



# Third Quarter Report 2017

For the three month period  
ended September 30, 2017



### 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, 2017 together with the accompanying notes. The information and opinions concerning the future outlook are based on information available at November 8, 2017.

**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](http://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	
	2017	2016	2017	2016
<b>Conventional</b>				
Petroleum and natural gas sales	69.2	78.5	235.2	231.5
Daily sales volumes (boe/d) <sup>(1)</sup>	26,912	30,051	26,819	33,812
Deep Basin Partnership				
Daily sales volumes (boe/d)	5,112	5,735	6,250	5,885
Harvest's share of daily sales volumes (boe/d) <sup>(3)</sup>	4,220	4,704	5,157	4,826
Average realized price <sup>(2)</sup>				
Oil and NGLs (\$/bbl)	43.22	39.31	45.49	35.10
Gas (\$/mcf)	1.63	2.11	2.52	1.66
Operating netback prior to hedging(\$/boe) <sup>(3)</sup>	10.84	13.16	12.81	8.69
Operating loss	(45.3)	(40.6)	(95.5)	(190.6)
Cash contribution from operations <sup>(3)</sup>	19.1	25.1	59.8	41.3
Capital asset additions (excluding acquisitions)	10.9	2.5	35.5	5.3
Property dispositions, net	—	(31.5)	—	(170.2)
Net wells drilled	2.0	—	4.7	0.3
<b>Oil Sands</b>				
Capital asset additions (dispositions)	0.6	(0.1)	0.8	—
Pre-operating loss <sup>(3)</sup>	(2.9)	(2.8)	(9.9)	(10.0)
<b>NET LOSS</b>	<b>(17.6)</b>	<b>(106.9)</b>	<b>(75.0)</b>	<b>(185.7)</b>

(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.

### REVIEW OF OVERALL PERFORMANCE

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

**Conventional**

- Petroleum and natural gas sales for the three months ended September 30, 2017 decreased by \$9.3 million over the same period in 2016 as a result of reduced volumes, which was partially offset by an increase in realized prices. Petroleum and natural gas sales for the nine months ended September 30, 2017 increased by \$3.7 million as compared to the same period in 2016 as a result of increased realized prices partially offset by decreased volumes.
- Sales volumes for the three and nine months ended September 30, 2017 decreased by 3,139 boe/d and 6,993 boe/d, respectively, as compared to the same periods in 2016. These decreases were primarily due to dispositions of certain producing properties during 2016 and natural declines, which were partially offset by production resulting from new wells drilled and completed over the fourth quarter of 2016, and the first nine months of 2017.
- Harvest's share of Deep Basin Partnership ("DBP") volumes for the three months ended September 30, 2017 decreased by 484 boe/d as compared to the same period in 2016. This decrease was primarily due to natural declines, as well as downtime for maintenance and third party restrictions in the third quarter of 2017, partially offset by production added by new wells drilled in the fourth quarter of 2016. For the nine months ended September 30, 2017, Harvest's share of DBP volumes increased 331 boe/d due to DBP's drilling program in the fourth quarter of 2016, which led to increased production for the first three quarters 2017 that was partially offset by natural declines.
- Operating loss for the three months ended September 30, 2017 was \$45.3 million (2016 – \$40.6 million). The increase in operating loss from 2016 was primarily due to reduced petroleum and natural gas sales and gains on disposition of assets, partially offset by a decrease in royalties, depreciation, depletion and amortization, and loss on onerous contract. Operating losses for the nine months ended September 30, 2017 was \$95.5 million (2016 – \$190.6 million). The decrease in operating loss from 2016 was primarily due to a decrease in operating expenses, general and administrative expenses, loss on joint ventures, and depreciation, depletion and amortization, partially offset by a reduction in gains on disposition of assets.
- Capital asset additions totalled \$10.9 million and \$35.5 million in the three and nine months ended September 30, 2017, respectively, were mainly related to drilling and completion, well equipment, pipelines and facilities. Two gross wells (2 net) and seven gross wells (4.7 net), respectively, were rig-released for the three and nine months ended September 30, 2017.
- Operating netback per boe prior to hedging for the three months ended September 30, 2017 was \$10.84, a decrease of \$2.32 from the same period in 2016. This decrease in netback per boe is mainly due to a decrease in petroleum and natural gas sales per boe, and increases in operating expenses per boe and transportation and marketing per boe, partially offset by a decrease in royalties per boe. Operating netback per boe prior to hedging for the nine months ended September 30, 2017 was \$12.81, an increase of \$4.12 from the same period in 2016. This increase in netback per boe is mainly due to an increase in petroleum and natural gas sales per boe partially offset by higher operating expenses per boe and higher transportation and marketing per boe.
- Cash contributions from Harvest's Conventional operations for the three and nine ended September 30, 2017 was \$19.1 million and \$59.8 million, respectively (2016 – \$25.1 million and \$41.3 million, respectively). The decrease in cash contributions for the three months ended September 30, 2017 was mainly due to a decrease in revenues and other income, and increases in operating expenses and transportation and marketing expenses, partially offset by a reduction in general and administrative costs.

The increase in cash contributions for the nine months ended September 30, 2017 was mainly due to increased revenue and other income, and decreases in operating expenses and general and administrative expenses, partially offset by an increase in transportation and marketing expenses.

### Oil Sands

- Pre-operating losses for the three and nine months ended September 30, 2017 were \$2.9 million and \$9.9 million, respectively (2016 – \$2.8 million and \$10.0 million, respectively). The pre-operating losses were mainly due to pre-operating and general and administrative expenses.
- The central processing facility ("CPF") was substantially completed in early 2015, but completion of sanctioning and commissioning activities was subsequently postponed due to the bitumen price environment. Harvest plans to complete sanctioning and re-commence commissioning activities in the fourth quarter of 2017.

### Corporate

- On September 21, 2017, Harvest issued US \$285 million 3% senior notes due September 21, 2022 that are unconditionally and irrevocably guaranteed by KNOC. Subsequent to September 30, 2017, the proceeds of this issuance were used to repay the US \$282.5 million 6 $\frac{7}{8}$ % senior notes on October 2, 2017. This refinancing provides significant savings to Harvest by reducing interest expense by approximately US \$10.9 million annually, and is further evidence of KNOC's continuing support of Harvest.
- On November 6, 2017, Harvest issued an additional US \$200 million of 3% senior notes due September 21, 2022 for net proceeds of US \$198.5 million. The proceeds from the upsized offering will be used for general corporate purposes, including to fund the completion and commissioning of Harvest's BlackGold oil sands project.
- The strengthening of the Canadian dollar against the U.S. dollar for the three and nine months ended September 30, 2017 resulted in net unrealized foreign exchange gains of \$38.1 million and \$100.6 million, respectively (2016 - \$36.4 million loss and \$69.3 million gain, respectively).
- The net change to the credit facility during the three and nine months ended September 30, 2017 was \$5.0 million and \$470.8 million net repayment, respectively (2016 - \$3.7 million net borrowing and \$35.2 million net repayment). The net repayment on the credit facility for the nine months ended September 30, 2017 was made with \$500 million in funds drawn from the term loan facility in the first quarter of 2017. As at September 30, 2017, the term loan facility had an outstanding balance of \$500 million (December 31, 2016 - \$nil). At September 30, 2017, Harvest had \$428.7 million drawn under the credit facility (December 31, 2016 - \$893.5 million) excluding letters of credit of \$10.3 million (December 31, 2016 - \$9.9 million).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONVENTIONAL

#### Summary of Financial and Operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
<b>FINANCIAL</b>				
Petroleum and natural gas sales	69.2	78.5	235.2	231.5
Royalties	(5.8)	(12.7)	(25.3)	(28.6)
<b>Revenues and other income</b>	<b>63.4</b>	<b>65.8</b>	<b>209.9</b>	<b>202.9</b>
<b>Expenses</b>				
Operating	33.6	28.8	107.7	119.7
Realized derivative contract losses <sup>(2)</sup>	—	0.5	—	1.3
Transportation and marketing	2.6	(0.4)	8.1	1.9
Operating netback after hedging <sup>(1)</sup>	27.2	36.9	94.1	80.0
General and administrative	8.0	11.8	26.9	39.9
Depreciation, depletion and amortization	54.2	61.4	144.8	202.7
Loss from joint ventures	8.8	6.6	19.5	35.7
Exploration and evaluation	0.1	0.5	0.1	2.5
Unrealized derivative contract losses <sup>(2)</sup>	0.9	2.7	0.6	12.6
Impairment	—	2.7	—	2.7
Loss (gain) on onerous contract	0.7	9.4	(1.1)	9.4
Gains on disposition of assets	(0.2)	(17.6)	(1.2)	(34.9)
Operating loss <sup>(1)</sup>	(45.3)	(40.6)	(95.5)	(190.6)
Capital asset additions (excluding acquisitions)	10.9	2.5	35.5	5.3
Property dispositions, net	—	(31.5)	—	(170.2)
<b>OPERATING</b>				
Light to medium oil (bbl/d)	3,950	4,377	4,018	6,128
Heavy oil (bbl/d)	7,111	8,987	7,279	9,627
Natural gas liquids (bbl/d)	3,115	3,380	3,135	3,640
Natural gas (mcf/d)	76,417	79,846	74,323	86,498
Total (boe/d) <sup>(4)</sup>	26,912	30,051	26,819	33,812

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

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

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

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



**Commodity Price Environment**

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	<b>48.21</b>	44.94	7%	<b>49.47</b>	41.33	20%
West Texas Intermediate crude oil (\$/bbl)	<b>60.41</b>	58.59	3%	<b>64.67</b>	54.60	18%
Edmonton Light Sweet crude oil (\$/bbl)	<b>56.74</b>	54.80	4%	<b>60.88</b>	50.09	22%
Western Canadian Select ("WCS") crude oil (\$/bbl)	<b>47.90</b>	41.03	17%	<b>49.18</b>	36.41	35%
AECO natural gas daily (\$/mcf)	<b>1.45</b>	2.32	(38%)	<b>2.31</b>	1.85	25%
U.S. / Canadian dollar exchange rate	<b>0.798</b>	0.767	4%	<b>0.765</b>	0.757	1%
<b>Differential Benchmarks</b>						
EDM differential to WTI (\$/bbl)	<b>3.67</b>	3.79	(3%)	<b>3.79</b>	4.51	(16%)
EDM differential as a % of WTI	<b>6.1%</b>	6.5%	(6%)	<b>5.9%</b>	8.3%	(29%)
WCS differential to WTI (\$/bbl)	<b>12.51</b>	17.56	(29%)	<b>15.49</b>	18.19	(15%)
WCS differential as a % of WTI	<b>20.7%</b>	30.0%	(31%)	<b>24.0%</b>	33.3%	(28%)

For the three and nine months ended September 30, 2017, the average WTI benchmark price increased 7% and 20%, respectively, as compared to the same periods in 2016. The average Edmonton Light Sweet crude oil price ("Edmonton Light") for the three and nine months ended September 30, 2017, increased 4% and 22%, respectively, compared to the same periods in 2016 due to an increase in the WTI price, and a narrowing of the Edmonton Light differential, which was partially offset by a weakening of the U.S. dollar against the Canadian dollar.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The 17% and 35% increases in the WCS price for the three and nine months ended September 30, 2017, respectively, as compared to the same period in 2016 was mainly the result of the increase in the WTI price, and a narrowing of the WCS differential to WTI, which was partially offset by a weakening of the U.S. dollar against the Canadian dollar.

Harvest's realized natural gas price is referenced to the AECO hub, which decreased by 38% for the three months ended September 30, 2017, and increased 25% for the nine months ended September 30, 2017, when compared to the same periods in 2016.

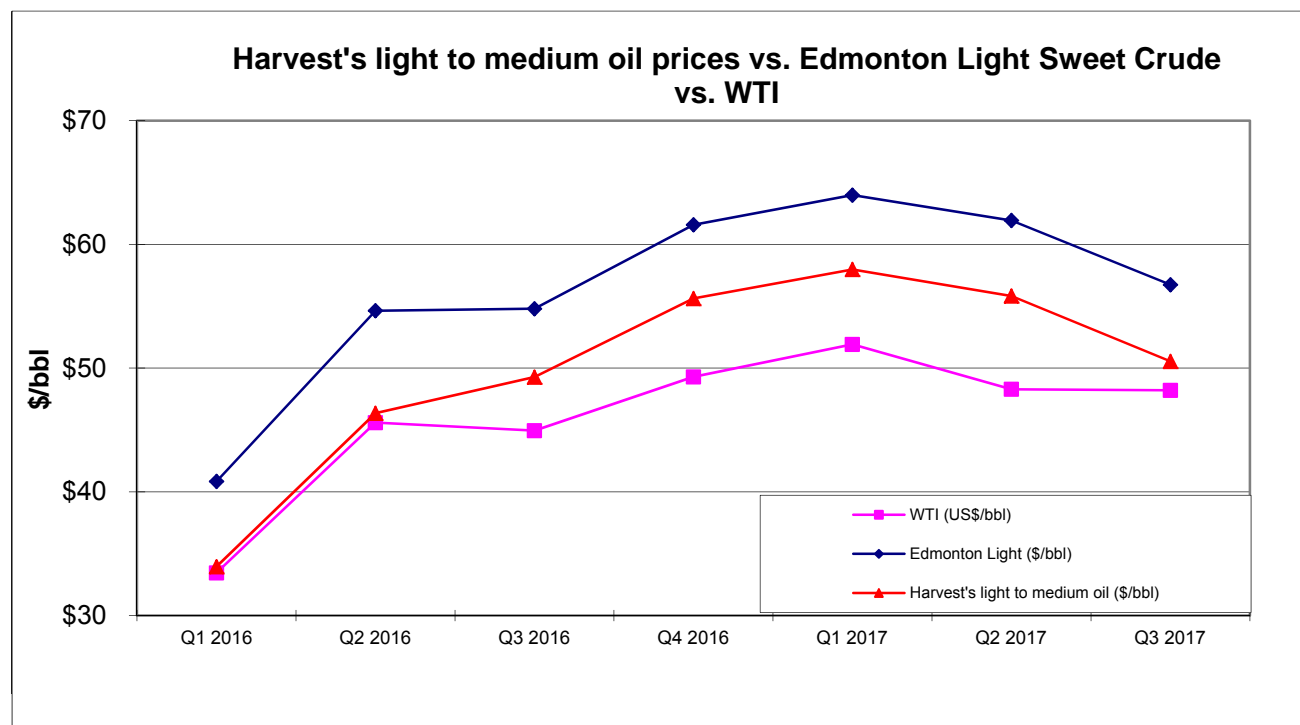
## Realized Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Light to medium oil (\$/bbl)	50.54	49.28	3%	53.10	42.07	26%
Heavy oil prior to hedging(\$/bbl)	43.30	39.94	8%	46.91	34.55	36%
Natural gas liquids (\$/bbl)	33.77	24.74	36%	32.45	24.84	31%
Natural gas (\$/mcf)	1.63	2.11	(23%)	2.52	1.66	52%
Average realized price prior to hedging (\$/boe) <sup>(1)</sup>	27.80	28.03	(1%)	32.08	24.91	29%
Heavy oil after hedging (\$/bbl) <sup>(2)</sup>	43.30	40.78	6%	46.91	34.69	35%
Average realized price after hedging (\$/boe) <sup>(1)(2)</sup>	27.80	28.28	(2%)	32.08	24.95	29%

(1) Inclusive of sulphur revenue.

