



# Harvest Energy Trust

## News Release

(HTE.UN – TSX)

### Harvest Energy Trust Announces Second Quarter 2003 Results

**AUGUST 21, 2003**

**Calgary, August 21, 2003 (TSX: HTE.UN)** – Harvest Energy Trust ("Harvest") today announced its unaudited operating and financial results for the three and six month periods ended June 30, 2003.

#### Second Quarter Highlights

- Distributions of \$0.60 per trust unit;
- Cash flow from operations of \$9.5 million or \$0.84 per trust unit, representing a payout ratio of 73% for the three month period ended June 30, 2003;
- Sales volume averaged 9,632 BOE/d for the three month period ended June 30, 2003, an increase of 17% from the first quarter;
- Harvest continued its development and consolidation activities in its core areas including the acquisition of approximately \$30.0 million of properties resulting in an exit rate of 10,500 at June 30, 2003; and
- Following the second quarter, on July 29, 2003, Harvest announced the signing of an agreement to acquire 6,000 BOE/d of predominantly light oil in the Carlyle area, in Southeastern Saskatchewan for approximately \$105.0 million.

#### Second Quarter Financial and Operational Summary

<b>Financial</b>	<b>Three months ended</b>
<i>(\$000's except per BOE and per trust unit amounts)</i>	<b>June 30, 2003</b>
Net revenue, before hedging	\$24,754
Net revenue, net of hedging	\$21,027
Hedging Loss	\$3,727
Cash flow from operations	\$9,546
Cash flow from operations per trust unit	\$0.84
Net income	\$1,180
Net income per trust unit	\$0.10
Capital expenditures	\$32,491
Net debt	\$39,924

<b>Financial</b> <i>(\$000's except per BOE and per trust unit amounts)</i>	<b>Three months ended June 30, 2003</b>
Declared distributions to unitholders	\$6,992
Declared distributions per trust unit	\$0.60
Weighted average trust units outstanding	11,351,728
Trust units outstanding at the end of the period	12,237,551

<b>Operating and Reserves</b> <i>(Natural gas converted to barrel of oil equivalent BOE on a 6:1 basis)</i>	<b>Three months ended June 30, 2003</b>	<b>Six months ended June 30, 2003</b>
<b>Average daily sales volumes</b>		
Crude oil and natural gas liquids (Bbls/d)	9,438	8,554
Natural gas (mcf/d)	1,161	1,077
<b>Total (BOE/d)</b>	<b>9,632</b>	<b>8,734</b>
Production exit rate (BOE/d)	10,500	10,500

### Second Quarter Message to Unitholders

During the second quarter, Harvest continued to build on the foundation set out in the first quarter. Production was in line with expectations, and increased by 17% to average 9,632 BOE/d. These increases were the result of the successful drilling program at Hayter, initiated in the first quarter and the closing of the two Provost property acquisitions, reported on April 14 and May 29, 2003. Revenues were higher than anticipated due primarily to higher oil prices.

Operating expenses in the second quarter were \$7.68 per BOE, in line with expectations, and significantly lower than first quarter operating expenses. Lower operating expenses were the result of lower overall power costs in Alberta, the impact of power hedges applied in the second quarter, higher volumes of production and prior period accounting adjustments.

Accordingly, cash flow from operations strengthened in the second quarter, to \$9.5 million, 47% higher than the first quarter. Cash flow per trust unit has increased to \$0.84 per trust unit in the second quarter, 35% higher than the first quarter.

Harvest maintained an active development program in the second quarter. In addition to the acquisitions described above, Harvest embarked on a follow-up development program at Hayter, which included the drilling of nine wells. This program was completed in July and all wells are now being commissioned or are on-stream. Harvest exited the second quarter with net debt of \$39.9 million, representing 1.1 times annualized second quarter cash flow.

Following the second quarter, on July 29, 2003, Harvest announced that it had entered into an agreement to acquire approximately 6,000 BOE/d of light gravity oil properties located in Southeastern Saskatchewan for approximately \$105.0 million. Closing of this transaction will occur on or about September 30, 2003. Harvest anticipates the Southeastern Saskatchewan properties will provide the following benefits to Unitholders:

- an increase in established reserve base to 35 MMBOE;
- an increase in reserve life index from 4.0 years to 5.7 years;
- an increase in the light/medium oil component of total production to 66%
- addition of a new core area for additional low cost growth in the form of property enhancement and consolidation of additional interests;

- accretion to 2004 cash flow; and
- greater cash flow certainty from a larger production and reserve base.

