



Third Quarter Report 2018

For the three and nine months
ended September 30, 2018



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 nine months ended September 30, 2018 and the audited consolidated financial statements and MD&A for the year ended December 31, 2017. The information and opinions concerning the future outlook are based on information available at November 8, 2018.

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

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

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

ADVISORY

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Conventional				
Petroleum and natural gas sales	85.2	69.2	259.2	235.2
Daily sales volumes (boe/d) ⁽¹⁾	24,549	26,912	24,987	26,819
Deep Basin Partnership				
Daily sales volumes (boe/d)	4,058	5,112	4,010	6,250
Harvest's share of daily sales volumes (boe/d) ⁽³⁾	3,384	4,220	3,331	5,157
Average realized price ⁽²⁾				
Oil and NGLs (\$/bbl)	61.64	43.22	59.06	45.49
Gas (\$/mcf)	1.30	1.63	1.62	2.52
Operating netback prior to hedging(\$/boe) ⁽³⁾	17.82	10.84	16.02	12.81
Operating loss ⁽³⁾	(97.4)	(45.3)	(139.9)	(95.5)
Cash contribution from operations ⁽³⁾	31.3	19.1	80.2	59.8
Capital expenditures	12.0	10.9	42.7	35.5
Property dispositions, net ⁽⁴⁾	—	—	(0.4)	—
Net wells drilled	2.7	2.0	9.3	4.7
Oil Sands				
Capital expenditures	25.7	0.6	85.4	0.8
Pre-operating loss ⁽³⁾	(2.5)	(2.9)	(6.0)	(9.9)
NET LOSS	(102.8)	(17.6)	(266.0)	(75.0)

(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 the historical cost of oil and gas assets disposed net of accumulated depreciation and depletion.

REVIEW OF OVERALL PERFORMANCE

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

Conventional

- Petroleum and natural gas sales for the three and nine months ended September 30, 2018 increased by \$16.0 million and \$24.0 million, respectively, over the same periods in 2017 as a result of an increase in average realized sales prices, partially offset by decreased sales volumes.
- Sales volumes for the three and nine months ended September 30, 2018 decreased by 2,363 boe/d and 1,832 boe/d, respectively, as compared to the same periods in 2017. These decreases were primarily due to natural declines, partially offset by additional volumes resulting from new wells and asset optimization and revitalization projects.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three and nine months ended September 30, 2018 decreased by 836 boe/d and 1,827 boe/d, respectively, as compared to the same periods in 2017. These decreases were primarily due to natural declines, which were partially offset by additional volumes from new wells.
- Operating loss for the three and nine months ended September 30, 2018 was \$97.4 million and \$139.9 million, respectively (2017 - \$45.3 million and \$95.5 million, respectively). The increases in operating loss from 2017 were primarily due to an impairment expense in conventional and the DBP, partially offset by increased revenues and decreased depreciation, depletion and amortization.
- Capital expenditures totaled \$12.0 million and \$42.7 million for the three and nine months ended September 30, 2018. Capital expenditures for the three months ended September 30, 2018, were primarily related to drilling and completion. Capital expenditures for the nine month period ended September 30, 2018, were primarily related to drilling and completion, asset optimization and revitalization projects. During the three months ended September 30, 2018, Harvest rig released six gross wells (2.9 net). These wells included five gross (1.9 net) partner operated horizontal wells in the Rocky Mountain House area, and one horizontal well in the Royce area. During the nine months ended September 30, 2018, Harvest rig released seventeen gross wells (9.5 net). The wells drilled included four (3.0 net) horizontal wells in the Royce area, seven (2.8 net) partner operated horizontal wells in the Rocky Mountain House area, five (2.7 net) partner operated horizontal wells in the Deep Basin area and one horizontal well in the Loon area.
- Operating netback per boe prior to hedging for the three months ended September 30, 2018 was \$17.82, an increase of \$6.98 from the same period in 2017. Operating netback per boe prior to hedging for the nine months ended September 30, 2018 was \$16.02, an increase of \$3.21 from the same period in 2017. These increases were mainly due to an increase in petroleum and natural gas sales prices per boe, partially offset by an increase in operating expenses, royalties, and transportation and marketing fees per boe.
- Cash contributions from Harvest's Conventional operations for the three and nine months ended September 30, 2018 was \$31.3 million and \$80.2 million, respectively (2017 - \$19.1 million and \$59.8 million, respectively). The increase in cash contributions for the three months ended September 30, 2018 was primarily due to an increase in revenues, partially offset by an increase in royalties. The increase in cash contributions for the nine months ended September 30, 2018 was mainly due to an increase in revenues, partially offset by an increase in operating expenses.

Oil Sands

- Capital expenditures for the three and nine months ended September 30, 2018 were \$25.7 million and \$85.4 million, respectively, (2017 - \$0.6 million and \$0.8 million, respectively). The capital expenditures for the three months ended September 30, 2018 primarily related to startup of the central processing facility ("CPF"). The capital expenditures for the nine months ended September 30, 2018, mainly related to construction activities, pre-commissioning, commissioning, and start-up costs of the CPF. During the quarter, Harvest achieved first oil production on its BlackGold Oil Sands project and converted ten well pairs to full steam assisted gravity drainage ("SAGD") operation.
- Pre-operating losses for the three and nine months ended September 30, 2018 were \$2.5 million and \$6.0 million, respectively (2017 - \$2.9 million and \$9.9 million, respectively). Pre-operating losses decreased as compared to the same periods in 2017 as a result of an increase in expenses being capitalized in the current periods due to the recommencement of capital activities.

Corporate

- The strengthening of the Canadian dollar against the U.S. dollar for the three months ended September 30, 2018 resulted in net unrealized foreign exchange gains of \$24.6 million (2017 - \$38.1 million) which was primarily related to the translation of Harvest's U.S. dollar denominated debt into Canadian dollars. The weakening of the Canadian dollar against the U.S. dollar for the nine months ended September 30, 2018 resulted in net unrealized foreign exchange losses of \$28.8 million (2017 - \$100.6 million net gains) 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 nine months ended September 30, 2018 was \$48.1 million and \$136.0 million net borrowing, respectively (2017 - \$5.0 million and \$470.8 million net repayment, respectively). The net borrowing for the three and nine months ended September 30, 2018 was primarily related to borrowings to finance capital additions, partially offset by cash flows from operations. At September 30, 2018, Harvest had \$331.9 million drawn under the credit facility (December 31, 2017 - \$190.6 million) excluding letters of credit of \$13.6 million (December 31, 2017 - \$14.9 million). As at September 30, 2018, the term loan facilities had an outstanding balance of \$800 million (December 31, 2017 - \$500 million).



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONVENTIONAL

Summary of Financial and Operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
FINANCIAL				
Petroleum and natural gas sales	85.2	69.2	259.2	235.2
Royalties	(9.5)	(5.8)	(26.8)	(25.3)
Revenues and other income	75.7	63.4	232.4	209.9
Expenses				
Operating	34.6	33.6	115.1	107.7
Transportation and marketing	3.9	2.6	11.7	8.1
Operating netback after hedging ⁽¹⁾	37.2	27.2	105.6	94.1
General and administrative	7.0	8.0	25.3	26.9
Depreciation, depletion and amortization	42.1	54.2	129.3	144.8
Loss from joint ventures	24.2	8.8	31.1	19.5
Exploration and evaluation	0.2	0.1	0.2	0.1
Unrealized derivative contract losses ⁽²⁾	2.0	0.9	3.7	0.6
Impairment	59.1	—	59.1	—
Loss (gain) on onerous contract	—	0.7	—	(1.1)
Gains on disposition of assets	—	(0.2)	(3.2)	(1.2)
Operating loss ⁽¹⁾	(97.4)	(45.3)	(139.9)	(95.5)
Capital asset expenditures	12.0	11.0	42.7	35.5
Property dispositions, net ⁽⁴⁾	—	—	(0.4)	—
OPERATING				
Light to medium oil (bbl/d)	4,127	3,950	4,396	4,018
Heavy oil (bbl/d)	6,260	7,111	6,483	7,279
Natural gas liquids (bbl/d)	3,441	3,115	3,196	3,135
Natural gas (mcf/d)	64,323	76,417	65,474	74,323
Total (boe/d) ⁽³⁾	24,549	26,912	24,987	26,819

(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 historical cost of oil and gas assets disposed net of accumulated depreciation and depletion.

Commodity Price Environment

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	69.50	48.21	44%	66.75	49.47	35%
West Texas Intermediate crude oil (\$/bbl)	90.85	60.41	50%	85.91	64.67	33%
Edmonton Light Sweet crude oil (\$/bbl)	81.92	56.74	44%	78.17	60.88	28%
Western Canadian Select ("WCS") crude oil (\$/bbl)	61.78	47.90	29%	57.79	49.18	18%
AECO natural gas daily (\$/mcf)	1.19	1.45	(18%)	1.48	2.31	(36%)
U.S. / Canadian dollar exchange rate	0.765	0.798	(4%)	0.777	0.765	2%
Differential Benchmarks						
EDM differential to WTI (\$/bbl)	8.93	3.67	143%	7.74	3.79	104%
EDM differential as a % of WTI	9.8%	6.1%	61%	9.0%	5.9%	53%
WCS differential to WTI (\$/bbl)	29.07	12.51	132%	28.12	15.49	82%
WCS differential as a % of WTI	32.0%	20.7%	55%	32.7%	24.0%	36%

For the three and nine months ended September 30, 2018, the average WTI benchmark price increased 44% and 35%, respectively, as compared to the same periods in 2017. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and nine months ended September 30, 2018, increased 44% and 28%, respectively, compared to the same periods in 2017. The increase for the three months ended September 30, 2018, was primarily due to an increase in the WTI price. The increase for the nine months ended September 30, 2018 was primarily due to an increase in the WTI price, partially offset by a widening of the Edmonton Light differential.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The WCS price increased 29% and 18% for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017. The increase for the three months ended September 30, 2018 was primarily due to an increase in the WTI price, which was partially offset by a widening of the WCS differential. The increase for the nine months ended September 30, 2018 was primarily due to an increase in the WTI price, partially offset by a widening of the WCS differential.

Harvest's realized natural gas price is referenced to the AECO hub, which decreased by 18% and 36% for the three and nine months ended September 30, 2018.

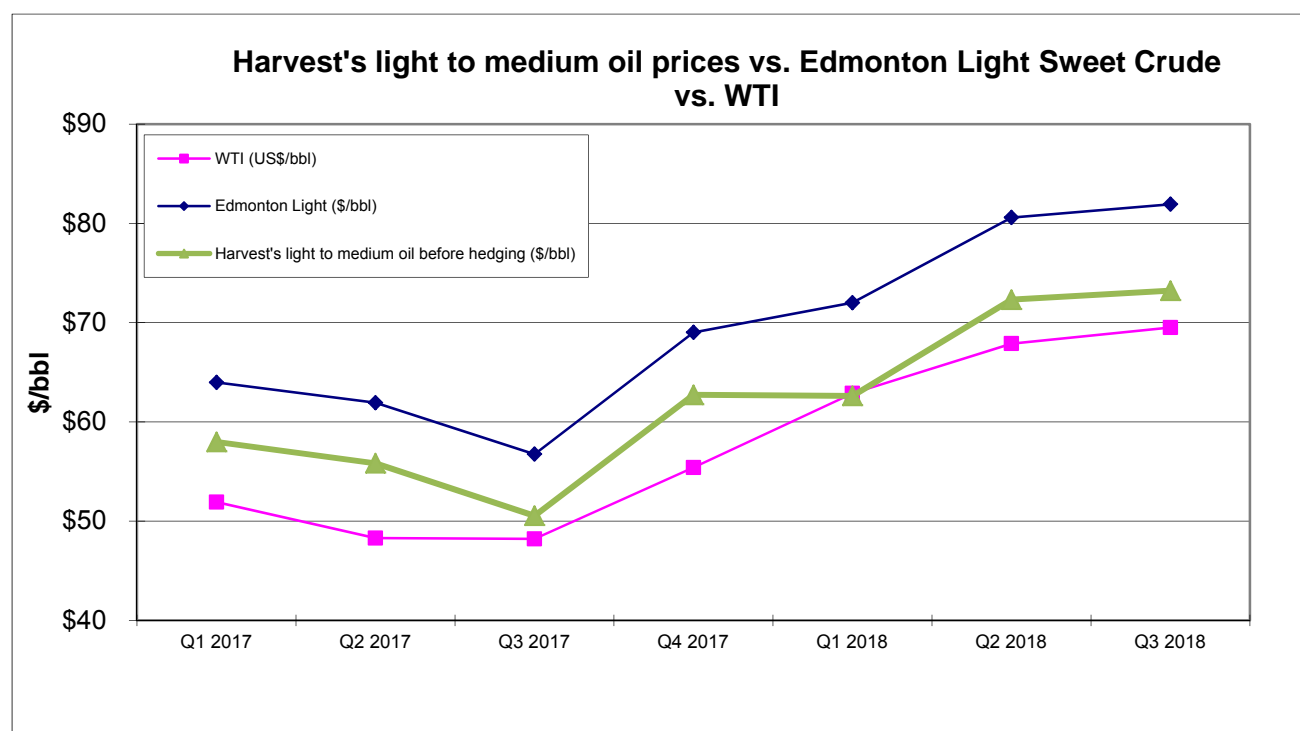
Realized Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Light to medium oil (\$/bbl)	73.21	50.54	45%	69.39	53.10	31%
Heavy oil prior to hedging (\$/bbl)	64.15	43.30	48%	59.73	46.91	27%
Natural gas liquids (\$/bbl)	43.20	33.77	28%	43.49	32.45	34%
Natural gas (\$/mcf)	1.30	1.63	(20%)	1.62	2.52	(36%)
Average realized price prior to hedging (\$/boe) ⁽¹⁾	39.08	27.80	41%	38.50	32.08	20%
Light to medium oil after hedging (\$/bbl) ⁽²⁾	64.85	50.54	28%	64.09	53.10	21%
Heavy oil after hedging (\$/bbl) ⁽²⁾	63.55	43.30	47%	59.06	46.91	26%
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	37.52	27.80	35%	37.39	32.08	17%