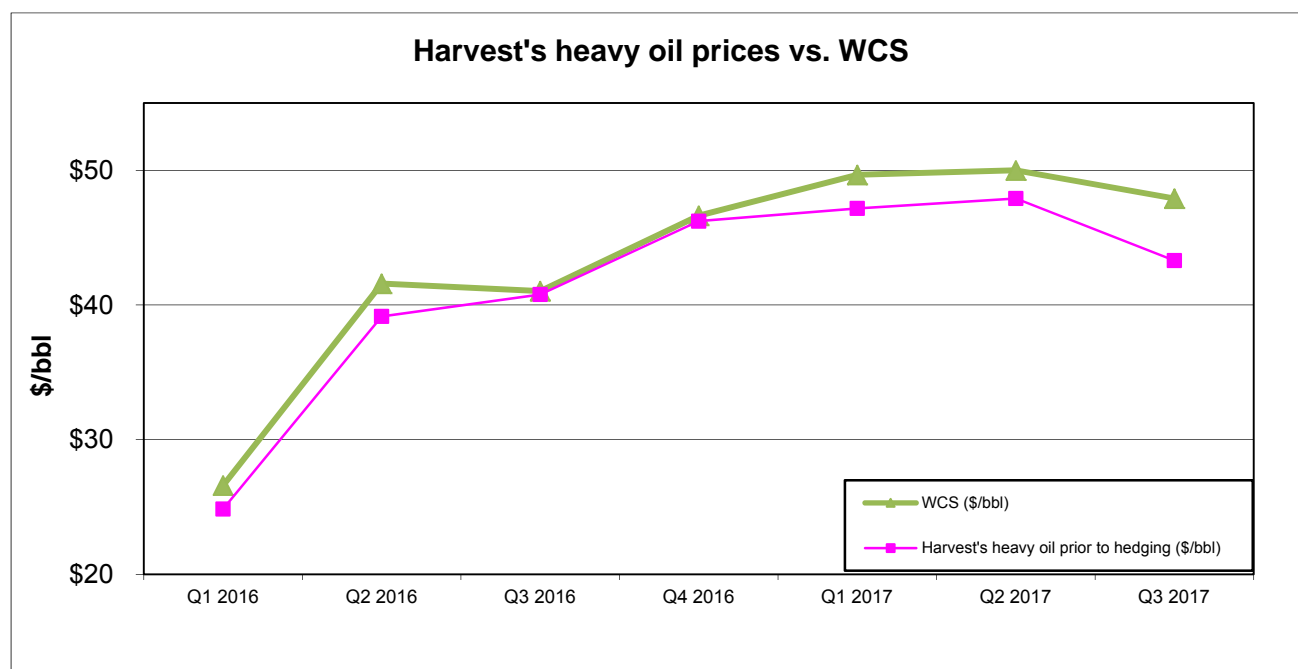
(2) Inclusive of the realized gains (losses) from contracts designated as hedges. Foreign exchange swaps and power contracts are excluded from the realized price.

For the three months ended September 30, 2017, Harvest's realized price for light to medium oil trended in line with the Edmonton Light benchmark price. For the nine months ended September 30, 2017, Harvest's realized price for light to medium oil trended relatively in line with the benchmark.

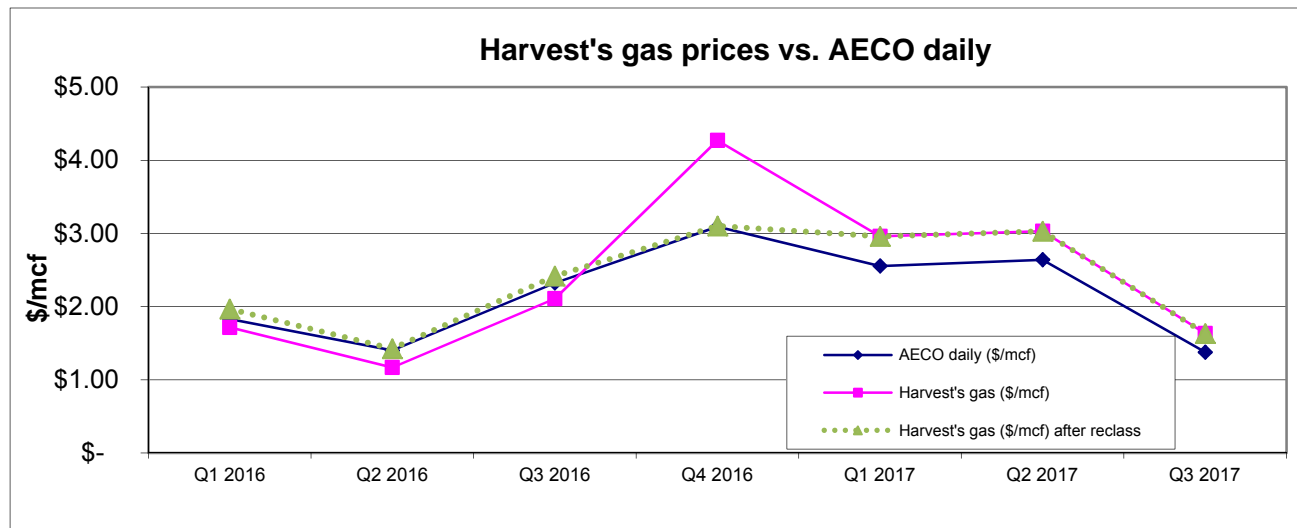




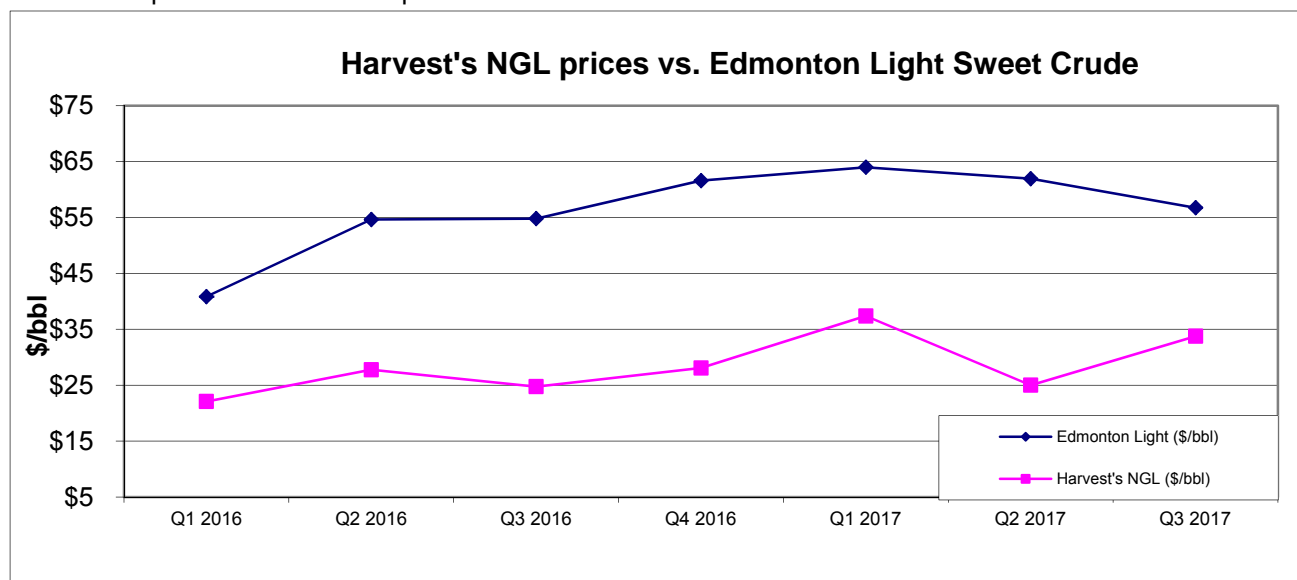
Harvest's realized prices prior to any hedging activity for heavy oil are a function of both the WCS and Edmonton Light benchmarks due to a portion of our heavy oil volumes being sold based on a discount to the Edmonton Light benchmark. In the second quarter of 2017, Harvest changed the classification of a property group in the Cecil area from Heavy Oil to Light Oil. The property groups' legacy production was heavy oil, however new development on the property that was brought online part way through the first quarter of 2017 is light oil. As Harvest identified this as a core property for future development, management made the decision to change the classification. During the three and nine months ended September 30, 2017, the property group produced 310 boe/d and 340 boe/d, respectively. This change in classification has an effect on both the realized pricing and volumes for heavy and light oil. For the three months ended September 30, 2017, Harvest's realized price increased less than the benchmark due primarily to the property reclassification and increased diluent costs. For the nine months ended September 30, 2017, Harvest's realized prices were in line with the benchmark.



Harvest's realized natural gas prices decreased 23% and increased 52% for the three and nine months ended September 30, 2017. In the fourth quarter of 2016, Harvest reclassified prior quarters' transportation charges previously netted against revenue that are now being presented on a gross basis. The changes in price for the three and nine months ended September 30, 2017 compared to the same period in 2016 reflects both the decreases and increases of AECO during the quarter plus the netting of transportation charges against revenue in the same periods of 2016.



Realized natural gas liquids prices increased by 36% and 31% for the three and nine months ended September 30, 2017 as compared to the same periods in 2016. Harvest's realized NGL prices for the three months ended September 30, 2017 increased higher than its benchmark price, Edmonton Light Sweet Crude, primarily due to significant increases in the sales price of propane for the 2017 fiscal year. For the nine months ended September 30, 2017, Harvest's realized NGL price increased higher than its benchmark due to significant increases in the sales price of propane and butane. In the second quarter of 2017, a third party operator adjusted their allocations of NGLs to Harvest for prior periods of production, which led to a negative variance in Harvest's realized price. This led to a larger differential between Harvest's realized price and its benchmark price for the second quarter of 2017.



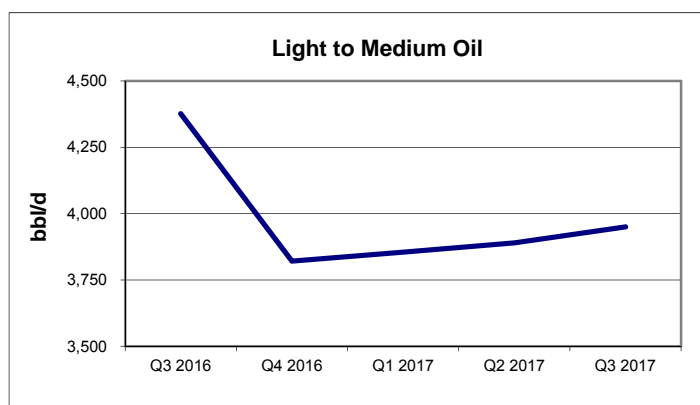
In order to partially mitigate the risk of fluctuating cash flows due to natural gas and heavy oil pricing volatility, Harvest will periodically enter into WCS and AECO derivative contracts. During the three and nine months ended September 30, 2017, Harvest did not have any derivative contracts in place. For the same periods in 2016, Harvest had WCS derivative contracts in place for a portion of its production.

