



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

### ADVISORY

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL AND OPERATING HIGHLIGHTS

|                                                               | Three Months Ended December 31 |                | Twelve Months Ended December 31 |                |
|---------------------------------------------------------------|--------------------------------|----------------|---------------------------------|----------------|
|                                                               | 2019                           | 2018           | 2019                            | 2018           |
| <b>Conventional</b>                                           |                                |                |                                 |                |
| Petroleum and natural gas sales                               | 59.5                           | 58.6           | 239.8                           | 317.7          |
| Daily sales volumes (boe/d) <sup>(1)</sup>                    | 17,152                         | 23,580         | 21,470                          | 24,632         |
| Deep Basin Partnership                                        |                                |                |                                 |                |
| Daily sales volumes (boe/d)                                   | 3,867                          | 6,207          | 4,615                           | 4,563          |
| Harvest's share of daily sales volumes (boe/d) <sup>(3)</sup> | 3,228                          | 5,180          | 3,852                           | 3,797          |
| Average realized price <sup>(2)</sup>                         |                                |                |                                 |                |
| Oil and NGLs (\$/bbl)                                         | 48.63                          | 28.48          | 49.81                           | 51.82          |
| Gas (\$/mcf)                                                  | 4.29                           | 1.67           | 2.04                            | 1.63           |
| Operating netback prior to hedging(\$/boe) <sup>(3)</sup>     | 13.90                          | (1.28)         | 12.15                           | 11.83          |
| Operating income (loss)                                       | 45.0                           | 12.2           | (26.1)                          | (127.9)        |
| Cash contribution from operations <sup>(3)</sup>              | 11.4                           | 0.1            | 53.8                            | 80.3           |
| Capital expenditures                                          | 2.7                            | 13.2           | 16.7                            | 56.2           |
| Property acquisitions, net of dispositions <sup>(4)</sup>     | (4.7)                          | (1.6)          | (23.5)                          | (2.0)          |
| Net wells rig released                                        | —                              | 2.1            | 1.1                             | 11.6           |
| <b>Oil Sands</b>                                              |                                |                |                                 |                |
| Blended bitumen sales                                         | 36.3                           | —              | 136.4                           | —              |
| Daily sales volumes blended bitumen (bbl/d)                   | 9,394                          | 3,120          | 8,440                           | 3,120          |
| Average realized price                                        |                                |                |                                 |                |
| Blended bitumen (\$/bbl)                                      | 48.36                          | (0.43)         | 49.46                           | (0.43)         |
| Operating netback prior to hedging(\$/bbl) <sup>(3)</sup>     | 18.80                          | (0.43)         | 16.55                           | (0.43)         |
| Operating loss                                                | (3.2)                          | (18.8)         | (9.5)                           | (24.9)         |
| Cash contribution (deficiency) from operations <sup>(3)</sup> | 7.2                            | (15.3)         | 26.0                            | (21.1)         |
| Capital expenditures                                          | 3.4                            | 8.8            | 7.2                             | 94.1           |
| <b>NET INCOME (LOSS) FROM OPERATIONS</b>                      | <b>44.0</b>                    | <b>(114.2)</b> | <b>(76.6)</b>                   | <b>(380.2)</b> |

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

(2) Excludes the effect of derivative contracts designated as hedges.

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

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

### REVIEW OF OVERALL PERFORMANCE

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

### **Conventional**

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

### **Oil Sands**

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

### **Corporate**

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONVENTIONAL

#### Summary of Financial and Operating Results

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

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

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

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

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

**Commodity Price Environment**

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

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

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. and offshore markets and the seasonal demand for heavy oil. The WCS benchmark price increased by 114% and 18% for the three and twelve months ended December 31, 2019 respectively, as compared to the same periods in 2018. These increases were primarily due to the narrowing of the WCS differential, partially offset by a decrease in the average WTI price. The narrowing of the average WCS differentials to WTI in 2019 reflected the production curtailment that was issued by the Alberta government in response to low crude oil prices.