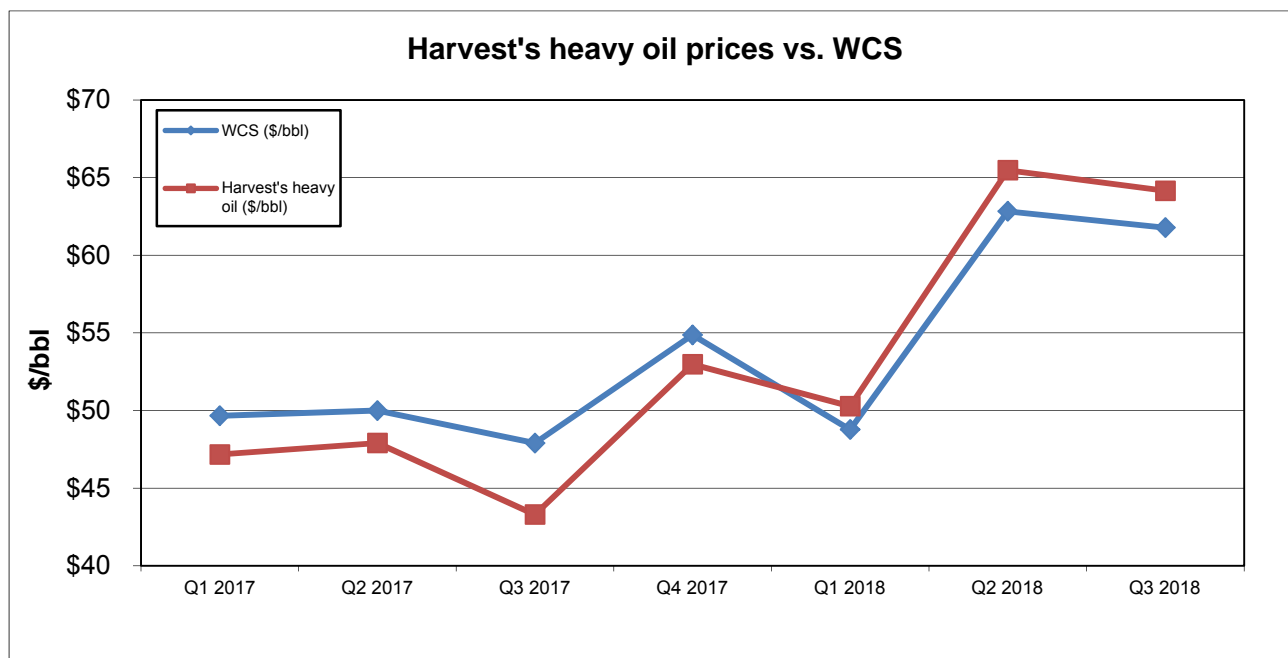
(1) Inclusive of sulphur revenue.

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

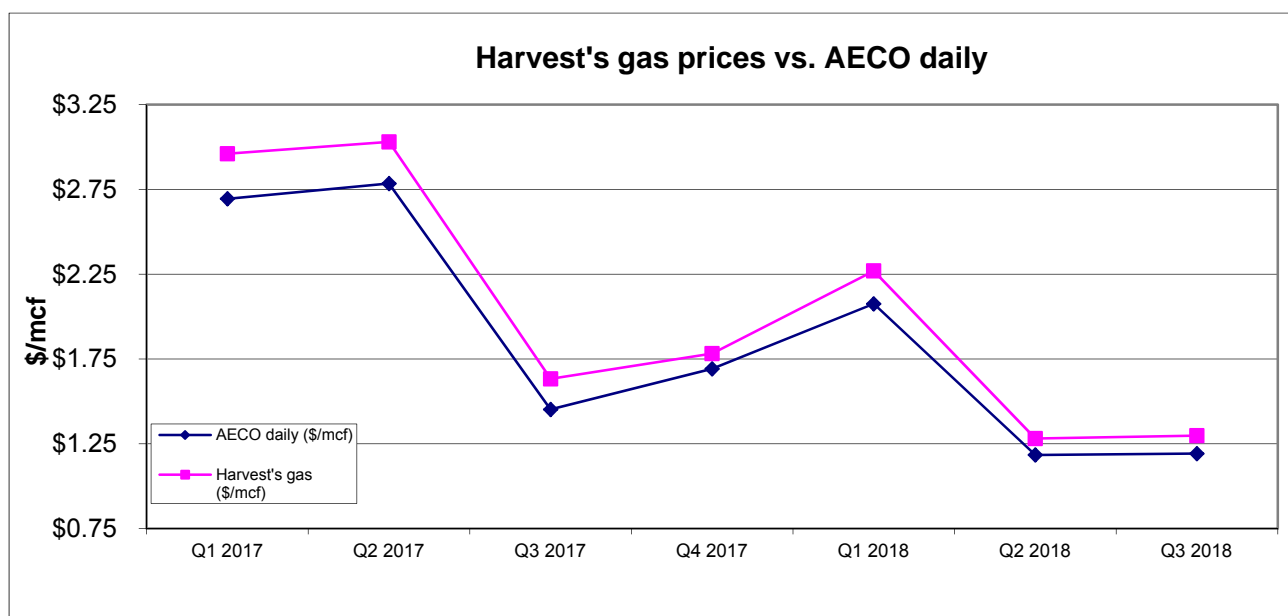
For the three and nine months ended September 30, 2018, Harvest's realized price for light to medium oil increased relatively consistently with the Edmonton Light benchmark.



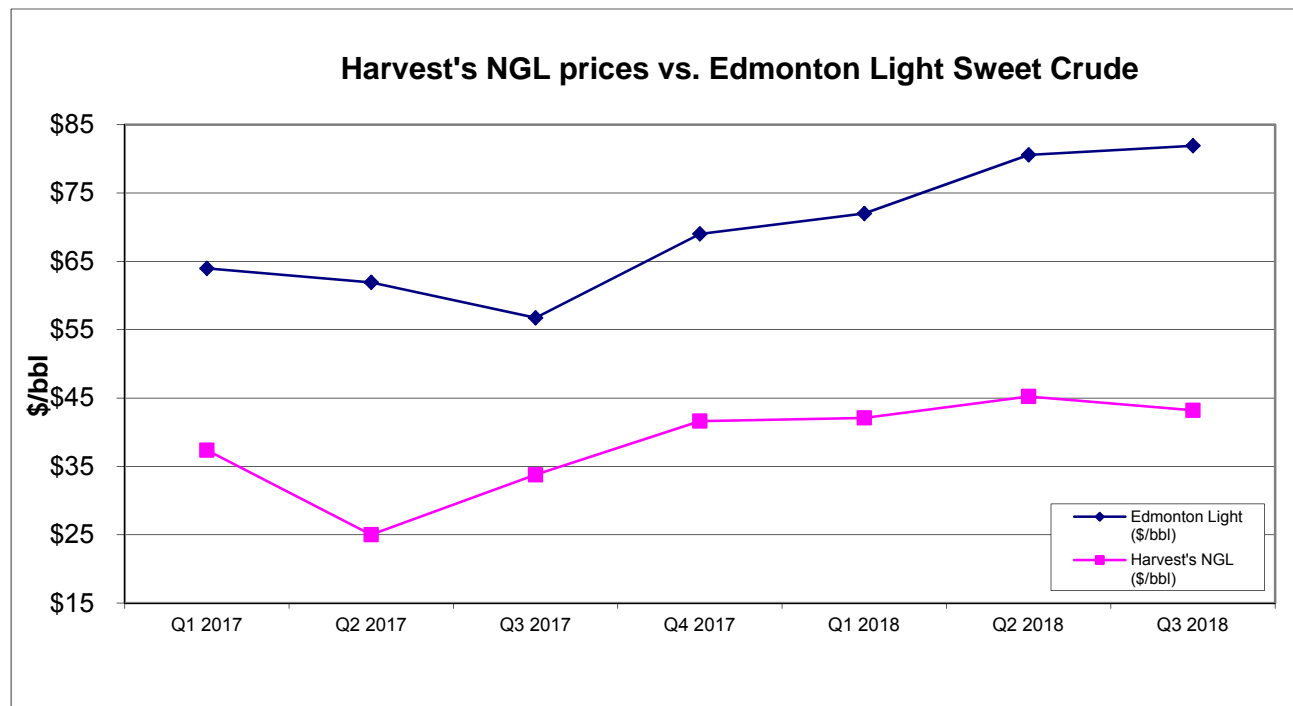
During the three and nine months ended September 30, 2018, Harvest's realized price for heavy oil increased by more than the WCS benchmark price. This was primarily the result of a portion of Harvest's heavy oil production being sold at a discount to the Edmonton Light benchmark, which increased at a higher ratio than the WCS benchmark.



For the three and nine months ended September 30, 2018, Harvest's realized natural gas prices fluctuated relatively consistent with the AECO benchmark.



Harvest's realized natural gas liquids prices for the three months ended September 30, 2018 increased by less than its benchmark, Edmonton Light Sweet Crude, primarily due to butane and ethane prices which increased at a lower ratio than the Edmonton Light benchmark. For the nine months ended September 30, 2018 Harvest's realized natural gas liquids prices increased by more than its benchmark price primarily due to the impact of a third party operator adjusting their NGL allocations to Harvest for prior periods of production in the comparative period, partially offset by butane and ethane prices which increased at a lower ratio than the Edmonton Light benchmark.



In order to partially mitigate the risk of fluctuating cash flows due to natural gas and heavy oil pricing volatility, Harvest will periodically enter into Mixed Sweet Blend ("MSW"), WCS and AECO derivative contracts. During the three and nine months ended September 30, 2018, 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.

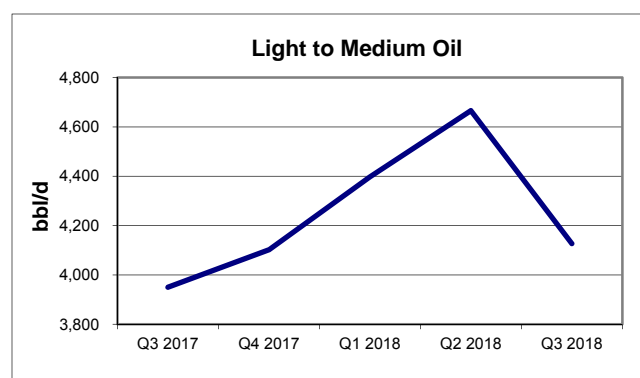
The impact from MSW hedges on Harvest's realized light to medium oil price for the three and nine months ended September 30, 2018 were a hedging loss of \$8.36 per boe and \$5.30 per boe, respectively (2017 - \$nil and \$nil, respectively). The impact from WCS hedges on Harvest's realized heavy oil price for the three and nine months ended September 30, 2018 were a hedging loss of \$0.60 per boe and \$0.67 per boe, respectively (2017 - \$nil and \$nil, respectively). For the same periods in 2017, Harvest did not have any oil or gas derivative contracts in place. Harvest had no natural gas derivative contracts in place during the three and nine months ended September 30, 2018 and 2017.

Please see "Cash Flow Risk Management" section in this MD&A for further discussion with respect to the cash flow risk management program, and derivative contracts Harvest has entered into.

