

MANAGEMENT'S REPORT

In management's opinion, the accompanying consolidated financial statements of Harvest Operations Corp. (the "Company") have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Since a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 25, 2020. Management is responsible for the consistency, therewith, of all other financial and operating data presented in Management's Discussion and Analysis for the year ended December 31, 2019.

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

Under the supervision of our President and Chief Executive Officer and our Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have concluded that as of December 31, 2019, our internal controls over financial reporting were effective.

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

The consolidated financial statements have been examined in 2019 by our auditors, Ernst & Young LLP and in 2018 by KPMG LLP. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements prepared in accordance with IFRS as issued by the IASB. The Auditors' Report outlines the scope of their examination and sets forth their opinion on our consolidated financial statements.

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

(Signed)

Byeongil Kim
President & Chief Executive Officer

(Signed)

Cheolwoong Choi
Chief Financial Officer

Calgary, Alberta
February 25, 2020

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Harvest Operations Corp.

Opinion

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

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

Other matter

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

Basis for opinion

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

Other information

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

- Management's Discussion and Analysis

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Calgary, Canada
February 25, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

Subsequent events [Note 10]

Commitments [Note 23]

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIT

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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

1. Nature of Operations and Structure of the Company

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

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

2. Basis of Presentation

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors on February 25, 2020.

Basis of Measurement

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

Functional and Presentation Currency

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

3. Changes in Accounting Policy**(a) New Accounting standards**

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

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

The adoption of IFRS 16 included the following elections:

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

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

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

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

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

4. Significant Accounting Policies

(a) Consolidation

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

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

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

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

(b) Interests in Joint Arrangements

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

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

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

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

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

(c) Revenue Recognition

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

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

(i) Conventional and Oil sands

Exploration and evaluation expenditures

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

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

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

Development costs

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

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

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

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

Depletion, Depreciation and Amortization

Costs incurred related to developed oil and gas properties are depleted using the unit-of-production basis over the proved developed reserves. Costs related to undeveloped oil and gas properties are not immediately

included in the depletable pool of developed assets but are transferred to the depletable pool as the reserves are developed through drilling activities.

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

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

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

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

(ii) Disposal of assets

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

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

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

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCD, discounted cash flows, future developments, and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. Inputs are those that an independent market participant would consider appropriate.

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

(e) Capitalized Interest

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

(f) Business Combinations and Goodwill

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

vendor is recognized at fair value at the acquisition date. Contingent consideration classified as a financial asset or liability is measured at fair value, with changes in fair value recorded in net income.

(g) Provisions

(i) General

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

(ii) Decommissioning Liabilities

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

(iii) Environmental Remediation Liabilities

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

(iv) Contingencies

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

(h) Income Taxes

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

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

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

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

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

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

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

(i) Currency Translation

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

(j) Financial Instruments

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

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

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

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

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

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

(k) Hedges

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

A hedging relationship qualifies for hedge accounting only if all the following criteria are met; the hedging relationship consists only of eligible instruments and eligible hedged items, at inception of the hedging relationship there is a formal designation, and the hedging relationship meets the hedge effectiveness requirements. At the inception of a hedge relationship, Harvest formally designates and documents the hedge relationship to which the

Company intends to apply hedge accounting. The designation document includes the risk management objective and strategy for undertaking the hedge, the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedge effectiveness requirements. The hedge effectiveness requirements are that there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instruments that the entity actually uses to hedge the quantity of hedged item. Harvest will only discontinue hedge accounting prospectively if the hedging relationship ceases to meet the qualifying criteria.