Combining the incremental production from the Southeastern Saskatchewan properties for the period of October 1, 2003 to December 31, 2003 with Harvest's existing base of production, Harvest expects average production, average royalty rate and unit operating expenses to be:

	Q4 2003 Average	Calendar 2003 Average
Total Production	16,300 BOE/d	11,000 BOE/d
Average Royalty Rate	18%	14%
Operating Expenses	\$9.70 per BOE	\$9.50 per BOE

Harvest confirms that subject to monthly review and approval by the Board of Directors of Harvest Operations Corp. Harvest intends to continue to distribute \$0.20 per trust unit per month. Although the recent acquisitions are accretive to cash flow per trust unit, additional cash flow derived from the acquired properties will be used to fund Harvest's ongoing property enhancement program and acquisition strategy.

## **Management's Discussion and Analysis**

### **Management's Discussion and Analysis**

Management's discussion and analysis ("MD&A") of Harvest Energy Trust's ("Harvest" or the "Trust") financial condition and results of operations should be read in conjunction with Harvest's unaudited interim consolidated financial statements for the three and six month periods ended June 30, 2003 and the audited consolidated financial statements and MD&A for the period from July 10 (date of formation) to December 31, 2002.

### **Forward-Looking Information**

The following discussion contains forward-looking information with respect to Harvest Energy Trust. This information addresses future events and conditions and as such involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the information provided. The information and opinions concerning the Trust's future outlook are based on information available at August 2003.

### **Sales Volumes**

Harvest's production consists of medium and heavy oil, natural gas liquids, and natural gas from properties located in East Central Alberta. Sales of oil and natural gas averaged 9,632 BOE/d and 8,734 BOE/d in the three and six month periods ended June 30, 2003, respectively.

*Average Sales Volumes*

	Three Month Period		Six Month Period	
	Ended June 30, 2003		Ended June 30, 2003	
Medium oil (bbls/d)	4,232	44%	3,488	40%
Heavy oil (bbls/d)	5,139	53%	5,001	57%
Total oil (bbls/d)	9,371	97%	8,489	97%
Natural gas liquids (bbls/d)	67	1%	65	1%
Total oil and natural gas liquids (bbls/d)	9,438	98%	8,554	98%
Natural gas (mcf/d)	1,161	2%	1,077	2%
Total oil equivalent (6:1 boe/d)	9,632	100%	8,734	100%

Harvest exited June 30, 2003 with a higher daily production rate of 10,556 BOE/d, which reflects the impact of the ongoing development and optimization activities and the acquisitions during the quarter. Harvest anticipates further production growth in the balance of 2003 due to oil and natural gas property acquisitions and the continuing development and optimization program.

**Revenue**

Revenues, before royalties, totaled \$24.6 million and \$50.9 million, which was the result of average realized prices of \$28.69 and \$32.86 per barrel for oil and natural gas liquids and \$5.93 and \$7.48 per mcf for natural gas during the three and six month periods ended June 30, 2003 respectively. The overall impact of Harvest's hedging program is an approximate decrease of \$4.34 and \$7.94 per BOE of production, for the three and six month periods ended respectively. Harvest plans to continue with its current hedging strategy, and has approximately 7,500 Bbls/d of production hedged for the balance of 2003 at an approximate average price of \$33.00 Cdn per barrel.

**Operating Netbacks**

The following is a summary of Harvest's operating netbacks for the periods ended June 30, 2003.

	(\$/boe)	
	Three month period ended June 30, 2003	Six month period ended June 30, 2003
Market price	28.69	32.86
Hedging loss	4.34	7.94
Realized price	24.35	24.92
Royalties, net	3.96	4.12
Operating costs	7.68	8.66
Netback	12.71	12.14

### **Royalty Expense**

Harvest paid net royalties of \$3.3 million and \$6.2 million in the three and six month periods ended June 30, 2003 or approximately \$3.96/BOE and \$4.12/BOE. The net royalty amount for the three month period ended is comprised of \$1.9 million in freehold royalties and freehold mineral tax, \$1.4 million in crown royalties, \$0.1 million in gross overriding royalties and \$0.1 million in royalty income received. The net royalty amount for the six month period ended is comprised of \$4.1 million in freehold royalties and freehold mineral tax, \$2.1 million in crown royalties, \$0.2 million in gross overriding royalties and \$0.2 million in royalty income received.