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

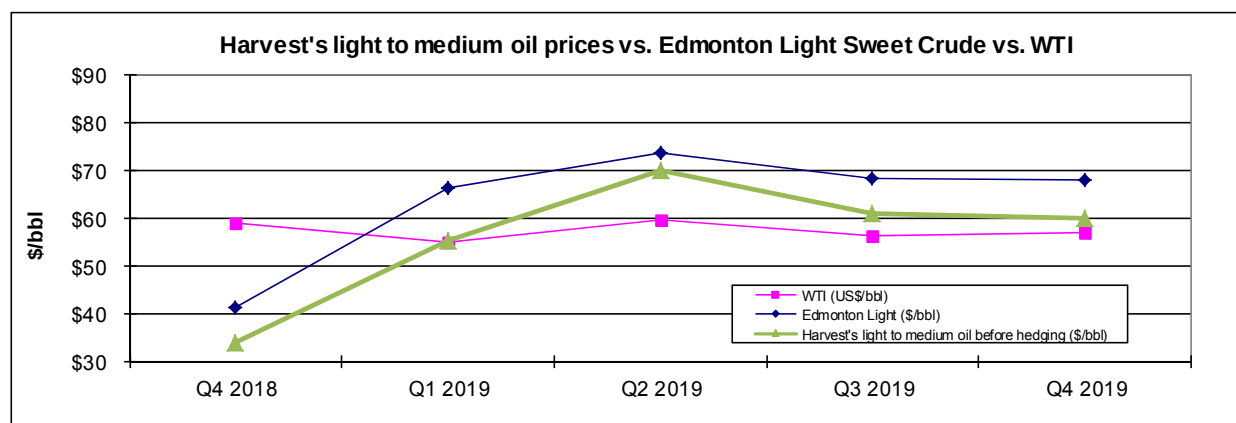
## Realized Commodity Prices

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

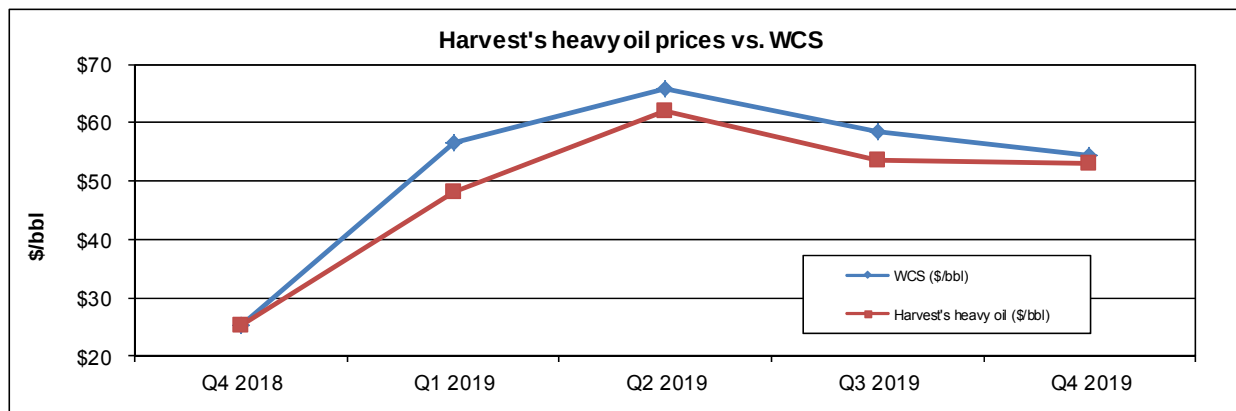
(1) Inclusive of sulphur revenue.

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

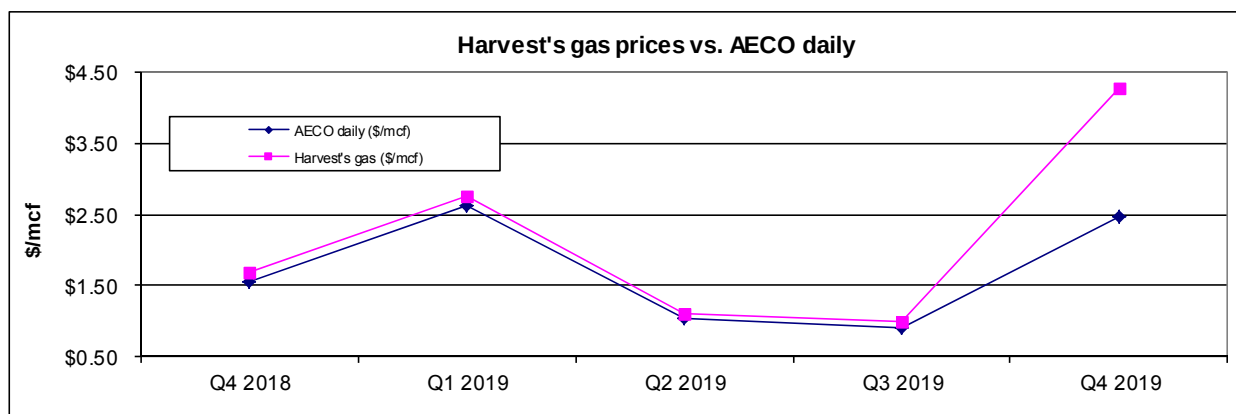
For the twelve months ended December 31, 2019, Harvest's realized price for light to medium oil trended relatively consistently with the Edmonton Light benchmark price. The realized price for light to medium oil increased 76% for the three months ended December 31, 2019 while the Edmonton Light benchmark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