Sales Volumes

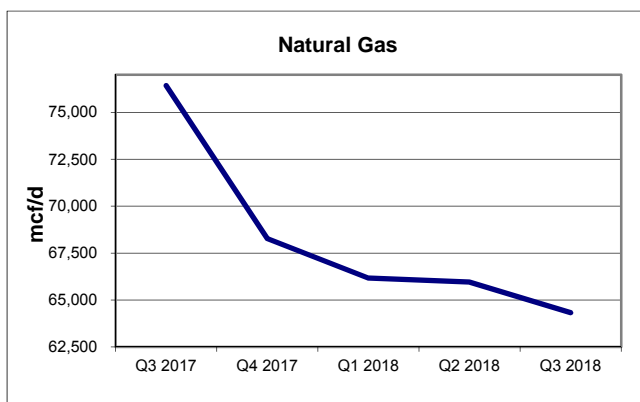
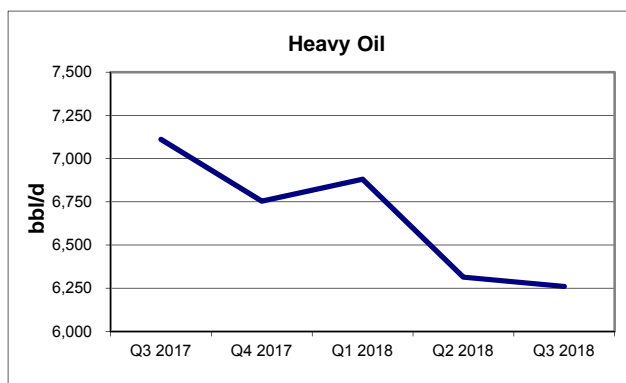
	Three Months Ended September 30				
	2018		2017		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	4,127	17%	3,950	15%	4%
Heavy oil (bbl/d)	6,260	26%	7,111	26%	(12%)
Natural gas liquids (bbl/d)	3,441	14%	3,115	12%	10%
Total liquids (bbl/d)	13,828	57%	14,176	53%	(2%)
Natural gas (mcf/d)	64,323	43%	76,417	47%	(16%)
Total oil equivalent (boe/d)	24,549	100%	26,912	100%	(9%)

	Nine Months Ended September 30				
	2018		2017		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d)	4,396	18%	4,018	15%	9%
Heavy oil (bbl/d)	6,483	26%	7,279	27%	(11%)
Natural gas liquids (bbl/d)	3,196	13%	3,135	12%	2%
Total liquids (bbl/d)	14,075	57%	14,432	54%	(2%)
Natural gas (mcf/d)	65,474	43%	74,323	46%	(12%)
Total oil equivalent (boe/d)	24,987	100%	26,819	100%	(7%)



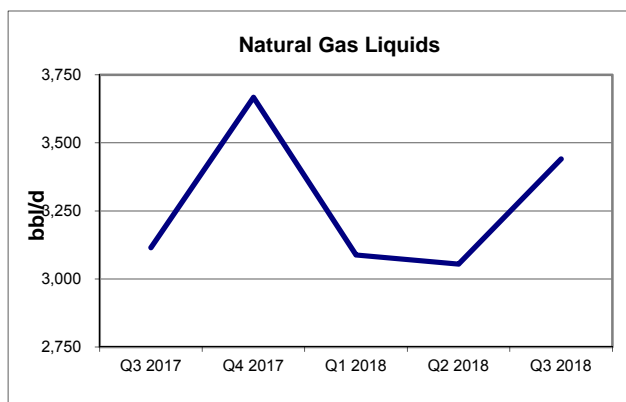
Harvest's average daily sales of light to medium oil increased 4% in the third quarter of 2018 as compared to the same period in 2017. The increase from Q3 2017 to Q2 2018 was mainly due to production from new wells brought on stream in the Royce and Loon Lake areas. The decrease in production from Q2 2018 is primarily due to natural declines and no new wells being brought on stream.

Heavy oil sales for the third quarter of 2018 decreased 12% as compared to the same period in 2017 mainly due to natural declines, partially offset by asset optimization and revitalization projects.



Natural gas sales during the third quarter of 2018 decreased 16% as compared to the same period in 2017. The decrease since Q3 2017 is primarily the result of natural declines and a portion of Harvest's Deep Basin wells entering a deep cut facility, resulting in higher liquids but lower gas volumes. Declines over the first three quarters of 2018 were partially offset by Harvest's participation in new wells in the Rocky Mountain House area.

Natural gas liquids sales for the third quarter of 2018 increased by 10% from the same period in 2017. This increase is primarily due to Harvest's participation in new wells in the Rocky Mountain House area, partially offset by natural declines.



Revenues

Sales Revenue by Product

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Light to medium oil sales after hedging ⁽¹⁾	24.6	18.4	34%	76.9	58.2	32%
Heavy oil sales after hedging ⁽¹⁾	36.6	28.3	29%	104.5	93.2	12%
Natural gas sales	7.7	11.5	(33%)	28.9	51.2	(44%)
Natural gas liquids sales	13.7	9.7	41%	37.9	27.8	36%
Other ⁽²⁾	2.6	1.3	100%	11.0	4.8	129%
Petroleum and natural gas sales	85.2	69.2	23%	259.2	235.2	10%

(1) Inclusive of the effective portion of realized losses from 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 increased for the three and nine months ended September 30, 2018, as compared to 2017, is primarily due to an increase in the average realized sales price, partially offset by a decrease in sales volumes.

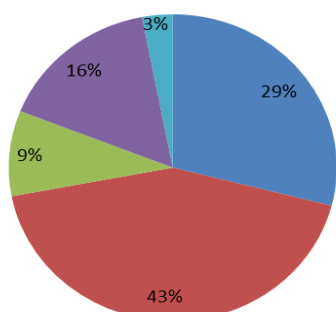
Sulphur revenue for the three and nine months ended September 30, 2018 were \$2.2 million and \$6.8 million, respectively, of the total in other revenues (2017 - \$1.0 million and \$4.4 million, respectively). The increase in sulphur revenue for the three and nine months ended September 30, 2018 is primarily due to an increase in realized sales prices.

Revenue by Product Type as % of Total Revenue

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Light to medium oil sales after hedging	29%	27%	30%	25%
Heavy oil sales after hedging	43%	41%	40%	40%
Natural gas sales	9%	17%	11%	22%
Natural gas liquids sales	16%	14%	15%	12%
Other	3%	1%	4%	1%
Total Sales Revenue	100%	100%	100%	100%

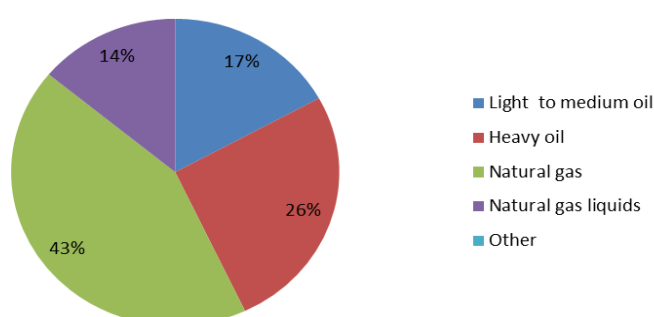
Sales Revenue by Product

(Three months ended September 30, 2018)



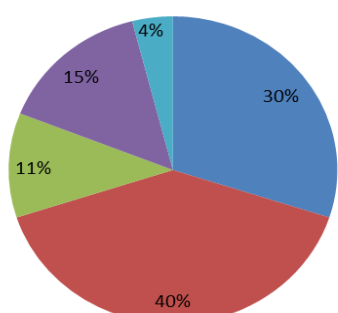
Sales Volumes by Product

(Three months ended September 30, 2018)



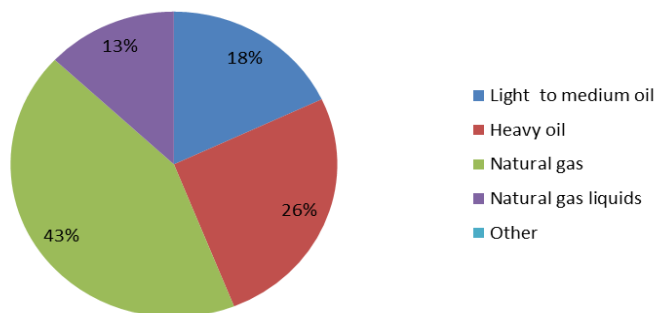
Sales Revenue by Product

(Nine months ended September 30, 2018)



Sales Volumes by Product

(Nine months ended September 30, 2018)



Harvest's product mix on a volumetric basis is slightly weighted heavier towards crude oil and natural gas liquids than natural gas. Revenue contribution is more heavily weighted to crude oil and natural gas liquids as shown by the charts above. Revenue contributions by product for the three and nine months ended September 30, 2018 has fluctuated in comparison to the same periods of 2017 as a result of changes in commodity prices, particularly a decrease in realized gas prices and an increase in oil prices.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Royalties

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Royalties	9.5	5.8	26.8	25.3
Royalties as a percentage of revenue	11.2%	8.4%	10.3%	10.8%
Royalties (\$/boe)	4.19	2.33	3.92	3.45

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 nine months ended September 30, 2018, royalties as a percentage of gross revenue averaged 11.2% and 10.3%, respectively (2017 - 8.4% and 10.8%). The increase in royalties as a percentage of gross revenue on the three month basis was primarily the result of a crown royalty refund received in the comparative period as a result of Harvest filing for amendments to prior period royalties. The change in royalties on the nine month basis was relatively consistent with the comparative periods' results.

For the three and nine months ended September 30, 2018, royalties on a per barrel basis increased by 80% to \$4.19 per boe and 14% to \$3.92 per boe, respectively, when compared to the same periods last year. The increase in the three months ended September 30, 2018 was primarily due to a crown royalty refund received in the comparative period as a result of Harvest filing for amendments to prior period royalties, and increased average realized prices which resulted in a higher royalty expense on a per barrel basis. The increase in the nine months ended September 30, 2018, is primarily the result of increased average realized prices, which has resulted in a higher royalty expense on a per barrel basis.

Operating Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Operating expense	34.6	33.6	115.1	107.7
Operating expense (\$/boe)	15.33	13.59	16.85	14.71

Operating expenses for the three months ended September 30, 2018 increased by \$1.0 million as compared to the same period in 2017. This increase is primarily the result of an increase in processing fees as a result of favorable equalization payments received in the comparative period. Operating expenses for the nine months ended September 30, 2018 increased by \$7.4 million as compared to the same period in 2017. This increase is primarily the result of increased power costs resulting from increased utility rates, an increase in repairs and maintenance and well servicing resulting from cold weather issues and asset optimization and revitalization projects in the first quarter of 2018, and an increase in environmental provisions.

Operating expense on a per barrel basis increased by 13% to \$15.33 per boe and 15% to \$16.85 per boe, respectively, for the three and nine months ended September 30, 2018, when compared to the same periods in 2017, mainly due to lower sales volumes and increased operating expenses.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation and Marketing Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Transportation and marketing expense	3.9	2.6	11.7	8.1
Transportation and marketing expense (\$/boe)	1.74	1.04	1.71	1.11

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 in the three and nine months ended September 30, 2018 increased by \$1.3 million and \$3.6 million, respectively in comparison to the same periods in 2017. This was primarily the result of increased unutilized delivery charges.

Operating Netback⁽¹⁾

	Three Months Ended September 30			Nine Months Ended September 30		
(\$/boe)	2018	2017	Change	2018	2017	Change
Petroleum and natural gas sales prior to hedging ⁽²⁾	39.08	27.80	41%	38.50	32.08	20%
Royalties	(4.19)	(2.33)	(80%)	(3.92)	(3.45)	(14%)
Operating expenses	(15.33)	(13.59)	(13%)	(16.85)	(14.71)	(15%)
Transportation and marketing expense	(1.74)	(1.04)	(67%)	(1.71)	(1.11)	(54%)
Operating netback prior to hedging ⁽¹⁾	17.82	10.84	64%	16.02	12.81	25%
Hedging loss ⁽³⁾	(1.56)	—	(100%)	(1.11)	—	(100%)
Operating netback after hedging ⁽¹⁾	16.26	10.84	50%	14.91	12.81	16%

(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 contracts.

For the three and nine months ended September 30, 2018, operating netback after hedging was \$16.26 per boe and \$14.91 per boe, respectively, representing a 50% and 16% increase, respectively, compared to the same periods in 2017. The increase in the three and nine month periods were mainly due to an increase in petroleum and natural gas sales prices per boe, partially offset by an increase in operating expenses, royalties, hedging loss, and transportation and marketing expenses per boe.



MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative ("G&A") Expenses

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Gross G&A expenses	7.4	9.2	(20%)	27.5	29.9	(8%)
Capitalized G&A and recoveries	(0.4)	(1.2)	(67%)	(2.2)	(3.0)	(27%)
Net G&A expenses	7.0	8.0	(13%)	25.3	26.9	(6%)
Net G&A expenses (\$/boe)	3.18	3.23	(2%)	3.71	3.66	1%

For the three and nine months ended September 30, 2018, G&A expenses net of capitalized G&A were relatively consistent with the comparative periods.

On a per boe basis, G&A expenses for the three and nine months ended September 30, 2018, were relatively consistent with the comparative periods.

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 expenses.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
DD&A expense	42.1	54.2	129.3	144.8
DD&A expense (\$/boe)	18.62	21.89	18.95	19.76

DD&A expense for the three and nine months ended September 30, 2018 decreased by \$12.1 million and \$15.5 million, respectively, as compared to the same period in 2017, mainly due to lower sales volumes and reduced DD&A rate per boe.

For the three and nine months ended September 30, 2018, DD&A per boe decreased as compared to the same periods in the prior year. This is primarily the result of reserve additions in the fourth quarter of 2017, which reduced DD&A on a comparative basis for the current periods.

Impairment Expense

Impairment is recognized when the carrying value of a Cash Generating Unit ("CGU") exceeds its recoverable amount, defined as the higher of its value in use ("VIU") or fair value less costs of disposal ("FVLCD"). The Company uses a risk adjusted discount rate that varies based on the nature of the assets held in each of its CGUs to determine the fair value at the measurement date. For the three and nine months ended September 30, 2018, a decrease in natural gas commodity pricing used by our reserve evaluators was the primary trigger that indicated impairment testing was necessary for Harvest's gas producing CGUs.