### **Operating Expenses**

Harvest's operating expenses were \$6.6 million and \$13.4 million for the three and six month periods ended June 30, 2003, or approximately \$7.68 and \$8.66 per BOE. Substantially all of the entity's properties are operated by Harvest. The significant portions of Harvest's operating costs are electricity (60%) and maintenance (15%). For the remainder of 2003, Harvest has approximately 48% of its current electricity usage hedged at an average price of \$45.10 per MWh.

### **General and Administration Expenses**

General and administrative expenses totaled \$0.8 million or \$0.92 per BOE for the three month period ended, and \$1.5 million or \$0.98 per BOE for the six month period ended June 30, 2003. During the three and six month periods ended, \$0.4 million and \$0.5 million of general and administrative costs were capitalized with respect to field enhancement and acquisition activities.

### **Interest Expense and Amortization of Deferred Financing Charges**

Interest expense and deferred financing charges amounted to \$1.1 million and \$2.2 million in the three and six month periods ended June 30, 2003. The amortization of deferred financing charges associated with fees to secure bank lending facilities amounted to \$0.4 million and \$0.8 million for the three and six month periods ended, respectively. The deferred financing charges will be amortized on a straight-line basis over the life of the bank credit facility.

### **Depletion, Depreciation and Amortization and Future Site Reclamation Expenses**

Harvest's depletion, depreciation, and amortization and site restoration provision totaled \$7.8 million and \$13.5 million and for the three and six month periods ended June 30, 2003. This balance is comprised of oil and natural gas properties depletion and depreciation of \$6.9 million and \$12.1 million, approximately \$26,000 and \$50,000 for depreciation of office furniture and equipment, and \$0.8 million and \$1.4 million for future abandonment and site restoration costs, respectively. The depletion rate for oil and natural gas properties was approximately \$8.09 and \$7.84 per BOE respectively, and is based on the costs of the oil and natural gas properties purchased, capital expenditures incurred and capitalization of general and administrative expenses. The \$0.95 and \$0.89 per BOE rate used to provide for future site reclamation costs is founded on an ultimate future expenditure of approximately \$18.8 million estimated by management and an independent third party. The depreciation of office furniture and equipment has been calculated on a straight-line basis of 10% to 33%.

### **Income Taxes**

Income taxes for the three and six month periods ended June 30, 2003 are comprised of approximately \$32,000 and \$52,000 in large corporation tax and a \$1.2 million and \$0.2 million future income tax expense, respectively. Other than large corporations tax, neither the Trust nor its operating subsidiary are expected to pay cash taxes in 2003.

**Cash Flow and Income**

For the three and six month periods ended June 30, 2003, consolidated cash flow from operations was \$9.5 million and \$16.0 million, and net income was \$1.2 million and \$4.9 million, respectively.

Cash flow from operations per trust unit is calculated and disclosed by the Trust, as it is a widely accepted measure of financial performance used by some analysts and investors to compare oil and gas producing companies. Cash flow from operations per trust unit is not defined under Canadian generally accepted accounting principles ("GAAP") and should not be considered in isolation or as an alternative to conventional GAAP measurements. Harvest's measure of cash flow from operations is not necessarily comparable to a similarly titled measure of another company or trust.

The corresponding per Trust Unit and per BOE figures are as follows:

	Three month period ended			Six month period ended		
	June 30, 2003			June 30, 2003		
	Per Trust Unit			Per Trust Unit		
	Basic	Diluted	Per boe	Basic	Diluted	Per boe
Cash flow from operations	\$0.84	\$0.82	\$11.12	\$1.47	\$1.45	\$10.36
Net income	\$0.10	\$0.08	\$1.37	\$0.45	\$0.42	\$3.18

**Capital Expenditures**

Capital expenditures totaled \$32.5 million and \$38.4 million in the three and six month periods ending June 30, 2003. The expenditures during these periods primarily consist of the acquisition of oil and gas producing properties in Eastern Alberta, that complement Harvest's current operations and production.

The ongoing optimization program of Harvest's properties acquired, has been extended to accommodate the new opportunities realized with the property acquisitions during the second quarter of 2003. With the additional expenditures, the program is still planned to be substantially completed during the third quarter of 2003, with an overall estimated total program cost of \$14.5 million.