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

### Sales Volumes

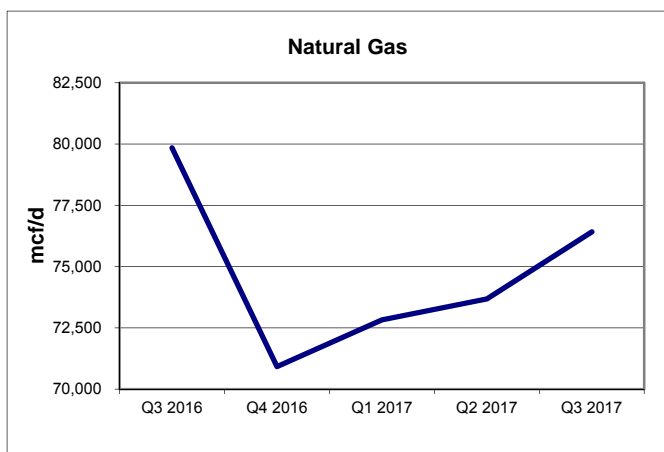
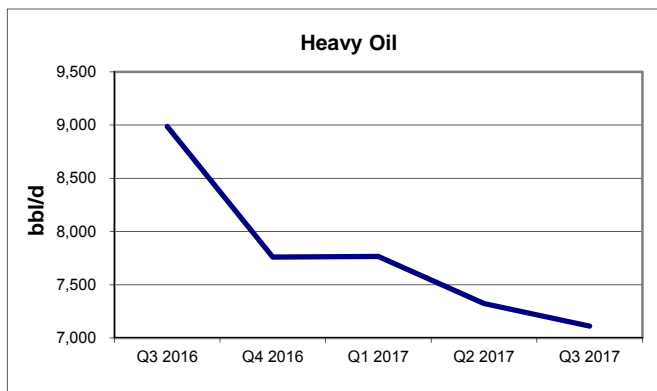
Three Months Ended September 30					
	2017		2016		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	3,950	15%	4,377	15%	(10%)
Heavy oil (bbl/d)	7,111	26%	8,987	30%	(21%)
Natural gas liquids (bbl/d)	3,115	12%	3,380	11%	(8%)
Total liquids (bbl/d)	14,176	53%	16,744	56%	(15%)
Natural gas (mcf/d)	76,417	47%	79,846	44%	(4%)
Total oil equivalent (boe/d)	26,912	100%	30,051	100%	(10%)

Nine Months Ended September 30					
	2017		2016		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	4,018	15%	6,128	18%	(34%)
Heavy oil (bbl/d)	7,279	27%	9,627	28%	(24%)
Natural gas liquids (bbl/d)	3,135	12%	3,640	11%	(14%)
Total liquids (bbl/d)	14,432	54%	19,395	57%	(26%)
Natural gas (mcf/d)	74,323	46%	86,498	43%	(14%)
Total oil equivalent (boe/d)	26,819	100%	33,812	100%	(21%)



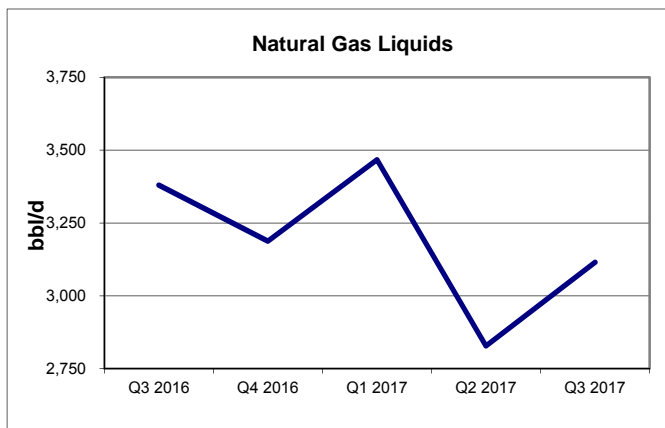
Harvest's average daily sales of light to medium oil decreased 10% in the third quarter of 2017 as compared to the same period in 2016. The decrease was mainly due to natural declines, offset by production from new wells drilled in 2017, and a reclassification of a property group in the Cecil area as discussed in the realized commodities pricing section.

Heavy oil sales for the third quarter of 2017 decreased 21% as compared to the same period in 2016 mainly due to natural declines, the reclassification of a property group in the Cecil area as discussed in the realized commodities pricing section, and reflects a greatly reduced drilling program in 2016 and 2017.



Natural gas sales during the third quarter of 2017 decreased 4%, as compared to the same period in 2016. The decrease was mainly a result of natural declines, partially offset by the production of new wells since Q4 2016. The increase since Q4 2016 is due to Harvest participating in 5 gross (2.1 net) non-operated wells in the Deep Basin area.

Natural gas liquids sales for the third quarter of 2017 decreased by 8% from the same period in 2016 due to natural declines, partially offset by the increase of production due to new wells Harvest participated in since Q4 2016 in the Deep Basin Area. In Q2 2017, a volumetric adjustment in non-operated wells related to 2013 and 2014 fiscal years led to a negative production variance.



## Revenues

### Sales Revenue by Product

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Light to medium oil sales	18.4	19.8	(7%)	58.2	70.6	(18%)
Heavy oil sales after hedging <sup>(1)</sup>	28.3	33.7	(16%)	93.2	91.5	2%
Natural gas sales after hedging <sup>(1)</sup>	11.5	15.5	(26%)	51.2	39.3	30%
Natural gas liquids sales	9.7	7.7	26%	27.8	24.8	12%
Other <sup>(2)</sup>	1.3	1.8	(28%)	4.8	5.3	(9%)
Petroleum and natural gas sales	69.2	78.5	(12%)	235.2	231.5	2%

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

(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. Total petroleum and natural gas sales decreased for the three months ended September 30, 2017, as compared to 2016, mainly due to the decrease in sales volumes, partially offset by the increase in the realized prices. Total petroleum and natural gas sales increased in the first nine months of 2017, as compared to 2016, mainly due to the increase in the realized prices, partially offset by a decrease in volumes.

Sulphur revenue represented \$1.0 million of the total in other revenues for the third quarter of 2017 (2016 - \$1.4 million) and \$4.4 million for the first nine months of 2017 (2016 - \$4.9 million).

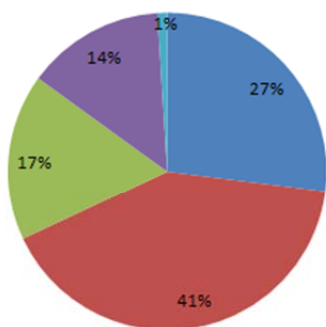
## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Revenue by Product Type as % of Total Revenue

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Light to medium oil sales	27%	25%	25%	30%
Heavy oil sales after hedging	41%	43%	40%	40%
Natural gas sales	17%	20%	22%	17%
Natural gas liquids sales	14%	10%	12%	11%
Other	1%	2%	1%	2%
<b>Total Sales Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

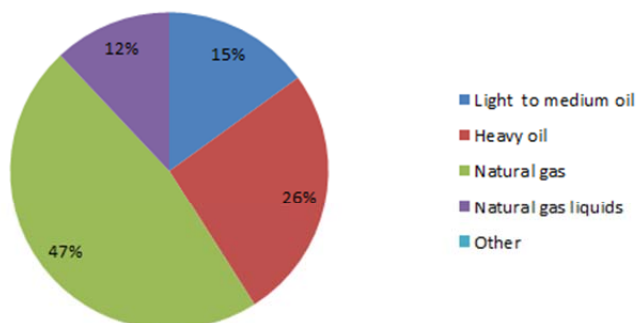
### Sales Revenue by Product

(Three Months ended September 30, 2017)



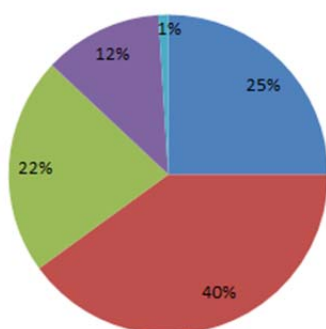
### Sales Volumes by Product

(Three Months ended September 30, 2017)



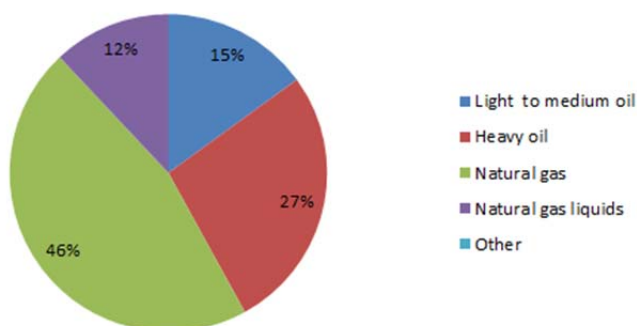
### Sales Revenue by Product

(Nine Months ended September 30, 2017)



### Sales Volumes by Product

(Nine Months ended September 30, 2017)



Although Harvest's product mix on a volumetric basis is slightly weighted heavier towards crude oil and natural gas liquids than natural gas, revenue contribution is more heavily weighted to crude oil and liquids as shown by the charts above. Compared to the prior year period, revenue contributions by product have remained relatively consistent year over year for the three months ended September 30, 2017. For the nine months ended September 30, 2017, Harvest's revenue contributions by product for light to medium oil sales



and natural gas sales have fluctuated as a result of the sale of Harvest's Southeast Saskatchewan assets in 2016.

### Royalties

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Royalties	5.8	12.7	25.3	28.6
Royalties as a percentage of revenue	8.4%	16.2%	10.8%	12.4%

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, 2017, royalties as a percentage of gross revenue averaged 8.4% and 10.8% respectively (2016 – 16.2% and 12.4%). The decrease in royalties as a percentage of gross revenue was primarily related to the comparative periods being higher than usual as a result of adjustments due to a crown royalty audit. In addition, for the third quarter of 2017, royalties as a percentage of revenue were reduced as a result of crown royalty refunds received due to Harvest filing for amendments to royalties paid in prior periods.

### Operating Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Operating expense	33.6	28.8	107.7	119.7
Operating expense (\$/boe)	13.59	10.41	14.71	12.92

Operating expenses for the three months ended September 30, 2017 increased by \$4.8 million as compared to the same period in 2016. This increase is primarily due to an increase in power costs and well servicing, partially offset by a reduction of processing fees as a result of equalization payments received in the quarter. Operating expenses for the nine months ended September 30, 2017 decreased by \$12.0 million as compared to the same period in 2016. This decrease was mainly due to lower overall activity associated with lower relative production levels, and a reduction in processing fees as a result of equalization payments, partially offset by an increase in power costs and well servicing costs.

Operating expenses on a per barrel basis increased by 31% to \$13.59 per boe and 14% to \$14.71 per boe for the three and nine months ended September 30, 2017, respectively, when compared to the same periods in 2016, mainly due to an increase in power costs and well servicing costs, partially offset by a reduction in processing fees resulting from equalization payments.

For the three and nine months ended September 30, 2017, Power Pool Rates were \$24.55 and \$22.06 per megawatt hour, respectively (2016 - \$17.93 and \$17.00 per megawatt hour, respectively).

## Transportation and Marketing Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Transportation and marketing	2.6	(0.4)	8.1	1.9
Transportation and marketing (\$/boe)	1.04	(0.14)	1.11	0.21

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, 2017 were \$3.0 million and \$6.2 million higher, respectively, in comparison to the same periods in 2016. The increase was primarily due to gas transportation costs being presented on a gross basis, whereas in the comparative periods of 2016, such costs were netted against gas revenues. If September 30, 2016 transportation costs had been presented on the same basis, then on a comparative perspective, transportation and marketing would have been \$1.8 million and \$8.2 million for the three and nine months ended September 30, 2016.

## Operating Netback<sup>(1)</sup>

	Three Months Ended September 30			Nine Months Ended September 30		
(\$/boe)	2017	2016	Change	2017	2016	Change
Petroleum and natural gas sales prior to hedging <sup>(2)</sup>	27.80	28.03	(1%)	32.08	24.91	29%
Royalties	(2.33)	(4.60)	(49%)	(3.45)	(3.09)	12%
Operating expenses	(13.59)	(10.41)	31%	(14.71)	(12.92)	14%
Transportation and marketing	(1.04)	0.14	(843%)	(1.11)	(0.21)	429%
Operating netback prior to hedging <sup>(1)</sup>	10.84	13.16	(18%)	12.81	8.69	47%
Hedging (loss) gain <sup>(3)</sup>	—	0.09	(100%)	—	(0.10)	(100%)
Operating netback after hedging <sup>(1)</sup>	10.84	13.25	(18%)	12.81	8.59	49%

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

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

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

For the three and nine months ended September 30, 2017 operating netback after hedging was \$10.84 per boe and \$12.81 per boe, respectively, representing an 18% decrease and 49% increase compared to the same periods in 2016. The decrease in the three month period was mainly due to higher operating expenses and transportation and marketing costs, partially offset by a decrease in royalties. The increase in the nine month period was mainly due to an increase in realized prices, partially offset by an increase in operating expenses and transportation and marketing.

**General and Administrative ("G&A") Expenses**

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Gross G&A expenses	9.2	12.4	(26%)	29.9	41.8	(28%)
Capitalized G&A and recoveries	(1.2)	(0.6)	100%	(3.0)	(1.9)	58%
Net G&A expenses	8.0	11.8	(32%)	26.9	39.9	(33%)
Net G&A expenses (\$/boe)	3.23	4.27	(24%)	3.66	4.31	(15%)

For the three and nine months ended September 30, 2017 G&A expenses net of capitalized G&A decreased by \$3.8 million and \$13.0 million respectively, while gross G&A expenses decreased \$3.2 million and \$11.9 million respectively, when compared to the same periods in the prior year. The decrease in the gross G&A expenses from the same periods in the prior year were mainly due to comparative lower staffing levels and related expenses, a reduction in consulting expenses, and reduced office rent due to subleased rental income and a reduction in head office operating costs.

On a per boe basis, G&A expenses decreased \$1.04 and \$0.65 in the three and nine months ended September 30, 2017, in comparison to the same periods in the prior year mainly due to decreased G&A costs, partially offset by lower sales volumes in the current year.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
DD&A	54.2	61.4	144.8	202.7
DD&A (\$/boe)	21.89	22.22	19.76	21.88

DD&A expense for the three and nine months ended September 30, 2017 decreased by \$7.2 million and \$57.9 million, respectively as compared to the same period in 2016, mainly due to lower sales volumes.

For the three months ended September 30, 2017, DD&A per boe was relatively consistent with the same period in the prior year. For the nine months ended September 30, 2017, the decrease in DD&A per boe was the result of changes in estimates relating to the decommissioning liabilities in the fourth quarter of 2016 which led to a reduction in the depletable asset base.

**Capital Asset Additions**

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Drilling and completion	4.7	(1.2)	16.4	(2.1)
Well equipment, pipelines and facilities	5.0	2.8	15.0	5.6
Land and seismic	—	0.2	—	0.5
Geological and geophysical	—	—	0.7	—
Corporate	—	0.1	—	(0.3)
Other	1.2	0.6	3.4	1.6
Total additions excluding acquisitions	10.9	2.5	35.5	5.3

Total capital additions were higher for the three and nine months ended September 30, 2017 compared to 2016 mainly due to increased capital activity for the current year as a result of the drilling and completion of new wells, and the addition of capital expenditures related to well equipment, pipeline, and facilities.