At September 30, 2018, Harvest tested the West Gas and South Gas CGUs from its Conventional Segment for impairment as a result of changes in the outlook of future commodity prices for natural gas. The recoverable amounts were based on the assets' FVLCD, which is classified as a level 3 fair value measurement based on net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate of 12% was used to determine the recoverable amount of these CGUs as at September 30, 2018. As a result, the West Gas CGU recorded impairment in the amount of \$43.5 million, and the South Gas CGU recorded an impairment of \$15.6 million for the three and nine months ended September 30, 2018.

Capital Expenditures

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Drilling and completion	7.8	4.7	27.5	16.4
Well equipment, pipelines and facilities	4.1	5.0	14.5	15.0
Land and seismic	—	—	0.1	—
Geological and geophysical	—	—	—	0.7
Corporate	0.1	—	0.2	—
Other	—	1.3	0.4	3.4
Total additions	12.0	11.0	42.7	35.5

Total capital expenditures were higher for the three and nine months ended September 30, 2018 compared to 2017 mainly due to increased capital activity for the current year as a result of the drilling and completion of new wells.

During the three months ended September 30, 2018, Harvest rig released six gross wells (2.9 net). The wells drilled included five gross (1.9 net) partner operated horizontal well in the Rocky Mountain House area, and one well in the Royce area. During the nine months ended September 30, 2018, Harvest rig released seventeen gross wells (9.5 net). The wells drilled included four (3.0 net) horizontal wells in the Royce area, seven (2.8 net) partner operated horizontal wells in the Rocky Mountain House area, five (2.7 net) partner operated horizontal wells in the Deep Basin area and one horizontal well in the Loon area.

During the three and nine months ended September 30, 2018, Harvest's net undeveloped land additions were nil acres and 3,197 acres, respectively (2017 – 1,186 acres and 10,281 acres, respectively), and there were 632 acres and 1,843 acres, respectively, of net undeveloped land dispositions (2017 - nil acres and nil acres, respectively).

Decommissioning Liabilities

Harvest's Conventional decommissioning liabilities at September 30, 2018 were \$652.0 million (December 31, 2017 - \$646.3 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities is based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The increase in the balance as at September 30, 2018 is mainly due to accretion and additions, partially offset by costs incurred in the period. 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 nine months ended September 30, 2018, Harvest recognized a loss of \$24.2 million and \$31.1 million, respectively (2017 - \$8.8 million and \$19.5 million, respectively) from its investment in the DBP and HKMS joint ventures.

Below is an overview of the operational and financial highlights of the DBP and HKMS joint ventures for the three and nine months ended September 30, 2018. Unless otherwise noted, the following discussion relates to 100% of the joint venture results.

Deep Basin Partnership

DBP was established for the purposes of exploring, developing and producing from certain oil and gas properties in the Deep Basin area in Northwest Alberta. During the three and nine month periods ended September 30, 2018 Harvest made various contributions to DBP that resulted in an increase in its ownership percentage as reflected in the table below.

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Harvest's ownership interest	83.40%	82.98%	82.88%	82.59%	82.55%
KERR's ownership interest	16.60%	17.02%	17.12%	17.41%	17.45%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at September 30, 2018, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$37.2 million (December 31, 2017 - \$33.4 million).

At September 30, 2018, Harvest received a total of \$17.0 million (December 31, 2017 - \$17.0 million) in distributions from DBP from inception of the joint venture.

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Natural gas liquids (\$/bbl)	63.02	42.43	49%	64.14	50.63	27%
Natural gas (\$/mcf)	1.27	1.70	(25%)	1.67	2.71	(38%)
Average realized price(\$/boe)	23.39	18.22	28%	24.51	26.01	(6%)

For the three and nine months ended September 30, 2018, average realized prices for natural gas liquids increased 49% and 27% over the same periods in the prior year primarily as a result of increases in benchmark prices.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2018, average realized prices for natural gas decreased 25% and 38% over the same periods in the prior year primarily as a result of a drop in its benchmark price.

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Natural gas (mcf/d)	17,422	23,047	(24%)	17,611	26,883	(34%)
Natural gas liquids (bbl/d)	1,153	1,267	(9%)	1,072	1,766	(39%)
Light to medium oil (bbl/d)	1	3	(67%)	3	3	0%
Total (boe/d)	4,058	5,112	(21%)	4,010	6,250	(36%)
Harvest's share (boe/d) ⁽¹⁾	3,384	4,220	(20%)	3,331	5,157	(35%)

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

Total sales volumes for the three months ended September 30, 2018 decreased by 1,054 boe/d as compared to the same period in 2017. This decrease was primarily due to natural declines, partially offset by additional volumes from two new wells. Total sales volumes for the nine months ended September 30, 2018 decreased by 2,240 boe/d per day as compared to the same period in 2017. This decrease was primarily due to natural declines, partially offset by additional volumes from five new gross wells (4.1 net).

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Revenues ⁽¹⁾	8.8	8.9	(1%)	27.5	42.1	(35%)
Impairment	(22.2)	—	(100%)	(22.2)	—	(100%)
Depletion, depreciation and amortization	(3.7)	(9.6)	(61%)	(11.9)	(34.6)	(66%)
Operating and transportation expenses	(9.0)	(9.9)	(9%)	(29.6)	(32.2)	(8%)
Finance costs	(0.7)	(0.7)	0%	(2.1)	(2.1)	—
Net loss ⁽²⁾	(26.8)	(11.3)	137%	(38.3)	(26.8)	43%

(1) Revenue is presented net of royalties.

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

The lower sales revenues for the three and nine months ended September 30, 2018 reflect reduced sales volumes and lower natural gas prices.

Operating and transportation expenses for the three and nine months ended September 30, 2018 were \$23.98 per boe and \$27.05 per boe, respectively, an increase of \$3.03 and \$8.13 per boe, respectively, from the same periods in 2017. These increases were primarily the result of production decreases as operating expenses do not vary materially with production given DBP's contractual arrangement with HKMS described below.

Depletion for the three and nine months ended September 30, 2018 were \$9.94 per boe and \$10.91 per boe, respectively (\$20.42 per boe and \$20.26 per boe). The decrease in depletion per boe for the three and nine months ended September 30, 2018 was mainly the result of impairments recorded in the fourth quarter of 2017 which decreased the asset base for depletion in 2018, and reserve additions from new wells in 2018.

For the three and nine months ended September 30, 2018, DBP recognized an impairment loss of \$22.2 million. DBP tested for impairment as a result of changes in the outlook of future commodity prices for natural gas. The recoverable amounts were based on the assets' FVLCD, which is classified as a level 3 fair value measurement based on net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate of 12% was used to determine the recoverable amount of these CGUs for the three and nine months ended September 30, 2018.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Drilling and completion	19.7	0.9	36.2	7.6
Well equipment, pipelines and facilities	0.3	0.2	1.3	2.1
Total ⁽¹⁾	20.0	1.1	37.5	9.7

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

Capital expenditures of \$20.0 million and \$37.5 million, respectively, for the three and nine months ended September 30, 2018 were primarily related to new wells rig released in the first nine months of 2018.

HKMS Partnership

HKMS was established for owning and operating a gas plant in the Deep Basin area in Northwest Alberta. During the three and nine month periods ended September 30, 2018 Harvest made various contributions to HKMS that resulted in changes in its ownership percentage as reflected in the table below.

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Harvest's ownership interest	68.15%	68.14%	68.09%	70.47%	70.44%
KERR's ownership interest	31.85%	31.86%	31.92%	29.53%	29.56%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At September 30, 2018, Harvest has received a total of \$52.1 million (December 31, 2017 - \$40.2 million) in distributions from HKMS from inception of the joint venture.

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Revenues	7.2	6.6	9%	20.4	21.3	(4%)
Operating expenses and other	(1.1)	(0.9)	22%	(2.4)	(3.5)	(31%)
Depreciation and amortization	(0.9)	(0.9)	—	(2.6)	(2.6)	—
Finance costs	(4.2)	(4.8)	(13%)	(12.8)	(14.4)	(11%)
Net (loss) income ⁽¹⁾	1.0	—	100%	2.6	0.8	225%

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

The Gas Processing Agreement between 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 at \$1.9 million. This capital fee is accounted for as revenue for HKMS and an operating

expense for DBP, reduced by fees charged to third party users of the HKMS plant. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and nine months ended September 30, 2018, the partnership generated revenues of \$7.2 million and \$20.4 million, respectively (2017 - \$6.6 million and \$21.3 million).

Operating expenses of the facility are recovered through charging an operating fee to the users. For the three and nine months ended September 30, 2018, the partnership operating expenses were \$1.1 million and \$2.4 million, respectively, (2017 - \$0.9 million and \$3.5 million). Operating expenses for the three months ended September 30, 2018 increased as a result of processing third party volumes. Operating expenses for the nine months ended September 30, 2018 decreased over the comparative periods as a result of lower sales volumes.

Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and nine months ended September 30, 2018, the partnership depreciation expense were \$0.9 million and \$2.6 million, respectively (2017 - \$0.9 million and \$2.6 million).

Finance costs mainly represent an accounting charge resulting from the partner's contributions being classified as liabilities, as a result of the Gas Processing Agreement guaranteed returns. For the three and nine months ended September 30, 2018, the partnership finance costs were \$4.2 million and \$12.8 million, respectively (2017 - \$4.8 million and \$14.4 million).

See note 7 of the September 30, 2018 unaudited condensed interim consolidated financial statements for discussion of the accounting implications of these joint ventures.

OIL SANDS

Pre-operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Expenses				
Pre-operating	2.5	2.4	5.8	8.2
General and administrative	—	0.5	—	1.4
Depreciation and amortization	—	—	0.2	0.3
Pre-Operating loss ⁽¹⁾	(2.5)	(2.9)	(6.0)	(9.9)

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

For the three and nine months ended September 30, 2018, Harvest recognized a pre-operating loss of \$2.5 million and \$6.0 million (2017 - \$2.9 million and \$9.9 million), respectively. The pre-operating losses decreased as compared to the same periods in 2017 as a result of some of the expenses being capitalized in the current period due to the recommencement of capital activities.

Capital Expenditures

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Well equipment, pipelines and facilities	8.5	0.6	56.6	0.8
Drilling and completion	3.3	—	3.5	—
Other ⁽¹⁾	13.9	—	25.3	—
Total Oil Sands capital expenditures	25.7	0.6	85.4	0.8

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

On December 21, 2017, Harvest announced its decision to re-sanction and complete construction of its 10,000 bbl/d BlackGold facility. The capital expenditures for the three months ended September 30, 2018 primarily related to startup of the CPF. The capital expenditures for the nine months ended September 30, 2018, mainly related to construction activities, pre-commissioning, commissioning, and start-up costs of the CPF.

Decommissioning Liabilities

Harvest's Oil Sands decommissioning liabilities at September 30, 2018 was \$51.4 million (December 31, 2017 - \$50.5 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 September 30, 2018 is mainly due to accretion. Please see the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Project Development

Harvest has been developing its Oil Sands CPF under the engineering, procurement and construction ("EPC") contract. Initial drilling of 30 SAGD wells (15 well pairs) was completed 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 September 30, 2018, ten well pairs had been converted to full SAGD operation.

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, and fifth deferred payments due April 30, 2016, April 30, 2017, and April 20, 2018 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 September 30,

2018, Harvest recognized a liability of \$70.9 million (December 31, 2017 - \$69.4 million) using a discount rate of 4.5% (December 31, 2017 - 4.5%).

Harvest uses the unit of production method for depletion. Capitalization of pre-operating costs will stop, and depletion on the Oil Sands property, plant and equipment will begin to be recorded, when the CPF is operating in the manner intended by management. Minor depreciation has been recorded during the three and nine months ended September 30, 2018 on administrative assets.

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity, interest rate and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales, 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 periodically enters into foreign exchange swaps to mitigate currency exchange risk by swapping the U.S. dollar notional value of U.S. dollar denominated borrowings back to Harvest's functional currency, the Canadian dollar. During 2018, Harvest entered into crude oil swaps and has also entered into an interest rate swap to exchange its floating interest rate on a term loan facility to a fixed rate of interest.