Subsequent to the end of the quarter, on July 30, 2003 Harvest announced the purchase of oil and natural gas producing properties in Southeastern Saskatchewan through its wholly owned subsidiary, Harvest Operations Corp. This asset purchase is anticipated to add approximately 6,000 BOE/d in production, and is expected to be purchased for an estimated consideration of \$105.0 million.

**Capitalization and Financial Resources**

As at June 30, 2003, the demand loan payable was approximately \$45.6 million and unamortized deferred financing costs were \$1.4 million, compared to balances of \$45.3 million of demand loan payable and \$2.2 million of deferred financing charges as at December 31, 2002. A large portion of the demand loan is denominated in United States currency which, due to favourable foreign exchange rates, has resulted in unrealized foreign exchange gains of \$1.0 million and \$3.5 million during the three and six month periods ended June 30, 2003, respectively.

The working capital balance as at June 30, 2003 was \$6.5 million, excluding the demand loan and promissory note payable. This is in comparison to working capital of \$10.7 million as at December 31, 2002. The difference of \$4.2 million is primarily due to the expenditures incurred for Harvest's optimization program.

**Distributions**

During the first half of 2003, Harvest paid distributions of \$0.20 per month. Of the distributions declared and paid in the first six months of 2003, approximately 32% were reinvested by Unitholders through Harvest's distribution reinvestment plan. This resulted in a net cash distributions paid during the first six months of \$8.3 million. The Trust anticipates the 2003 distributions will likely be 45% taxable, and a 55% return of capital to Unitholders. Additional oil and natural gas property acquisitions may change the taxability of the distributions.

## Harvest Energy Trust

Consolidated Balance Sheets

	<b>June 30, 2003</b>	December 31, 2002
<b>Assets</b>	<i>(Unaudited)</i>	<i>(Audited)</i>
Current assets		
Cash and short-term investments	\$ 1,180,609	\$ 4,502,947
Accounts receivable	16,224,404	13,577,870
Prepaid expenses and deposits	2,398,553	534,573
	<b>19,803,566</b>	18,615,390
Deferred financing charges, net of amortization	1,406,840	2,209,792
Future income tax	1,034,476	1,272,000
Property, plant and equipment, net <i>[Note 3]</i>	<b>97,876,800</b>	71,631,507
	<b>\$ 120,121,682</b>	\$ 93,728,689
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,063,054	\$ 5,593,405
Cash distributions payable	2,447,510	1,862,500
Accrued interest payable	809,829	389,349
Demand loan <i>[Note 2]</i>	45,557,388	45,286,396
Promissory note payable <i>[Note 3]</i>	850,000	-
Large corporation taxes payable	-	46,771
	<b>59,727,781</b>	53,178,421
Site restoration provision	1,917,018	544,178
	<b>61,644,799</b>	53,722,599
Unitholders' equity		
Unitholders' capital <i>[Note 4]</i>	63,273,216	36,727,997
Accumulated income	10,052,141	5,136,093
Contributed surplus	29,455	4,500
Accumulated cash distributions	<b>(14,877,929)</b>	<b>(1,862,500)</b>
	<b>58,476,883</b>	40,006,090
	<b>\$ 120,121,682</b>	\$ 93,728,689

*Subsequent events [Note 8]*

See accompanying notes to consolidated financial statements.



## Harvest Energy Trust

Consolidated Statement of Income and Accumulated Income  
*(Unaudited)*

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
<b>Revenue</b>		
Oil and gas sales	\$ 24,639,326	\$ 50,869,382
Hedging loss	(3,726,594)	(12,296,276)
Royalty income	114,359	170,133
Royalty expense	(3,404,361)	(6,382,776)
	<u>17,622,730</u>	<u>32,360,463</u>
<b>Expenses</b>		
Operating	6,595,988	13,400,411
Interest and amortization of deferred finance charges	1,078,193	2,190,728
General and administrative	788,841	1,519,653
Site restoration and reclamation	818,461	1,383,804
Depletion, depreciation and amortization	6,936,073	12,148,215
Foreign exchange gain	(983,735)	(3,487,457)
	<u>15,233,821</u>	<u>27,155,354</u>
Income before taxes	<u>2,388,909</u>	<u>5,205,109</u>
<b>Taxes</b>		
Large corporation tax	31,640	51,538
Future tax expense	1,177,380	237,524
	<u>1,179,889</u>	<u>4,916,047</u>
<b>Net income for the period</b>	<u>1,179,889</u>	<u>4,916,047</u>
Accumulated income, beginning of period	8,872,252	5,136,094
<b>Accumulated income, end of period</b>	<u>\$ 10,052,141</u>	<u>\$ 10,052,141</u>
Income per trust unit, basic	\$ 0.10	\$ 0.45
Income per trust unit, diluted	\$ 0.10	\$ 0.44

See accompanying notes to consolidated financial statements.