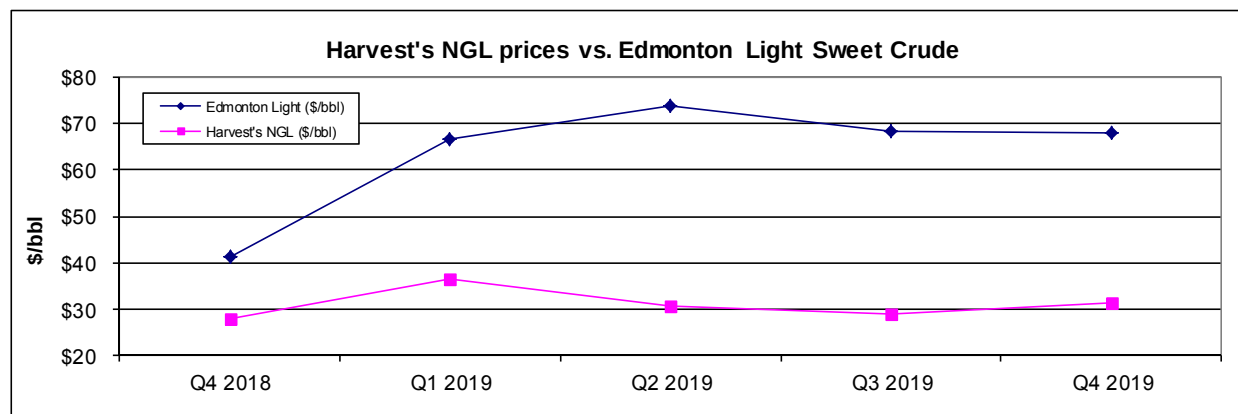
During the three months ended December 31, 2019, Harvest's realized price before hedging for heavy oil trended relatively consistently with the WCS benchmark. During the twelve months ended December 31, 2019, Harvest's realized price for heavy oil increased by 4%, while the WCS benchmark price increased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



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



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



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

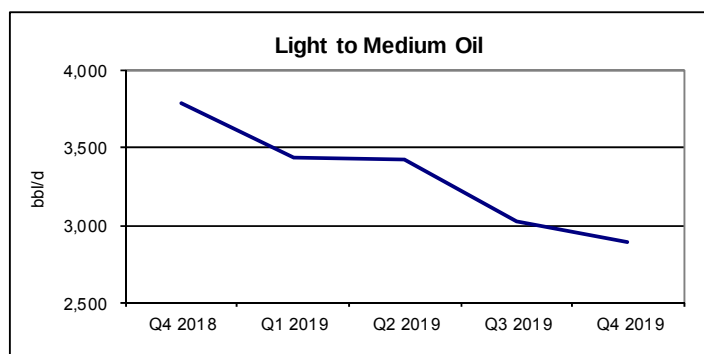
The impact from the MSW hedge on Harvest's realized light oil price for the three and twelve months ended December 31, 2019 was a hedging loss of \$10.25/bbl (2018 - \$20.76/bbl hedging gain) and hedging loss of \$10.94/bbl (2018 - \$0.56/bbl hedging gain), respectively. The impact from the WCS hedge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