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

Fair value hedges

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

Cash flow hedges

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

The amount recognised in OCI should be the lower of:

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

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

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

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

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

(m) Fair Value Measurement

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

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

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

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

Harvest uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of

unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy; described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

(a) Joint arrangements (note 4(b), 9 and 14)

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

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

On April 23, 2014, Harvest entered into two joint arrangements with KERR Canada Co. Ltd. ("KERR"): Deep Basin Partnership ("DBP") and HK MS Partnership ("HKMS") (also see note 9). Unanimous consent must be obtained from the shareholders for decisions about relevant activities that impact the returns on investment. Such activities include but are not limited to the approval of the overall capital program and budget. Based on management's assessment, Harvest concluded that both joint arrangements are joint ventures as neither KERR nor Harvest has a direct interest in the underlying assets or liabilities. These joint ventures have been recognized using the equity method of accounting. However, based on the terms of the agreement, which provide for differing proportions of earnings based on ownership percentages that are not representative of the economic substance, Harvest cannot simply apply its percentage ownership to pick up the net income from these joint ventures. Therefore, Harvest applies a hypothetical liquidation at book value ("HLBV") method to calculate its equity share of net income for each reporting period. HLBV takes a balance sheet approach in calculating the earnings Harvest should recognize based on the change in Harvest's economic interest in the net assets in the partnerships under the provisions of the joint venture agreements in a liquidation scenario.

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

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

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

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

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

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

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

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

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

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

(d) Provisions (note 4(g) and 13)

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

(e) Income taxes (note 4(h) and 17)

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

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax

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

(f) Fair value measurements (note 4(d), 4(m), 7, 9 and 12)

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

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

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

(h) Going concern

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

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

6. Segment Information

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

- Conventional, which consists of exploration, development, production and subsequent sale of petroleum, natural gas and natural gas liquids in western Canada.
- Oil Sands, which is the BlackGold oil sands project located near Conklin, Alberta. Phase 1 of the project is designed to produce 10,000 barrels of bitumen per day. During Q4 2018 the oil sands project began operating in the manner intended by management.

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

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

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

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

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

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

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

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

Accumulated depletion, depreciation and amortization:

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

Net Book Value:

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

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

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

⁽³⁾ Includes corporate leased assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2019, \$0.3 million (2018 - \$2.1 million), of E&E costs were impaired as they were no longer deemed to be technically feasible or commercially viable to pursue. There were no pre-licensing costs incurred for the years ended December 31, 2019 and 2018.

9. Investment in Joint Ventures

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

Amounts contributed by KERR were spent by the DBP to purchase land, drill and develop partnership properties in the Deep Basin area. As the initial funding from KERR is consumed and additional funds are required to fund the development program, each partner is entitled to participate in and fund the additional work programs, however to the extent only one partner funds, its partnership interest will be increased and the other partner's interest will be diluted proportionately. Harvest will be obligated to fund the balance of the program to the extent of its share of partnership distributions received.

The preferred partnership units issued to KERR at inception provides certain preference rights, including a put option right exercisable after 10.5 years, whereby KERR could cause DBP to redeem all its preferred partnership units for consideration equal to its initial contribution plus a specified internal rate of return. If DBP does not have sufficient funds to complete the redemption obligation and after making efforts to secure funding, whether via issuing new equity, entering into a financing arrangement or selling assets, the partnership can cash-call Harvest to meet such obligation (the "top-up obligation"). This top-up obligation is accounted for by Harvest at fair value through profit and loss and is estimated using a probabilistic model of the estimated future cash flows of the DBP (level 3 fair value inputs). The cash flow forecast is based on the external reserve report volumes, commodity prices (see note 7 – PP&E), royalties, operating costs and capital expenditures specific to the DBP. As at December 31, 2019, the fair value of the top-up obligation was estimated as \$18.8 million (December 31, 2018 - \$2.2 million), using a discount rate of 24% (December 31, 2018 – 20%). A 1% increase or decrease in the discount rate of top-up obligation would result in an increase or decrease in the liability of \$0.5 million respectively. The increase in the top-up obligation from the previous year is related primarily to a change in timing in forecasted reserve cash flows and volumes partially offset by an increase in discount rate. This top-up obligation has been included in the derivative contract losses (gain) in the statement of comprehensive loss and in the long-term liability at December 31, 2019 (see note 14 – Long-Term Liability). Once KERR achieves the minimum after-tax internal rate of return on its investment, Harvest is entitled to increased return on its investment.