The following is a summary of Harvest's risk management contracts outstanding as at September 30, 2018:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of liability
\$300 Million	Interest rate swap	May 2023	2.821%	2.2
US\$248 Million	Foreign Exchange Swap	October 2018	\$1.29 CDN/US	(0.2)
880 bbl/d	MSW price swap	October - December 2018	CDN \$71.75/bbl	0.1
1,166 bbl/d	MSW price swap	October - December 2018	CDN \$70.73/bbl	0.3
1,175 bbl/d	MSW price swap	October - December 2018	CDN \$73.00/bbl	0.9
100 bbl/d	MSW price swap	October 2018	CDN \$70.00/bbl	0.1
487 bbl/d	WCS price swap	October - December 2018	CDN \$52.85/bbl	0.8
100 bbl/d	WCS price swap	October 2018	CDN \$59.90/bbl	0.1
				4.3

Contracts Designated as Hedges Subsequent to September 30, 2018

Contract Quantity	Type of Contract	Term/Expiry	Contract Price
\$340 Million	Foreign exchange swap	November 2018	\$1.31 CDN/US

Harvest periodically enters into U.S. dollar currency swap transactions related to LIBOR borrowings, which results in a reduction of interest expense paid on Harvest's borrowings on its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and nine months ended September 30, 2018 was 2.6% and 2.4%, respectively (2017 – 2.2% and 1.7%, respectively).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended September 30								
Realized losses recognized in:	2018					2017		
	Crude Oil	Currency	Interest	Top-Up Obligation	Total	Currency	Top-Up Obligation	Total
Revenues	3.5	—	—	—	3.5	—	—	—
Finance costs	—	—	0.7	—	0.7	—	—	—
Derivative contract losses ⁽¹⁾	—	—	—	—	—	26.5	—	26.5
Unrealized (gains) losses recognized in:								
OCI, before tax	(7.2)	—	(3.5)	—	(10.7)	—	—	—
Derivative contract (gains) losses ⁽¹⁾	—	—	—	2.0	2.0	(18.1)	0.9	(17.2)

Nine Months Ended September 30								
Realized losses recognized in:	2018					2017		
	Crude Oil	Currency	Interest	Top-Up Obligation	Total	Currency	Top-Up Obligation	Total
Revenues	7.6	—	—	—	7.6	—	—	—
Finance costs	—	—	1.1	—	1.1	—	—	—
Derivative contract losses ⁽¹⁾	—	3.2	—	—	3.2	25.6	—	25.6
Unrealized (gains) losses recognized in:								
OCI, before tax	1.4	—	1.8	—	3.2	—	—	—
Derivative contract (gains) losses ⁽¹⁾	—	(5.1)	—	3.7	(1.4)	(5.8)	0.6	(5.2)

(1) Derivative contract 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 September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Credit facility ⁽¹⁾	2.3	2.9	5.6	8.8
Term loan facility - due 2020 ⁽¹⁾	3.1	3.4	9.6	8.3
Term loan facility - due 2023 ⁽¹⁾	3.3	—	5.1	—
6⅞% senior notes	—	6.6	—	20.5
2⅞% senior notes ⁽¹⁾	—	5.6	8.3	17.5
2⅓% senior notes ⁽¹⁾	1.8	1.7	5.2	5.3
3% senior notes ⁽¹⁾	5.6	0.3	16.5	0.3
4.2% senior notes ⁽¹⁾	6.1	—	10.2	—
Amortization of deferred finance charges and other	0.7	0.5	1.6	1.5
Interest and other financing charges	22.9	21.0	62.1	62.2
Accretion of decommission and environmental remediation liabilities	4.0	3.7	11.9	11.5
Accretion of long-term liability	0.5	0.5	1.5	1.7
Total finance costs	27.4	25.2	75.5	75.4

(1) Includes guarantee fee to KNOC.

Currency Exchange

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Realized (gains) losses on foreign exchange	0.1	(26.1)	17.7	(25.0)
Unrealized (gains) losses on foreign exchange	(24.6)	(38.1)	28.8	(100.6)
Total (gains) losses on foreign exchange	(24.5)	(64.2)	46.5	(125.6)

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 6⅞%, 2⅞%, 2⅓%, 3% and 4.2% senior notes and on any U.S. dollar denominated monetary assets or liabilities. For the three months ended September 30, 2018, the Canadian dollar had strengthened compared to the US dollar resulting in an unrealized foreign exchange gain of \$24.6 million (2017 - \$38.1 million). For the nine months ended September 30, 2018 the Canadian dollar had weakened, leading to an unrealized foreign exchange loss of \$28.8 million (2017 - \$100.6 million gain). Harvest recognized realized foreign exchange losses of \$0.1 million and \$17.7 million for the three and nine months ended September 30, 2018 (2017 - \$26.1 million and \$25.0 million gains) on settlement of U.S. dollar denominated transactions, including the repayment of 2⅞% senior notes which resulted in a \$19.7 million realized loss.

Income Taxes

For the three and nine months ended September 30, 2018 Harvest did not record a deferred income tax recovery (2017 - \$nil and \$nil, respectively). Harvest's deferred income tax asset will fluctuate from time to time to reflect changes in the temporary differences between the book value and tax basis of assets and liabilities. The principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the three and nine months ended September 30, 2018:

	Transactions				Balance Outstanding	
	Three Months Ended		Nine Months Ended		Accounts Payable as at	
	September 30		September 30		September 30	December 31
	2018	2017	2018	2017	2018	2017
G&A Expenses						
KNOC ⁽¹⁾	0.1	0.1	0.4	0.3	0.6	0.3
Finance costs						
KNOC ⁽²⁾	3.3	2.5	10.0	7.3	3.6	2.9

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

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's senior notes, the credit facility and term loans. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes, 37 basis points per annum on the 2½%, 3% and 4.2% senior notes. A guarantee fee of 37 basis points per annum is charged by KNOC on the 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 September 30, 2018 unaudited condensed interim consolidated financial statements for details of related party transactions with DBP and HKMS.

CAPITAL RESOURCES

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

	September 30, 2018	December 31, 2017
Credit facility ⁽¹⁾⁽³⁾	331.9	190.6
Term loan facility - due 2020 ⁽¹⁾	500.0	500.0
Term loan facility - due 2023 ⁽¹⁾	300.0	—
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽²⁾	513.1	—
2½% senior notes (US\$630 million) ⁽¹⁾⁽²⁾	—	792.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽²⁾	252.7	246.1
3% senior notes (US\$485.0 million) ⁽¹⁾⁽²⁾	626.0	609.7
	2,523.7	2,338.4
Shareholder's deficit		
458,766,467 common shares issued	(441.6)	(172.4)
	2,082.1	2,166.0

⁽¹⁾ Excludes capitalized financing fees

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

⁽³⁾ Excludes letters of credit in the amount of \$13.6 million at September 30, 2018 (December 31, 2017 - \$14.9 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 investing 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.

On May 1, 2018, Harvest issued US\$397.5 million 4.2% senior notes for net proceeds of US\$395.8 million. The 4.2% senior notes are unsecured and mature on June 1, 2023, with interest payable semi-annually. The notes are unconditionally and irrevocably guaranteed by KNOC. On May 11, 2018, Harvest entered into an agreement to borrow \$300 million through a five year term loan at a variable rate. The term loan is guaranteed by KNOC and contains no financial covenants. On May 11, 2018, the loan was fully drawn. Proceeds from the senior notes and term loan were used to repay the 2½% senior notes that matured and were repaid on May 14, 2018. On May 15, 2018, Harvest entered into an interest rate swap agreement on the term loan that results in an all-in fixed interest rate of 3.971% for the duration of the term loan.

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 generated in operating activities for the three and nine months ended September 30, 2018 were \$4.7 million and \$8.1 million, respectively, (2017 - \$14.0 million and \$15.4 million, respectively). The decreases as compared to prior year periods are mainly a result of decreases in non-cash working capital, partially offset by an increase in cash contributions from operations.

Cash contributions from Harvest's Conventional operations for the three and nine months ended September 30, 2018 were \$31.3 million and \$80.2 million, respectively (2017 - \$19.1 million and \$59.8 million). The increase in cash contributions for the three months ended September 30, 2018 was primarily due to an increase in revenues, partially offset by an increase in royalties. The increase in cash contributions for the nine months ended September 30, 2018 was mainly due to an increase in revenues, partially offset by an increase in operating expenses.

Harvest funded capital expenditures for the three and nine months ended September 30, 2018 of \$37.7 million and \$128.1 million, respectively (2017 - \$11.5 million and \$36.3 million) with the borrowings under both the credit facility and term loans.

Harvest's net change to the credit facility was \$48.1 million and \$136.0 million net drawings, respectively, during the three and nine months ended September 30, 2018 (\$5.0 million and \$470.8 million net repayments, respectively).

Harvest had a working capital deficiency of \$133.8 million as at September 30, 2018, as compared to a \$918.3 million deficiency at December 31, 2017. The working capital deficiency at December 31, 2017 included the 2½% senior notes which were repaid on May 14, 2018. 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 terms and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating credit facility terms as and when required.

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

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at September 30, 2018, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments ⁽¹⁾	—	1,084.6	1,133.6	300.0	2,518.2
Debt interest payments ^{(1) (2)}	82.3	149.1	104.5	0.4	336.3
Purchase commitments ⁽³⁾	38.2	19.2	19.0	74.1	150.5
Operating leases	8.1	16.7	14.9	14.3	54.0
Firm processing commitments	11.3	21.4	21.1	16.5	70.3
Firm transportation agreements	9.3	16.3	2.7	0.2	28.5
Employee benefits ⁽⁴⁾	0.9	0.4	—	—	1.3
Decommissioning and environmental liabilities ⁽⁵⁾	18.6	97.4	44.7	1,035.5	1,196.2
Total	168.7	1,405.1	1,340.5	1,441.0	4,355.3

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at September 30, 2018 will be applicable to future interest payments.

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

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

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

Environmental Initiatives Impacting Harvest

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

Off Balance Sheet Arrangements

See "Investments in Joint Ventures" section in this MD&A and note 7, "Investment in Joint Ventures" in the September 30, 2018 unaudited condensed interim consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the third quarter of 2018 results relative to the preceding 7 quarters:

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Revenue and other income, Conventional	75.7	80.0	76.7	75.3	63.4	69.3	77.2	84.4
Net loss from operations ⁽¹⁾	(102.8)	(75.0)	(88.2)	(207.3)	(17.6)	(26.5)	(30.8)	(162.5)
Operating netback prior to hedging, Conventional (\$/boe) ⁽²⁾	17.82	15.87	14.35	15.04	10.84	13.04	14.61	15.97
OPERATIONS								
Daily sales volumes (boe/d), Conventional	24,549	25,027	25,394	25,902	26,912	26,324	27,226	26,589
Realized price prior to hedging (\$/boe), Conventional	39.08	39.82	36.60	35.15	27.80	33.59	34.91	37.06

(1) Includes Conventional and Oil Sands segments

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

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

- Total revenues were highest in the fourth quarter of 2016, as a result of increased realized commodity prices and lowest in the third quarter of 2017 due to reduced commodity prices and low sales volumes.
- Harvest began reinvesting in the drilling of new wells in the fourth quarter of 2016, resulting in an increase in volumes for the first quarter of 2017, which have shown a natural decline to the third quarter of 2018 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 onerous contracts, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on derivative contracts impact net loss from period to period. For these reasons, the net loss may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to. Significant items that impacted net loss include:

- Net loss in the third quarter of 2018 includes an impairment of \$59.1 million, and a loss from joint ventures of \$24.2 which was primarily the result of a \$22.2 impairment million in DBP.
- Net loss in the fourth quarter of 2017 includes a \$100.3 million impairment of goodwill, and a loss from joint-ventures of \$64.5 million primarily resulting from a \$52.9 million impairment in DBP.
- Net loss in the fourth quarter of 2016 includes a \$17.4 million write off of exploration and evaluation assets, and \$51.8 million of unrealized foreign exchange losses on the Company's U.S. denominated debt.

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, 2017. Since the December 31, 2017 consolidated financial statements, Harvest has adopted the following IFRS accounting standards:

New Standards Adopted

Harvest adopted IFRS 15 with a date of initial application as of January 1, 2018. Harvest used the cumulative effect method to adopt the new standard. Under this method, prior years' financial statements have not been restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. Management reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no material changes to net earnings or timing of revenue recognized or in the gross vs net presentation.

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

RECENT ACCOUNTING PRONOUNCEMENTS**Future Accounting Policy Changes**

In January 2016, the IASB issued IFRS 16 "Leases" to replace IAS 17 "Leases". IFRS 16 requires lessees to recognize most leases on the statement of financial position using a single recognition and measurement model. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 will be applied by Harvest on January 1, 2019. Harvest is currently evaluating the impact on its consolidated financial statements. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on Harvest's financial statements.

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, 2017 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, 2017 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 disclose in the interim MD&A 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 9 and IFRS 15, Harvest has established additional controls over financial reporting, as necessary, in regards to financial instruments and revenue 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 nine months ended September 30, 2018, as described in the annual MD&A for the year ended December 31, 2017 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 audited consolidated financial statements and the accompanying notes. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for cash contribution (deficiency) which is shown below.

BOE presentation

Boe means barrel of oil equivalent. All boe conversions in this MD&A are derived by converting gas to oil at the ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("Bbl") of oil. Boe may be misleading,

particularly if used in isolation. A Boe conversion rate of 1 Bbl : 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Bbl : 6 Mcf, utilizing a conversion ratio of 1 Bbl : 6 Mcf may be misleading as an indication of value.