## Harvest Energy Trust

Consolidated Statement of Cash Flows

(Unaudited)

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
<b>Cash provided by (used in)</b>		
<b>Operating Activities</b>		
Net income for the period	\$ 1,179,889	\$ 4,916,047
Items not requiring cash		
Depletion, depreciation and amortization	6,936,073	12,148,215
Site restoration and reclamation	818,461	1,383,804
Foreign exchange gain	(983,735)	(3,487,457)
Amortization of finance charges	406,476	812,950
Future tax expense	1,177,380	237,524
Unit based compensation	12,273	24,955
Cash flow from operations	9,546,817	16,036,038
Change in non-cash working capital [Note 8]	(4,415,339)	868,612
	5,131,478	16,904,650
<b>Financing Activities</b>		
Issue of trust units, net of costs	-	14,096,181
Issue of trust units under the distribution reinvestment plan, net of costs	2,824,164	4,099,037
Increase in demand loan	27,747,640	33,379,065
Repayment of demand loan	(6,180,670)	(29,557,182)
Cash distributions	(6,767,077)	(12,430,419)
Change in non-cash working capital balances related to financing activities [Note 8]	218,285	585,010
	17,842,342	10,171,692
<b>Investing Activities</b>		
Additions to property, plant and equipment	(19,119,967)	(24,971,104)
Acquisition of a private company [Note 3]	(3,000,000)	(3,000,000)
Change in non-cash working capital balances related to investing activities [Note 8]	(1,438,815)	(2,427,576)
	(23,558,782)	(30,398,680)
Decrease in cash and short-term investments	(584,962)	(3,322,338)
Cash and short-term investments, beginning of period	1,765,571	4,502,947
Cash and short-term investments, end of period	\$ 1,180,609	\$ 1,180,609
Cash interest payments	\$ 889,682	\$ 945,344
Cash tax payments	\$ 10,526	\$ 46,771
Cash distributions per unit [Note 4]	\$ 0.60	\$ 1.14

See accompanying notes to consolidated financial statements.

**1. Significant accounting policies**

These interim consolidated financial statements of Harvest Energy Trust (the "Trust") have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the period. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. Except as noted below, these interim consolidated financial statements follow the same significant accounting policies as described and used in the annual report of the Trust for the period from formation on July 10, 2002 to December 31, 2002 and should be read in conjunction with that report. Certain comparative figures have been reclassified to conform to the current period's presentation.

These consolidated financial statements include the accounts of Harvest Energy Trust and its wholly owned subsidiaries.

**2. Change in accounting policy**

The Canadian Institute of Chartered Accountants has issued an accounting pronouncement concerning the classification of debt that is effective for financial years commencing on or after January 1, 2002. Based on this pronouncement and the underlying terms of Harvest Operations' debt facility, the loan is classified as a current liability since the lender has the right to demand repayment on April 30, 2004.

**3. Acquisition of a private company**

On June 1, 2003, Harvest Energy Trust acquired all of the common shares and the Net Profit Interest of a private company. Total consideration paid by the Trust was \$10.1 million, and consisted of the issuance of 625,000 trust units at a price of \$10.00 per unit [Note 4], \$3 million in cash and an \$850,000 unsecured demand promissory note that bears interest at 10% per annum effective June 27, 2003. The acquisition has been accounted for using the purchase price method.

The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Company has not yet completed its final calculation of the assets and acquired and liabilities assumed and therefore, the purchase price allocation maybe subject to change.

	<b>Amount</b>
Property, plant & equipment	\$ 15,180,670
Working capital, net	(2,281,160)
Bank debt	(2,799,510)
	<u>\$ 10,100,000</u>

**4. Unitholders' capital**

(a) Authorized

The authorized capital consists of an unlimited number of trust units.