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

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

HKMS was formed for the purposes of constructing and operating a gas processing facility, which is now primarily used to process the gas produced from the properties owned by the DBP. A gas processing agreement was entered by the two partnerships which provides HKMS with a minimum guaranteed return. On the earlier of 10.5 years after the

formation of HKMS or when KERR achieves a specified internal rate of return, Harvest will have the right but not the obligation to purchase all of KERR's interest in HKMS for nominal consideration.

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

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

As KERR's ownership interest in DBP is considered a liability and not an equity interest, Harvest's initial unrecognized dilution gain on the transaction of approximately \$91.5 million will be recognized over 10.5 years based on KERR's interest being converted to equity as distributions are made to KERR during the term. For the years ended December 31, 2019 and 2018, Harvest recognized a dilution gain of \$nil.

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

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

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

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

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

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

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

(1) Represents the undiscounted obligation by period.

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

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

(1) Represents the undiscounted obligation by period.

Related party transactions

Deep Basin Partnership

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

HKMS Partnership

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

10. Long-Term Debt

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

a) 2½% Senior Notes

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

The new 2½% senior notes are unsecured and mature on April 14, 2021, with interest payable semi-annually on April 14 and October 14 of each year. They are unconditionally and irrevocably guaranteed by Harvest's parent company, KNOC. A guarantee fee of 0.37% per annum of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. See note 22 – Related Party Transactions.

b) 3% Senior Notes

On September 21, 2017, Harvest issued US\$285 million 3% senior notes for net proceeds of US\$283.2 million. On November 6, 2017, Harvest issued an additional US\$200 million of 3% senior notes for net proceeds of US\$198.5 million. The 3% senior notes are unsecured and mature on September 21, 2022, with interest payable semi-annually on March 21 and September 21 of each year. They are unconditionally and irrevocably guaranteed by KNOC. A guarantee fee of 0.37% per annum of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. Also see note 22 – Related Party Transactions.

c) 4.2% Senior Notes

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

d) Credit Facility and Term Loans

On February 24, 2017, Harvest entered into a new three year \$500 million revolving credit facility with a syndicate of banks. The credit facility is guaranteed by KNOC up to \$500 million and is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries. A guarantee fee of 0.37% per annum of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. Harvest pays a floating interest rate based on a margin pricing grid based on the credit ratings of KNOC. Based on KNOC's current credit ratings, the interest rates are Canadian Dollar Offered Rate plus 90 basis points on Canadian dollar drawn balances and LIBOR plus 90 basis points on US dollar drawn balances. The credit facility contains no financial covenants. The most restrictive limitations of Harvest's credit facility include no financial assistance and/or capital contributions to parties other than Harvest or its restricted subsidiaries, a limitation on conducting business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to the shareholder in certain circumstances such as an event of default. For the year ended December 31, 2019, interest charges on the credit facility borrowings aggregated to \$15.0 million (2018 - \$8.2 million), reflecting an effective interest rate of 2.72% (2018 – 2.90%). These effective interest rates exclude the impact of the U.S. dollar currency swap transactions related to LIBOR borrowings during the first nine months of the year, which result in a reduction of interest expense paid on Harvest's borrowings related to its credit facility. See note 12 – Financial Instruments. On July 29, 2019, Harvest closed the extension of the credit facility from the original maturity date of February 24, 2020 to July 29, 2022.

On February 17, 2017, Harvest entered into an agreement with a Korean based bank that allowed Harvest to borrow \$500 million through a three year term loan, at a fixed rate of 2.27% per annum. Interest is paid semi-annually in February and August and the loan matures on February 24, 2020. This term loan is guaranteed by KNOC and contains no financial covenants. A guarantee fee of 0.37% per annum of the principal balance payable to KNOC was reduced to zero effective January 1, 2019. On February 24, 2017 the loan was fully drawn. Proceeds from this term loan were used to partially re-pay the credit facility. On February 24, 2020, Harvest and the Korean based bank agreed to amend and extend the \$500 million term loan. The maturity date was extended to February 24, 2021 and the interest rate on the term loan was reduced to 2.25%. The term loan continues to be guaranteed by KNOC and contains no financial covenants.

