

For the three and six
month periods ended
June 30, 2004



Harvest Energy Trust

2004 Quarterly Report to Unitholders

Q2

Harvest Energy Trust Announces Second Quarter 2004 Results

Calgary, August 12, 2004 (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, 2004.

Highlights:

- Harvest declared distributions of \$0.60 per trust unit, representing a payout ratio of 64%;
- Harvest concluded the Plan of Arrangement with Storm Energy Ltd. ("Storm") on June 30, 2004, acquiring 4,000 BOE/d of light oil and natural gas properties in the Red Earth area of North Central Alberta for consideration of approximately \$189 million. The consolidated balance sheet at June 30, 2004 reflects the Storm assets acquired and the consideration paid to the former Storm shareholders, but no operating results related to those assets are included in the second quarter financial results as the acquisition closed on the last day of the quarter;
- Cash flow from operations of \$17.2 million or \$0.99 per trust unit for the three month period ended June 30, 2004, compared to \$14.8 million in the first quarter and \$9.5 million during the same period in 2003;
- Sales volume averaged 15,291 BOE/d for the three month period ended June 30, 2004, a 3% increase over the previous quarter, and a 59% increase over the same period in the previous year;
- Development activities continued in core areas, reflected in capital expenditures of approximately \$8.6 million (\$0.49 per trust unit) for the quarter, with the goal of adding production and reserves and providing stability for future distributions;
- Subsequent to the end of the quarter, Harvest announced a \$526 million acquisition of crude oil and natural gas producing properties from a subsidiary of EnCana, concurrent with a bought deal equity and convertible debenture financing, and a new credit facility. The acquisition includes approximately 19,500 BOE/day of production, 57.8 mmBOE of proved plus probable reserves, and 343,000 net acres of undeveloped land. The acquisition is expected to close on or about September 1, 2004. Pro forma this acquisition, Harvest's production will be approximately 37,000 - 38,000 BOE/d.
- Following completion of the EnCana acquisition and reflecting the results of the Storm acquisition, Harvest's operating and financial statistics will improve as follows:
 - Reserve life index ("RLI") increases to 7.5;
 - Payout ratio, being the ratio of trust unit distributions to cash flow from operations, decreases to less than 45%;
 - Operating costs/BOE, G&A/BOE and royalty rates decline significantly, resulting in improved netbacks;
 - Natural gas and NGL production increases to 18% of total production.

Second Quarter Financial and Operational Summary

(\$000's, except per BOE and per trust unit amounts)

FINANCIAL	Three months ended June 30			Six months ended June 30		
	2004	2003	% Change	2004	2003	% Change
		<i>(Restated)</i>			<i>(Restated)</i>	
Revenue, net of royalties	\$ 40,808	\$ 20,912	95%	\$ 79,253	\$ 38,573	105%
Cash flow from operations	17,160	9,546	80%	32,001	16,035	100%
Per trust unit, basic (non GAAP)	0.99	0.84	17%	1.85	1.47	26%
Net income	1,594	1,064	50%	530	4,533	-88%
Per trust unit, basic	0.02	0.09	-79%	(0.11)	0.41	-127%
Distributions	11,015	6,692	65%	21,306	13,015	64%
Distributions per trust unit, basic	0.60	0.60	0%	1.20	1.20	0%
Payout ratio	64%	70%	-8%	67%	81%	-18%
Capital expenditures	8,596	19,120	-55%	20,640	24,971	-17%
Net debt	145,097	39,924	263%	145,097	39,924	263%
Weighted average trust units						
outstanding, basic	17,388,668	11,351,728	53%	17,284,683	10,891,161	59%

OPERATING

Average daily sales volume						
Crude oil and natural gas						
liquids (bbl/d)	14,916	9,438	58%	14,796	8,554	73%
Natural gas (mcf/d)	2,249	1,161	94%	1,582	1,077	47%
Total (BOE/d)	15,291	9,632	59%	15,060	8,734	72%
Production exit rate (BOE/d)	19,200	10,556	82%	19,200	10,556	82%

(Natural gas converted to barrel of oil equivalent (BOE) on a 6:1 basis)

Second Quarter Message to Unitholders

During the second quarter, Harvest was focused on development activities at Hayter and Hazelwood, closing the Storm Plan of Arrangement to acquire the Red Earth assets and pursuing the EnCana asset acquisition. Harvest's second quarter exit rate was approximately 19,200 BOE/d, a 26% increase from March 31, 2004.