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

**Sales Volumes**

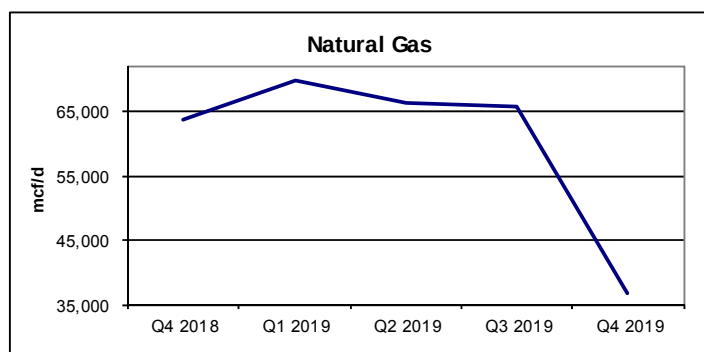
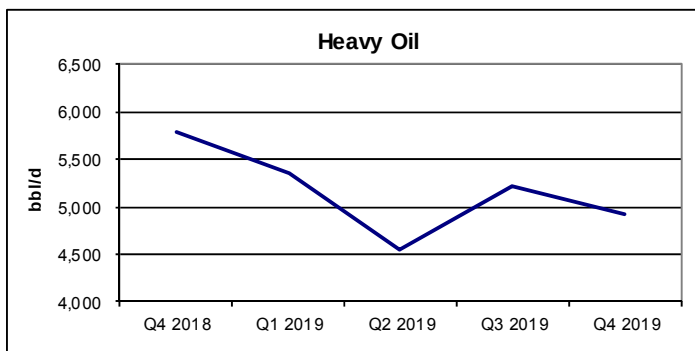
| Three Months Ended December 31 |        |           |        |           |                 |
|--------------------------------|--------|-----------|--------|-----------|-----------------|
|                                | 2019   |           | 2018   |           |                 |
|              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

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



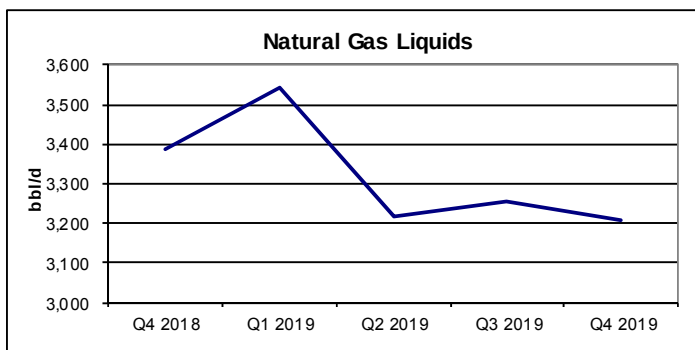
Harvest's average daily sales of light to medium oil decreased 24% in the fourth quarter of 2019 as compared to the same period in 2018. This decrease was primarily due to natural declines, reflecting a minimal drilling program in 2019 and the sale of non-core assets in the second quarter of 2019. Declines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

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



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

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



## Revenues

### Sales Revenue by Product

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

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

(2) Inclusive of sulphur revenue and miscellaneous income.

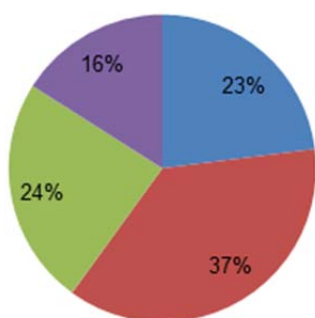
Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. Total petroleum and natural gas sales revenue increased for the three months ended December 31, 2019, as compared to 2018 due to higher realized commodity prices compared to 2018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

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

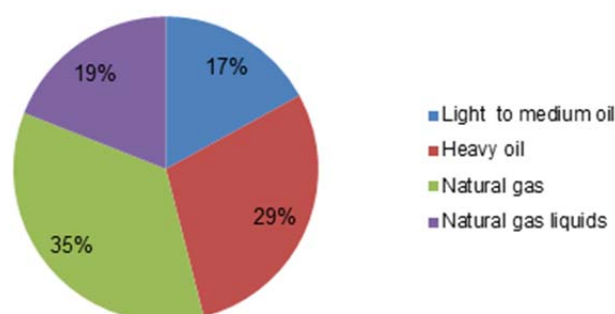
**Revenue by Product Type as % of Total Revenue**

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

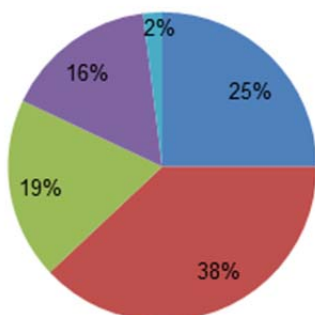
**Sales Revenue by Product**  
(Three months ended December 31, 2019)