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended September 30					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Operating loss	(97.4)	(45.3)	(2.5)	(2.9)	(99.9)	(48.2)
Adjustments:						
Loss from joint ventures	24.2	8.8	—	—	24.2	8.8
Operating, non-cash	—	(0.4)	—	—	—	(0.4)
General and administrative, non-cash	1.1	0.3	—	—	1.1	0.3
Exploration and evaluation, non-cash	0.2	0.1	—	—	0.2	0.1
Depletion, depreciation and amortization	42.1	54.2	—	—	42.1	54.2
Gains on disposition of assets	—	(0.2)	—	—	—	(0.2)
Unrealized derivative contract losses	2.0	0.9	—	—	2.0	0.9
Loss on onerous contract	—	0.7	—	—	—	0.7
Impairment	59.1	—	—	—	59.1	—
Cash contribution (deficiency) from operations	31.3	19.1	(2.5)	(2.9)	28.8	16.2
Inclusion of items not attributable to segments:						
Net cash interest expense					(21.9)	(19.7)
Realized derivative contract losses					—	(26.4)
Realized foreign exchange gains (losses) from operations					(0.1)	26.1
Consolidated cash contribution from (used in) operations					6.8	(3.8)
Other non-cash items					(3.6)	(2.0)
Change in non-cash working capital					1.5	19.8
Cash from operating activities					4.7	14.0

	Nine Months Ended September 30					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Operating loss	(139.9)	(95.5)	(6.0)	(9.9)	(145.9)	(105.4)
Adjustments:						
Loss from joint ventures	31.1	19.5	—	—	31.1	19.5
Operating, non-cash	—	(0.3)	—	—	—	(0.3)
General and administrative, non-cash	(0.1)	(7.1)	—	—	(0.1)	(7.1)
Exploration and evaluation, non-cash	0.2	0.1	—	—	0.2	0.1
Depletion, depreciation and amortization	129.3	144.8	0.2	0.3	129.5	145.1
Gains on disposition of assets	(3.2)	(1.2)	—	—	(3.2)	(1.2)
Unrealized derivative contract losses	3.7	0.6	—	—	3.7	0.6
Gain on onerous contract	—	(1.1)	—	—	—	(1.1)
Impairment	59.1	—	—	—	59.1	—
Cash contribution (deficiency) from operations	80.2	59.8	(5.8)	(9.6)	74.4	50.2
Inclusion of items not attributable to segments:						
Net cash interest					(59.0)	(58.3)
Realized derivative contract losses					(3.2)	(25.6)
Realized foreign exchange gains from operations					2.1	25.0
Consolidated cash contribution from (used in) operations					14.3	(8.7)
Other non-cash items					(6.0)	(2.4)
Change in non-cash working capital					(0.2)	26.5
Cash from operating activities					8.1	15.4

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three and nine months ended September 30, 2018 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.harvestoperations.com. Information can also be found by contacting our Investor Relations department at (403) 265-1178 or at 1-866-666-1178.

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Harvest Operations Corp ("the Company") have been prepared by and are the responsibility of the Company's management. The Board of Directors of the Company has approved and authorized for issue these condensed interim consolidated financial statements.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at (millions of Canadian dollars)	Notes	September 30, 2018	December 31, 2017
Assets			
Current assets			
Accounts receivable		\$ 39.5	\$ 48.4
Prepaid expenses and other		9.2	6.4
		48.7	54.8
Non-current assets			
Deferred income tax asset		711.5	711.5
Exploration and evaluation assets	6	13.1	13.3
Property, plant and equipment	5	2,260.5	2,319.3
Investments in joint ventures	7	-	17.0
		2,985.1	3,061.1
Total assets		\$ 3,033.8	\$ 3,115.9
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 156.8	\$ 157.8
Taxes payable		1.0	3.7
Derivative contracts	10	4.3	5.1
Current portion of provisions	11	20.4	15.0
Current portion of long-term debt	8	-	791.5
		182.5	973.1
Non-current liabilities			
Long-term debt	8, 10	2,512.5	1,538.7
Long-term liability	10, 12	81.0	85.6
Investments in joint ventures	7	7.6	-
Non-current provisions	11	691.8	690.9
		3,292.9	2,315.2
Total liabilities		\$ 3,475.4	\$ 3,288.3
Shareholder's deficit			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus		11.3	11.3
Deficit		(5,043.0)	(4,777.0)
Accumulated other comprehensive loss	19	(3.2)	—
Total shareholder's deficit		(441.6)	(172.4)
Total liabilities and shareholder's deficit		\$ 3,033.8	\$ 3,115.9

Commitments [Note 18]

Subsequent event [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 September 30		Nine months ended September 30	
		2018	2017	2018	2017
Petroleum and natural gas sales	13	\$ 85.2	\$ 69.2	\$ 259.2	\$ 235.2
Royalties		(9.5)	(5.8)	(26.8)	(25.3)
Revenues		75.7	63.4	232.4	209.9
Expenses					
Operating		37.1	36.0	120.9	115.9
Transportation and marketing		3.9	2.6	11.7	8.1
General and administrative		7.0	8.5	25.3	28.3
Depletion, depreciation and amortization	5	42.1	54.2	129.5	145.1
Exploration and evaluation	6	0.2	0.1	0.2	0.1
Loss from joint ventures	7	24.2	8.8	31.1	19.5
Gain on disposition of assets	5	—	(0.2)	(3.2)	(1.2)
Finance costs	14	27.4	25.2	75.5	75.4
Derivative contract loss	10	2.0	9.3	1.8	20.4
Foreign exchange loss (gain)	15	(24.5)	(64.2)	46.5	(125.6)
Loss (gain) on onerous contract	11	—	0.7	—	(1.1)
Impairment	5	59.1	—	59.1	—
Net loss from operations		(102.8)	(17.6)	(266.0)	(75.0)
Other comprehensive loss ("OCL")					
<i>Items that may be reclassified to net income</i>					
Gain (Loss) on designated cash flow hedges, net	19	10.8	—	(3.2)	—
Comprehensive loss		\$ (92.0)	\$ (17.6)	(269.2)	\$ (75.0)

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

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

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss ("AOCI")	Total Shareholder's Equity (Deficit)
Balance at December 31, 2016		\$ 4,593.3	\$ 5.5	\$ (4,494.8)	\$ —	\$ 104.0
Net loss		—	—	(75.0)	—	(75.0)
Shareholder cash contribution		—	5.8	—	—	5.8
As at September 30, 2017		\$ 4,593.3	\$ 11.3	\$ (4,569.8)	\$ —	\$ 34.8
Balance at December 31, 2017		\$ 4,593.3	\$ 11.3	\$ (4,777.0)	\$ —	\$ (172.4)
Net loss		—	—	(266.0)	—	(266.0)
Loss on designated hedges	19	—	—	—	(3.2)	(3.2)
As at September 30, 2018		\$ 4,593.3	\$ 11.3	\$ (5,043.0)	\$ (3.2)	\$ (441.6)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine months ended September 30

<i>(millions of Canadian dollars)</i>	Notes	2018	2017
Cash provided by (used in)			
Operating Activities			
Net loss		\$ (266.0)	\$ (75.0)
Items not requiring cash			
Loss from joint ventures	7	31.1	19.5
Depletion, depreciation and amortization	5	129.5	145.1
Non-cash finance costs	11, 14	16.5	17.1
Unrealized gain on derivative contracts	10	(1.4)	(5.2)
Unrealized loss (gain) on foreign exchange	15	28.8	(100.6)
Non-cash exploration and evaluation costs	6	0.2	0.1
Gain on disposition of assets	5	(3.2)	(1.2)
Gain on onerous contract	11	—	(1.1)
Impairment	5	59.1	—
Other non-cash items		0.2	(6.3)
Realized foreign exchange loss on senior notes repayment		19.7	—
Settlement of decommissioning and environmental remediation liabilities	11	(6.2)	(3.5)
Change in non-cash working capital	16	(0.2)	26.5
Cash from operating activities		\$ 8.1	\$ 15.4
Financing Activities			
Credit facility borrowing (repayment), net	8	136.0	(470.8)
Issuance of senior notes	8	512.2	347.6
Repayment of senior notes	8	(811.7)	—
Borrowings from term loan	8	298.9	499.2
Senior notes transaction costs	8	(4.1)	—
Cash from financing activities		\$ 131.3	\$ 376.0
Investing Activities			
Additions to property, plant and equipment	5	(128.1)	(36.3)
Property dispositions, net	5	2.6	0.7
Investment in joint ventures	7	(17.7)	(21.8)
Distributions received from joint ventures	7	11.7	23.8
Change in non-cash working capital	16	(7.9)	(4.2)
Cash used in investing activities		\$ (139.4)	\$ (37.8)
Change in cash		—	353.6
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ —	\$ 353.6
Interest paid		\$ 59.2	\$ 58.2

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2018 and 2017

(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, 2017.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 8, 2018.

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, 2017. There have been no significant changes to the use of estimates or judgments since December 31, 2017.

3. Significant Accounting Policies

These condensed interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 4 of the Company's annual consolidated financial statements as at and for the year ended December 31, 2017, with the exception of the 'Revenue Recognition' and 'Financial Instruments' policies which are amended below.

IFRS 15:

Harvest adopted IFRS 15 with a date of initial application as of January 1, 2018. Harvest used the cumulative effect method to adopt the new standard. Under this method, prior years' financial statements have not been restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. Management reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no material changes to net earnings or timing of revenue recognized or in the gross vs net presentation. Refer to note 13 for more information including additional disclosure as required under IFRS 15.

The following accounting policy is applicable from January 1, 2018:

Revenue Recognition Policy

Revenues from the sale of crude oil, natural gas and natural gas liquids are measured based on the consideration specified in contracts with customers. Harvest recognizes revenue when it transfers control of the product to the buyer and collection is reasonably assured. This is generally considered to occur when legal title to the product passes to customers, which is when it is physically transferred to the pipeline or other transportation method agreed

upon. Revenues are recognized on a monthly basis, based on the completion of the performance obligations. The nature of each of its performance obligations, including roles of third parties and partners, are evaluated to determine if the Company acts as a principal, and therefore recognizes revenue on a gross basis, or as an agent, and therefore recognizes revenue on a net basis. The Company acts as the principal when it controls the product delivered before the control passes to its customer. Revenues from processing activities are recognized over time as processing occurs, and generally billed monthly.

IFRS 9:

Harvest adopted IFRS 9 with a date of initial application as of January 1, 2018, this is the date in which all IFRS 9 classification and measurement is required to be implemented. The Company retrospectively adopted the standard and elected not to restate comparative information. There were no material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). IFRS 9 eliminates the previous IFRS 39 categories of 'held to maturity investments, loans and receivables and other financial liabilities' and 'available for sale financial assets'. The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and the nature of its contractual cash flow characteristics. Embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9; the entire hybrid contract is assessed for classification and measurement.

IFRS 9 replaces the 'incurred credit loss model' in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract. Under IFRS 9, credit losses are recognized earlier than under IAS 39; it is no longer necessary for a credit event to have occurred before credit losses are recognised. See Note 13 of the Company's annual consolidated financial statements as at and for the year ended December 31, 2017 for additional disclosure on the Company's credit risk.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities. The Company has no contract assets or financial instruments measured at FVOCI.

Financial Instrument	Measurement Category	
	IAS 39	IFRS 9
Cash and cash equivalents	Fair value on a recurring basis	Amortised cost
Accounts receivable	Amortised cost	Amortised cost
Accounts payable and accrued liabilities	Amortised cost	Amortised cost
Long-term debt	Amortised cost	Amortised cost
Long-term liability		
Top-up obligation ⁽¹⁾	Fair value	FVTPL
Blackgold liability	Amortised cost	Amortised cost
Derivative contracts	Fair value	FVTPL

⁽¹⁾ Harvest's Top-up obligation is a derivative financial liability

The following accounting policy is applicable from January 1, 2018:

Financial Instruments Policy

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

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

- **Amortized cost**
A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.

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

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

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

IFRS 16:

In January 2016, the IASB issued IFRS 16 "Leases" to replace IAS 17 "Leases". IFRS 16 requires lessees to recognize most leases on the statement of financial position using a single recognition and measurement model. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 will be applied by Harvest on January 1, 2019. Harvest is currently evaluating the impact on its consolidated financial statements. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on Harvest's financial statements.

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 petroleum, natural gas and natural gas liquids in western Canada.
- Oil Sands, which is the BlackGold oil sands project located near Conklin, Alberta. Phase 1 of the project is designed to produce 10,000 barrels of bitumen per day. Harvest recommenced construction activities on Phase 1 in the fourth quarter of 2017. During the second quarter of 2018 Harvest began initial steam injection activities.

	Three months ended September 30					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Petroleum and natural gas sales	\$ 85.2	\$ 69.2	\$ —	\$ —	\$ 85.2	\$ 69.2
Royalties	(9.5)	(5.8)	—	—	(9.5)	(5.8)
Revenues	75.7	63.4	—	—	75.7	63.4
Expenses						
Operating	34.6	33.6	2.5	2.4	37.1	36.0
Transportation and marketing	3.9	2.6	—	—	3.9	2.6
General and administrative	7.0	8.0	—	0.5	7.0	8.5
Depletion, depreciation and amortization	42.1	54.2	—	—	42.1	54.2
Exploration and evaluation	0.2	0.1	—	—	0.2	0.1
Gains on disposition of assets	—	(0.2)	—	—	—	(0.2)
Derivative contracts loss ⁽¹⁾	2.0	0.9	—	—	2.0	0.9
Impairment, net of reversals	59.1	—	—	—	59.1	—
Loss on onerous contract	—	0.7	—	—	—	0.7
Loss from joint ventures	24.2	8.8	—	—	24.2	8.8
Operating/Pre-operating loss	\$ (97.4)	\$ (45.3)	\$ (2.5)	\$ (2.9)	\$ (99.9)	\$ (48.2)
Finance costs					27.4	25.2
Foreign exchange gain					(24.5)	(64.2)
Derivative contract losses ⁽¹⁾					—	8.4
Net Loss	\$ (102.8)	\$ (17.6)				

⁽¹⁾ Relates to realized and unrealized losses on foreign exchange swaps and commodity hedges. See note 10; – Financial Instruments.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	Nine months ended September 30					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Petroleum and natural gas sales	\$ 259.2	\$ 235.2	\$ —	\$ —	\$ 259.2	\$ 235.2
Royalties	(26.8)	(25.3)	—	—	(26.8)	(25.3)
Revenues	232.4	209.9	—	—	232.4	209.9
Expenses						
Operating	115.1	107.7	5.8	8.2	120.9	115.9
Transportation and marketing	11.7	8.1	—	—	11.7	8.1
General and administrative	25.3	26.9	—	1.4	25.3	28.3
Depletion, depreciation and amortization	129.3	144.8	0.2	0.3	129.5	145.1
Exploration and evaluation	0.2	0.1	—	—	0.2	0.1
Gains on disposition of assets	(3.2)	(1.2)	—	—	(3.2)	(1.2)
Derivative contracts loss ⁽¹⁾	3.7	0.6	—	—	3.7	0.6
Impairment	59.1	—	—	—	59.1	—
Gain on onerous contract	—	(1.1)	—	—	—	(1.1)
Loss from joint ventures	31.1	19.5	—	—	31.1	19.5
Operating/Pre-operating loss	\$ (139.9)	\$ (95.5)	\$ (6.0)	\$ (9.9)	\$ (145.9)	\$ (105.4)
Finance costs					75.5	75.4
Foreign exchange (gains) losses					46.5	(125.6)
Derivative contract losses (gains) ⁽¹⁾					(1.9)	19.8
Net loss					(266.0)	(75.0)

⁽¹⁾ Relates to realized and unrealized losses on foreign exchange swaps and commodity hedges. See note 10 – Financial Instruments.

