loss ⁽³⁾	(4.13)	(1.75)	136%	(2.96)	(0.88)	236%
Operating netback after hedging ⁽¹⁾	8.28	14.12	(41%)	9.73	14.24	(32%)

(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 six months ended June 30, 2019 operating netback after hedging was \$8.28 per boe and \$9.73 per boe, respectively, representing a 41% and 32% decrease, compared to the same periods in 2018. The decreases were primarily due to lower petroleum and natural gas sales and a larger hedging loss in 2019, partially offset by lower royalties, operating expenses and transportation and marketing expenses.

General and Administrative ("G&A") Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Gross G&A expenses	5.8	9.9	(41%)	13.6	20.0	(32%)
Capitalized G&A and recoveries	(0.5)	(1.0)	(47%)	(1.0)	(1.9)	(48%)
Net G&A expenses	5.3	8.9	(40%)	12.6	18.1	(30%)
Net G&A expenses (\$/boe)	2.60	3.89	(33%)	3.00	3.97	(24%)

For the three and six months ended June 30, 2019, G&A expense net of capitalized G&A decreased 40% and 30%, respectively, compared to the same periods in 2018, primarily due to lower salary and consulting expense 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 \$2.5 million during the three and six months ended June 30, 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 June 30		Six Months Ended June 30	
	2019	2018	2019	2018
DD&A expense	34.3	43.7	69.3	87.3
DD&A expense (\$/boe)	17.31	19.14	16.55	19.12

DD&A expense for the three and six months ended June 30, 2019 decreased by \$9.4 million and \$18.0 million, respectively, compared to the same periods in 2018. This was mainly due to impairments booked in the third quarter of 2018, a change in estimate in the decommissioning liability at December 31, 2018, lower sales volumes, as well as reserve additions in the fourth quarter of 2018, which led to reduced DD&A rates in the first and second quarters of 2019. These decreases were partially offset by the amortization of the right of use asset for the head office lease as a result of the adoption of IFRS 16.

For the three and six months ended June 30, 2019, DD&A per boe decreased as compared to the same periods in the prior year primarily as a result of lower DD&A expense, partially offset by lower sales volumes.

Capital Expenditures

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Drilling and completion	3.1	1.8	7.8	19.8
Well equipment, pipelines and facilities	0.7	4.8	2.5	10.4
Land and seismic	—	—	—	0.1
Geological and geophysical	0.1	—	0.2	—
Corporate	0.2	0.1	0.2	0.1
Other	0.7	0.2	1.7	0.3
Total additions excluding acquisitions	4.7	6.9	12.5	30.7

Total capital expenditures were lower for the three and six months ended June 30, 2019 compared to 2018 mainly due to decreased capital activity, reflecting a minimal capital program for 2019.

During the three and six months ended June 30, 2019, Harvest rig released nil and two gross wells (0.6 net), respectively. The two gross (0.6 net) wells rig released during the first quarter of 2019 were partner operated wells in the Rocky Mountain House area. The capital spent during the second quarter of 2019 primarily related to completions costs for the wells drilled during the first quarter of 2019. Capital costs incurred during the six

months ended June 30, 2019 related to these completion costs and in addition, completion costs for wells drilled during the fourth quarter of 2018.

During the three and six months ended June 30, 2019, Harvest's net undeveloped land additions were 667 acres for both periods (2018 – 478 acres and 3,197 acres, respectively), and 62,324 acres and 64,424 acres of net undeveloped land dispositions, respectively (2018 – 964 acres and 1,211 acres).

Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at June 30, 2019 were \$641.9 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 June 30, 2019, is mainly due to the change in estimate resulting from the decrease in the discount rate at March 31, 2019 and accretion, partially offset by the asset retirement obligation related to disposed assets during the second quarter of 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 six months ended June 30, 2019, Harvest recognized a loss of \$4.8 million and \$5.3 million, respectively (2018 - \$3.8 million and \$6.9 million) from its investment in the DBP and HKMS joint ventures.

Below is an overview of operational and financial highlights of the DBP and HKMS joint ventures for the three and six months ended June 30, 2019. Unless otherwise noted the following discussion relates to 100% of the joint venture results.

Deep Basin Partnership

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

	June 30 2019	March 31 2019	December 31 2018	September 30, 2018	June 30, 2018
Harvest's ownership interest	83.47%	83.45%	83.45%	83.40%	82.98%
KERR's ownership interest	16.53%	16.55%	16.55%	16.60%	17.02%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at June 30, 2019, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$4.2 million (December 31, 2018 - \$2.2 million).

At June 30, 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.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Natural gas liquids (\$/bbl)	56.44	68.76	(18%)	59.00	64.77	(9%)
Natural gas (\$/mcf)	1.16	1.38	(16%)	2.05	1.86	10%

For the three and six months ended June 30, 2019, average realized prices for natural gas liquids decreased 18% and 9%, respectively, as compared to the same periods in 2018, while the Edmonton Light benchmark price decreased by 8% for both periods. The decreases in the realized natural gas liquids price were primarily due to the decrease in propane and butane prices. For the three and six months ended June 30, 2019, the propane price decreased 63% and 59%, respectively, as compared to 2018. For the three and six months ended June 30, 2019, the butane price decreased 87% and 93%, respectively, as compared to 2018.

For the three and six months ended June 30, 2019, average realized prices for natural gas decreased 16% and increased 10%, respectively over the same periods in 2018. These changes were relatively consistent with the 13% decrease and 12% increase in the AECO benchmark price for the three and six months ended June 30, 2019, respectively.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Natural gas (mcf/d)	20,305	17,759	14%	21,814	17,707	23%
Natural gas liquids (bbl/d)	1,141	1,024	11%	1,383	1,031	34%
Light to medium oil (bbl/d)	—	4	(100%)	1	3	(67%)
Total (boe/d)	4,525	3,988	13%	5,020	3,985	26%
Harvest's share (boe/d) ⁽¹⁾	3,777	3,309	14%	4,189	3,305	27%

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

Total sales volumes for the three and six months ended June 30, 2019 increased by 537 boe/d and 1,035 boe/d, as compared to the same periods in 2018. These increases were primarily due to additional volumes from wells drilled in the second half of 2018, partially offset by natural decline and shut-ins, in response to third party fracking during the months of May and June 2019.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Revenues ⁽¹⁾	7.0	9.7	(28%)	22.7	18.6	22%
Depletion, depreciation and amortization	(9.9)	(4.2)	136%	(20.6)	(8.2)	151%
Operating and transportation expenses	(3.0)	(10.9)	(72%)	(9.7)	(20.7)	(53%)
Finance costs	(1.3)	(0.7)	86%	(2.6)	(1.4)	86%
Net loss ⁽²⁾	(7.2)	(6.1)	18%	(10.2)	(11.7)	(13%)

(1) Revenue is presented net of royalties.

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

The lower sales revenues for the three months ended June 30, 2019, as compared to the same period in 2018, primarily reflects lower natural gas and natural gas liquids prices, partially offset by the increase in sales volumes. The higher sales revenues for the six months ended June 30, 2019 primarily reflects the higher sales volumes in 2019 and stronger gas prices, partially offset by the decrease in natural gas liquids prices.

As a result of applying IFRS 16 to the gas processing agreement between DBP and HKMS (as discussed in the "HKMS Partnership" section below), a lease liability and right of use asset were put onto DBP's balance sheet, using the modified retrospective approach on January 1, 2019. DBP's capital fee payments to HKMS (\$6.0 million and \$12.0 million for the three and six months ended June 30, 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 six months ended June 30, 2019. As a result of this IFRS 16 adjustment and increased sales volumes, operating and transportation expenses decreased from \$30.03 per boe and \$28.65 per boe for the three and six months ended June 30, 2018, respectively to \$7.35 per boe and \$10.70 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 six months ended June 30, 2019 was \$24.05 per boe and \$22.66 per boe, respectively (2018 - \$11.66 per boe and \$11.42 per boe). The increase in depletion per boe was mainly the result of the re-classification of the capital fee payments to HKMS from operating expense to amortization expense for IFRS 16, as discussed above, during the three and six months ended June 30, 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% during the three and six months ended June 30, 2019 as compared to the same periods in 2018 due to the inclusion of accretion on the lease liability for the capital fee payments to HKMS in finance costs, as a result of IFRS 16 effective January 1, 2019.