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

11. Shareholder's Capital & Capital Structure

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

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

(1) Excludes capitalized financing fees.

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

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

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

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

Harvest's authorized capital consists of an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series. Opening share balance as of January 1, 2018 was 458,766,467. During 2019 and 2018, no additional common shares were issued.

12. Financial Instruments
a) Fair Values

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

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

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

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

Non-derivative financial instruments

The credit facility bears a floating market rate, thus, the fair value approximates the carrying value (excluding deferred financing charges). The carrying value of the credit facility includes \$0.6 million of deferred financing charges at December 31, 2019 (December 31, 2018 – \$0.5 million). See note 10 – Long Term Debt.

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

The fair value of the long-term liability measured at amortized cost is estimated by discounting the future interest and principal payments using the current market interest rates of instruments with similar terms. At December 31, 2019, the rate used in determining the fair value of the long-term liability was 24% (December 31, 2018 – 20%).

Derivative financial instruments

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

See note 9 – Investment in Joint Ventures for the fair value estimation of the top-up obligation portion of the long-term liability.

The following is a summary of Harvest's derivative contracts outstanding at December 31, 2019:

Contracts Designated as Hedges

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

b) Financial Assets and Liabilities Subject to Offsetting

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2019 and 2018, and shows in the "net" column what the net impact would be on Harvest's statement of financial position if all set-off rights were exercised.

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

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

c) Risk Exposure

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

Derivative Contracts

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

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

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

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

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

Credit Risk

Accounts Receivable

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

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

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

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

Derivative Contract Counterparties

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

Harvest's maximum exposure to credit risk relating to the above classes of financial assets at December 31, 2019 and 2018 is the carrying value of accounts receivable and derivative contracts. The tables below provide an analysis of Harvest's current and past due but not impaired receivables.

	Current	< 30 days	> 30 days, ≤ 60 days	> 60 days, ≤ 90 days	> 90 days	Total
December 31, 2019⁽¹⁾	\$ 30.0	\$ 1.9	\$ 2.4	\$ 0.8	\$ 0.1	\$ 35.2
December 31, 2018⁽¹⁾	14.4	0.6	1.5	0.7	2.0	19.2

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

Liquidity Risk

Harvest is exposed to liquidity risk due to the Company's accounts payables and accrued liabilities, risk management contracts liability, borrowings under its credit facility, senior notes, term loans and long-term liability. This risk is mitigated by managing the maturity dates on the Company's obligations, utilizing the undrawn borrowing capacity in the credit facility and managing the Company's cash flow by entering into price risk management contracts. Additionally, when Harvest enters into price risk management contracts it selects counterparties that are also lenders in its syndicated credit facility thereby using the security provided in the credit agreement and eliminating the requirement for margin calls and the pledging of collateral. The majority of the financial liabilities are an integral part of Harvest's capital structure which is monitored and managed as discussed in note 11.

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

The following tables provide an analysis of Harvest's financial liability maturities based on the remaining terms of the liabilities including the related interest charges as at December 31, 2019 and 2018:

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

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

Market Risk & Sensitivity Analysis

Interest rate risk

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

If the interest rate applicable to Harvest's credit facility at December 31, 2019 increased or decreased by approximately 25 basis points with all other variables held constant, pre-tax loss for the year would change by \$2.1 million (2018 - \$1.7 million) as a result of change in interest expense on variable rate borrowings under the credit facility.

Commodity price risk

Harvest is exposed to natural gas and crude oil price movements as part of its normal business operations. The Company periodically uses derivative contracts to protect a portion of the Company's future cash flows and net income against unfavorable movements in commodity prices. These contracts are recorded on the consolidated statement of financial position at their fair value as of the reporting date. These fair values are generally determined as the difference between the stated fixed price of the contract and an expected future price of the commodity. Variances in expected future prices expose Harvest to commodity price risk as changes will result in a gain or loss that Harvest will realize on settlement of these contracts.