During the three months ended September 30, 2017, Harvest drilled two horizontal wells in the Cecil area targeting light oil in the Charlie Lake formation. During the nine months ended September 30, 2017, Harvest drilled three horizontal wells in the Cecil area targeting light oil in the Charlie Lake formation, participated in three partner operated horizontal multi-stage fractured wells (1.6 net) in the Deep Basin area to develop the Falher gas formation, and one partner operated horizontal multi-stage fractured well (0.1 net) in the Rocky Mountain House area targeting light oil in the Cardium formation.

During the three and nine months ended September 30, 2017, Harvest's net undeveloped land additions were 1,186 acres and 10,281 acres, respectively (2016 – 316 acres and 11,184 acres, respectively), and there were no net undeveloped land dispositions (2016 – nil acres and 33,867 acres, respectively).

**Decommissioning Liabilities**

Harvest's Conventional decommissioning liabilities at September 30, 2017 was \$578.1 million (December 31, 2016 – \$615.4 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities are based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The decrease in the balance as at September 30, 2017 is mainly due to revisions to the estimate as a result of changes in the Bank of Canada long term interest rates, partially offset by accretion. 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 equity 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 its investments based upon Harvest's share in the change of the net assets of the joint venture. Harvest's share of the change in the net assets does not directly correspond to its ownership interest 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, 2017, Harvest recognized a loss of \$8.8 million and \$19.5 million (2016 – \$6.6 million and \$35.7 million) from its investment in the DBP and HKMS joint ventures.

Below is an overview of operational and financial highlights of the DBP and HKMS joint ventures for the three and nine months ended September 30, 2017. Unless otherwise noted the following discussion relates to 100% of the joint venture results.

#### *Deep Basin Partnership*

DBP was established for the purposes of exploring, developing and producing from certain oil and gas properties in the Deep Basin area in Northwest Alberta. During the year ended 2016 and nine month ended September 30, 2017 Harvest made various contributions to the DBP that resulted in increase in its ownership percentage as reflected in the table below.

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Harvest's ownership interest	82.55%	82.52%	82.50%	82.32%	82.03%
KERR's ownership interest	17.45%	17.48%	17.50%	17.68%	17.97%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

As at September 30, 2017, the fair value of Harvest's top-up obligation to KERR, related to a minimum rate of return commitment was estimated as \$7.3 million (December 31, 2016 - \$6.7 million).

At September 30, 2017, Harvest received a total of \$17.0 million (December 31, 2016 - \$6.0 million) in distributions from the DBP from inception of the joint venture.

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Natural gas liquids (\$/bbl)	<b>42.43</b>	31.13	36%	<b>50.63</b>	31.24	62%
Natural gas (\$/mcf)	<b>1.70</b>	2.15	(21%)	<b>2.71</b>	1.68	61%
Average realized price(\$/boe)	<b>18.22</b>	16.55	10%	<b>26.01</b>	14.55	79%

For the three and nine months ended September 30, 2017, average realized prices for natural gas liquids increased 36% and 62% over the same period in the prior year as a result of increases in benchmark prices, increases in sales prices for propane and butane, and a higher percentage of condensates in the natural gas liquids mix.

For the three and nine months ended September 30, 2017, average realized prices for natural gas decreased 21% and increased 61% over the same period in the prior year as a result of fluctuations in benchmark prices and a reclassification of transport charges. Starting in Q4 2016, transportation was presented on a gross basis, where in the comparative periods of 2016, such costs were netted against gas revenues.

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Natural gas (mcf/d)	23,047	27,525	(16%)	26,883	27,892	(4%)
Natural gas liquids (bbl/d)	1,267	1,145	11%	1,766	1,235	43%
Light to medium oil (bbl/d)	3	2	50%	3	2	50%
Total (boe/d)	5,112	5,735	(11%)	6,250	5,885	6%
Harvest's share (boe/d) <sup>(1)</sup>	4,220	4,704	(10%)	5,157	4,826	7%

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

Sales volumes for the three months ended September 30, 2017 decreased by 623 boe/d as compared to the same period in 2016. This decrease was primarily due to natural declines, as well as downtime for maintenance and third party restrictions in the third quarter of 2017, partially offset by production added by new wells drilled in the fourth quarter of 2016. Sales volumes for the nine months ended September 30, 2017 increased by 365 boe/d due to DBP's drilling program in the fourth quarter of 2016, which led to increased production for the first three quarters 2017 that was partially offset by natural declines.

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Revenues <sup>(1)</sup>	8.9	8.2	9%	42.1	22.5	87%
Operating and transportation expenses	(9.9)	(6.6)	50%	(32.2)	(22.1)	46%
Depletion, depreciation and amortization	(9.6)	(9.7)	(1%)	(34.6)	(29.4)	18%
Finance costs	(0.7)	(0.7)	—	(2.1)	(2.1)	—
Impairment	—	—	—	—	(1.4)	(100%)
Loss on disposition of assets	—	—	—	—	(9.8)	(100%)
Net loss <sup>(2)</sup>	(11.3)	(8.8)	28%	(26.8)	(42.3)	(37%)

(1) Revenue is presented net of royalties.

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

The higher sales revenues in the three and nine months ended September 30, 2017 reflect the higher commodity prices and volumes.

Operating and transportation expenses for the three and nine months ended September 30, 2017 were \$20.95 and \$18.93 per boe, respectively, increases of \$8.36 and \$5.20 per boe from the same periods in 2016. The increase was primarily due to gas transportation costs being presented on a gross basis, whereas in 2016, such costs were netted against gas revenues. Operating and transportation expenses per boe for the three and nine months ended September 30, 2017 also include additional costs resulting from increases in trucking expenses as a result of pipeline restrictions, and increased chemicals expense due to new wells brought online having a higher sulphuric acid ("H<sub>2</sub>S") content. In addition, for the nine months ended September 30, 2017, operating and transportation expenses also include increased processing fees charged from the HKMS partnership.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Depletion for the three and nine months ended September 30, 2017 were \$20.42 per boe and \$20.26 per boe, respectively (2016 – \$18.43 per boe and \$18.25 per boe). The increases from 2016 were mainly due to asset additions resulting from Deep Basin's winter drilling program.

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Drilling and completion	0.9	0.8	7.6	7.8
Well equipment, pipelines and facilities	0.2	0.3	2.1	3.6
Total <sup>(1)</sup>	1.1	1.1	9.7	11.4

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

Capital asset additions were \$1.1 million and \$9.7 million for the three and nine months ended September 30, 2017, mainly related to the completion and tie in activity of 3 wells rig released in Q4 2016. During the first nine months of 2017, no new wells were rig released.

### HKMS Partnership

During the three and nine months ended September 30, 2017 Harvest made various contributions to the HKMS that resulted in increase in its ownership percentage as reflected in the table below.

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Harvest's ownership interest	70.44%	70.28%	70.25%	70.23%	70.21%
KERR's ownership interest	29.56%	29.72%	29.75%	29.77%	29.79%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

At September 30, 2017, Harvest received a total of \$36.2 million (December 31, 2016 - \$23.4 million) in distributions from the HKMS from inception of the joint venture.

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Revenues	6.6	5.6	18%	21.3	17.8	20%
Operating expenses and other	(0.9)	0.1	1,000%	(3.5)	(0.8)	338%
Depreciation and amortization	(0.9)	(0.9)	—	(2.6)	(2.6)	—
Finance costs	(4.8)	(4.9)	(2%)	(14.4)	(14.7)	(2%)
Net (loss) income <sup>(1)</sup>	—	(0.1)	100%	0.8	(0.3)	(367%)

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

The Gas Processing Agreement between the HKMS and DBP ensures that HKMS receives an 18% internal rate of return on capital deployed over the term of the contract, which equates to a minimum monthly capital fee that is currently \$1.9 million. This capital fee is accounted for as revenue for HKMS and an operating expense for the DBP. In addition HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and nine months ended September 30, 2017 the partnership generated revenues of \$6.6 million and \$21.3 million, respectively (2016 – \$5.6 million and \$17.8 million).

Operating expenses of the facility are recovered through charging an operating fee to the producers. For the three and nine months ended September 30, 2017 the partnership operating expenses were \$0.9 million and \$3.5 million, respectively (2016 – \$0.1 million recovery and \$0.8 million expense). Operating expenses increased for the three and nine months ended September 30, 2017 as a result of repairs and maintenance at the Bilbo plant. These expenses were offset by revenue recoveries from the Deep Basin Partnership.

Depreciation has been calculated on a straight-line basis over a 30 year useful life. For the three and nine months ended September 30, 2017 the partnership depreciation expense were \$0.9 million and \$2.6 million, respectively (2016 – \$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, 2017 the partnership finance costs were \$4.8 million and \$14.4 million, respectively (2016 – \$4.9 million and \$14.7 million).

See note 7 of the September 30, 2017 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	
	2017	2016	2017	2016
<b>Expenses</b>				
Pre-operating	2.4	2.0	8.2	7.8
General and administrative	0.5	0.6	1.4	1.7
Depreciation and amortization	—	0.2	0.3	0.5
Pre-Operating loss <sup>(1)</sup>	(2.9)	(2.8)	(9.9)	(10.0)

(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, 2017, Harvest recognized an operating loss of \$2.9 million and \$9.9 million (2016 – \$2.8 million and \$10.0 million) respectively, mainly relating to pre-operating and general and administrative expenses.

### Capital Asset Additions

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Well equipment, pipelines and facilities	0.6	0.1	0.8	0.2
Capitalized borrowing costs and other	—	(0.2)	—	(0.2)
Total Oil Sands additions	0.6	(0.1)	0.8	—

The minimal capital spending during the first nine months of 2017 reflects a constraining of Oil Sands activity since the first quarter of 2015. Since 2015, completion of sanctioning and commissioning activities have been postponed due to the bitumen price environment. Harvest plans to complete sanctioning and re-commence commissioning activities in the fourth quarter of 2017.

**Decommissioning Liabilities**

Harvest's Oil Sands decommissioning liabilities at September 30, 2017 was \$47.1 million (December 31, 2016 - \$48.6 million) relating to the future remediation, abandonment, and reclamation of the steam assisted gravity drainage ("SAGD") wells and Central Processing Facility ("CPF"). The decrease in balance as at September 30, 2017 is mainly due to revisions to the estimate as a result of changes in the Bank of Canada long term interest rates, partially offset by accretion. Please see the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

**Project Development**

Harvest has been developing its Oil Sands CPF under the engineering, procurement and construction ("EPC") contract. Initial drilling of 30 SAGD wells (15 well pairs) was completed by the end of 2012 and the majority of the well completion activities were completed by the end of 2014. More SAGD wells will be drilled in the future to compensate for the natural decline in production of the initial well pairs and maintain the Phase 1 design production capacity of 10,000 bbl/d. During the first quarter of 2015 construction had been substantially completed, including the building of the CPF plant site, well pads, and connecting pipelines. Several systems have since been commissioned and others will be progressed slowly within a limited budget. Harvest plans to complete sanctioning and re-commence commissioning activities in the fourth quarter of 2017.

Harvest has recorded \$1,085.8 million of costs on the entire project since acquiring the Oil Sands assets in 2010. This \$1,085.8 million includes certain Phase 2 pre-investment which is expected to improve the capital efficiency over the project lifecycle. Under the EPC contract, \$94.9 million of the EPC costs will be paid in equal installments, without interest, over 10 years. Payments commenced during the second quarter of 2015 with two payments made on April 30, 2015. Harvest withheld the third and fourth deferred payments due April 30, 2016, and April 30, 2017 as it is in process of conducting a comprehensive audit of costs and expenses incurred by the Contractor in connection with the work. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at September 30, 2017, Harvest recognized a liability of \$68.9 million (December 31, 2016 - \$67.2 million) using a discount rate of 4.5% (December 31, 2016 - 4.5%).

As Harvest uses the unit of production method for depletion and the Oil Sands assets currently have no production, no depletion on the Oil Sands property, plant and equipment has been recorded. Minor depreciation has been recorded during the three and nine months ended September 30, 2017 on administrative assets.

## RISK MANAGEMENT, FINANCING AND OTHER

### Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. The following is a summary of Harvest's derivative contracts outstanding at September 30, 2017:

### Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of Asset
US\$348 million	Foreign exchange swap	October 2017	\$1.23	7.7
				<b>\$ 7.7</b>

Harvest has entered into U.S. dollar currency swap transactions related to a LIBOR borrowing, which results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three and nine months ended September 30, 2017 was 2.2% and 1.7%, respectively (2016 – 2.6% and 1.9%, respectively). 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.

Three Months Ended September 30								
Realized (gains) losses recognized in:	2017				2016			
	Currency	Top-Up Obligation	Total	Power	Crude Oil	Currency	Top-Up Obligation	Total
Revenues	—	—	—	—	(0.7)	—	—	(0.7)
Derivative contract (gains) losses <sup>(1)</sup>	26.5	—	26.5	0.5	—	—	—	0.5
<b>Unrealized (gains) losses recognized in:</b>								
OCI, before tax	—	—	—	—	(1.6)	—	—	(1.6)
Derivative contract (gains) losses <sup>(1)</sup>	(18.1)	0.9	(17.2)	0.2	—	6.7	2.5	9.4

Nine Months Ended September 30								
Realized (gains) losses recognized in:	2017				2016			
	Currency	Top-Up Obligation	Total	Power	Crude Oil	Currency	Top-Up Obligation	Total
Revenues	—	—	—	—	(0.4)	—	—	(0.4)
Derivative contract (gains) losses <sup>(1)</sup>	25.6	—	25.6	1.3	—	—	—	1.3
<b>Unrealized (gains) losses recognized in:</b>								
OCI, before tax	—	—	—	—	—	—	—	—
Derivative contract (gains) losses <sup>(1)</sup>	(5.8)	0.6	(5.2)	0.1	—	3.2	12.5	15.8

(1) Derivative contract (gains) losses are the result of foreign exchange hedges that have been entered into in order to eliminate foreign exchange fluctuations on Harvest's US dollar denominated LIBOR borrowings. Harvest enters into U.S. dollar denominated LIBOR borrowings instead of other Canadian denominated borrowing options in order to realize lower interest rates on its revolving credit facility. As Harvest does not apply hedge accounting to these financial instruments, the offsetting foreign exchange (gains) losses

resulting from this hedging relationship are classified as realized and unrealized (gains) losses on foreign exchange. Refer to "Currency Exchange" in this MD&A for further details.