	Three months ended September 30					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Capital Additions						
Additions to PP&E	\$ 12.0	\$ 11.0	\$ 25.7	\$ 0.6	\$ 37.7	\$ 11.6
Net capital additions	\$ 12.0	\$ 11.0	\$ 25.7	\$ 0.6	\$ 37.7	\$ 11.6

	Nine months ended September 30					
	Conventional		Oil Sands		Total	
	2018	2017	2018	2017	2018	2017
Capital Additions						
Additions to PP&E	\$ 42.7	\$ 35.5	\$ 85.4	\$ 0.8	\$ 128.1	\$ 36.3
PP&E acquisitions, net of dispositions	(0.4)	—	—	—	(0.4)	—
Net capital additions	\$ 42.3	\$ 35.5	\$ 85.4	\$ 0.8	\$ 127.7	\$ 36.3

	Investments in Joint Ventures	PP&E	E&E	Total Assets
December 31, 2017				
Conventional	\$ 17.0	\$ 1,305.4	\$ 13.3	\$ 2,102.0
Oil Sands	—	1,013.9	—	1,013.9
Total	\$ 17.0	\$ 2,319.3	\$ 13.3	\$ 3,115.9
September 30, 2018				
Conventional	\$ (7.6)	\$ 1,161.5	\$ 12.9	\$ 1,927.2
Oil Sands	—	1,099.0	—	1,099.0
Total	\$ (7.6)	\$ 2,260.5	\$ 12.9	\$ 3,026.2

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

	Conventional	Oil Sands	Total
Cost:			
As at December 31, 2017	\$ 4,979.3	\$ 1,506.3	\$ 6,485.6
Additions	42.8	85.3	128.1
Acquisitions, net of disposals	(0.4)	—	(0.4)
Change in decommissioning liabilities	2.1	—	2.1
As at September 30, 2018	\$ 5,023.8	\$ 1,591.6	\$ 6,615.4

Accumulated depletion, depreciation and amortization:

As at December 31, 2017	\$ 3,673.9	\$ 492.4	\$ 4,166.3
Depreciation, depletion and amortization	129.3	0.2	129.5
Impairment	59.1	—	59.1
As at September 30, 2018	\$ 3,862.3	\$ 492.6	\$ 4,354.9

Net Book Value:

As at December 31, 2017	\$ 1,305.4	\$ 1,013.9	\$ 2,319.3
As at September 30, 2018	\$ 1,161.5	\$ 1,099.0	\$ 2,260.5

General and administrative costs directly attributable to PP&E addition activities of \$2.7 million and \$4.6 million have been capitalized during the three and nine months ended September 30, 2018 (2017 - \$1.0 million and \$3.1 million). No borrowing costs relating to the development of Oil Sands assets have been capitalized within PP&E during the three and nine months ended September 30, 2018 and 2017.

At September 30, 2018, the Oil Sands assets of \$1.1 billion (December 31, 2017 – \$1.0 billion) were excluded from the asset base subject to depreciation, depletion and amortization. No depletion expense was incurred for the three and nine months ended September 30, 2018 and 2017, as Harvest uses the unit-of-production depletion method and the Oil Sands assets are not currently operating in the manner intended by management.

For the quarter ended September 30, 2018, Harvest evaluated its assets for indicators of potential impairment. A decrease in natural gas pricing used by our reserve evaluators was the primary trigger that indicated further testing was necessary in its conventional segment.

For the quarter ended September 30, 2018, impairment expense of \$43.5 million and \$15.6 million was recorded for the West Gas CGU and South Gas CGU respectively. The recoverable amount for the West Gas CGU and South Gas CGU were estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of pre-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator. A discount rate of 12% was used to determine the recoverable amount of \$42.1 million for West Gas CGU and \$166.4 million for South Gas CGU impaired during the quarter.

The following forecast commodity prices were used at September 30, 2018:

Year	WTI Crude Oil (\$/bbl)	Edmonton Light Crude Oil (\$/bbl)	WCS Crude Oil (\$/bbl)	AECO (\$/Mmbtu)	US/CDN \$ exchange rate
2018	\$ 73.00	\$ 81.10	\$ 58.68	\$ 1.91	0.7784
2019	\$ 72.00	\$ 83.00	\$ 65.25	\$ 2.08	0.7800
2020	\$ 71.33	\$ 83.76	\$ 67.49	\$ 2.47	0.7867
2021	\$ 72.07	\$ 83.34	\$ 68.91	\$ 2.84	0.8167
2022	\$ 73.71	\$ 84.74	\$ 70.22	\$ 3.05	0.8233
2023	\$ 75.57	\$ 86.61	\$ 71.95	\$ 3.17	0.8317
2024	\$ 77.40	\$ 88.45	\$ 73.63	\$ 3.26	0.8350
2025	\$ 79.28	\$ 90.66	\$ 75.61	\$ 3.35	0.8350
2026	\$ 81.17	\$ 92.90	\$ 77.64	\$ 3.42	0.8350
2027	\$ 83.16	\$ 95.27	\$ 79.80	\$ 3.49	0.8350
2028	\$ 84.83	\$ 97.20	\$ 81.40	\$ 3.58	0.8350
2029	\$ 86.52	\$ 99.18	\$ 83.08	\$ 3.65	0.8350
2030	\$ 88.23	\$ 101.16	\$ 84.72	\$ 3.73	0.8350
2031	\$ 90.01	\$ 103.23	\$ 86.44	\$ 3.81	0.8350
2032	\$ 91.80	\$ 105.30	\$ 88.19	\$ 3.86	0.8350
Thereafter	2%/year	2%/year	2%/year	2%/year	

During the three and nine months ended September 30, 2018, Harvest recognized gains on disposals of non-core assets of nil and \$3.2 million respectively (September 30, 2017 - \$0.2 million and \$1.2 million) relating to the de-recognition of PP&E and decommissioning liabilities.

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

As at December 31, 2017	\$	13.3
Impairment		(0.2)
As at September 30, 2018	\$	13.1

During the three and nine months ended September 30, 2018, \$0.2 million (2017 - \$0.1 million), of E&E costs were impaired as they were no longer deemed to be technically and commercially viable.

7. Investment in Joint Ventures

	September 30, 2018	Ownership Interest	December 31, 2017	Ownership Interest
Deep Basin Partnership ("DBP")	\$ (52.6)	83.40%	\$ (39.4)	82.59%
HK MS Partnership ("HKMS")	45.0	68.15%	56.4	70.47%
Investments in joint ventures	\$ (7.6)		\$ 17.0	

	DBP	HKMS	Total
As at December 31, 2017	\$ (39.4)	\$ 56.4	\$ 17.0
Additional investments	25.1	(6.9)	18.2
Share of income (loss)	(38.3)	7.2	(31.1)
Distributions	—	(11.7)	(11.7)
As at September 30, 2018	\$ (52.6)	\$ 45.0	\$ (7.6)

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

	September 30, 2018		December 31, 2017	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ 0.1	\$ —	\$ 0.1	\$ —
Other current assets	13.9	6.9	22.6	14.3
Total current assets	\$ 14.0	\$ 6.9	\$ 22.7	\$ 14.3
Non-current assets	104.2	216.4	94.2	96.1
Total assets ⁽¹⁾	\$ 118.2	\$ 223.3	\$ 116.9	\$ 110.4
Current liabilities	\$ 29.4	\$ 0.8	\$ 17.4	\$ 2.4
Non-current financial liabilities	138.0	214.3	136.0	102.3
Other non-current liabilities	5.6	4.7	5.1	4.6
Total liabilities ⁽¹⁾	\$ 173.0	\$ 219.8	\$ 158.5	\$ 109.3
Net assets ⁽¹⁾	\$ (54.8)	\$ 3.5	\$ (41.6)	\$ 1.1

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

	Three months ended September 30			
	2018		2017	
	DBP	HKMS	DBP	HKMS
Revenues	\$ 8.8	\$ 7.2	\$ 8.9	\$ 6.6
Impairment	(22.2)	—	—	—
Depletion, depreciation and amortization	(3.7)	(0.9)	(9.6)	(0.9)
Operating expenses and other	(9.0)	(1.1)	(9.9)	(0.9)
Finance costs	(0.7)	(4.2)	(0.7)	(4.8)
Net income (loss) ⁽¹⁾	\$ (26.8)	\$ 1.0	\$ (11.3)	\$ —

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

Nine months ended September 30					
	2018		2017		
	DBP	HKMS	DBP	HKMS	
Revenues	\$ 27.5	\$ 20.4	\$ 42.1	\$ 21.3	
Impairment	(22.2)	—	—	—	
Depletion, depreciation and amortization	(11.9)	(2.6)	(34.6)	(2.6)	
Operating expenses and other	(29.6)	(2.4)	(32.3)	(3.5)	
Finance costs	(2.1)	(12.8)	(2.1)	(14.4)	
Net income (loss) ⁽¹⁾	\$ (38.3)	\$ 2.6	\$ (26.8)	\$ 0.8	

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

For the quarter ended September 30, 2018, Deep Basin Partnership evaluated its assets for indicators of potential impairment. A decrease in natural gas pricing used by our reserve evaluators was the primary trigger that indicated further testing was necessary.

For the quarter ended September 30, 2018, an impairment expense of \$22.2 million was recorded in the Deep Basin Partnership. The recoverable amount was estimated FVLCD based on the net present value of pre-tax cash flows from proved plus probable reserves estimated by an independent reserve evaluator (see note 5 – PP&E). A discount rate of 12% was used to determine the recoverable amount of \$92.4 million.

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at September 30, 2018:

	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	23.2	46.4	46.4	13.5	129.5
Decommissioning and environmental liabilities ⁽¹⁾	0.1	—	—	12.9	13.0
Total	\$ 23.3	\$ 46.4	\$ 46.4	\$ 181.4	\$ 297.5

⁽¹⁾ Represents the undiscounted obligation by period.

As at September 30, 2018, Harvest's top-up obligation related to the preferred distribution liability payments was estimated as \$37.2 million (December 31, 2017 - \$33.4 million), using a discount rate of 12% (December 31, 2017 - 12%). 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 September 30, 2018 (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 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 DBP. There have been no changes to significant inputs of this calculation since December 31, 2017.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at September 30, 2018:

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

⁽¹⁾ Represents the undiscounted obligation by period.

Related party transactions

Deep Basin Partnership

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the three and nine months ended September 30, 2018, Harvest charged DBP a marketing fee of \$0.2 million and \$0.5 million (2017 - \$0.1 million and \$0.4 million) and general and administrative expenses of \$0.7 million and \$1.3 million (2017 - \$0.2 million and \$0.5 million). As at September 30, 2018, \$8.9 million remains outstanding to DBP from Harvest (December 31, 2017 - \$14.4 million).

HKMS Partnership

Harvest charged HKMS general and administrative expenses of \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2018 (2017 - \$0.1 million and \$0.2 million). As at September 30, 2018, \$1.4 million remains outstanding to HKMS from Harvest (December 31, 2017 - \$0.5 million).

8. Long-Term Debt

	September 30, 2018	December 31, 2017
Credit Facility	\$ 331.3	\$ 189.7
Term Loan due 2020	499.7	499.5
Term Loan due 2023	298.9	-
2½% senior notes due 2018 (US\$630 million)	-	791.5
2½% senior notes due 2021 (US\$195.8 million)	252.5	245.9
3% senior notes due 2022 (US\$485 million)	620.8	603.6
4.2% senior notes due 2023 (US\$397.5 million)	509.3	-
Long-term debt outstanding	\$ 2,512.5	\$ 2,330.2
Less current portion	-	(791.5)
Non-current long-term debt	\$ 2,512.5	\$ 1,538.7

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

On May 11, 2018, Harvest entered into an agreement with a Japanese based bank to borrow \$300 million through a five year term loan at a variable rate. To manage the risks associated with the variable interest component of the term loan due 2023 Harvest entered into a new interest rate swap contract, see note 10 – Financial Instruments. The term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually. On May 11, 2018 the loan was fully drawn. Proceeds from this term loan were used to repay the 2½% senior notes that matured on May 14, 2018.