Currency exchange rate risk

Harvest is exposed to the risk of changes in the U.S. dollar exchange rate on its U.S. dollar denominated revenues. In addition, Harvest's senior notes and LIBOR based loans are denominated in U.S. dollars, collectively US\$1.1 billion

(2018 - US\$1.3 billion). Interest on such debt is also payable in U.S. dollars and accordingly, the future cash payments of the principal and interest obligations will be sensitive to fluctuations in the U.S. dollars relative to the Canadian dollars.

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

	Increase (decrease) in income before tax	
	December 31, 2019	December 31, 2018
10% strengthening in U.S. dollar relative to Canadian dollar	\$ (140.5)	\$ (183.7)
10% weakening in U.S. dollar relative to Canadian dollar	\$ 140.5	\$ 183.7

13. Provisions

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

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

(2) Oil Sands includes balance of decommissioning liability.

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

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.1 billion at December 31, 2019 (December 31, 2018 – \$1.2 billion), which will be incurred between 2020 and 2078. A risk-free discount rate of 1.76% (December 31, 2018 – 2.18%) and inflation rate of 1.50% (December 31, 2018 – 1.50%) were used to calculate the carrying value of the decommissioning and environmental remediation liabilities. The actual decommissioning and environmental remediation costs will ultimately depend upon future market prices for the necessary decommissioning and remediation work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

At December 31, 2019, Harvest recognized an onerous contract provision of \$1.5 million (December 31, 2018 - \$6.8 million), relating to future variable lease payments under a head office operating lease agreement ending on August 31, 2025. The provision represents the present value of the difference between the future lease operating cost payments

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

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

14. Long-Term Liability

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

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

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

⁽³⁾ See note 9 – Investment in Joint Ventures.

Under the BlackGold oil sands engineering, procurement and construction ("EPC") contract, \$94.9 million of EPC costs are to be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work. The first two installments were paid on April 30, 2015. Harvest withheld the third, fourth, fifth and sixth deferred payments due April 30, 2019, 2018, 2017 and 2016 while negotiating a settlement with the contractor. Following an arbitration hearing on the matter, a deposit of \$10 million on the withheld deferred payments was paid in September 2019 which was partially offset by additional interest owed on the withheld payments and legal fees arising from the settlement.

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

15. Lease Obligation

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

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

⁽¹⁾ Included in Accounts payable and accrued liabilities.

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

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

16. Revenue

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

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

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

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

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

⁽²⁾ Inclusive of sulphur revenue and pipeline arbitrage

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

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

17. Income Taxes

Income tax recovery recognized in net income from continuing operations:

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

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

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

The tax rate is comprised of the Federal and Provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2019 and 2018.

Movements in the DIT asset are as follows:

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

As at December 31, 2019, Harvest had approximately \$755 million (December 31, 2018 - \$734 million) of carry-forward tax losses and approximately \$4.2 billion (December 31, 2018 - \$4.2 billion) of tax pools that would be available to offset against future taxable profit. The carry-forward losses will expire between the years 2024 and 2038. DIT assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. As at December 31, 2019 Harvest has not recognized approximately \$209 million (December 31, 2018 - \$244 million) of temporary difference arising from foreign exchange, \$73 million (December 31, 2018 - \$528 million) of non-capital losses, \$ nil (December 31, 2018 - \$200 million) arising from asset retirement obligation and \$753 million (December 31, 2018 - \$796 million) of capital losses.

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

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

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

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

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

19. Finance Costs

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

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

20. Foreign Exchange

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

21. Supplemental Cash Flow Information

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

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

22. Related Party Transactions
Directors and Key Management Personnel Remuneration

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

	Year Ended December 31			
	2019		2018	
Short-term benefits	\$	2.4	\$	2.2
Other long-term benefits		0.1		0.2
Other		0.6		1.4
	\$	3.1	\$	3.8

Other Related Party Transactions

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

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

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

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

23. Commitments

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

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

24. Accumulated Other Comprehensive Income ("AOCI")

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

⁽¹⁾ Related to Interest Rate and Commodity Price Risk

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

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

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