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Drilling and completion	0.5	4.1	—	16.4
Well equipment, pipelines and facilities	0.3	0.3	0.4	1.1
Corporate	0.1	—	0.1	—
Total ⁽¹⁾	0.9	4.4	0.5	17.5

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

Capital expenditures for the three and six months ended June 30, 2019 focused primarily on gas lift optimization activity.

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.

	June 30 2019	March 31 2019	December 31, 2018	September 30, 2018	June 30, 2018
Harvest's ownership interest	68.15%	68.15%	68.15%	68.15%	68.14%
KERR's ownership interest	31.85%	31.85%	31.85%	31.85%	31.86%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At June 30, 2019, Harvest has received a total of \$64.3 million (December 31, 2018 - \$56.1 million) in distributions from the HKMS from inception of the joint venture.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Revenues	6.3	6.5	(3%)	12.9	13.2	(2%)
Operating expenses and other	(0.3)	(0.6)	(50%)	(0.9)	(1.3)	(31%)
Depreciation and amortization	(0.9)	(0.9)	0%	(1.7)	(1.7)	—
Finance costs	(4.0)	(4.3)	(7%)	(8.1)	(8.6)	(6%)
Net income ⁽¹⁾	1.1	0.7	57%	2.2	1.6	38%

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

The Gas Processing Agreement between the HKMS and DBP ensures that HKMS receives an 18% internal rate of return on capital deployed over the term of the contract, which equates to a minimum monthly capital fee that is currently \$2.0 million. This capital fee is accounted for as revenue for HKMS. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and six months ended June 30, 2019, the partnership generated revenues of \$6.3 million and \$12.9 million, respectively (2018 - \$6.5 million and \$13.2 million).

Operating expenses of the facility are recovered through charging an operating fee to users of the facility. For the three and six months ended June 30, 2019 the partnership operating expenses were \$0.3 million and \$0.9 million, respectively (2018 - \$0.6 million and \$1.3 million).

Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and six months ended June 30, 2019 and 2018, the partnership depreciation expense was \$0.9 million and \$1.7 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 six months ended June 30, 2019 the partnership finance costs were \$4.0 million and \$8.1 million, respectively, (2018 - \$4.3 million and \$8.6 million).

See note 7 of the June 30, 2019 unaudited condensed interim consolidated financial statements for discussion of the accounting implications of these joint ventures.

OIL SANDS
Operating Results

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Blended bitumen sales ⁽¹⁾	42.2	—	69.3	—
Cost of diluent	(6.2)	—	(9.3)	—
Bitumen sales⁽¹⁾	36.0	—	60.0	—
Expenses				
Royalties	1.4	—	2.1	-
Operating	11.8	1.8	25.3	3.4
Transportation and marketing	6.2	—	11.6	—
General and administrative	2.1	0.1	3.8	0.1
Depreciation and amortization	9.6	—	16.8	0.1
Operating income (loss)	4.9	(1.9)	0.4	(3.6)

(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 Oilsands 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 six months ended June 30, 2018.

Commodity Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Western Canadian Select ("WCS") crude oil (\$/bbl)	65.76	62.83	5%	61.21	55.80	10%

Realized Commodity Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Blended bitumen prior to hedging (\$/bbl)	60.35	-	(100%)	52.15	-	(100%)
Blended bitumen after hedging (\$/bbl) ⁽¹⁾	52.05	-	(100%)	45.69	-	(100%)
Bitumen prior to hedging (\$/bbl) ⁽²⁾	52.70	-	(100%)	46.04	-	(100%)

(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 June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Blended bitumen sales (bbl/d)	8,902	—	100%	8,375	—	100%
Bitumen sales (bbl/d)	8,279	—	100%	7,774	—	100%
Bitumen production (bbl/d)	8,238	—	100%	7,381	—	100%

As at June 30, 2019, 28,588 barrels of blended bitumen was in inventory at a value of \$0.8 million (December 31, 2018 – 53,534 barrels at a value of \$nil).

Operating Netback⁽¹⁾

	Three Months Ended June 30			Six Months Ended June 30		
(\$/boe)	2019	2018	Change	2019	2018	Change
Bitumen prior to hedging	52.70	—	100%	46.04	—	100%
Royalties	(1.75)	—	100%	(1.37)	—	100%
Operating expense	(14.56)	—	100%	(16.66)	—	100%
Transportation and marketing	(7.71)	—	100%	(7.70)	—	100%
Operating netback prior to hedging ⁽¹⁾	28.68	—	100%	20.31	—	100%
Hedging loss ⁽²⁾	(8.30)	—	100%	(6.46)	—	100%
Operating netback after hedging ⁽¹⁾	20.38	—	100%	13.85	—	100%

(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.

Capital Expenditures

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Well equipment, pipelines and facilities	0.1	28.9	0.2	48.2
Drilling and completion	0.5	0.2	0.6	0.2
Other ⁽¹⁾	0.4	7.8	0.6	11.3
Total Oil Sands capital expenditures	1.0	36.9	1.5	59.7

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

On December 21, 2017, Harvest announced its decision to re-sanction and complete construction of its 10,000 bbl/d BlackGold facility. The capital expenditures for the three and six months ended June 30, 2018, mainly related to construction activities to complete and commission the CPF. During the three and six months ended June 30, 2019, limited capital was spent as the CPF was operating as intended by management in the fourth quarter of 2018.

Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at June 30, 2019 was \$59.9 million (December 31, 2018 - \$53.7 million) relating to the future remediation, abandonment, and reclamation of the steam assisted gravity drainage ("SAGD") wells and CPF. The increase in balance as at June 30, 2019 is mainly due to a change in estimate resulting from a decrease in discount rate at March 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 March 31, 2019, 12 well pairs had been converted to full SAGD operation. On May 1, 2019, BlackGold produced 10,000 boe/d, achieving its original design capacity for Phase 1.

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 is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at June 30 2019, Harvest recognized a liability of \$72.3 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 June 30, 2019:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair Value of asset (liability) at June 30, 2019
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	\$ (12.9)
US\$228 Million	FX Swap	July 2019	CDN/US \$1.32	Fair Value	(2.2)
2,800 bbl/d	MSW price swap	July - Dec 2019	CDN \$57.50/bbl	Cash Flow	(5.2)
4,100 bbl/d	WCS price swap	July - Dec 2019	CDN \$45.00/bbl	Cash Flow	(7.3)
1,000 bbl/d	WCS price swap	July - Dec 2019	CDN \$55.10/bbl	Cash Flow	0.3
1,000 bbl/d	WCS price swap	July - August 2019	CDN \$63.75/bbl	Cash Flow	0.5
800 bbl/d	MSW price swap	July - August 2019	CDN \$72.00/bbl	Cash Flow	0.3
1,000 bbl/d	WCS price swap	August - Dec 2019	CDN \$50.15/bbl	Cash Flow	(0.3)
					\$ (26.8)

Contracts designated as Hedges Subsequent to June 30, 2019

Contract Quantity	Type of Contract	Term	Contract Price
CAD \$228 Million	FX Swap	August 2019	CDN/US \$1.316

Harvest has entered into U.S. dollar currency swap transactions related to a LIBOR borrowing, which results in fixing an exchange rate for the amount drawn. This results in an offset between the LIBOR loan and the asset (liability) on the balance sheet, and therefore results in a fair value hedge.

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 three and six months ended June 30, 2019 was 2.6% and 2.5%, respectively (2018 – 2.2% for both periods).