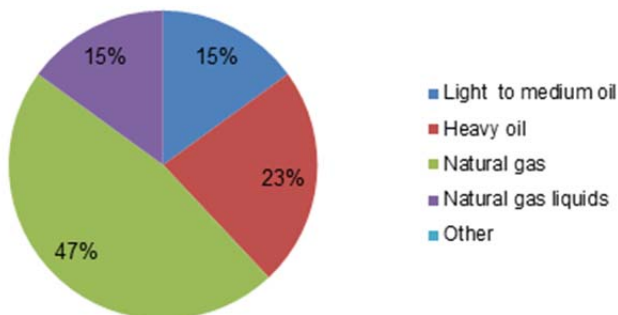
**Sales Volumes by Product**  
(Three months ended December 31, 2019)



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



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



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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Royalties

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

Harvest pays Crown, freehold and overriding royalties to the owners of mineral rights from which production is generated. These royalties vary for each property and product and Crown royalties are based on various sliding scales dependent on incentives, production volumes and commodity prices.

For the three and twelve months ended December 31, 2019, royalties as a percentage of gross revenue averaged 7.3% (2018 – 8.7%) and 8.5% (2018 – 10.0%), respectively. Royalties as a percentage of gross revenue were lower than the comparative period, primarily due to the impact of favorable prior period gas cost allowance recoveries received in the year.

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

### Operating Expenses

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

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

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Transportation and Marketing Expense

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

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

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

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

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

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

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

(3) Includes the settlement amounts for crude oil.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

**Impairment Expense**

Impairment is recognized when the carrying value of a Cash Generating Unit ("CGU") exceeds its recoverable amount, defined as the higher of its value in use ("VIU") or fair value less costs of disposal ("FVLCD"). The Company uses a risk adjusted discount rate that varies based on the nature of the assets held in each of its CGUs to determine the fair value at the measurement date.

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

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

For the year ended December 31, 2018, Harvest evaluated its conventional assets for indicators of impairment. A decrease in natural gas pricing and an increase in reserve value were the primary triggers that indicated further testing was necessary for the West Gas and South Gas Conventional CGUs. For the year ended December 31, 2018, an impairment expense of \$44.2 million was recorded for the West Gas CGU. The recoverable amount for the West Gas CGU was estimated FVLCD, which is classified as a level 3 fair value measurement, based on the net present value of after-tax cash flows from proved plus probable oil and gas reserves estimated by an independent reserve evaluator as at December 31, 2018. A discount rate of 16% was applied to calculate the recoverable amount of \$40.1 million.

The results of the impairment assessments conducted during the twelve months ended December 31, 2019, and December 31, 2018 are sensitive to changes in any of the key management judgments and estimates inherent to the assessments made. These judgments and estimates include revisions in reserves or resources, a change in forecast commodity prices, expected royalty rates, required future development expenditures, and expected future production costs all of which could increase or decrease the recoverable amount of the assets.

### Capital Expenditures

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

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

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

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

### Decommissioning Liabilities

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

### Investments in Joint Ventures

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

contractual preference rights to KERR and changes based on contributions made by either party during the year. For the three and twelve months ended December 31, 2019, Harvest recognized income of \$74.3 million and \$64.6 million, respectively (2018 - \$1.9 million and \$33.0 million loss, respectively) from its investment in the DBP and HKMS joint ventures.

Below is an overview of operational and financial highlights of the DBP and HKMS joint ventures for the three and twelve months ended December 31, 2019. Unless otherwise noted the following discussion relates to 100% of the joint venture results.

*Deep Basin Partnership*

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

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

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

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

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

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

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

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

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

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

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

(1) Revenue is presented net of royalties.

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

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

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

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

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

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

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

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

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

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

#### *HKMS Partnership*

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

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

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

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

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

The Gas Processing Agreement between the HKMS and DBP ensures that HKMS receives an 18% internal rate of return on capital deployed over the term of the contract, which equates to a minimum monthly capital fee that is currently approximately \$2.0 million. This capital fee is accounted for as revenue for HKMS. In addition, HKMS also generates revenue from charging an operating fee to recover operating expenses incurred. For the three and twelve months ended December 31, 2019 the Partnership generated revenues of \$6.8 million and \$26.3 million, respectively (2018 - \$6.5 million and \$26.6 million).