### Finance Costs

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Credit facility <sup>(1)</sup>	2.9	4.4	8.8	13.8
Term loan facility <sup>(1)</sup>	3.4	—	8.3	—
6 $\frac{7}{8}$ % senior notes	6.6	6.8	20.5	30.3
2 $\frac{1}{8}$ % senior notes <sup>(1)</sup>	5.6	5.9	17.5	17.7
2 $\frac{1}{3}$ % senior notes <sup>(1)</sup>	1.7	1.8	5.3	2.0
3% senior notes <sup>(1)</sup>	0.3	—	0.3	—
Related party loans	—	10.2	—	28.1
Amortization of deferred finance charges and other	0.5	0.6	1.5	2.0
Interest and other financing charges	21.0	29.7	62.2	93.9
Accretion of decommission and environmental remediation liabilities	3.7	3.5	11.5	13.3
Accretion of long-term liability	0.5	0.7	1.7	2.4
<b>Total finance costs</b>	<b>25.2</b>	<b>33.9</b>	<b>75.4</b>	<b>109.6</b>

(1) Includes guarantee fee to KNOC.

### Currency Exchange

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Realized gains on foreign exchange	(26.1)	(13.6)	(25.0)	(22.4)
Unrealized (gains) losses on foreign exchange	(38.1)	36.4	(100.6)	(69.3)
<b>Total (gains) losses on foreign exchange</b>	<b>(64.2)</b>	<b>22.8</b>	<b>(125.6)</b>	<b>(91.7)</b>

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 6 $\frac{7}{8}$ %, 2 $\frac{1}{8}$ %, 2 $\frac{1}{3}$ % and 3% senior notes and on any U.S. dollar denominated monetary assets or liabilities. At September 30, 2017, the Canadian dollar had strengthened compared to the US dollar resulting in unrealized foreign exchange gains of \$38.1 million and \$100.6 million for the three and nine months ended September 30, 2017 (2016 – \$36.4 million loss and \$69.3 million gain). Harvest recognized realized foreign exchange gains of \$26.1 million and \$25.0 million for the three and nine months ended September 30, 2017 (2016 – \$13.6 million and \$22.4 million) as a result of the settlement of U.S. dollar denominated transactions.

### Income Taxes

For the third and nine months ended September 30, 2017 Harvest did not record a deferred income tax recovery (2016 – \$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 quarter ended September 30, 2017:

### Related Party Loans

As at September 30, 2017 and December 31, 2016, there were no related party loans outstanding. The following is the interest expense relating to each related party loan for three and nine months ended September 30, 2016:

Related Party	Principal	Interest Rate	Maturity Date	Interest expense	
				Three months ended	Nine months ended
				September 30	September 30
				2016	2016
KNOC	US\$171	5.91%	Dec 31, 2017	3.3	9.0
KNOC	\$200	5.30%	Dec 30, 2018	3.5	10.4
KNOC	US\$184.8	4.66%	Oct 2, 2017	2.7	2.7
ANKOR	US\$170	4.62%	Oct 2, 2017	0.7	5.9

As at September 30, 2017 and December 31, 2016 there were no related party loans outstanding.

### Transactions

	Three Months Ended		Nine Months Ended		Accounts Payable as at	
	September 30		September 30		September 30	December 31
	2017	2016	2017	2016	2017	2016
<b>G&amp;A Expenses</b>						
KNOC <sup>(1)</sup>	0.1	0.1	0.3	0.3	0.6	0.4
<b>Finance costs</b>						
KNOC <sup>(2)</sup>	2.5	2.5	7.3	6.7	4.7	1.7

<sup>(1)</sup> Amounts relate to the payments to (reimbursement from) KNOC for secondees salaries.

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

During the year ended December 31, 2016, Harvest entered into an agreement with KNOC to drill, complete and tie-in a well and provide technical data to KNOC. KNOC initially provided Harvest with \$5.3 million as a cash advance, and any additional amounts incurred relating to the well will be billed to KNOC for reimbursement up to a maximum of 9.4 billion Korean Won equivalent. During the three and nine months ended September 30, 2017, an additional \$nil million and \$5.8 million of expenditures were incurred on the well and earned for reimbursement from KNOC and recorded in contributed surplus, respectively (2016 - \$nil). As at September 30, 2017, Harvest had a receivable of \$5.9 million relating to this agreement from KNOC (December 31, 2016 - \$0.1 million).



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, 2017 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, 2017	December 31, 2016
Credit facility <sup>(1)</sup>	428.7	893.5
Term loan facility <sup>(1)</sup>	500.0	—
6½% senior notes (US\$282.5 million) <sup>(1)(2)</sup>	352.3	379.3
2½% senior notes (US\$630 million) <sup>(1)(2)</sup>	785.7	845.9
2½% senior notes (US\$195.8 million) <sup>(2)</sup>	244.2	262.9
3% senior notes (US\$285.0 million) <sup>(2)</sup>	355.5	—
	2,666.4	2,381.6
<b>Shareholder's equity (deficiency)</b>		
458,766,467 common shares issued	34.9	104.0
	2,701.3	2,485.6

(1) Excludes capitalized financing fees

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

On September 21, 2017, Harvest issued US \$285 million 3% senior notes due September 21, 2022 that are unconditionally and irrevocably guaranteed by KNOC. Subsequent to September 30, 2017, the proceeds of this issuance were used to repay the US \$282.5 million 6½% senior notes on October 2, 2017. This refinancing provides significant savings to Harvest by reducing interest expense by approximately US \$10.9 million annually, and is further evidence of KNOC's continuing support of Harvest. On November 6, 2017, Harvest issued an additional US \$200 million of 3% senior notes due September 21, 2022 for net proceeds of US \$198.5 million. The proceeds from the upsized offering will be used for general corporate purposes, including to fund the completion and commissioning of Harvest's BlackGold oil sands project.

On February 17, 2017, Harvest entered an agreement with a Korean based bank that allowed Harvest to borrow \$500 million through a three year 2.27% term loan. The proceeds from the term loan were used to partially repay credit facility borrowings. In addition, on February 24, 2017, Harvest entered into a new three year \$500 million revolving credit facility with a syndicate of banks that replaced the Company's \$1 billion revolving credit facility. Both the term loan and new syndicated revolving credit facility are guaranteed by KNOC. A guarantee fee of 37 basis points per annum payable semi-annually on the principal balance of each facility is payable to KNOC. The new syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries. Both facilities contain no financial covenants. Harvest continues to pay a floating interest rate based on a margin pricing grid based on the credit ratings of KNOC. The current rates are Canadian Dollar Offered Rate plus 90 basis point on Canadian dollar drawn balances and LIBOR plus 90 basis points on US dollar drawn balances.

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

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

### 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 from operating activities for the three months ended September 30, 2017 was \$14.0 million (2016 – \$8.6 million used in operations). The increase as compared to the third quarter of 2017 is mainly a result of reduced finance and general and administrative costs, and changes in working capital requirements, partially offset by a reduction in cash contributions from operations and realized foreign exchange gains on the settlement of U.S. dollar denominated debt in the comparative period. Cash from operating activities for the nine months ended September 30, 2017 was \$15.4 million (2016 – \$48.5 million used in operations). The increase for the nine months ended September 30, 2017 is mainly the result of an increase in cash contributions from operations, reduced finance costs, and changes in working capital requirements, partially offset by realized foreign exchange gains on the settlement of U.S. dollar denominated debt in the comparative period. For analysis of changes in cash contributions from operations, refer to below.

Cash contributions from Harvest's Conventional operations for the three and nine months ended September 30, 2017 was \$19.1 million and \$59.8 million, respectively (2016 – \$25.1 million and \$41.3 million). The decrease in cash contributions for the three months ended September 30, 2017 was mainly due to a decrease in revenues and other income, and increases in operating expenses and transportation and marketing expenses, partially offset by a reduction in general and administrative costs. The increase in cash contributions for the nine months ended September 30, 2017 was mainly due to increased revenue and other



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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income, and decreases in operating expenses and general and administrative expenses, partially offset by an increase in transportation and marketing expenses.

Harvest funded capital expenditures for the three and nine months ended September 30, 2017 of \$11.5 million and \$36.3 million, respectively (2016 – \$2.5 million and \$5.3) with the borrowings under both the credit facility and term loan.

Harvest's net change to the credit facility and term loan were \$5.0 million net repayments and \$28.4 million net drawings, respectively, during the three and nine months ended September 30, 2017 (2016 – \$3.7 million net drawings and \$35.2 net repayments).

Harvest had a working capital deficiency of \$893.5 million as at September 30, 2017, as compared to a \$1,370.9 million deficiency at December 31, 2016. The working capital deficiency at December 31, 2016 included the Credit Facility and the 6 $\frac{7}{8}$ % senior notes. The working capital deficiency at September 30, 2017 included the 6 $\frac{7}{8}$ % senior notes and 2 $\frac{1}{8}$ % senior notes. Refer to "Capital Resources" section of this MD&A for further discussion. Harvest's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility managing the collection and payment of accounts receivables and accounts payables respectively and using the proceeds from possible sale of assets, as required.

Harvest ensures its liquidity through the management of its capital structure, seeking to balance the amount of debt and equity used to fund investment in each of our operating segments. Harvest evaluates its capital structure using the same financial covenant ratios as the ones that were externally imposed under the Company's credit facility and the senior notes. The Company continually monitors its credit facility covenants and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating covenants as and when required.

In response to improvements in the commodity price environment, Harvest has begun to reinvest in a conservatively budgeted drilling program, targeting specified core areas of development. In addition, Harvest is planning to complete sanctioning and re-commence commissioning activities on its Oil Sands project.

Harvest is a significant subsidiary for KNOC in terms of production and reserves. KNOC has directly or indirectly invested and provided financial support to Harvest since 2009 and, as at the date of preparation of this MD&A, it is the Company's expectation that such support will continue.

### 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, 2017, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5	Total
Debt repayments <sup>(1)</sup>	1,139.8	928.7	597.4	—	2,665.9
Debt interest payments <sup>(1) (2)</sup>	76.1	77.1	30.4	—	183.6
Purchase commitments <sup>(3)</sup>	29.6	19.4	19.0	24.8	92.8
Operating leases	6.5	16.2	15.8	21.8	60.3
Firm processing commitments	11.6	22.6	21.4	26.5	82.1
Firm transportation agreements	29.4	47.4	28.5	39.3	144.6
Employee benefits <sup>(4)</sup>	0.6	0.2	—	—	0.8
Decommissioning and environmental liabilities <sup>(5)</sup>	8.0	84.9	60.4	1,073.8	1,227.1
<b>Total</b>	<b>1,301.6</b>	<b>1,196.5</b>	<b>772.9</b>	<b>1,186.2</b>	<b>4,457.2</b>

(1) Assumes constant foreign exchange rate.

(2) Assumes interest rates as at September 30, 2017 will be applicable to future interest payments.

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

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

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

### 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, 2017 condensed interim consolidated financial statements.

## SUMMARY OF QUARTERLY RESULTS

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

	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>FINANCIAL</b>								
Revenue, Conventional	63.4	69.3	77.2	84.4	65.8	72.7	64.4	97.1
Net loss from continuing operations	(17.6)	(26.6)	(30.8)	(162.5)	(106.9)	(65.7)	(13.1)	(894.2)
Net loss from discontinued operations <sup>(1)</sup>	—	—	—	—	—	—	—	(15.5)
Net loss	(17.6)	(26.6)	(30.8)	(162.5)	(106.9)	(65.7)	(13.1)	(909.7)
Operating netback prior to hedging(\$/boe) <sup>(2)</sup>	10.84	13.04	14.61	15.97	13.16	8.85	4.85	9.29

## OPERATIONS

### Continuing Operations

Daily sales volumes (boe/d)	26,912	26,324	27,226	26,589	30,051	34,440	36,986	38,141
Realized price prior to hedging (\$/boe)	27.80	33.59	34.91	37.06	28.03	26.50	20.86	27.89

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

(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 third quarter of 2015, as a result of high daily sales volumes and lowest in the third quarter of 2017 due to reduced commodity prices and low sales volumes.
- The declines in Conventional's sales volumes from the fourth quarter of 2015 to the fourth quarter of 2016 were mainly due to asset dispositions and a capital program that was insufficient to offset declines in production. Harvest began reinvesting in the drilling of new wells in the fourth quarter of 2016, resulting in an increase in volumes for the first quarter of 2017.

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 from continuing operations in the fourth quarter of 2015 includes \$620.1 million impairment expense, and a \$71.5 million loss from joint ventures.

- Net loss from continuing operations 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, 2016. There have been no changes to the accounting policies and critical accounting estimates in the nine months ended September 30, 2017.

**RECENT ACCOUNTING PRONOUNCEMENTS****Future Accounting Policy Changes**

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. In April 2016, the IASB issued its final amendments that provide new examples and clarification on how the principles should be applied. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning January 1, 2018. Application of the standard is mandatory and early adoption is permitted. IFRS 15 will be applied by Harvest on January 1, 2018. The Company is currently in the process of reviewing underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements. Upon adoption, Harvest anticipates additional disclosure in the notes to the financial statements including revenue by product type and any impairment losses recognized on receivables arising from contracts with customers.

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 is currently in the analysis stage of determining the impact of adopting IFRS 9 on its consolidated financial statements.