	Three Months Ended June 30									
	2019									
	Crude					Top-Up				
Realized (gains) losses recognized in:	Oil	Currency	Interest	Obligation	Total	Oil	Currency	Interest	Obligation	Total
Revenues	15.1	—	—	—	15.1	4.0	—	—	—	4.0
Finance costs	—	—	0.6	—	0.6	—	—	0.4	—	0.4
Derivative contract (gains) losses ⁽¹⁾	—	—	—	—	—	—	—	—	—	—
Unrealized (gains) losses recognized in:										
OCI, before tax	(18.9)	—	1.5	—	(17.4)	5.4	—	5.3	—	10.7
Derivative contract (gains) losses ⁽¹⁾	—	—	—	0.4	0.4	—	—	—	0.9	0.9

Realized (gains) losses recognized in:	Six Months Ended June 30									
	2019									
	Crude Oil	Currency	Interest	Top-Up Obligation	Total	Crude Oil	Currency	Interest	Top-Up Obligation	Total
Revenues	22.2	—	—	—	22.2	4.0	—	—	—	4.0
Finance costs	—	—	1.0	—	1.0	—	—	0.4	—	0.4
Derivative contract (gains) losses ⁽¹⁾	—	—	—	—	—	—	3.2	—	—	3.2
Unrealized (gains) losses recognized in:										
OCI, before tax	10.2	—	5.4	—	15.6	8.6	—	5.3	—	
Derivative contract (gains) losses ⁽¹⁾	—	—	—	2.0	2.0	—	(5.1)	—	1.7	(3.4)

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

Finance Costs

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Credit facility ⁽¹⁾	4.1	1.9	6.8	3.3
Term loan facility - due 2020 ⁽¹⁾	3.3	3.3	6.6	6.5
Term loan facility - due 2023 ⁽¹⁾	2.7	1.8	6.6	1.8
2½% senior notes ⁽¹⁾	—	2.8	—	8.3
2⅓% senior notes ⁽¹⁾	1.8	1.7	3.6	3.4
3% senior notes ⁽¹⁾	5.7	5.5	11.4	11.0
4.2% senior notes ⁽¹⁾	6.2	4.0	12.3	4.0
Amortization of deferred finance charges and other	0.3	0.3	0.9	0.9
Interest and other financing charges	24.1	21.3	48.2	39.2
Accretion of decommission and environmental remediation liabilities	3.4	3.9	7.0	7.9
Accretion of long-term liability	0.2	0.6	0.7	1.0
Accretion on onerous contract	0.1	—	0.2	—
Accretion of lease liability	—	—	0.6	—
Total finance costs	27.8	25.8	56.7	48.1

(1) Includes guarantee fee to KNOC.

Currency Exchange

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Realized losses on foreign exchange	—	20.4	0.4	17.5
Unrealized (gains) losses on foreign exchange	(27.4)	4.1	(58.9)	53.4
Total (gains) losses on foreign exchange	(27.4)	24.5	(58.5)	70.9

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 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 at June 30, 2019, the Canadian dollar had strengthened compared to the US dollar resulting in an unrealized foreign exchange gain of \$27.4 million and \$58.9 million, respectively for the three and six months ended June 30, 2019 (2018 - \$4.1 million and \$53.4 million losses). Harvest recognized realized foreign exchange losses of nil and \$0.4 million for the three and six months ended June 30, 2019 (2018 - \$20.4 million and \$17.5 million losses) on settlement of U.S. dollar denominated transactions.

Income Taxes

For the three and six months ended June 30, 2019 Harvest did not record a deferred income tax provision (2018 - \$nil). Harvest's deferred income tax asset will fluctuate from time to time to reflect changes in the temporary differences between the book value and tax basis of assets and liabilities. The principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

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. Therefore the deferred tax asset remains unchanged at June 30, 2019.

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the three and six months ended June 30, 2019:

	Transactions				Balance Outstanding	
	Three Months Ended		Six Months Ended		Accounts Payable as at	
	June 30		June 30		June 30	December 31
	2019	2018	2019	2018	2019	2018
Diluent Expenses						
DBP ⁽¹⁾	1.9	—	2.5	—	0.7	0.2
G&A Expenses						
KNOC ⁽²⁾	0.1	0.1	0.2	0.2	0.1	0.5
Finance costs						
KNOC ⁽³⁾	2.8	3.0	5.6	6.7	8.3	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%, 2⅓%, 3% and 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum is charged by KNOC on the senior notes, credit facility and term loans.

The Company identifies its related party transactions by making inquiries of management and the Board of Directors, reviewing KNOC's subsidiaries and associates, and performing a comprehensive search of transactions recorded in the accounting system. Material related party transactions require the Board of Directors' approval. Also see note 7, "Investment in Joint Ventures" in the June 30, 2019 unaudited condensed interim 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 will be reversed during the third quarter of 2019.

CAPITAL RESOURCES

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

	June 30, 2019	December 31, 2018
Credit facility ⁽¹⁾⁽³⁾	443.8	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⁾	256.4	267.0
3% senior notes (US\$485.0 million) ⁽¹⁾⁽²⁾	635.1	661.4
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽²⁾	520.5	542.1
	2,655.8	2,657.3
Shareholder's deficit		
458,766,467 common shares issued	(616.5)	(559.6)
	2,039.3	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 \$14.6 million at June 30, 2019 (December 31, 2018 - \$15.1 million)

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

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

LIQUIDITY

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

Cash flows used in operating activities for the three and six months ended June 30, 2019 were \$8.5 million and \$48.7 million, respectively (2018 – cash flows generated \$5.4 million and \$3.6 million). The increase in the cash flows used in operating activities is primarily due to increased working capital requirements.

Cash contributions from Harvest's Conventional operations for the three and six months ended June 30, 2019 were \$11.5 million and \$31.7 million, respectively (2018 - \$25.1 million and \$49.4 million). The decrease in cash contributions for the three and six months ended June 30, 2019 was mainly due to a decrease revenues, partially offset by lower royalties, operating, transportation and general and administrative expenses.

Harvest funded capital expenditures for the three and six months ended June 30, 2019 of \$5.8 million and \$14.0 million, respectively (2018 - \$43.8 million and \$90.4 million) with the borrowings under the credit facility.

Harvest's net change to the credit facility was \$7.1 million and \$66.0 net drawings during the three and six months ended June 30, 2019, respectively (2018 - \$57.5 million and \$87.9 million net drawings).

Harvest had a working capital deficiency of \$1,075.9 million as at June 30, 2019, as compared to a \$148.7 million deficiency at December 31, 2018. The increase in the working capital deficiency from December 31, 2018 is primarily due to the re-classification of the credit facility and term loan facility due 2020 to current liabilities on the balance sheet. 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. Harvest's working capital, excluding senior notes, is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility managing the collection and payment of accounts receivables and accounts payables respectively and using the proceeds from possible sale of assets, as required. Refer to "Capital Resources" section of this MD&A for further discussion of Harvest's liquidity management of senior notes.