(b) Issued

	Number of units	Amount
<b>As at, December 31, 2002</b>	9,312,500	\$ 36,727,997
Exercise of warrants (i)	150,000	150,000
Special warrant exercise (ii)	1,500,000	15,000,000
Acquisitions (iii)	825,000	8,350,000
Distribution reinvestment plan issuance (iv)	450,051	4,399,037
Share issue costs	—	(1,353,818)
<b>As at, June 30, 2003</b>	<b>12,237,551</b>	<b>\$ 63,273,216</b>

(i) On January 24, 2003, 150,000 trust units were issued to a corporation controlled by a director of Harvest Operations on the exercise of a warrant. The \$150,000 in proceeds was added to working capital.

(ii) On March 7, 2003, 1,500,000 special warrants were exercised into trust units. The special warrants were issued on February 4, 2003 for \$13,700,000 net of a 5% underwriters' fee and approximately \$550,000 of issues costs.

(iii) On May 27, 2003, the Trust issued 200,000 trust units at a price of \$10.50 per unit, for consideration of the purchase of a crude oil producing property.

On June 27, 2003, the Trust issued 625,000 trust units at a price of \$10.00 per unit, for partial consideration of the purchase of a private company. [Note 3].

(iv) The following table summarizes the issuance of trust units under the distribution reinvestment plan ("DRIP"):

Distribution Month	Record Date	Payment Date	Trust units issued	
			under DRIP	Amount
January	January 31, 2003	February 17, 2003	79,208	\$ 794,650
February	February 28, 2003	March 17, 2003	73,230	780,223
March	March 31, 2003	April 15, 2003	96,019	907,805
April	April 30, 2003	May 15, 2003	98,535	925,662
May	May 31, 2003	June 16, 2003	103,059	990,697
<b>As at, June 30, 2003</b>			<b>450,051</b>	<b>\$ 4,399,037</b>

(c) Per trust unit information

The following table summarizes the trust units used in calculating income per trust unit:

	<b>Three Months Ended</b> <b>June 30, 2003</b>	<b>Six Months Ended</b> <b>June 30, 2003</b>
Weighted average trust units outstanding, basic	11,351,728	10,891,161
Effect of trust unit rights	226,795	190,578
Weighted average trust units outstanding, diluted	11,578,523	11,081,739

**5. Trust unit incentive plan**

A Trust unit incentive plan has been established whereby the Trust is authorized to grant non-transferable rights to purchase trust units to directors, officers, consultants, employees and other service providers to an aggregate of 1,121,000 trust units. The initial exercise price of rights granted under the plan is equal to the closing market price on the date immediately prior to the date the rights are granted and the maximum term of each right is not to exceed five years. The exercise price of the rights is adjusted downwards from time to time based upon the cash distributions made on the trust units if the minimum distribution rate is met. The following summarizes the trust units reserved for issuance under the trust unit incentive plan:

	<b>Trust unit</b> <b>rights</b>	<b>Weighted</b> <b>average</b> <b>exercise price</b>
<b>Outstanding, December 31, 2002</b>	787,500	\$ 7.80
Granted, January 24, 2003	32,500	10.21
Granted, February 14, 2003	34,500	10.75
Reduction in exercise price due to distributions	-	(1.20)
<b>As at, June 30, 2003</b>	854,500	\$ 6.58

The trust unit rights outstanding vest equally over the next four years on their anniversary date.

Under CICA Handbook section 3870 "Stock-based Compensation and Other Stock-based payments", the Trust has chosen not to recognize compensation expense when trust unit rights are granted to employees and directors under the trust unit incentive plan with no cash settlement features. The fair value of trust unit rights issued to directors, officers and employees has been determined using a binomial option pricing model. The binomial model has been utilized by the Trust as it allows the calculation of the fair value of a trust unit right with a decreasing exercise price, based on the distributions paid from the date of issue to the date of vesting.