On May 14, 2018, Harvest repaid the 2½% senior notes.

For the three and nine months ended September 30, 2018, interest charges on the credit facility borrowings aggregated to \$2.2 million and \$5.3 million respectively (2017 - \$2.3 million and \$6.5 million), reflecting an effective interest rate of 2.78% and 2.78% (2017 – 2.2% and 1.7%). 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.

9. Shareholder's Capital & Capital Structure

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

	September 30, 2018	December 31, 2017
Credit facility ⁽¹⁾⁽²⁾	\$ 331.9	\$ 190.6
Term Loan due 2020 ⁽¹⁾	500.0	500.0
Term Loan due 2023 ⁽¹⁾	300.0	—
2½% senior notes (US\$630 million) ⁽¹⁾⁽³⁾	—	792.0
2½% senior notes (US\$195.8 million) ⁽¹⁾⁽³⁾	252.7	246.1
3% senior notes (US\$485 million) ⁽¹⁾⁽³⁾	626.0	609.7
4.2% senior notes (US\$397.5 million) ⁽¹⁾⁽³⁾	513.1	—
	\$ 2,523.7	\$ 2,338.4
Shareholder's deficit	(441.6)	(172.4)
	\$ 2,082.1	\$ 2,166.0

(1) Excludes capitalized financing fees.

(2) Excludes letters of credit issued in the amount of \$13.6 million at September 30, 2018 (December 31, 2017 - \$14.9 million).

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

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

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly and indirectly invested and provided financial support to Harvest since 2009 and as at the date of preparation of these financial statements, it is the Company's expectation that such support will continue. KNOC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. KNOC maintains hands-on involvement in the day-to-day management of cash flows and determines equity needs and debt borrowings for the longer term. KNOC guarantees the interest and principal of the Company's credit facility, term 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 and other, borrowings under the credit facility, derivative contracts, senior notes, term loan and long term liability. Derivative contracts are the only financial instruments that are measured at fair value on a recurring basis. Harvest classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

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

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
<u>Fair value through profit or loss</u>				
Derivative contracts	\$ 4.3	\$ 4.3	\$ 5.1	\$ 5.1
Long-term liability	37.2	37.2	33.4	33.4
<u>Amortised Cost</u>				
Credit Facility	331.3	331.9	189.7	190.6
Term Loan due 2020	499.7	500.0	499.5	500.0
Term Loan due 2023	298.9	300.0	—	—
2½% senior notes	-	-	791.5	791.2
2½% senior notes	252.5	243.2	245.9	238.4
3% senior notes	620.8	606.2	603.6	603.0
4.2% senior notes	509.3	520.2	—	—
Long-term liability	43.8	29.2	41.7	34.9
Total Financial Liabilities	\$ 2,597.8	\$ 2,572.2	\$ 2,410.4	\$ 2,396.6

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 periodically enters into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and nine months ended September 30, 2018 were lowered to 2.59% and 2.36%, respectively (2017 - 1.9% and 1.6%). Also see note 7 – Long-Term Debt for effective interest rates before the effect of these swaps.

To manage the risk associated with the variable component of the Term Loan – Due 2023, Harvest entered into an interest rate swap contract during the nine months ended September 30, 2018. As the result of this transaction the company has effectively fixed the interest rate on \$300 million of the loan at approximately 3.971% for the term of the loan.

Derivative contracts (gains) losses recorded to income include the gains or losses on derivatives that were designated as hedges:

	Three months ended September 30					
	2018			2017		
	Realized losses	Unrealized losses	Total	Realized losses	Unrealized losses (gains)	Total
Derivative contract	—	—	—	26.5	(18.1)	8.4
Top-up obligation (note 7)	—	2.0	2.0	—	0.9	0.9
	\$ —	\$ 2.0	\$ 2.0	\$ 26.5	\$ (17.2)	\$ 9.3

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Nine months ended September 30						
2018			2017			
	Realized losses	Unrealized losses (gains)	Total	Realized losses	Unrealized losses (gains)	Total
Foreign exchange	3.2	—	3.2	—	—	—
Derivative contract	—	(5.1)	(5.1)	25.6	(5.8)	19.8
Top-up obligation (note 7)	—	3.7	3.7	—	0.6	0.6
	\$ 3.2	\$ (1.4)	\$ 1.8	\$ 25.6	\$ (5.2)	\$ 20.4

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value of liability at September 30, 2018
\$300 Million	Interest rate swap	May 2023	2.821%	2.2
US\$248 Million	Foreign Exchange Swap	October 2018	\$1.29 CDN/US	(0.2)
880 bbl/d	MSW price swap	October - December 2018	CDN \$71.75/bbl	0.1
1,166 bbl/d	MSW price swap	October - December 2018	CDN \$70.73/bbl	0.3
1,175 bbl/d	MSW price swap	October - December 2018	CDN \$73.00/bbl	0.9
100 bbl/d	MSW price swap	October 2018	CDN \$70.00/bbl	0.1
487 bbl/d	WCS price swap	October - December 2018	CDN \$52.85/bbl	0.8
100 bbl/d	WCS price swap	October 2018	CDN \$59.90/bbl	0.1
				\$ 4.3

Contracts Designated as Hedges Subsequent to September 30, 2018

Contract Quantity	Type of Contract	Term	Contract Price
\$340 Million	Foreign exchange swap	November 2018	\$1.31 CDN/US

11. Provisions

	Conventional	Oil Sands	Head Office operating lease	Total
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9
Liabilities incurred	1.9	—	—	1.9
Acquisition	0.2	—	—	0.2
Settled during the period	(6.2)	—	(1.1)	(7.3)
Disposals	(1.2)	—	—	(1.2)
Accretion	11.0	0.9	0.8	12.7
As at September 30, 2018	\$ 652.0	\$ 51.4	\$ 8.8	\$ 712.2
Current portion as at December 31, 2017	\$ 13.5	\$ —	\$ 1.5	\$ 15.0
Non-current provisions as at December 31, 2017	632.8	50.5	7.6	690.9
As at December 31, 2017	\$ 646.3	\$ 50.5	\$ 9.1	\$ 705.9
Current portion as at September 30, 2018	\$ 18.6	\$ —	\$ 1.8	\$ 20.4
Non-current provisions as at September 30, 2018	633.4	51.4	7.0	691.8
As at September 30, 2018	\$ 652.0	\$ 51.4	\$ 8.8	\$ 712.2

(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 operating lease.

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.2 billion at September 30, 2018 (December 31, 2017 – \$1.2 billion), which will be incurred between 2018 and 2077. A risk-free discount rate of 2.26% (December 31, 2017 – 2.26%) and inflation rate of 1.50% (December 31, 2017 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities.

At September 30, 2018, Harvest recognized an onerous contract provision of \$8.8 million (December 31, 2017 - \$9.1 million), relating to a Head Office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future lease payments that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate of 12% (December 31, 2017 – 12%), specific to the liability. Nil gain was recorded from changes in the discount rate during the three and nine months ended September 30, 2018 (2017 - \$0.7 million loss and \$1.1 million gain).

12. Long-Term Liability

	September 30, 2018	December 31, 2017
BlackGold liability ⁽¹⁾	\$ 70.9	\$ 69.4
Less: current portion of BlackGold liability ⁽¹⁾	(37.9)	(28.5)
Deferred rent and other ⁽²⁾	10.8	11.3
Top-up obligation ⁽³⁾	37.2	33.4
	\$ 81.0	\$ 85.6

⁽¹⁾ Calculated using a discount rate of 4.5% at the nine months ended September 30, 2018 and December 31, 2017. The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third, fourth and fifth deferred payments due April 30, 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. Revenue

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

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

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Light to medium oil sales after hedging ⁽¹⁾	\$ 24.6	\$ 18.4	\$ 76.9	\$ 58.2
Heavy oil sales after hedging ⁽¹⁾	36.6	28.3	104.5	93.2
Natural gas sales after hedging ⁽¹⁾	7.7	11.5	28.9	51.2
Natural gas liquids sales	13.7	9.7	37.9	27.8
Other ⁽²⁾	2.6	1.3	11.0	4.8
Petroleum and natural gas sales	\$ 85.2	\$ 69.2	\$ 259.2	\$ 235.2

⁽¹⁾ Inclusive of the 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 September 30, 2018 is \$32.3 million (September 30, 2017 – \$25.7 million for September 2017 sales) of accrued oil and gas sales related to September 2018 sales. The increase in the amount of accrued revenue is related primarily to the increase in oil price.

14. Finance Costs

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest and other financing charges ⁽¹⁾	\$ 22.9	\$ 21.0	\$ 62.1	\$ 62.2
Accretion of decommissioning and environmental remediation liabilities (note 10)	4.0	3.7	11.9	11.5
Accretion of BlackGold long-term liability (note 11)	0.5	0.5	1.5	1.7
	\$ 27.4	\$ 25.2	\$ 75.5	\$ 75.4

⁽¹⁾ Includes \$0.3 million and \$0.8 million of accretion on the onerous contract during the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 – \$0.3 million and \$0.8 million). For the nine months ended September 30, 2017 includes \$0.6 million of loss on extinguishment on the \$1.0 billion credit facility. See note 8- Long Term Debt and note 11 – Provisions.

15. Foreign Exchange

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Realized loss (gain) on foreign exchange	\$ 0.1	\$ (26.1)	\$ 17.7	\$ (25.0)
Unrealized loss (gain) on foreign exchange	(24.6)	(38.1)	28.8	(100.6)
	\$ (24.5)	\$ (64.2)	\$ 46.5	\$ (125.6)

16. Supplemental Cash Flow Information

	Nine months ended September 30	
	2018	2017
Source (use) of cash:		
Accounts receivable	\$ 9.2	\$ 6.7
Prepaid expenses, long-term deposit and other	(2.9)	(2.4)
Accounts payable and accrued liabilities	(1.6)	18.6
Net changes in non-cash working capital	\$ 4.7	\$ 22.9
Changes relating to operating activities	\$ (0.2)	\$ 26.5
Changes relating to investing activities	(7.9)	(4.2)
Reclass of long-term liability to accounts payable	9.5	9.5
Capital contribution	—	(5.8)
Add: Other non-cash changes	3.3	(3.1)
	\$ 4.7	\$ 22.9

17. Related Party Transactions

	Three months ended September 30		Nine months ended September 30		Accounts Payable as at September 30, 2018		December 31, 2017	
	2018	2017	2018	2017	2018		2017	
G&A Expenses								
KNOC ⁽¹⁾	\$ 0.1	\$ 0.1	\$ 0.4	\$ 0.2	\$ 0.6			0.3
Finance costs								
KNOC ⁽²⁾	\$ 3.3	\$ 2.5	\$ 10.0	\$ 4.9	\$ 3.6			2.9

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

⁽²⁾ Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2¼%, 2¼%, 3% and 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum on the 2¼%, 3% and 4.2% senior notes and 52 basis points on the 2¼% senior notes. A guarantee fee of 37 basis points per annum continues to be charged by KNOC on the credit facility and term loans. See note 8 – Long Term Debt.

18. Commitments

The following is a summary of Harvest's estimated commitments as at September 30, 2018:

	Payments Due by Period					
	1 year	2-3 years	4-5 years	After 5 years	Total	
Purchase commitments ⁽¹⁾	\$ 38.2	\$ 19.2	\$ 19.0	\$ 74.1	\$ 150.5	
Operating leases	8.1	16.7	14.9	14.3	54.0	
Firm processing commitments	11.3	21.4	21.1	16.5	70.3	
Firm transportation agreements	9.3	16.3	2.7	0.2	28.5	
Employee benefits ⁽²⁾	0.9	0.4	—	—	1.3	
Total ⁽³⁾	\$ 67.8	\$ 74.0	\$ 57.7	\$ 105.1	\$ 304.6	

⁽¹⁾ Relates to BlackGold oil sands project commitment and the DBP top-up obligation (see note 6 - Investment in Joint Ventures).

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

⁽³⁾ See note 8 - Long Term Debt, note 9 – Shareholder's Capital & Capital Structure and note 17 – Related Party Transactions for Harvest's debt obligations.

19. Accumulated Other Comprehensive Income ("AOCI")

	Designated Cash Flow Hedges, Net of Tax		Total
As at December 31, 2017	\$ —	\$ —	—
Gains on derivatives designated as cash flow hedges, net of tax	(3.2)		(3.2)
As at September 30, 2018	\$ (3.2)	\$ —	(3.2)

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

	Three months ended September 30				Nine months ended September 30			
	After-tax		Pre-tax		After-tax		Pre-tax	
	2018	2017	2018	2017	2018	2017	2018	2017
Losses re-classified from OCL	\$ 3.5	\$ —	\$ 3.5	\$ —	\$ —	\$ —	\$ —	\$ —
Losses recognized in OCL	7.3	—	7.3	—	(3.2)	—	(3.2)	—
Total	\$ 10.8	\$ —	\$ 10.8	\$ —	\$ (3.2)	\$ —	\$ (3.2)	\$ —