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

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at June 30, 2019, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt repayments ⁽¹⁾	943.6	256.4	1,543.8	—	2,743.8
Debt interest payments ^{(1) (2)}	86.1	120.7	54.5	—	261.3
Purchase commitments ⁽³⁾	47.6	19.1	9.5	11.6	87.8
Operating leases	8.2	16.0	14.9	8.7	47.8
Firm processing commitments	10.7	18.9	18.0	6.7	54.3
Firm transportation agreements	17.4	21.7	19.5	21.5	80.1
Employee benefits ⁽⁴⁾	0.3	0.1	—	—	0.4
Decommissioning and environmental liabilities ⁽⁵⁾	9.9	97.1	36.0	1,017.0	1,160.0
Total	1,123.8	550.0	1,696.2	1,065.5	4,435.5

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at June 30, 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 7, "Investment in Joint Ventures" in the June 30, 2019 unaudited condensed interim consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

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

	2019		2018				2017		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL									
Revenue and other income, Conventional	51.2	63.9	53.5	75.7	80.0	76.7	75.3	63.4	69.3
Bitumen sales	36.0	23.9	—	—	—	—	—	—	—
Total Revenues and other income ⁽²⁾	87.2	87.8	53.5	75.7	80.0	76.7	75.3	63.4	69.3
Net loss ⁽¹⁾	(21.5)	(19.7)	(114.2)	(102.8)	(75.0)	(88.4)	(207.3)	(17.6)	(26.5)
Operating netback prior to hedging, Conventional (\$/boe) ⁽²⁾	12.41	12.95	(1.28)	17.82	15.87	14.35	15.04	10.84	13.04
Operating netback prior to hedging, Oil Sands (\$/boe) ⁽²⁾	28.68	11.56	—	—	—	—	—	—	—
OPERATIONS									
Daily sales volumes (boe/d), Conventional	22,296	24,007	23,580	24,549	25,027	25,394	25,902	26,912	26,324
Realized price prior to hedging (\$/boe), Conventional	31.91	33.10	22.10	39.08	39.82	36.60	35.15	27.80	33.59
Daily sales volumes blended bitumen	8,902	7,843	3,120	—	—	—	—	—	—
Realized price prior to hedging (\$/boe), Oil Sands	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 sales volumes, realized prices and operating expenses, which are the primary drivers of Harvest's operating netback prior to hedging. Significant items that impacted Harvest's quarterly revenues include:

- Total revenues were highest in the first quarter of 2019, as a result of revenue from Harvest's Oil Sands segment. Revenue from the Conventional segment was the highest in the second quarter of 2018 as a result of increased realized commodity prices and lowest in the second quarter of 2019 due to reduced commodity prices and low sales volumes.
- Conventional sales volumes have declined since 2017 due to asset dispositions and drilling programs that did not offset natural declines, partially offset by new wells and asset optimization and revitalization projects.

Net loss reflects both cash and non-cash items. Changes in non-cash items include deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, accretion of 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 loss in the fourth quarter of 2018 included unrealized foreign exchange losses of \$78.6 million.
- Net loss in the third quarter of 2018 includes an impairment of \$59.1 million, and a loss from joint ventures of \$24.2 million which was primarily the result of a \$22.2 million impairment in DBP.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Harvest has identified the following areas where significant estimates and judgments are required. Further information on the basis of preparation and significant accounting policies and estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2018. Since the December 31, 2018 consolidated financial statements, Harvest has adopted the following IFRS accounting standards:

New Standards Adopted

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

Harvest used the modified retrospective method approach, whereby the cumulative effect of initially applying the standard was recognized as a \$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 difference between the lease liability and right of use asset relates to the onerous contract using the IFRS 16 practical expedient. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was 3.6% for head office and vehicles. The right-of-use assets and lease obligations relate primarily to the company's head office lease and vehicles leases.

The adoption of IFRS 16 included the following elections:

- Harvest elected to use hindsight in determining the lease term
- Harvest elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of initial application.
- Certain short-term and low value leases that have been identified at January 1, 2019, will not be recognized.

- Harvest elected to not perform an impairment test at January 1, 2019 and instead to rely on its assessment of an onerous contract to adjust the right-to-use asset for the company's Head Office lease for \$5.3 million.

As at December 31, 2018, Harvest disclosed operating lease commitments of \$52.2 million, which would have resulted in a lease obligation of \$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.

OPERATIONAL AND OTHER BUSINESS RISKS FOR CONTINUING OPERATIONS

Harvest's operational and other business risks remain unchanged from those discussed in the annual MD&A and AIF for the year ended December 31, 2018 as filed on SEDAR at www.sedar.com.

CHANGES IN REGULATORY ENVIRONMENT

Harvest's regulatory environment remains unchanged from that discussed in the annual MD&A and AIF for the year ended December 31, 2018 as filed on SEDAR at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Harvest is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The certificate requires that Harvest disclosure in the interim MD&A includes any significant changes or material weaknesses in Harvest's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect Harvest's internal controls over financial reporting. In connection with the adoption of IFRS 16, Harvest has established additional controls over financial reporting, as necessary, in regards to lease contracts that fall within the scope of this new guidance. Harvest confirms that no other significant changes, and no weaknesses, were identified in Harvest's internal controls over financial reporting during the three and six months ended June 30, 2019, as described in the annual MD&A for the year ended December 31, 2018 as filed on SEDAR at www.sedar.com.

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

NON-GAAP MEASURES

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

determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for cash contribution (deficiency) which is shown below.

BOE presentation

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

"Operating 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.

	Three Months Ended June 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating loss	(25.3)	(22.8)	4.9	(1.9)	(20.4)	(24.7)
Adjustments:						
Loss from joint ventures	4.8	3.8	—	—	4.8	3.8
Operating, non-cash	—	—	—	—	—	—
General and administrative, non-cash	0.4	(0.2)	—	—	0.4	(0.2)
Exploration and evaluation, non-cash	0.3	—	—	—	0.3	—
Depletion, depreciation and amortization	34.3	43.7	9.6	—	43.9	43.7
Gains on disposition of assets	(3.4)	(0.3)	—	—	(3.4)	(0.3)
Unrealized derivative contract losses	0.4	0.9	—	—	0.4	0.9
Cash contribution (deficiency) from operations	11.5	25.1	14.5	(1.9)	26.0	23.2
Inclusion of items not attributable to segments:						
Net cash interest expense					(23.6)	(20.4)
Realized derivative contract gains					—	0.1
Realized foreign exchange gains (losses) from operations					—	(0.7)
Consolidated cash contribution from (used in) operations					2.4	2.2
Other non-cash items					(6.8)	0.6
Change in non-cash working capital					(4.0)	2.6
Cash from (used in) operating activities					(8.4)	5.4

	Six Months Ended June 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Operating loss	(41.6)	(42.3)	0.4	(3.6)	(41.2)	(45.9)
Adjustments:						
Loss from joint ventures	5.3	6.9	—	—	5.3	6.9
Operating, non-cash	0.3	—	—	—	0.3	—
General and administrative, non-cash	1.1	(1.1)	—	—	1.1	(1.1)
Exploration and evaluation, non-cash	0.3	—	—	—	0.3	—
Depletion, depreciation and amortization	69.3	87.3	16.8	0.1	86.1	87.4
(Gains) losses on disposition of assets	(5.0)	(3.1)	—	—	(5.0)	(3.1)
Unrealized derivative contract losses	2.0	1.7	—	—	2.0	1.7
Cash contribution (deficiency) from operations	31.7	49.4	17.2	(3.5)	48.9	45.9
Inclusion of items not attributable to segments:						
Net cash interest					(46.7)	(37.1)
Realized derivative contract losses					—	(3.2)
Realized foreign exchange loss from operations					0.4	2.2
Consolidated cash contribution from (used in) operations					2.6	7.8
Other non-cash items					(7.8)	(2.5)
Change in non-cash working capital					(42.9)	(1.7)
Cash from (used in) operating activities					(48.1)	3.6

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three and six months ended June 30, 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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at (millions of Canadian dollars)	Notes	June 30, 2019	December 31, 2018
Assets			
Current assets			
Accounts receivable		\$ 40.1	\$ 19.2
Prepaid expenses and other		13.9	6.6
Derivative contracts	10	—	4.4
		54.0	30.2
Non-current assets			
Deferred income tax asset		711.5	711.5
Exploration and evaluation assets	6	10.9	11.2
Property, plant and equipment	5	2,199.1	2,216.5
		2,921.5	2,939.2
Total assets		\$ 2,975.5	\$ 2,969.4
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 148.5	\$ 166.3
Taxes payable		0.9	0.9
Derivative contracts	10	26.8	—
Current portion of provisions	11	10.3	11.7
Current portion of long-term debt	8	943.4	—
		1,129.9	178.9
Non-current liabilities			
Long-term debt	8,9	1,703.5	2,646.5
Long-term liability	12	38.4	46.1
Investments in joint ventures	7	5.5	0.1
Lease obligations	13	21.7	—
Non-current provisions	11	693.0	657.4
		2,462.1	3,350.1
Total liabilities		\$ 3,592.0	\$ 3,529.0
Shareholder's deficit			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus		11.3	11.3
Deficit		(5,198.5)	(5,157.2)
Accumulated other comprehensive loss	20	(22.6)	(7.0)
Total shareholder's deficit		(616.5)	(559.6)
Total liabilities and shareholder's deficit		\$ 2,975.5	\$ 2,969.4