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

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

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

**OIL SANDS**

**Operating Results**

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

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

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

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

**Commodity Prices**

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

**Realized Commodity Prices**

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

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

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

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

## Volumes

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

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

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

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

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

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

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

## Capital Expenditures

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

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

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

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

**Decommissioning Liabilities**

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

**Project Development**

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

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

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

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

## **RISK MANAGEMENT, FINANCING AND OTHER**

### **Cash Flow Risk Management**

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

#### **Contracts Designated as Hedges**

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

**Finance Costs**

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

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

**Currency Exchange**

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

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

### Income Taxes

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

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

### Related Party Transactions

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

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

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

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

(3) Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2½%, 2⅓%, 3% and 4.2% senior notes, the credit facility and term loans. A guarantee fee of 37 basis points per annum was charged by KNOC on the senior notes, credit facility and term loans during the 2018 calendar year.

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

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CAPITAL RESOURCES

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

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

(1) Excludes capitalized financing fees

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

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

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

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

### LIQUIDITY

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

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

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

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

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

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

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

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

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

### Contractual Obligations and Commitments

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

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

(1) Assumes constant foreign exchange rate.

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

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

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

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

### Off Balance Sheet Arrangements

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

**SUMMARY OF QUARTERLY RESULTS**

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

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

(1) Includes Conventional and Oil Sands segments

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

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

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

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

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

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

## SELECTED ANNUAL INFORMATION

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

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

## CRITICAL ACCOUNTING ESTIMATES

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

### a) *Joint arrangements*

Judgment is required to determine whether or not Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 5 of the audited annual consolidated financial statements for more details.

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

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

### **b) Reserves**

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

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

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

As the economic assumptions used may change, such changes may impact the reported financial position and results, which include E&E, PP&E, DD&A, provisions for decommissioning liabilities and deferred tax assets.

On an annual basis, the Company engages qualified, independent reserves evaluators to evaluate Harvest's reserves data.

Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production ("UOP") calculation and the matching of capitalized costs with the benefit of production. The calculation of the UOP rate of DD&A will be impacted to the extent that actual production in the future is different from current forecasted production based on total proved reserves or future development cost estimate changes.

### ***c) Impairment of long-lived assets***

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

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

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

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

***d) Provisions***

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

***e) Income taxes***

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

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

***f) Fair value measurements***

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

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

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

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

## **CHANGES IN ACCOUNTING POLICIES**

### **New Standards Adopted**

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

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

The adoption of IFRS 16 included the following elections:

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

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

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

**OPERATIONAL AND OTHER BUSINESS RISKS FOR CONTINUING OPERATIONS**

Harvest's Conventional and Oil Sands operations are conducted in the same business environment as most other operators in the respective businesses and the business risks are very similar. Harvest has a risk management committee that meets on a regular basis to assess and manage operational and business risks and has a corporate Environment, Health and Safety ("EH&S") policy. For further risk discussion, refer to Harvest's AIF, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The Harvest management team is focused on long-term strategic planning and has identified the key risks and uncertainties associated with the business that could impact the financial results. The following summarizes the significant risks:

**Risks Associated with Commodity Prices**

- Prices received for petroleum and natural gas have fluctuated widely in recent years. Natural gas prices have experienced significant declines since 2010 and crude oil prices have been depressed since 2014. Crude oil differentials continue to be volatile due to supply and demand fluctuations in the local, North American, and world market for oil. Further or prolonged decreases in commodity prices could reduce Harvest's earnings and cash flow and could result in shut-in of certain producing properties. Low commodity prices and/or wide crude oil differentials may also result in asset impairment. Commodity prices are determined by economic, political and supply and demand factors. Harvest manages commodity price risks by entering into various commodity price risk management contracts. Refer to the "Cash Flow Risk Management" section of this MD&A for further information. To the extent that Harvest engages in risk management activities related to commodity prices, it will be subject to credit risks associated with the counterparties of the contracts.

**Risks Associated with Refinancing**

- Harvest had a \$500 million fixed rate term loan with a Korean based bank which matured in February 2020. On February 24, 2020, Harvest and the Korean based bank agreed to amend and extend the \$500 million term loan. The maturity date was extended to February 24, 2021 and the interest rate on the loan was reduced to 2.25%. In addition, Harvest has term loans and a syndicated revolving credit facility, all guaranteed by KNOC, which mature between 2021 and 2023. The syndicated revolving credit facility is secured by a first floating charge over all of the assets of Harvest and its material subsidiaries and contains no financial covenants. In the event that Harvest is unable to fund future principal repayments on its term loan, it could impact Harvest's ability to fund its ongoing operations.