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 and the Company is currently evaluating the impact on its consolidated 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, 2016 as filed on SEDAR at [www.sedar.com](http://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, 2016 as filed on SEDAR at [www.sedar.com](http://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. Harvest confirms that no such significant changes or weaknesses were identified in Harvest's internal controls over financial reporting during the three and nine months ended September 30, 2017 described in the annual MD&A for the year ended December 31, 2016 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **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 other to analyze the operating 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 the each segment of Harvest to generate the cash from operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Three Months Ended September 30					
	Conventional		Oilsands		Total	
	2017	2016	2017	2016	2017	2016
Operating loss	(45.3)	(40.6)	(2.9)	(2.8)	(48.2)	(43.4)
Adjustments:						
Loss from joint ventures	8.8	6.6	—	—	8.8	6.6
Operating, non-cash	(0.4)	—	—	—	(0.4)	—
General and administrative, non-cash	0.3	—	—	—	0.3	—
Exploration and evaluation, non-cash	0.1	0.5	—	—	0.1	0.5
Depletion, depreciation and amortization	54.2	61.4	—	0.2	54.2	61.6
Gains on disposition of assets	(0.2)	(17.6)	—	—	(0.2)	(17.6)
Unrealized derivative contract losses	0.9	2.7	—	—	0.9	2.7
Loss on onerous contract	0.7	9.4	—	—	0.7	9.4
Impairment and other charges, non-cash	—	2.7	—	—	—	2.7
<b>Cash contribution (deficiency) from operations</b>	<b>19.1</b>	<b>25.1</b>	<b>(2.9)</b>	<b>(2.6)</b>	<b>16.2</b>	<b>22.5</b>
Inclusion of items not attributable to segments:						
Net cash interest					(19.7)	(22.5)
Realized derivative contract losses					(26.4)	—
Realized foreign exchange gains					26.1	13.6
Consolidated cash contribution from (used in) operations					(3.8)	13.6
Other non-cash items					(2.0)	(0.9)
Change in non-cash working capital					19.8	(21.3)
Cash from (used in) operating activities					14.0	(8.6)

	Nine Months Ended September 30					
	Conventional		Oilsands		Total	
	2017	2016	2017	2016	2017	2016
Operating loss	(95.5)	(190.6)	(9.9)	(10.0)	(105.4)	(200.6)
Adjustments:						
Loss from joint ventures	19.5	35.7	—	—	19.5	35.7
Operating, non-cash	(0.3)	0.3	—	—	(0.3)	0.3
General and administrative, non-cash	(7.1)	0.9	—	—	(7.1)	0.9
Exploration and evaluation, non-cash	0.1	2.5	—	—	0.1	2.5
Depletion, depreciation and amortization	144.8	202.7	0.3	0.5	145.1	203.2
Gains on disposition of assets	(1.2)	(34.9)	—	—	(1.2)	(34.9)
Unrealized derivative contract losses	0.6	12.6	—	—	0.6	12.6
(Gain) loss on onerous contract	(1.1)	9.4	—	—	(1.1)	9.4
Impairment and other charges, non-cash	—	2.7	—	—	—	2.7
<b>Cash contribution (deficiency) from operations</b>	<b>59.8</b>	<b>41.3</b>	<b>(9.6)</b>	<b>(9.5)</b>	<b>50.2</b>	<b>31.8</b>
Inclusion of items not attributable to segments:						
Net cash interest					(58.3)	(67.0)
Realized derivative contract losses					(25.6)	—
Realized foreign exchange gains					25.0	22.4
Consolidated cash contribution used in operations					(8.7)	(12.8)
Other non-cash items					(2.4)	(4.2)
Change in non-cash working capital					26.5	(31.5)
Cash from (used in) operating activities					15.4	(48.5)

**FORWARD-LOOKING INFORMATION**

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three months and nine months ended September 30, 2017 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

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

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

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

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

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

### **ADDITIONAL INFORMATION**

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

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

As at (millions of Canadian dollars)	Notes	September 30, 2017	December 31, 2016
<b>Assets</b>			
Current assets			
Cash	10	\$ 353.6	\$ —
Accounts receivable	10	37.6	44.3
Prepaid expenses and other		9.4	7.0
Derivative contracts	10	7.7	1.1
		<b>408.3</b>	<b>52.4</b>
Non-current assets			
Deferred income tax asset		711.5	711.5
Exploration and evaluation assets	6	14.0	14.1
Property, plant and equipment	5	2,234.1	2,388.9
Investments in joint ventures	7	86.3	107.7
Goodwill		100.3	100.3
		<b>3,146.2</b>	<b>3,322.5</b>
<b>Total assets</b>		<b>\$ 3,554.5</b>	<b>\$ 3,374.9</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 149.6	\$ 131.0
Taxes payable		3.7	3.7
Current portion of provisions	11	9.4	16.0
Current portion of long-term debt	8	1,139.1	1,272.3
		<b>1,301.8</b>	<b>1,423.0</b>
Non-current liabilities			
Long-term debt	8	1,522.8	1,106.8
Long-term liability	12	58.6	66.0
Non-current provisions	11	636.5	675.1
		<b>2,217.9</b>	<b>1,847.9</b>
<b>Total liabilities</b>		<b>\$ 3,519.7</b>	<b>\$ 3,270.9</b>
<b>Shareholder's equity</b>			
Shareholder's capital		4,593.3	4,593.3
Contributed surplus	17	11.3	5.5
Deficit		(4,569.8)	(4,494.8)
<b>Total shareholder's equity</b>		<b>34.8</b>	<b>104.0</b>
<b>Total liabilities and shareholder's equity</b>		<b>\$ 3,554.5</b>	<b>\$ 3,374.9</b>

Commitments [Note 18]

Subsequent Event [Note 5 & 8]

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**

<i>(millions of Canadian dollars)</i>	Notes	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Petroleum and natural gas sales		\$ 69.2	\$ 78.5	\$ 235.2	\$ 231.5
Royalties		(5.8)	(12.7)	(25.3)	(28.6)
<b>Revenues</b>		<b>63.4</b>	<b>65.8</b>	<b>209.9</b>	<b>202.9</b>
<b>Expenses</b>					
Operating		36.0	30.8	115.9	127.5
Transportation and marketing		2.6	(0.4)	8.1	1.9
General and administrative		8.5	12.4	28.3	41.6
Depletion, depreciation and amortization	5	54.2	61.6	145.1	203.2
Exploration and evaluation		0.1	0.5	0.1	2.5
Loss from joint ventures	7	8.8	6.6	19.5	35.7
Gains on disposition of assets	5	(0.2)	(17.6)	(1.2)	(34.9)
Finance costs	13	25.2	33.9	75.4	109.6
Derivative contract losses	10	9.3	9.9	20.4	17.1
Foreign exchange loss (gain)	14	(64.2)	22.8	(125.6)	(91.7)
Loss (gain) on senior notes exchange		—	0.1	—	(36.0)
Loss (gain) on onerous contract	11	0.7	9.4	(1.1)	9.4
Impairment		—	2.7	—	2.7
<b>Loss before income tax</b>		<b>(17.6)</b>	<b>(106.9)</b>	<b>(75.0)</b>	<b>(185.7)</b>
Income tax recovery		—	—	—	—
<b>Net loss</b>		<b>\$ (17.6)</b>	<b>\$ (106.9)</b>	<b>\$ (75.0)</b>	<b>\$ (185.7)</b>
<b>Other comprehensive loss ("OCL")</b>					
<i>Items that may be reclassified to net income</i>					
Gain (loss) on designated cash flow hedges, net of tax	16	—	0.6	—	(0.3)
<b>Comprehensive loss</b>		<b>\$ (17.6)</b>	<b>\$ (106.3)</b>	<b>\$ (75.0)</b>	<b>\$ (186.0)</b>

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



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

<i>(millions of Canadian dollars)</i>	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss) ("AOCI")	Total Shareholder's Equity (Deficiency)
Balance at December 31, 2015		\$ 3,860.8	\$ 10.5	\$ (4,146.6)	\$ —	\$ (275.3)
Losses on derivatives designated as cash flow hedges, net of tax	16	—	—	—	(0.3)	(0.3)
Net loss		—	—	(185.7)	—	(185.7)
<b>Balance at September 30, 2016</b>		<b>\$ 3,860.8</b>	<b>\$ 10.5</b>	<b>\$ (4,332.3)</b>	<b>\$ (0.3)</b>	<b>\$ (461.3)</b>
Balance at December 31, 2016		\$ 4,593.3	\$ 5.5	\$ (4,494.8)	\$ —	\$ 104.0
Shareholder contribution	17	—	5.8	—	—	5.8
Net loss		—	—	(75.0)	—	(75.0)
<b>Balance at September 30, 2017</b>		<b>\$ 4,593.3</b>	<b>\$ 11.3</b>	<b>\$ (4,569.8)</b>	<b>\$ —</b>	<b>\$ 34.8</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

Nine months ended September 30

<i>(millions of Canadian dollars)</i>	Notes	2017	2016
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net loss		\$ (75.0)	\$ (185.7)
Items not requiring cash			
Loss from joint ventures	7	19.5	35.7
Depletion, depreciation and amortization	5	145.1	203.2
Non-cash finance costs		17.1	42.6
Unrealized loss (gain) on derivative contracts	10	(5.2)	15.8
Unrealized gain on foreign exchange	14	(100.6)	(69.3)
Non-cash exploration and evaluation costs	6	0.1	2.5
Gain on disposition of assets	5	(1.2)	(34.9)
Gain on senior notes exchange		—	(36.0)
Loss (gain) on onerous contract	11	(1.1)	9.4
Impairment	5	—	2.7
Other non-cash items		(6.3)	1.2
Settlement of decommissioning and environmental remediation liabilities	11	(3.5)	(4.2)
Change in non-cash working capital	15	26.5	(31.5)
Cash from operating activities		\$ 15.4	\$ (48.5)
<b>Financing Activities</b>			
Credit facility repayment, net	8	(470.8)	(35.3)
Issuance of senior notes, net of issue costs	8	347.6	—
Borrowings from term loan, net of issue costs	8	499.2	—
Senior notes exchange costs		—	(5.2)
Borrowings from related party loans		—	71.9
Cash from financing activities		\$ 376.0	\$ 31.4
<b>Investing Activities</b>			
Additions to property, plant and equipment	5	(36.3)	(4.3)
Additions to exploration and evaluation assets	6	—	(1.0)
Property dispositions (acquisitions), net		0.7	74.8
Investment in joint ventures	7	(21.8)	(45.5)
Distributions received from joint ventures	7	23.8	13.4
Change in non-cash working capital	15	(4.2)	(20.3)
Cash used in investing activities		\$ (37.8)	\$ 17.1
Change in cash		353.6	—
Cash, at beginning of the period		—	—
Cash, at end of the period		\$ 353.6	\$ —
Interest paid		\$ 58.2	\$ 54.7

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

## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2017 and 2016

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

### **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 – 2<sup>nd</sup> 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, 2016.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 8, 2017.

#### **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, 2016. There have been no significant changes to the use of estimates or judgments since December 31, 2016.

### **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, 2016.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. In April 2016, the IASB issued its final amendments that provide new examples and clarification on how the principles should be applied. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 will be effective for annual periods beginning January 1, 2018. Application of the standard is mandatory and early adoption is permitted. IFRS 15 will be applied by Harvest on January 1, 2018. The Company is currently in the process of reviewing underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements. Upon adoption, Harvest anticipates additional disclosure in the notes to the financial statement including revenue by product type and any impairment losses recognized on receivables arising from contracts with customers.

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 is currently in the analysis stage of determining the impact of adopting IFRS 9 on its consolidated financial statements.

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 and the Company is currently evaluating the impact on its consolidated 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 plans to complete sanctioning and re-commence commissioning activities in the fourth quarter of 2017. Commencement of steam injection depends on a number of factors including the bitumen price environment.

	Three months ended September 30					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
Petroleum and natural gas sales	\$ 69.2	\$ 78.5	\$ —	\$ —	\$ 69.2	\$ 78.5
Royalties	(5.8)	(12.7)	—	—	(5.8)	(12.7)
<b>Revenues</b>	<b>63.4</b>	<b>65.8</b>	<b>—</b>	<b>—</b>	<b>63.4</b>	<b>65.8</b>
<b>Expenses</b>						
Operating	33.6	28.8	2.4	2.0	36.0	30.8
Transportation and marketing	2.6	(0.4)	—	—	2.6	(0.4)
General and administrative	8.0	11.8	0.5	0.6	8.5	12.4
Depletion, depreciation and amortization	54.2	61.4	—	0.2	54.2	61.6
Exploration and evaluation	0.1	0.5	—	—	0.1	0.5
Gains on disposition of assets	(0.2)	(17.6)	—	—	(0.2)	(17.6)
Derivative contracts losses	0.9	3.2	—	—	0.9	3.2
Impairment, net of reversals	—	2.7	—	—	—	2.7
Loss on onerous contract	0.7	9.4	—	—	0.7	9.4
Loss from joint ventures	8.8	6.6	—	—	8.8	6.6
Operating/Pre-operating loss	\$ (45.3)	\$ (40.6)	\$ (2.9)	\$ (2.8)	\$ (48.2)	\$ (43.4)
Finance costs					25.2	33.9
Foreign exchange loss (gain)					(64.2)	22.8
Derivative contracts losses <sup>(1)</sup>					8.4	6.7
Loss on senior notes exchange					—	0.1
<b>Net Loss</b>					<b>\$ (17.6)</b>	<b>\$ (106.9)</b>