Commitments [Note 19]

Subsequent Event [Note 8 and Note 10]

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

<i>(millions of Canadian dollars)</i>	Notes	Three months ended June 30		Six months ended June 30	
		2019	2018	2019	2018
Petroleum and natural gas sales	14	\$ 98.3	\$ 88.8	\$ 195.4	\$ 174.0
Royalties		(6.3)	(8.8)	(13.2)	(17.3)
Revenues		92.0	80.0	182.2	156.7
Expenses					
Operating		45.2	43.1	92.7	83.8
Cost of diluent		6.2	—	9.3	—
Transportation and marketing		7.6	4.5	16.3	7.7
General and administrative		7.4	9.0	16.4	18.2
Depletion, depreciation and amortization	5	44.6	43.7	88.0	87.4
Exploration and evaluation	6	0.3	—	0.3	—
Loss from joint ventures	7	4.8	3.8	5.3	6.9
Gain on disposition of assets	5	(3.4)	(0.3)	(5.0)	(3.1)
Finance costs	15	27.8	25.8	56.7	48.1
Derivative contract (gain) loss	10	0.4	0.9	2.0	(0.2)
Foreign exchange loss (gain)	16	(27.4)	24.5	(58.5)	70.9
Net loss from operations		(21.5)	(75.0)	(41.3)	(163.0)
Other comprehensive loss ("OCL")					
<i>Items that may be reclassified to net income</i>					
Loss (gain) on designated cash flow hedges, net of tax	20	(17.4)	10.7	15.6	13.9
Comprehensive loss		\$ (4.1)	\$ (85.7)	\$ (56.9)	\$ (176.9)

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

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

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss ("AOCL")	Total Shareholder's Deficit
Balance at December 31, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ —	\$ (172.4)
Net loss		—	—	(163.0)	—	(163.0)
Loss on designated hedges	20	—	—	—	(13.9)	(13.9)
As at June 30, 2018		\$ 4,593.3	\$ 11.3	\$ (4,940.0)	\$ (13.9)	\$ (349.3)
Balance at December 31, 2018		\$ 4,593.3	\$ 11.3	\$ (5,157.2)	\$ (7.0)	\$ (559.6)
Net loss		—	—	(41.3)	—	(41.3)
Loss on designated hedges	20	—	—	—	(15.6)	(15.6)
As at June 30, 2019		\$ 4,593.3	\$ 11.3	\$ (5,198.5)	\$ (22.6)	\$ (616.5)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

		Six months ended June 30	
<i>(millions of Canadian dollars)</i>	Notes	2019	2018
Cash provided by (used in)			
Operating Activities			
Net loss		\$ (41.3)	\$ (163.0)
Items not requiring cash			
Loss from joint ventures	7	5.3	6.9
Depletion, depreciation and amortization	5	88.0	87.4
Non-cash finance costs	15	10.1	11.0
Unrealized loss (gain) on derivative contracts	10	2.0	(3.4)
Unrealized loss (gain) on foreign exchange	16	(58.9)	53.4
Non-cash exploration and evaluation costs	6	0.3	—
Gain on disposition of assets	5	(5.0)	(3.1)
Other non-cash items		(1.8)	0.8
Realized foreign exchange loss on senior notes repayment		—	19.7
Settlement of decommissioning and environmental remediation liabilities	11	(3.9)	(4.4)
Change in non-cash working capital	17	(42.9)	(1.7)
Cash used in operating activities		\$ (48.1)	\$ 3.6
Financing Activities			
Credit facility borrowing, net	8	66.0	87.9
Issuance of senior notes		—	512.2
Repayment of senior notes		—	(811.7)
Borrowings from term loan		—	298.8
Senior notes transaction costs		—	(3.8)
Cash from financing activities		\$ 66.0	\$ 83.4
Investing Activities			
Additions to property, plant and equipment	5	(14.0)	(90.4)
Property dispositions, net	5	8.5	2.6
Payment of lease obligations	13	(2.6)	—
Investment in joint ventures	7	(9.6)	(10.6)
Distributions received from joint ventures	7	9.7	7.9
Change in non-cash working capital	17	(9.9)	3.5
Cash used in investing activities		\$ (17.9)	\$ (87.0)
Change in cash		—	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ —
Interest paid		\$ 46.6	\$ 37.2

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. ("Harvest", "HOC" or the "Company") is an energy company in the business of the exploration, development, and production of crude oil, bitumen, natural gas and natural gas liquids in western Canada. Harvest has two reportable segments, Conventional and Oil Sands. For further information regarding these reportable segments, see note 4.

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

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standard ("IAS") 34 – "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with Harvest's audited consolidated financial statements for the year ended December 31, 2018.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 2, 2019.

Basis of Measurement

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

Functional and Presentation Currency

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

Use of Estimates and Judgment

Significant estimates and judgment used in the preparation of the financial statements are described in note 5 of the annual Consolidated Financial Statements as at and for the year ended December 31, 2018. There have been no significant changes to the use of estimates or judgments since December 31, 2018.

3. Significant Accounting Policies

These condensed interim condensed interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 4 of the Company's annual Consolidated Financial Statements as at and for the year ended December 31, 2018, with the exception of the 'Leases' policies which are amended below.

IFRS 16 - Leases:

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

Harvest used the modified retrospective method approach, whereby the cumulative effect of initially applying the standard was recognized as a \$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 between the lease liability and right-of-use asset relates to the use of the IFRS 16 practical expedient to account for the onerous contract. 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.

The following accounting policy is applicable from January 1, 2019:

Lease Accounting Policy

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of the future lease payments, using the applicable incremental borrowing rate. A corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Harvest does not recognize leases for short-term leases with a lease term of 12 months or less, or for low-value assets. Payments are applied against the lease obligation and interest expense is recognized on the lease obligations using the effective interest rate method. Depreciation on the right-of-use asset is recognized on a straight line basis over the life of the lease.

4. Segment Information

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

- Conventional, which consists of exploration, development, production and subsequent sale of crude oil, natural gas and natural gas liquids in western Canada.
- Oil Sands, which is the BlackGold oil sands project located near Conklin, Alberta.

	Three months ended June 30					
	Conventional		Oil Sands		Total ⁽¹⁾	
	2019	2018	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 56.1	\$ 88.8	\$ 42.2	\$ —	\$ 98.3	\$ 88.8
Royalties	(4.9)	(8.8)	(1.4)	—	(6.3)	(8.8)
Revenues	51.2	80.0	40.8	—	92.0	80.0
Expenses						
Operating	33.4	41.3	11.8	1.8	45.2	43.1
Cost of diluent	—	—	6.2	—	6.2	—
Transportation and marketing	1.4	4.5	6.2	—	7.6	4.5
General and administrative	5.3	8.9	2.1	0.1	7.4	9.0
Depletion, depreciation and amortization	34.3	43.6	9.6	0.1	44.6	43.7
Exploration and evaluation	0.3	—	—	—	0.3	—
Gains on disposition of assets	(3.4)	(0.3)	—	—	(3.4)	(0.3)
Derivative contracts loss	0.4	0.9	—	—	0.4	0.9
Loss from joint ventures	4.8	3.8	—	—	4.8	3.8
Segment Operating income (loss)	\$ (25.3)	\$ (22.7)	\$ 4.9	\$ (2.0)	\$ (21.1)	\$ (24.7)
Finance costs					27.8	25.8
Foreign exchange (gain) loss					(27.4)	24.5
Net Loss					\$ (21.5)	\$ (75.0)