- Harvest currently \$1,400.7 million of senior notes outstanding with required repayments in 2021 through to 2023. These notes are unconditionally guaranteed by Harvest's parent company, KNOC. Harvest intends to fund these principal repayments with issuance of new long-term debt. In the event that Harvest is unable to fund future principal repayments, it could impact Harvest's ability to fund its ongoing operations.

**Risks Associated with Operations**

- The markets for petroleum and natural gas produced in Western Canada are dependent upon available capacity to refine crude oil and process natural gas as well as pipeline or other methods to transport both the commodities and the products to consumers.
- Exploration and development activities may not yield anticipated production, and the associated cost outlay may not be recovered.
- Pipeline capacity and natural gas liquids fractionation capacity in Alberta has not kept pace with the development of crude oil and drilling of liquid rich gas properties in some areas of the province which may limit production and depress sales prices.
- The production of petroleum and natural gas may involve a significant use of electrical power which has been volatile in price since deregulation of the electric system in Alberta. Increases in power prices reduce our cash flow and earnings. From time to time, Harvest may enter into electricity price swaps to manage our exposure to power price volatility.
- Certain of Harvest's properties are held in the form of licences and leases and working interests in licences and leases. If Harvest or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire.
- Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. Harvest is not aware that any claims have been made in respect of its properties and assets. However, if a claim arose and was successful, such claim may have a material adverse effect on Harvest's business, financial condition, results of operations and prospects.
- Decommissioning liabilities are calculated using estimated costs and timelines based upon current operational plans, technology and reclamation practices, and environmental regulations. These factors are subject to change and such changes may impact the actual timing and amount of Harvest's decommissioning costs.
- Timing of Oil sands project activities including timing of the ramp-up production to nameplate capacity, and future expansion.

**Risks Associated with Reserve Estimates**

- The reservoir and recovery information in reserve reports prepared by independent reserve evaluators are estimates and actual production and recovery rates may vary from the estimates and the variations may be significant. The actual production and ultimate reserves and resources from Harvest's properties may be greater or less than the estimates prepared.
- Reserve and resource reports are prepared using certain commodity price assumptions for crude oil, natural gas, and natural gas liquids. If Harvest's realized price for the commodity is lower than the estimated amount, then the amount of reserves and resources and cash flows generated would be reduced and the decrease could be significant.
- Prices paid for acquisitions are based in part on reserve report estimates and the assumptions made preparing the reserve reports are subject to change as well as geological and engineering uncertainty.

The actual reserves acquired may be lower than expected, which could adversely impact our cash flow and earnings.

**Risks Associated with Acquisitions and Dispositions**

- Harvest makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Harvest's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Harvest.
- Non-core assets are periodically disposed of, so that Harvest can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets, if disposed of, could be expected to realize less than their carrying value on the financial statements.

**Risks Associated with Environment, Health & Safety ("EH&S")**

- The operations of petroleum and natural gas properties involves a number of operating and natural hazards which may result in health and safety incidents, environmental damage and other unexpected and/or dangerous conditions.
- The operations of petroleum and natural gas properties are subject to environmental regulation pursuant to local, provincial and federal legislation. Changes in these regulations could have a material adverse effect as regards to operating costs and capital costs. A breach of such legislation may result in the imposition of fines as well as higher operating standards that may increase costs.
- Harvest's corporate EH&S program has a number of specific policies and practices to minimize the risk of safety hazards and environmental incidents. It also includes an emergency response program should an incident occur. If areas of higher risk are identified, Harvest will undertake to analyze and recommend changes to reduce the risk including replacement of specific infrastructure. In addition, our business units conduct emergency response training on a regular basis in all of our operating fields to ensure a high level of response capability when placed in a challenging situation. Harvest also performs safety and environmental audits of our operating facilities. In addition to the above, Harvest maintains business interruption insurance, commercial general liability insurance as well as specific environmental liability insurance, in amounts consistent with industry standards.
- Harvest carries industry standard property and liability insurance on its Conventional operations. Losses associated with potential incidents described above could exceed insurance coverage limits.