For purposes of estimating fair value disclosures below, the fair value of each trust unit right has been estimated on the grant date using the following weighted-average assumptions:

Expected volatility	27.5%
Risk free interest rate	3%
Expected life of the trust unit rights	4 years
Estimated annual distributions per unit	\$2.40

For the purposes of pro forma disclosures, the estimated fair value of the trust unit rights is amortized to expense over the vesting periods. The Trust's pro forma net income and per trust amounts would have been accounted for as follows:

		Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Net income	As reported	\$1,179,889	\$4,916,047
	Pro forma	\$738,196	\$4,037,245
Income per unit - basic	As reported	\$0.10	\$0.45
	Pro forma	\$0.07	\$0.37
Income per unit - diluted	As reported	\$0.10	\$0.44
	Pro forma	\$0.06	\$0.36

During the three and six month periods ended, the Trust has recognized \$12,273 and \$24,546 respectively in compensation expense and included it in general and administrative expense in the consolidated statement of income and accumulated income, for trust unit rights issued to non-employees.

**6. Financial instruments**

The Trust uses oil sales contracts and derivative financial instruments to mitigate the effect of fluctuations in commodity prices on prices realized. The following is a summary of the oil sales contracts with price swap or collar features as at June 30, 2003, that have fixed future sales prices:

<b>Swaps</b>	<b>Term</b>	<b>Price per Barrel</b>	<b>Mark to Market Gain (Loss)</b>
1,000 Bbls/d	July through September 2003	Cdn \$37.10	(\$277,718)
1,000 Bbls/d	October through December 2003	Cdn \$36.63	(\$155,834)
1,510 Bbls/d	January through March 2004	U.S. \$23.23	(\$697,743)
1,300 Bbls/d	January through March 2004	U.S. \$24.33	(\$426,279)
500 Bbls/d	January through December 2004	U.S. \$24.12	(\$447,354)
500 Bbls/d	January through December 2004	U.S. \$24.25	(\$415,200)
1,430 Bbls/d	April through June 2004	U.S. \$22.93	(\$567,192)
1,200 Bbls/d	April through June 2004	U.S. \$25.50	(\$383,485)
1,380 Bbls/d	July through September 2004	U.S. \$22.70	(\$487,748)
500 Bbls/d	July through September 2004	U.S. \$24.56	(\$60,761)
1,325 Bbls/d	October through December 2004	U.S. \$22.54	(\$409,012)
500 Bbls/d	October through December 2004	U.S. \$24.03	(\$61,452)
500 Bbls/d	January through December 2005	U.S. \$24.32	(\$19,931)
1,100 Bbls/d	January through March 2005	U.S. \$22.38	(\$303,940)
1,030 Bbls/d	April through June 2005	U.S. \$22.18	(\$282,152)

**Swaps based on the Lloydminster Blend Crude differential**

2,000 Bbls/d	January through December 2004	U.S. (\$7.75)	\$1,731,396
1,100 Bbls/d	January through December 2004	U.S. (\$8.20)	\$643,090

<b>Sold Put</b>	<b>Term</b>	<b>Price per Barrel</b>	<b>Mark to Market Loss</b>
500 Bbls/d	January through December 2004	Short put Cdn \$15.50	(\$44,522)
1,000 Bbls/d	January through December 2004	Short put Cdn \$18.00	(\$173,140)

<b>Collars</b>	<b>Term</b>	<b>Price per Barrel</b>	<b>Mark to Market Gain (Loss)</b>
500 Bbls/d	July through September 2003	Cdn \$35.40 – 38.40	(\$79,059)
500 Bbls/d	October through December 2003	Cdn \$35.50 – 37.35	(\$44,797)
1,000 Bbls/d	January through December 2004	U.S. \$23.00 – 27.95	\$0

The Trust has also entered into a physical contract to deliver 6,000 Bbls/d of Lloydminster blend crude oil to the vendor of the property until December 31, 2003. This requires the Trust to purchase approximately 1,000 Bbls/d of diluents to blend with its production to meet the oil quality requirements at the delivery point. Under the contract, the Trust is paid a price equal to the NYMEX calendar WTI price less a fixed differential of U.S. \$8.23 per Bbl, such price not to be less than U.S. \$14.40 per Bbl or greater than U.S. \$17.24 per Bbl.

The following is a summary of electricity price hedging swap contracts entered into by Harvest Operations to fix the cost of future electricity usage as at June 30, 2003:

Swaps	Term	Price per Megawatt	Mark to Market
			Gain (Loss)
5MW	January through December 2003	Cdn \$46.30	\$308,790
5MW	January through December 2004	Cdn \$46.00	\$32,850
5MW	January through December 2004	Cdn. \$46.00	\$32,850
5MW	January through December 2005	Cdn \$43.00	(\$21,900)
9.75MW	April 2003 through March 2006	Cdn \$44.50	\$916,022

At June 30, 2003 the net mark-to-market unrealized loss for all the financial derivative contracts entered into by Harvest Operations was approximately \$1,704,799. Harvest Operations Corp. has provided a deposit to the counterparties with some of its financial derivative contracts, based on the mark-to-market value of those contracts at the end of the trading day. As at June 30, 2003, this amount totaled \$1,733,008 and is recorded in the prepaid expense and deposits balance.