⁽¹⁾ Leased Corporate assets included in total.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	Six months ended June 30					
	Conventional		Oil Sands		Total ⁽¹⁾	
	2019	2018	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 126.1	\$ 174.0	\$ 69.3	\$ —	\$ 195.4	\$ 174.0
Royalties	(11.1)	(17.3)	(2.1)	—	(13.2)	(17.3)
Revenues	115.0	156.7	67.2	—	182.2	156.7
Expenses						
Operating	67.4	80.4	25.3	3.4	92.7	83.8
Cost of diluent	—	—	9.3	—	9.3	—
Transportation and marketing	4.7	7.7	11.6	—	16.3	7.7
General and administrative	12.6	18.1	3.8	0.1	16.4	18.2
Depletion, depreciation and amortization	69.3	87.3	16.8	0.1	88.0	87.4
Exploration and evaluation	0.3	—	—	—	0.3	—
Gains on disposition of assets	(5.0)	(3.1)	—	—	(5.0)	(3.1)
Derivative contracts loss (gain)	2.0	1.7	—	—	2.0	1.7
Loss from joint ventures	5.3	6.9	—	—	5.3	6.9
Segment Operating income (loss)	\$ (41.6)	\$ (42.3)	\$ 0.4	\$ (3.6)	\$ (43.1)	\$ (45.9)
Finance costs					56.7	48.1
Foreign exchange (gains) losses					(58.5)	70.9
Derivative contract gains					—	(1.9)
Net loss					(41.3)	(163.0)

⁽¹⁾ Leased Corporate assets included in total.

	Three months ended June 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Capital Additions						
Additions to PP&E	\$ 4.7	\$ 6.9	\$ 1.0	\$ 36.9	\$ 5.7	\$ 43.8
PP&E & E&E acquisitions, net of dispositions	(6.1)	(0.5)	—	—	(6.1)	(0.5)
Net capital additions	\$ (1.4)	\$ 6.4	\$ 1.0	\$ 36.9	\$ (0.4)	\$ 43.3

	Six months ended June 30					
	Conventional		Oil Sands		Total	
	2019	2018	2019	2018	2019	2018
Capital Additions						
Additions to PP&E	\$ 12.5	\$ 30.7	\$ 1.5	\$ 59.7	\$ 14.0	\$ 90.4
PP&E acquisitions, net of dispositions	(6.1)	(0.4)	—	—	(6.1)	(0.4)
Net capital additions	\$ 6.4	\$ 30.3	\$ 1.5	\$ 59.7	\$ 7.9	\$ 90.0

	Investments in Joint Ventures	PP&E	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
June 30, 2019				
Conventional	\$ (5.5)	\$ 1,080.8	\$ 10.9	\$ 1,865.2
Oil Sands	—	1,096.5	—	1,110.3
Total	\$ (5.5)	\$ 2,177.3	\$ 10.9	\$ 2,975.5

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

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2018	\$ 4,995.5	\$ 1,602.4	\$ 6,597.9
Additions	12.5	1.5	14.0
Additions right-of-use assets ⁽¹⁾	—	—	23.7
Disposals, net of acquisitions	(18.1)	—	(18.1)
Change in decommissioning liabilities	33.4	5.6	39.0
As at June 30, 2019	\$ 5,023.3	\$ 1,609.5	\$ 6,656.5
Accumulated depletion, depreciation and amortization:			
As at December 31, 2018	\$ 3,885.2	\$ 496.2	\$ 4,381.4
Depreciation, depletion and amortization ⁽²⁾	69.3	16.8	88.0
Disposals	(12.0)	—	(12.0)
As at June 30, 2019	\$ 3,942.5	\$ 513.0	\$ 4,457.4
Net Book Value:			
As at December 31, 2018	\$ 1,110.3	\$ 1,106.2	\$ 2,216.5
As at June 30, 2019 ⁽³⁾	\$ 1,080.8	\$ 1,096.5	\$ 2,199.1

⁽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 six months ended June 30, 2019 included in the table above:

	As at January 1, 2019	Depreciation	As at June 30, 2019
Office space	\$ 22.6	\$ 1.7	\$ 20.9
Vehicles and equipment	1.1	0.2	0.9
	\$ 23.7	\$ 1.9	\$ 21.8

General and administrative costs directly attributable to PP&E addition activities of \$0.9 million and \$1.7 million have been capitalized during the three and six months ended June 30, 2019 (2018 - \$2.2 million and \$3.8 million).

During the three and six months ended June 30, 2019, Harvest recognized gains on disposals of non-core assets for \$3.4 million and \$5.0 million (June 30, 2018 - \$0.3 million and \$3.1 million) relating to the de-recognition of PP&E and decommissioning liabilities. The net proceeds from these disposals were \$8.5 million for the three and six months ended June 30, 2019.

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

As at December 31, 2018	\$	11.2
Impairment		(0.3)
As at June 30, 2019	\$	10.9

During the six months ended June 30, 2019, \$0.3 million (2018 – nil) 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 six months ended June 30, 2019 and 2018.

7. Investment in Joint Ventures

		June 30, 2019	Ownership Interest		December 31, 2018	Ownership Interest
Deep Basin Partnership ("DBP")	\$	(45.6)	83.47%	\$	(43.4)	83.45%
HK MS Partnership ("HKMS")		40.1	68.15%		43.3	68.15%
Investments in joint ventures	\$	(5.5)		\$	(0.1)	

		DBP		HKMS		Total
As at December 31, 2018	\$	(43.4)	\$	43.3	\$	(0.1)
Additional investments		9.6		—		9.6
Share of income (loss)		(10.2)		4.9		(5.3)
Distributions		(1.6)		(8.1)		(9.7)
As at June 30, 2019	\$	(45.6)	\$	40.1	\$	(5.5)

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

	June 30, 2019		December 31, 2018	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —
Other current assets	15.1	6.6	18.5	7.8
Total current assets	\$ 15.1	\$ 6.6	\$ 18.5	\$ 7.8
Non-current assets	203.7	202.7	102.2	210.4
Total assets ⁽¹⁾	\$ 218.8	\$ 209.3	\$ 120.7	\$ 218.2
Current liabilities	\$ 32.4	\$ 0.5	\$ 20.7	\$ 1.9
Non-current financial liabilities	139.8	196.8	138.7	207.4
Other non-current liabilities	94.5	5.5	6.9	4.7
Total liabilities ⁽¹⁾	\$ 266.7	\$ 202.8	\$ 166.3	\$ 214.0
Net assets (liabilities) ⁽¹⁾	\$ (47.9)	\$ 6.5	\$ (45.6)	\$ 4.2

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended June 30					
	2019		2018		
	DBP	HKMS	DBP	HKMS	
Revenues	\$ 7.0	\$ 6.3	\$ 9.7	\$ 6.5	
Depletion, depreciation and amortization	(9.9)	(0.9)	(4.2)	(0.9)	
Operating expenses and other	(3.0)	(0.3)	(10.9)	(0.6)	
Finance costs	(1.3)	(4.0)	(0.7)	(4.3)	
Net income (loss) ⁽¹⁾	\$ (7.2)	\$ 1.1	\$ (6.1)	\$ 0.7	

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

Six months ended June 30					
	2019		2018		
	DBP	HKMS	DBP	HKMS	
Revenues	\$ 22.7	\$ 12.9	\$ 18.6	\$ 13.2	
Depletion, depreciation and amortization	(20.6)	(1.7)	(8.2)	(1.7)	
Operating expenses and other	(9.7)	(0.9)	(20.7)	(1.3)	
Finance costs	(2.6)	(8.1)	(1.4)	(8.6)	
Net income (loss) ⁽¹⁾	\$ (10.2)	\$ 2.2	\$ (11.7)	\$ 1.6	

⁽²⁾ Balances represent 100% share of DBP and HKMS

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at June 30, 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	44.0	—	116.0
Decommissioning and environmental liabilities ⁽¹⁾	0.1	—	—	17.6	17.7
Total	\$ 24.1	\$ 48.0	\$ 44.0	\$ 172.6	\$ 288.7

⁽¹⁾ Represents the undiscounted obligation by period.