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

	Nine months ended September 30					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
Petroleum and natural gas sales	\$ 235.2	\$ 231.5	\$ —	\$ —	\$ 235.2	\$ 231.5
Royalties	(25.3)	(28.6)	—	—	(25.3)	(28.6)
<b>Revenues</b>	<b>209.9</b>	<b>202.9</b>	<b>—</b>	<b>—</b>	<b>209.9</b>	<b>202.9</b>
<b>Expenses</b>						
Operating	107.7	119.7	8.2	7.8	115.9	127.5
Transportation and marketing	8.1	1.9	—	—	8.1	1.9
General and administrative	26.9	39.9	1.4	1.7	28.3	41.6
Depletion, depreciation and amortization	144.8	202.7	0.3	0.5	145.1	203.2
Exploration and evaluation	0.1	2.5	—	—	0.1	2.5
Gains on disposition of assets	(1.2)	(34.9)	—	—	(1.2)	(34.9)
Derivative contract losses	0.6	13.9	—	—	0.6	13.9
Impairment	—	2.7	—	—	—	2.7
Loss (gain) on onerous contract	(1.1)	9.4	—	—	(1.1)	9.4
Loss from joint ventures	19.5	35.7	—	—	19.5	35.7
Operating/Pre-operating loss	\$ (95.5)	\$ (190.6)	\$ (9.9)	\$ (10.0)	\$ (105.4)	\$ (200.6)
Finance costs					75.4	109.6
Foreign exchange gains					(125.6)	(91.7)
Derivative contract losses <sup>(1)</sup>					19.8	3.2
Gain on senior notes exchange					—	(36.0)
<b>Net loss</b>					<b>\$ (75.0)</b>	<b>\$ (185.7)</b>

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

	Three months ended September 30					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
<b>Capital Additions</b>						
Additions to PP&E	\$ 11.0	\$ 2.3	\$ 0.6	\$ (0.1)	\$ 11.6	\$ 2.2
Additions to E&E	—	0.2	—	—	—	0.2
PP&E & E&E acquisitions, net of dispositions	—	(31.5)	—	—	—	(31.5)
<b>Net capital additions (disposals)</b>	<b>\$ 11.0</b>	<b>\$ (29.0)</b>	<b>\$ 0.6</b>	<b>\$ (0.1)</b>	<b>\$ 11.6</b>	<b>\$ (29.1)</b>

	Nine months ended September 30					
	Conventional		Oil Sands		Total	
	2017	2016	2017	2016	2017	2016
<b>Capital Additions</b>						
Additions to PP&E	\$ 35.5	\$ 4.3	\$ 0.8	\$ —	\$ 36.3	\$ 4.3
Additions to E&E	—	1.0	—	—	—	1.0
PP&E & E&E acquisitions, net of dispositions	—	(170.2)	—	—	—	(170.2)
<b>Net capital additions (disposals)</b>	<b>\$ 35.5</b>	<b>\$ (164.9)</b>	<b>\$ 0.8</b>	<b>\$ —</b>	<b>\$ 36.3</b>	<b>\$ (164.9)</b>

	Investments in Joint Ventures	PP&E	E&E	Goodwill	Total Assets
<b>December 31, 2016</b>					
Conventional	\$ 107.7	\$ 1,380.1	\$ 14.1	\$ 100.3	\$ 2,366.0
Oil Sands	—	1,008.8	—	—	1,008.9
<b>Total</b>	<b>\$ 107.7</b>	<b>\$ 2,388.9</b>	<b>\$ 14.1</b>	<b>\$ 100.3</b>	<b>\$ 3,374.9</b>
<b>September 30, 2017</b>					
Conventional	\$ 86.3	\$ 1,227.1	\$ 14.0	\$ 100.3	\$ 2,547.5
Oil Sands	—	1,007.0	—	—	1,007.0
<b>Total</b>	<b>\$ 86.3</b>	<b>\$ 2,234.1</b>	<b>\$ 14.0</b>	<b>\$ 100.3</b>	<b>\$ 3,554.5</b>

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

	Conventional	Oil Sands	Total
<b>Cost:</b>			
As at December 31, 2016	\$ 4,899.7	\$ 1,501.0	\$ 6,400.7
Additions	35.5	0.8	36.3
Change in decommissioning liabilities	(43.7)	(2.3)	(46.0)
<b>As at September 30, 2017</b>	<b>\$ 4,891.5</b>	<b>\$ 1,499.5</b>	<b>\$ 6,391.0</b>

### Accumulated depletion, depreciation, amortization and impairment losses:

As at December 31, 2016	\$ 3,519.6	\$ 492.2	\$ 4,011.8
Depreciation, depletion and amortization	144.8	0.3	145.1
<b>As at September 30, 2017</b>	<b>\$ 3,664.4</b>	<b>\$ 492.5</b>	<b>\$ 4,156.9</b>

### Net Book Value:

As at December 31, 2016	\$ 1,380.1	\$ 1,008.8	\$ 2,388.9
<b>As at September 30, 2017</b>	<b>\$ 1,227.1</b>	<b>\$ 1,007.0</b>	<b>\$ 2,234.1</b>

General and administrative costs directly attributable to PP&E addition activities of \$1.0 million and \$3.1 million have been capitalized during the three and nine months ended September 30, 2017, respectively (2016 – \$0.6 million and \$1.9 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, 2017 (2016 – \$nil).

At September 30, 2017, the Oil Sands assets of \$1.0 billion (December 31, 2016 – \$1.0 billion) were excluded from the asset base subject to depreciation, depletion and amortization. In early 2015, the Oil Sands central processing facility was substantially completed, however, no depletion expense was incurred for the three and nine months ended September 30, 2017, as Harvest uses the unit-of-production method and the Oil Sands assets currently have no production.

During the three and nine months ended September 30, 2017, Harvest recognized gains on disposals of non-core assets of \$0.2 million and \$1.2 million, respectively (2016 - \$17.6 million and \$34.9 million), relating to the de-recognition of PP&E and decommissioning liabilities.

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

As at December 31, 2016	\$ 14.1
Impairment	(0.1)
<b>As at September 30, 2017</b>	<b>\$ 14.0</b>

During the three and nine months ended September 30, 2017, \$0.1 million (2016 - \$0.5 million and \$5.2 million, respectively), of E&E costs were impaired as they were no longer deemed to be technically feasible and commercially viable.

**7. Investment in Joint Ventures**

	September 30, 2017 Ownership Interest		December 31, 2016	Ownership Interest
Deep Basin Partnership ("DBP")	\$	28.0	82.55%	\$ 45.0 82.32%
HK MS Partnership ("HKMS")		58.3	70.44%	62.7 70.23%
<b>Investments in joint ventures</b>	<b>\$</b>	<b>86.3</b>	<b>\$</b>	<b>107.7</b>

	DBP		HKMS		Total
Balance as at December 31, 2016	\$	45.0	\$	62.7	\$ 107.7
Additional investments		20.9		0.9	21.8
Share of income (losses)		(26.8)		7.3	(19.5)
Distributions		(11.1)		(12.6)	(23.7)
<b>Balance as at September 30, 2017</b>	<b>\$</b>	<b>28.0</b>	<b>\$</b>	<b>58.3</b>	<b>\$ 86.3</b>

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

	September 30, 2017		December 31, 2016	
	DBP	HKMS	DBP	HKMS
Cash and cash equivalents	\$ —	\$ —	\$ 0.1	\$ —
Other current assets	22.9	14.9	25.5	14.4
Total current assets	\$ 22.9	\$ 14.9	\$ 25.6	\$ 14.4
Non-current assets	158.4	96.3	184.9	98.4
Total assets <sup>(1)</sup>	\$ 181.3	\$ 111.2	\$ 210.5	\$ 112.8
Current liabilities	\$ 16.0	\$ 2.2	\$ 27.3	\$ 1.2
Non-current financial liabilities	135.3	104.0	135.6	107.1
Other non-current liabilities	4.2	4.1	4.9	4.4
Total liabilities <sup>(1)</sup>	\$ 155.5	\$ 110.3	\$ 167.8	\$ 112.7
Net assets <sup>(1)</sup>	\$ 25.8	\$ 0.9	\$ 42.7	\$ 0.1

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

	Three months ended September 30			
	2017		2016	
	DBP	HKMS	DBP	HKMS
Revenues	\$ 8.9	\$ 6.6	\$ 8.2	\$ 5.6
Depletion, depreciation and amortization	(9.6)	(0.9)	(9.7)	(0.9)
Operating expenses and other	(9.9)	(0.9)	(6.6)	0.1
Finance costs	(0.7)	(4.8)	(0.7)	(4.9)
Net loss <sup>(1)</sup>	\$ (11.3)	\$ —	\$ (8.8)	\$ (0.1)

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



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Nine months ended September 30					
		2017		2016	
		DBP	HKMS	DBP	HKMS
Revenues	\$	42.1	\$ 21.3	\$ 22.5	\$ 17.8
Impairment		—	—	(1.4)	—
Depletion, depreciation and amortization		(34.6)	(2.6)	(29.4)	(2.6)
Operating expenses and other		(32.2)	(3.5)	(31.9)	(0.8)
Finance costs		(2.1)	(14.4)	(2.1)	(14.7)
Net income (loss) <sup>(1)</sup>	\$	(26.8)	\$ 0.8	\$ (42.3)	\$ (0.3)

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

The following table summarizes 100% of DBP's contractual obligations and estimated commitments as at September 30, 2017:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Preferred distribution liability payments	\$ —	\$ —	\$ —	\$ 156.0	\$ 156.0
Firm processing commitment	23.2	46.4	46.4	36.7	152.7
Decommissioning and environmental liabilities <sup>(1)</sup>	—	0.3	0.1	12.2	12.6
Total	\$ 23.2	\$ 46.7	\$ 46.5	\$ 204.9	\$ 321.3

(1) Represents the undiscounted obligation by period.

As at September 30, 2017, Harvest's top-up obligation related to the preferred distribution liability payments was estimated as \$7.3 million (December 31, 2016 - \$6.7 million), using a discount rate of 11% (December 31, 2016 - 10%). 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, 2017 (see note 12 – Long-Term Liability). This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP (level 3 fair value inputs). The cash flow forecast is based on management's internal assumptions of the volumes, commodity prices, royalties, operating costs and capital expenditures specific to the DBP. There have been no changes to significant inputs of this calculation since December 31, 2016.

The following table summarizes 100% of HKMS's contractual obligations and estimated commitments as at September 30, 2017:

	Payments Due by Period				
	1 year	2-3 years	4-5 years	After 5 years	Total
Decommissioning and environmental liabilities <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 13.8	\$ 13.8
Total	\$ —	\$ —	\$ —	\$ 13.8	\$ 13.8

(1) Represents the undiscounted obligation by period.

**Related party transactions**
**Deep Basin Partnership**

As the operator of the DBP assets, Harvest has collected revenues and paid expenses on behalf of DBP. In addition, as managing partner, Harvest charges DBP for marketing fees and general and administrative expenses. For the three and nine months ended September 30, 2017, Harvest charged DBP a marketing fee of \$0.1 million and \$0.4 million, respectively (2016 - \$0.1 million and \$0.2 million) and general and administrative expenses of \$0.2 million and \$0.5 million, respectively (2016 - \$0.3 million and \$0.7 million). As at September 30, 2017, \$13.6 million remains outstanding to DBP from Harvest (December 31, 2016 - \$14.2 million).

**HKMS Partnership**

Harvest charged HKMS general and administrative expenses of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2017, respectively (2016 - \$0.1 million and \$0.2 million). As at September 30, 2017, \$1.0 million remains outstanding to HKMS from Harvest (December 31, 2016 - \$2.1 million).

**8. Long-Term Debt**

	September 30, 2017	December 31, 2016
Credit Facility <sup>(1)</sup>	\$ 427.7	\$ 892.6
Term Loan <sup>(2)</sup>	499.4	-
6½% senior notes due 2017 (US\$282.5 million)	354.1	379.7
2½% senior notes due 2018 (US\$630 million)	785.0	844.2
2½% senior notes due 2021 (US\$195.8 million)	244.0	262.6
3% senior notes due 2022 (US\$285 million)	351.7	-
<b>Long-term debt outstanding</b>	<b>\$ 2,661.9</b>	<b>\$ 2,379.1</b>
Less current portion <sup>(3)</sup>	(1,139.1)	(1,272.3)
<b>Long-term debt</b>	<b>\$ 1,522.8</b>	<b>\$ 1,106.8</b>

(1) Net of deferred finance costs of \$1.0 million at September 30, 2017 (December 31, 2016 - \$0.9 million).

(2) Net of deferred finance costs of \$0.6 million.

(3) As at September 30, 2017 the 6½% and 2½% senior notes were classified as current liabilities (December 31, 2016 - 6½% senior notes and the credit facility).

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allowed Harvest to borrow \$500 million through a three year term loan, at a fixed rate of 2.27% per annum. Interest is paid semi-annually in February and August and the loan matures on February 24, 2020. This term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 37 basis points per annum payable semi-annually on the principal balance is payable to KNOC. On February 24, 2017 the loan was fully drawn. Proceeds from this term loan were used to partially re-pay the credit facility.

On February 24, 2017, Harvest replaced its \$1 billion revolving credit facility due April 30, 2017, with a new three year \$500 million revolving credit facility with a syndicate of banks. The credit facility continues to be guaranteed by KNOC up to \$500 million and is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries. A guarantee fee of 0.37% per annum payable semi-annually on the principal balance is payable to KNOC. Harvest continues to pay a floating interest rate based on a margin pricing grid based on the credit ratings of KNOC. Based on KNOC's current credit ratings, the interest rates are Canadian Dollar Offered Rate plus 90 basis points on Canadian dollar drawn balances and LIBOR plus 90 basis points on US dollar drawn balances. The credit facility contains no financial covenants. The most restrictive limitations of Harvest's credit facility include no financial assistance and/or capital contributions to parties other than Harvest or its restricted subsidiaries, a limitation on conducting business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to the shareholder in certain circumstances such as an event of default. For the three and nine months ended September 30, 2017, interest charges on the credit facility borrowings aggregated to \$2.3 million and \$6.5 million, respectively (2016 - \$3.3 million and \$10.8 million), reflecting an effective interest rate of 2.2% and 1.7% (before the impact of , respectively (2016 - 2.6% and 1.9%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. See note 10 – Financial Instruments.