**7. Change in non-cash working capital**

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Changes in non-cash working capital items:		
Accounts receivable	\$ (2,958,028)	\$ (1,810,351)
Prepaid expenses and deposits	(850,833)	(1,834,215)
Accounts payable and accrued liabilities	(1,575,528)	1,711,765
Cash distributions payable	224,523	585,010
Accrued interest payable	(459,367)	420,480
Large corporation taxes payable	(10,398)	(46,643)
	\$ (5,629,631)	\$ (973,954)
Changes relating to operating activities	\$ (4,415,339)	\$ 868,612
Changes relating to financing activities	224,523	585,010
Changes relating to investing activities	(1,438,815)	(2,427,576)
	\$ (5,629,631)	\$ (973,954)

**8. Subsequent events**

On July 14, 2003, the Trust announced a cash distribution of \$0.20 per trust unit to the Unitholders of record on July 31, 2003. The distribution was paid on August 15, 2003 and consisted of \$1,478,783 in cash and 92,818 trust units issued for \$989,612 on the reinvestment of distributions pursuant to the Distribution Reinvestment and Optional Unit Purchase Plan.

On July 15, 2003, the Trust paid the \$0.20 per trust unit distribution announced on June 16, 2003, for Unitholders' of record as at June 30, 2003. The distribution paid consisted of \$1,457,793 in cash and 104,425 trust units issued for \$989,718 on the reinvestment of distributions pursuant to the Distribution Reinvestment and Optional Unit Purchase Plan.

During the period from July 15 to July 18, 2003, the Trust issued 31,000 additional trust unit rights to employees of Harvest Operations Corp. The initial exercise price of rights granted under the plan is equal to the closing market price on the date immediately prior to the date the rights are granted and



the maximum term of each right is not to exceed five years. The average exercise price of the rights granted was \$10.23. The exercise price of the rights is adjusted downwards from time to time based upon the cash distributions made on the trust units if the minimum distribution rate is met. All of the trust unit rights outstanding vest equally over the next four years on their anniversary date.

On July 30, 2003, Harvest Operations Corp. entered into an agreement to acquire producing oil properties in Southeastern Saskatchewan. The expected purchase at closing is approximately \$105.0 million, and the transaction is anticipated to close on September 30, 2003.

On July 31, 2003, Harvest Operations Corp. entered into an electricity purchase agreement whereby 5 MW per hour will be provided at a price of \$45.50 per MW from January 1, 2004 to January 1, 2005, and an electrical price based heat rate of 8.40 GJ/MWh from January 1, 2005 to January 1, 2006.

On August 20, 2003, the Trust announced a cash distribution of \$0.20 per unit to the Unitholders of record on August 29, 2003. The distribution that will be paid on September 15, 2003 is \$2,486,959.

The following is a summary of the oil sales contracts with price swap or collar features that were entered into by Harvest Operations Corp. subsequent to June 30, 2003, that have fixed future sales and purchase prices:

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<b>Trade Date</b>	<b>Buy (Sell) Put</b>	<b>Term</b>	<b>Price per Barrel</b>
July 11, 2003	(1,000 Bbls/d)	January through December 2004	USD \$18.00
July 11, 2003	1,000 Bbls/d	January through December 2004	USD \$25.00

  

<b>Trade Date</b>	<b>Call</b>	<b>Term</b>	<b>Price per Barrel</b>
July 11, 2003	(1,000 Bbls/d)	January through December 2004	USD \$28.25

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Harvest Energy Trust is a Calgary based oil and natural gas trust that strives to deliver stable monthly cash distributions to its Unitholders through its strategy of acquiring, enhancing and producing crude oil, natural gas and natural gas liquids. Harvest's assets, comprised of high quality medium and heavy gravity crude oil properties in East Central Alberta, and its hands on operating strategy underpin Harvest's objective to deliver superior economic returns to Unitholders.

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