As at June 30, 2019, Harvest's top-up obligation related to the preferred distribution liability payments was estimated as \$4.2 million (December 31, 2018 - \$2.2 million), using a discount rate of 20% (December 31, 2018 - 20%). This top-up obligation has been included in the derivative contract losses in the statement of comprehensive loss and in the long-term liability at June 30, 2019 (see note 12 – Long-Term Liability). This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP (level 3 fair value inputs). The cash flow forecast is based on management's internal assumptions of the volumes, commodity prices, royalties, operating costs and capital expenditures specific to the DBP. There have been no changes to significant inputs of this calculation since December 31, 2018.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at June 30, 2019:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Decommissioning and environmental liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 13.6	\$ 13.6
Total	\$ —	\$ —	\$ —	\$ 13.6	\$ 13.6

⁽¹⁾ Represents the undiscounted obligation by period.

Related party transactions
Deep Basin Partnership

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the three and six months ended June 30, 2019, Harvest charged DBP a marketing fee of \$0.1 million and \$0.2 million (2018 - \$0.2 million and \$0.4 million) and general and administrative expenses of \$0.2 million and \$0.4 million (2018 - \$0.3 million

and \$0.6 million). As at June 30, 2019, \$8.6 million remains outstanding to DBP from Harvest (December 31, 2018 - \$11.6 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2019 (2018 - \$0.1 million and \$0.2 million). As at June 30, 2019, \$0.7 million remains outstanding from Harvest to HKMS (December 31, 2018 - \$0.9 million).

8. Long-Term Debt

	June 30, 2019	December 31, 2018
Credit Facility	\$ 443.6	\$ 386.4
Term Loan due 2020	499.8	499.7
Term Loan due 2023	299.1	299.0
2½% senior notes due 2021 (US\$195.8 million)	256.2	266.8
3% senior notes due 2022 (US\$485 million)	630.9	656.3
4.2% senior notes due 2023 (US\$397.5 million)	517.3	538.3
Long-term debt outstanding	\$ 2,646.9	\$ 2,646.5
Less current portion ⁽¹⁾	(943.4)	-
Non-current long-term debt	\$ 1,703.5	\$ 2,646.5

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

For the three and six months ended June 30, 2019, interest charges on the credit facility borrowings aggregated to \$3.8 and \$7.6 million respectively (2018 - \$1.9 million and \$3.2 million), reflecting an effective interest rate of 3.34% and 3.40% (2018 - 2.98% and 2.79%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. See note 10 – 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. Also, 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 will be reversed during the third quarter of 2019.

9. Shareholder's Capital & Capital Structure

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

	June 30, 2019	December 31, 2018
Credit facility ⁽¹⁾⁽²⁾	\$ 443.8	\$ 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⁾	256.4	267.0
3% senior notes (US\$485 million) ⁽¹⁾⁽³⁾	635.1	661.4
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽³⁾	520.5	542.1
	\$ 2,655.8	\$ 2,657.3
Shareholder's deficit	(616.5)	(559.6)
	\$ 2,039.3	\$ 2,097.7

⁽¹⁾ Excludes capitalized financing fees.

⁽²⁾ Excludes letters of credit issued in the amount of \$14.6 million at June 30, 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. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company's credit facility, term loans and senior notes. The Company's capital structure and liquidity needs are met through cash generated from operations, proceeds from asset dispositions, joint arrangements, borrowings under the credit facility, long-term debt issuances and capital injections by KNOC. Harvest evaluates its capital structure using the same financial covenants as the ones under the Company's debt commitments.

10. Financial Instruments

a) Fair Values

Financial instruments of Harvest consist of accounts receivable, accounts payable and accrued liabilities, prepaid expenses and other, borrowings under the credit facility, derivative contracts, senior notes, term loans and long term liability. Derivative contracts and the top-up liability 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 June 30, 2019, all financial instruments are level 2, except for the 2½%, 3% and 4.2% senior notes, which are level 1 and \$4.2 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3. As at December 31, 2018 the senior notes were classified as level 1 due to frequency and volume of trades. All of the senior notes are traded on the Singapore Stock Exchange. Also see note 7 – Investment in Joint Ventures and note 12 – Long-Term Liability.

	June 30, 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	\$ 26.8	\$ 26.8	\$ —	\$ —
Long-term liability	4.2	4.2	2.2	2.2
<u>Amortised Cost</u>				
Credit Facility	443.6	443.8	386.4	386.8
Term Loan due 2020	499.8	500.0	499.7	500.0
Term Loan due 2023	299.1	300.0	299.0	300.0
2½% senior notes	256.2	252.0	266.8	259.8
3% senior notes	630.9	644.4	656.3	650.2
4.2% senior notes	517.3	551.3	538.3	556.4
Long-term liability	24.9	22.2	33.9	24.9
Total Financial Liabilities	\$ 2,702.8	\$ 2,744.7	\$ 2,682.6	\$ 2,680.3

b) Derivative Contracts

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

Harvest has entered into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and six months ended June 30, 2019 were lowered to 2.56% and 2.54% respectively (2018 – 2.23% and 2.21%). Also see note 8 – Long-Term Debt for effective interest rates before the effect of these swaps.

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

Three months ended June 30						
2019			2018			
	Realized losses	Unrealized losses	Total	Realized losses	Unrealized losses	Total
Foreign exchange	—	—	—	—	—	—
Derivative contract	—	—	—	—	—	—
Top-up obligation (note 7)	—	0.4	0.4	—	0.9	0.9
	\$ —	\$ 0.4	\$ 0.4	\$ —	\$ 0.9	\$ 0.9

Six months ended June 30						
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 7)	—	2.0	2.0	—	1.7	1.7
	\$ —	\$ 2.0	\$ 2.0	\$ 3.2	\$ (3.4)	\$ (0.2)

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Hedge Classification	Fair value of asset (liability) at June 30, 2019
\$300 Million	Interest rate swap	May 2023	2.821%	Cash Flow	(12.9)
US\$228 Million	FX Swap	July 2019	CDN/US \$1.32	Cash Flow	(2.2)
2,800 bbl/d	MSW price swap	July - Dec 2019	CDN \$57.50/bbl	Cash Flow	(5.2)
4,100 bbl/d	WCS price swap	July - Dec 2019	CDN \$45.00/bbl	Cash Flow	(7.3)
1,000 bbl/d	WCS price swap	July - Dec 2019	CDN \$55.10/bbl	Cash Flow	0.3
1,000 bbl/d	WCS price swap	July - August 2019	CDN \$63.75/bbl	Cash Flow	0.5
800 bbl/d	MSW price swap	July - August 2019	CDN \$72.00/bbl	Cash Flow	0.3
1,000 bbl/d	WCS price swap	August - Dec 2019	CDN \$50.15/bbl	Cash Flow	(0.3)
					\$ (26.8)

Contracts Designated as Hedges Subsequent to June 30, 2019

Contract Quantity	Type of Contract	Term	Contract Price
CAD \$228 Million	FX Swap	August 2019	CDN/US \$1.316

11. Provisions

	Conventional (1)	Oil Sands (2)	Head Office lease (3)	Total
As at December 31, 2018	\$ 608.6	\$ 53.7	\$ 6.8	\$ 669.1
January 1, 2019 adoption of IFRS 16 adjustment	—	—	(5.3)	(5.3)
Settled during the period	(3.9)	—	(0.2)	(4.1)
Revisions (change in estimated costs and discount rate)	34.0	5.6	—	39.6
Disposals	(3.2)	—	—	(3.2)
Accretion	6.4	0.6	0.2	7.2
As at June 30, 2019	\$ 641.9	\$ 59.9	\$ 1.5	\$ 703.3
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 June 30, 2019	\$ 10.0	\$ —	\$ 0.3	\$ 10.3
Non-current provisions as at June 30, 2019	631.9	59.9	1.2	693.0
As at June 30, 2019	\$ 641.9	\$ 59.9	\$ 1.5	\$ 703.3

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

(2) Oil Sands includes balance of decommissioning liability.