On September 21, 2017, Harvest issued US\$285 million 3% senior notes for net proceeds of US\$283.2 million. The 3% senior notes are unsecured and mature on September 21, 2022, with interest payable semi-annually on March 21 and September 21 of each year. They are unconditionally and irrevocably guaranteed by KNOC. A guarantee fee of 0.37% per annum of the principal balance is payable to KNOC semi-annually on March 21 and September 21 of each year. Also see note 17 – Related Party Transactions. Proceeds from these notes were used to re-pay the 6½% senior notes that matured on October 2, 2017.

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

## 9. Capital Structure

Harvest considers its capital structure to be its long term debt outstanding and shareholder's equity.

	September 30, 2017	December 31, 2016
Credit facility <sup>(1)(2)</sup>	\$ 428.7	\$ 893.5
Term Loan <sup>(1)</sup>	500.0	—
6½% senior notes (US\$282.5 million) <sup>(1)(3)</sup>	352.3	379.3
2½% senior notes (US\$630 million) <sup>(1)(3)</sup>	785.7	845.9
2½% senior notes (US\$195.8 million) <sup>(1)(3)</sup>	244.2	262.9
3% senior notes (US\$285 million) <sup>(1)(3)</sup>	355.5	—
	\$ 2,666.4	\$ 2,381.6
Shareholder's equity	34.8	104.0
	\$ 2,701.2	\$ 2,485.6

(1) Excludes capitalized financing fees.

(2) Excludes letters of credit issued in the amount of \$10.3 million at September 30, 2017 (December 31, 2016 - \$9.9 million).

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

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

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

## 10. Financial Instruments

### a) Fair Values

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

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

As at September 30, 2017, all financial instruments are level 2, except for the \$5.5 million of the long-term liability (relating to the top-up obligation to DBP), which is level 3 and cash, which is level 1. As at December 31, 2016, the 2½% senior notes were classified as level 1, however, during the three months ended March 31, 2017, they were transferred to level 2, due to the infrequency and volume of trades and then back to level 1 during the three months ended June 30, 2017. During the three months ended September 30, 2017, the 2½% senior notes transferred back to level 2 due to the infrequency and volumes of trades. All of the senior notes are traded on the Singapore Stock Exchange. There were no other transfers during the three and nine months ended September 30, 2017 and 2016. Also see note 7 – Investment in Joint Ventures and note 12 – Long-Term Liability.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
<u>Held for Trading</u>				
Cash	353.6	353.6	—	—
Derivative contracts	7.7	7.7	1.1	1.1
<b>Total Financial Assets</b>	<b>\$ 361.3</b>	<b>\$ 361.3</b>	<b>\$ 1.1</b>	<b>\$ 1.1</b>
<b>Financial Liabilities</b>				
<u>Held for Trading</u>				
Long-term liability	7.3	7.3	6.7	6.7
<u>Measured at Amortized Cost</u>				
Credit Facility	427.7	428.7	892.6	893.5
Term Loan	499.4	500.0	—	—
6%% senior notes	354.1	352.3	379.7	379.3
2%% senior notes	785.0	785.6	844.2	847.1
2½% senior notes	244.0	238.2	262.6	255.6
3% senior notes	351.7	352.5	—	—
Long-term liability	40.7	35.3	48.4	41.6
<b>Total Financial Liabilities</b>	<b>\$ 2,709.9</b>	<b>\$ 2,699.9</b>	<b>\$ 2,434.2</b>	<b>\$ 2,423.8</b>

**b) Derivative Contracts**

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

Harvest has entered into U.S. dollar currency swap transactions related to LIBOR borrowings. This results in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. As a result of these transactions, Harvest's effective interest rate for borrowings under the credit facility for the three months and nine months ended September 30, 2017 were lowered to 1.9% and 1.6%, respectively (2016 - 1.5% and 1.6%). Also see note 8 – Long-Term Debt for effective interest rates before the effect of these swaps.

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

	Three months ended September 30					
	2017			2016		
	Realized losses	Unrealized losses (gains)	Total	Realized losses	Unrealized losses	Total
Power	\$ —	\$ —	\$ —	\$ 0.5	\$ 0.2	\$ 0.7
Currency	26.5	(18.1)	8.4	—	6.7	6.7
Top-up obligation (note 7)	—	0.9	0.9	—	2.5	2.5
	<b>\$ 26.5</b>	<b>\$ (17.2)</b>	<b>\$ 9.3</b>	<b>\$ 0.5</b>	<b>\$ 9.4</b>	<b>\$ 9.9</b>

Nine months ended September 30						
2017			2016			
	Realized losses	Unrealized losses (gains)	Total	Realized losses	Unrealized losses	Total
Power	\$ —	\$ —	\$ —	\$ 1.3	\$ 0.1	\$ 1.4
Currency	25.6	(5.8)	19.8	—	3.2	3.2
Top-up obligation (note 7)	—	0.6	0.6	—	12.5	12.5
	\$ 25.6	\$ (5.2)	\$ 20.4	\$ 1.3	\$ 15.8	\$ 17.1

The following is a summary of Harvest's derivative contracts outstanding at September 30, 2017:

**Contracts Not Designated as Hedges**

Contract Quantity	Type of Contract	Term/Expiry	Contract Price	Fair Value of asset
US\$348 million	Foreign exchange swap	October 2017	1.23 Cdn/US	7.7
				\$ 7.7

**11. Provisions**

	Conventional	Oil Sands	Head Office operating lease	Total
Decommissioning liabilities at December 31, 2016	\$ 615.4	\$ 48.6	\$ —	\$ 664.0
Environmental Remediation at December 31, 2016	11.4	—	—	11.4
Other provisions at December 31, 2016	5.0	—	10.7	15.7
Less current portion	(14.7)	—	(1.3)	(16.0)
Balance at December 31, 2016	\$ 617.1	\$ 48.6	\$ 9.4	\$ 675.1
Decommissioning liabilities at December 31, 2016	\$ 615.4	\$ 48.6	\$ —	\$ 664.0
Liabilities incurred	0.8	—	—	0.8
Settled during the period	(3.5)	—	—	(3.5)
Change in estimates	(44.5)	(2.3)	—	(46.8)
Disposals	(0.5)	—	—	(0.5)
Accretion	10.4	0.8	—	11.2
Decommissioning liabilities at September 30, 2017	\$ 578.1	\$ 47.1	\$ —	\$ 625.2
Environmental remediation at September 30, 2017	11.4	—	—	11.4
Other provisions at September 30, 2017	—	—	9.3	9.3
Less current portion	(8.0)	—	(1.4)	(9.4)
<b>Balance at September 30, 2017</b>	<b>\$ 581.5</b>	<b>\$ 47.1</b>	<b>\$ 7.9</b>	<b>\$ 636.5</b>

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, 2017 (December 31, 2016 – \$1.2 billion), which will be incurred between 2017 and 2076. As at September 30, 2017, an inflation rate of 1.5% (December 31, 2016 – 1.5%) and a risk-free discount rate of 2.5% (December 31, 2016 – 2.3%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities.

At September 30, 2017, Harvest recognized an onerous contract provision of \$9.3 million (December 31, 2016 - \$10.7 million), relating to a Head Office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future lease payments that Harvest is obligated to make under the non-cancellable operating lease agreement and sublease recoveries discounted at a credit adjusted rate of 11% (December 31, 2016 – 10%), specific to the liability. A loss of \$0.7 million and a gain of \$1.1 million resulted from changes in discount rate and an amendment to a sublease contract during the three and nine months ended September 30, 2017, respectively (2016 – \$9.4 million loss for both periods).

**12. Long-Term Liability**

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
BlackGold liability <sup>(1)</sup>	\$	<b>68.9</b>	\$	67.2
Less: current portion of BlackGold liability <sup>(1)</sup>		<b>(28.5)</b>		(19.0)
Deferred rent and other <sup>(2)</sup>		<b>11.2</b>		11.1
Top-up obligation <sup>(3)</sup>		<b>7.3</b>		6.7
	\$	<b>58.6</b>	\$	66.0

(1) Calculated using a discount rate of 4.5% at both September 30, 2017 and December 31, 2016. The current portion of the liability has been included with accounts payable and accrued liabilities. Harvest withheld the third and fourth deferred payments due April 30, 2016 and 2017 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. Finance Costs**

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest and other financing charges <sup>(1)</sup>	\$ <b>21.0</b>	\$ 29.7	\$ <b>62.2</b>	\$ 93.9
Accretion of decommissioning and environmental remediation liabilities (note 11)	<b>3.7</b>	3.5	<b>11.5</b>	13.3
Accretion of BlackGold long-term liability (note 12)	<b>0.5</b>	0.7	<b>1.7</b>	2.4
	\$ <b>25.2</b>	\$ 33.9	\$ <b>75.4</b>	\$ 109.6

(1) Includes \$0.6 million of a loss on extinguishment on the \$1.0 billion credit facility and \$0.3 million and \$0.8 million of accretion on the onerous contract during the three and nine months ended September 30, 2017, respectively (2016 - \$nil). See note 8 – Long-Term Debt and note 11 – Provisions.

**14. Foreign Exchange**

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Realized gain on foreign exchange	\$ <b>(26.1)</b>	\$ (13.6)	\$ <b>(25.0)</b>	\$ (22.4)
Unrealized loss (gain) on foreign exchange	<b>(38.1)</b>	36.4	<b>(100.6)</b>	(69.3)
	\$ <b>(64.2)</b>	\$ 22.8	\$ <b>(125.6)</b>	\$ (91.7)

**15. Supplemental Cash Flow Information**

	<b>Nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>
Source (use) of cash:		
Accounts receivable	\$ <b>6.7</b>	\$ 22.0
Prepaid expenses, long-term deposit and other	<b>(2.4)</b>	5.0
Accounts payable and accrued liabilities	<b>18.6</b>	(47.5)
Net changes in non-cash working capital	<b>22.9</b>	(20.5)
Changes relating to operating activities	<b>26.5</b>	(31.5)
Changes relating to investing activities	<b>(4.2)</b>	(20.3)
Reclass of long-term liability to accounts payable	<b>9.5</b>	9.5
Capital contribution	<b>(5.8)</b>	—
Add: Other non-cash changes	<b>(3.1)</b>	21.8
	\$ <b>22.9</b>	\$ (20.5)

**16. Accumulated Other Comprehensive Loss ("AOCL")**

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

	Three months ended September 30				Nine months ended September 30			
	After-tax		Pre-tax		After-tax		Pre-tax	
	2017	2016	2017	2016	2017	2016	2017	2016
Losses re-classified from OCL	\$ —	\$ (0.5)	\$ —	\$ (0.7)	\$ —	\$ (0.3)	\$ —	\$ (0.4)
Losses recognized in OCL	—	1.1	—	1.6	—	—	—	—
Total	\$ —	\$ 0.6	\$ —	\$ 0.9	\$ —	\$ (0.3)	\$ —	\$ (0.4)

**17. Related Party Transactions**

**a) Related party loans**

As at September 30, 2017 and December 31, 2016, there were no related party loans outstanding. The following is the interest expense relating to each related party loan for three and nine months ended September 30, 2016:

Related Party	Principal	Interest Rate	Three months ended September 30, 2016		Nine months ended September 30, 2016	
KNOC	US\$171	5.91%	\$	3.3	\$	9.0
KNOC	\$200	5.30%		3.5		10.4
ANKOR	US\$170	4.62%		0.7		5.9
KNOC	US\$184.8	4.66%		2.7		2.7
			\$	10.2	\$	28.0

**b) Other Related Party Transactions**

	Transactions						Accounts Payable <sup>(3)</sup>	
	Three months ended September 30		Nine months ended September 30				as at	
	2017	2016	2017	2016	September 30, 2017		December 31, 2016	
<b>G&amp;A Expenses</b>								
KNOC <sup>(1)</sup>	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.3	\$ 0.6			0.4
<b>Finance costs</b>								
KNOC <sup>(2)</sup>	\$ 2.5	\$ 2.5	\$ 7.3	\$ 6.7	\$ 4.7			1.7

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

(2) Charges from KNOC for the irrevocable and unconditional guarantee they provide on Harvest's 3%, 2½% and 2¼% senior notes, the credit facility and term loan. A guarantee fee of 52 basis points per annum is charged by KNOC on the 2½% senior notes and 37 basis points per annum on the 2¼% and 3% senior notes. A guarantee fee of 37 basis points per annum continues to be charged by KNOC on the credit facility and term loan. See note 8 – Long Term Debt.

(3) There were \$nil accounts receivable balance relating to G&A and finance costs as at September 30, 2017 and December 31, 2016.

During the year ended December 31, 2016, Harvest entered into an agreement with KNOC to drill, complete and tie-in a well and provide technical data to KNOC. KNOC initially provided Harvest with \$5.3 million as a cash advance, and any additional amounts incurred relating to the well has been billed to KNOC for reimbursement up to a maximum of 9.4 billion Korean Won equivalent. During the three and nine months ended September 30, 2017, \$nil and \$5.8 million, respectively, of expenditures were incurred on the well and earned for reimbursement from KNOC which is recorded in contributed surplus, (2016 - \$nil). As at September 30, 2017, Harvest had a receivable of \$5.9 million relating to this agreement from KNOC (December 31, 2016 - \$0.1 million).



**18. Commitments**

The following is a summary of Harvest's estimated commitments as at September 30, 2017:

	Payments Due by Period					Total
	1 year	2-3 years	4-5 years	After 5		
Purchase commitments <sup>(1)</sup>	\$ 29.6	\$ 19.4	\$ 19.0	\$ 24.8	\$	92.8
Operating leases	6.5	16.2	15.8	21.8		60.3
Firm processing commitments	11.6	22.6	21.4	26.5		82.1
Firm transportation agreements	29.4	47.4	28.5	39.3		144.6
Employee benefits <sup>(2)</sup>	0.6	0.2	—	—		0.8
Total <sup>(3)</sup>	\$ 77.7	\$ 105.8	\$ 84.7	\$ 112.4	\$	380.6

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

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

(3) See note 8 - Long Term Debt and note 9 – Capital Structure for Harvest's debt obligations.