**Risks Associated with Liquidity**

- Absent capital reinvestment or acquisition, Harvest's reserves and production levels from petroleum and natural gas properties will decline over time as a result of natural declines. As a result, cash generated from operating these properties may decline.
- Fluctuations in interest rates and the U.S./Canada exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.
- Harvest's debt is guaranteed by KNOC. If KNOC's credit rating materially declines, it could restrict or impair Harvest's ability to refinance its debt or access to capital markets to raise debt.
- Although the Company monitors the credit worthiness of third parties it contracts with through a formal risk management policy, there can be no assurance that the Company will not experience a loss for

nonperformance by any counterparty with whom it has a commercial relationship. Such events may result in material adverse consequences on the business of the Company.

- Harvest's ability to make scheduled repayments or refinance its debt obligations will depend upon its financial and operating performance, which in turn will partially depend upon prevailing industry and general economic conditions. There can be no assurance that our operating performance, cash flow and capital resources will be sufficient to service and/or repay the Company's debt in the future, in which case the Company may sell assets, enter into joint ventures with third parties to support current and future capital projects, defer capital expenditures, and/or raise additional debt, to the extent available.

Harvest monitors its cash flow projections and covenants on a routine basis and will adjust its development plans accordingly in response to changes in commodity prices and cash flows. Harvest has sought financial support from KNOC as and when required, while KNOC has demonstrated its commitment to support Harvest through liquidity injections and guarantees, in the event KNOC withdraws or curtails its future financial support, this could result in material adverse consequences to Harvest.

### **Risks Associated with Investment in Joint Arrangement**

- As KERR has the ability to cause DBP to redeem all its preferred partnership units for consideration equal to its initial contribution plus a minimum after-tax internal rate of return of two percent, there is a risk that Harvest would have to fund this obligation if DBP does not have sufficient funds to complete the redemption obligation. This obligation could also arise upon the termination of this arrangement.

### **General Business Risks**

- The operation of petroleum and natural gas properties requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- Skilled labor is necessary to run operations (both those employed directly by Harvest and by our contractors) and there is a risk that we may have difficulty in sourcing skilled labor which could lead to increased operating and capital costs.
- The loss of a member of our senior management team and/or key technical operations employee could result in a disruption to our operations.
- In the future, Harvest may acquire or move into new industry related activities or new geographical areas or may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase Harvest's exposure to one or more existing risk factors, which may in turn result in Harvest's future operational and financial conditions being adversely affected.
- Conventional crude oil sales and a large portion of Harvest's long-term debt are denominated in US dollars while the Company incurs operating and capital costs in Canadian dollars which results in a currency exchange exposure.
- The operations of Harvest operate under permits issued by the federal and provincial governments and these permits must be renewed periodically. The federal and provincial governments may make operating requirements more stringent which may require additional spending.
- Income tax laws, other laws or government incentive programs relating to the oil and gas industry, may in the future be changed or interpreted in a manner that affects Harvest or its stakeholders.

- In the normal course of operations, Harvest may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and it is possible that there could be material adverse developments in pending or future proceedings and as a result, could have a material adverse effect on Harvest's assets, liabilities, business, financial condition and results of operations.

Harvest may disclose confidential information relating to its business, operations or affairs while discussing potential business relationships or other transactions with third parties. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put us at competitive risk and may cause significant damage to the business. The harm to the business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages.

#### **CHANGES IN REGULATORY ENVIRONMENT**

The oil and gas industry is subject to extensive regulations imposed by many levels of government in Canada. Harvest currently operates in Alberta and British Columbia, both of which have different legislations and royalty programs which may be amended from time to time. A change in the royalty programs or legislations may have adverse impacts on Harvest's future earnings and cash flows.

#### **DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2019 as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of December 31, 2019, the disclosure controls and procedures were effective to ensure that information required to be disclosed by Harvest in reports that it files or submits to Canadian securities authorities was recorded, processed, summarized and reported within the time period specified in Canadian securities laws and was accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. The Company's DC&P are designed to provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's ICFR are designed to provide reasonable assurance

regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS as issued by IASB. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operation of the Company's DC&P and ICFR as of December 31, 2019. The evaluation was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on the evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

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

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

### NON-GAAP MEASURES

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

### BOE presentation

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

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

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

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

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

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

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

**FORWARD-LOOKING INFORMATION**

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three and twelve months ended December 31, 2019 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

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

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

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

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

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

### **ADDITIONAL INFORMATION**

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