(3) Head office includes provision related to lease.

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.2 billion at June 30, 2019 (December 31, 2018 – \$1.2 billion), which will be incurred between 2019 and 2078. A risk-free discount rate of 1.90% (December 31, 2018 – 2.18%) and inflation rate of 1.50% (December 31, 2018 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities.

On January 1, 2019, as a result of the adoption of IFRS 16, Harvest adjusted the opening balance of the onerous contract while recognizing the lease liability on the balance sheet in accordance with the new standard. See notes 3 and 13 for additional details.

At June 30, 2019, Harvest recognized an onerous contract provision of \$1.5 million (December 31, 2018 - \$6.8 million), relating to a Head Office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future operating costs that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate. Nil gain was recorded from changes in the discount rate during the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – nil).

12. Long-Term Liability

	June 30, 2019	December 31, 2018
BlackGold liability ⁽¹⁾	\$ 72.3	\$ 71.4
Less: current portion of BlackGold liability ⁽¹⁾	(47.4)	(37.9)
Deferred rent and other ⁽²⁾	9.3	10.4
Top-up obligation ⁽³⁾	4.2	2.2
	\$ 38.4	\$ 46.1

(1) Calculated using a discount rate of 4.5% at three months ended June 30, 2019 and December 31, 2018. The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third, fourth, fifth and sixth deferred payments due April 30, 2019, 2018, 2017 and 2016 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work.

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

(3) See note 7 – Investment in Joint Ventures.

13. Lease Obligation

Harvest had the following associated with lease obligations:

	June 30, 2019		January 1, 2019	
Less than 1 year	\$	5.3	\$	5.3
1 - 3 years		10.4		10.7
4 - 5 years		8.9		9.0
After 5 years		5.2		7.4
Total lease payments		29.8		32.4
Amounts representing interest		(3.0)		(3.5)
Present value of net lease payments		26.8		28.9
Current portion of lease obligations		5.1		5.1
Non-current portion of lease obligations	\$	21.7	\$	23.8

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 six months ended June 30, 2019, Harvest had interest expense of \$0.6 million and cash outflow of \$2.6 million related to lease obligations.

14. Petroleum and natural gas sales

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

Crude oil, bitumen, 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:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Light to medium oil sales after hedging ⁽¹⁾	\$ 16.9	\$ 27.5	\$ 31.5	\$ 52.3
Heavy oil sales after hedging ⁽¹⁾	22.3	36.8	44.0	67.9
Bitumen sales after hedging ⁽¹⁾	42.2	-	69.3	-
Natural gas sales	6.6	7.7	24.0	21.2
Natural gas liquids sales	9.0	12.6	20.7	24.3
Other ⁽²⁾	1.3	4.2	5.9	8.3
Petroleum and natural gas sales	\$ 98.3	\$ 88.8	\$ 195.4	\$ 174.0

⁽¹⁾ Inclusive of realized losses from 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 June 30, 2019 is \$34.5 million (June 30, 2018 – \$32.3 million for June 2018 production) of accrued oil and gas sales related to June 2019 production.

15. Finance Costs

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Interest and other financing charges ⁽¹⁾	\$ 24.2	\$ 21.3	\$ 48.4	\$ 39.2
Lease interest expense	-	-	0.6	-
Accretion of decommissioning and environmental remediation liabilities (note 11)	3.4	3.9	7.0	7.9
Accretion of BlackGold long-term liability (note 12)	0.2	0.6	0.7	1.0
	\$ 27.8	\$ 25.8	\$ 56.7	\$ 48.1

⁽¹⁾ Includes \$0.1 million and \$0.2 million of accretion on the onerous contract during the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – \$0.3 million and \$0.6 million).

16. Foreign Exchange

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Realized loss on foreign exchange	\$ -	\$ 20.4	\$ 0.4	\$ 17.5
Unrealized loss (gain) on foreign exchange	(27.4)	4.1	(58.9)	53.4
	\$ (27.4)	\$ 24.5	\$ (58.5)	\$ 70.9

17. Supplemental Cash Flow Information

	Six months ended June 30	
	2019	2018
Source (use) of cash:		
Accounts receivable	\$ (20.9)	\$ 7.2
Prepaid expenses, long-term deposit and other	(7.3)	(4.3)
Accounts payable and accrued liabilities	(17.8)	12.1
Net changes in non-cash working capital	\$ (46.0)	\$ 15.0
Changes relating to operating activities	\$ (42.9)	\$ (1.7)
Changes relating to investing activities	(9.9)	3.5
Reclass of long-term liability to accounts payable	9.5	9.5
Add: Other non-cash changes	(2.7)	3.7
	\$ (46.0)	\$ 15.0

18. Related Party Transactions

	Three months ended June 30		Six months ended June 30		Accounts Payable	
	2019	2018	2019	2018	as at June 30, 2019	as at December 31, 2018
Diluent Expenses						
DBP ⁽¹⁾	\$ 1.9	—	\$ 2.5	—	\$ 0.7	\$ 0.2
G&A Expenses						
KNOC ⁽²⁾	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.5
Finance costs						
KNOC ⁽³⁾	\$ 2.8	\$ 3.0	\$ 5.6	\$ 6.7	\$ 8.3	\$ 4.7

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

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2¼%, 2½%, 3% and 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum is charged by KNOC on the senior notes, credit facility and term loans. See note 8 – Long Term Debt.

⁽³⁾ Amounts relate to payments to KNOC for secondees salaries.

19. Commitments

The following is a summary of Harvest's estimated commitments as at June 30, 2019:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Purchase commitments ⁽¹⁾	\$ 47.6	\$ 19.1	\$ 9.5	\$ 11.6	\$ 87.8
Operating leases ⁽²⁾	8.2	16.0	14.9	8.7	47.8
Firm processing commitments	10.7	18.9	18.0	6.7	54.3
Firm transportation agreements	17.4	21.7	19.5	21.5	80.1
Employee benefits ⁽³⁾	0.3	0.1	—	—	0.4
Total ⁽⁴⁾	\$ 84.2	\$ 75.8	\$ 61.9	\$ 48.5	\$ 270.4

⁽¹⁾ Relates to BlackGold oil sands project commitment and the DBP top-up obligation (see note 7 - Investment in Joint Ventures).

⁽²⁾ Relates to future cash payments for leases for vehicles and head office

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

⁽⁴⁾ See note 8 - Long Term Debt, note 9 – Shareholder's Capital & Capital Structure and note 18 – Related Party Transactions for Harvest's debt obligations.

20. Accumulated Other Comprehensive Loss ("AOCL")

		Designated Cash Flow Hedges, Net of Tax	Total
As at December 31, 2018	\$	(7.0)	\$ (7.0)
Reclassification to net loss of losses on cash flow hedges		23.2	23.2
Loss on derivatives designated as cash flow hedges, net of tax		(38.8)	(38.8)
As at June 30, 2019	\$	(22.6)	\$ (22.6)

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

		Three months ended June 30				Six months ended June 30			
		After-tax		Pre-tax		After-tax		Pre-tax	
		2019	2018	2019	2018	2019	2018	2019	2018
(Losses) Gains re-classified from OCL	\$								
Interest Rate Risk		(0.6)	(0.4)	(0.6)	(0.4)	(1.0)	(0.4)	(1.0)	(0.4)
Commodity Price Risk		(15.1)	(4.0)	(15.1)	(4.0)	(22.2)	(4.0)	(22.2)	(4.0)
Losses (Gains) recognized in OCL									
Interest Rate Risk		2.1	5.7	2.1	5.7	6.4	5.7	6.4	5.7
Commodity Price Risk		(3.8)	9.4	(3.8)	9.4	32.4	12.6	32.4	12.6
Total	\$	(17.4)	\$ 10.7	\$ (17.4)	\$ 10.7	\$ 15.6	\$ 13.9	\$ 15.6	\$ 13.9