Harvest completed and commissioned a number of water disposal projects in the Provost area which were designed to reduce operating costs. Also during the quarter, Harvest drilled three new wells, all situated in Southeast Saskatchewan, with a success rate of 100%. Development capital during the quarter totaled \$8.6 million, primarily for drilling, completing and tying-in of wells, and was split almost equally between properties in Alberta and Saskatchewan.

Harvest's full year 2004 capital program is not expected to be materially different than the previously communicated outlook of approximately \$42 to \$45 million, and will be focused on adding production and reserves as well as improving operating efficiency. As the Storm transaction did not close until the end of the second quarter, operational activities in the Red Earth area were limited. The acquisition of the Red Earth properties provides Harvest with approximately 4,000 BOE/day of light gravity crude oil and natural gas produced from highly operated properties with low operating expenses and high netbacks.

Subsequent to the end of the second quarter, on July 15, 2004, Harvest announced the acquisition of conventional oil and natural gas producing properties from a subsidiary of EnCana Corporation for approximately \$526 million. The properties are concentrated primarily in East Central Alberta, where Harvest already has a presence with its Provost properties, and Southern Alberta, which represents the creation of a new core area. A bought deal equity and convertible debenture financing closed on August 10, and raised proceeds of \$175.2 million (not \$179.2 million as reported in the press release dated August 10) from issuance of subscription receipts and \$100 million from issuance of convertible debentures, which will be used to fund a portion of the acquisition. The balance of the acquisition price will be funded with proceeds from a new credit facility. Following the closing of the EnCana property acquisition on or about September 1, 2004, development capital may be re-allocated to the new properties, but material additions to the capital expenditure budget are not expected.

The EnCana assets are a natural complement to existing Harvest properties and proven strategies, given that they are primarily operated, have a high working interest, are made up of large original oil-in-place and gas-in-place properties, and offer significant development opportunities. These properties also increase Harvest's natural gas exposure to approximately 27 Mmcf/d which provides commodity diversification. Once the acquisition is complete, Harvest's RLI will be extended to 7.5. Additionally, due to low royalty rates and operating expenses on the acquired properties, Harvest anticipates its operating netbacks to improve.

Specific elements of the acquisition include:

- Accretion to cash flow, net asset value, production per unit, and reserves per unit;
- Production addition of approximately 19,500 BOE/d (before royalties);
- Proved plus probable reserves of approximately 57.8 mmBOE;
- Increased RLI from 6.7 to 7.5.

The acquisition is expected to close on or about September 1, 2004. Based on Harvest's incremental production from 2004 acquisition activity combined with its existing base of production, volumes added through development and offset by natural production decline, Harvest anticipates the following:

	Fourth Quarter 2004 Estimate	Full Year 2004 Estimate
Average Production Volumes (BOE/d)	37,000 - 38,000	22,500 - 23,500
Royalties (% of revenue)	16.0% - 16.5%	16.5 % - 17.0%
Operating costs (\$/BOE)	\$7.30 - \$7.80	\$8.50 - \$9.00

The Board of Directors of Harvest Operations Corp. will continue to evaluate distributions on a monthly basis. Although recent acquisition activity is accretive to cash flow per trust unit, Harvest's low payout ratio provides additional cash flow to help fund Harvest's ongoing property enhancement program, acquisition strategy and also facilitate the repayment of debt.

Harvest is pleased to announce the promotion of James A. Campbell to the position of Vice President, Geosciences.

On August 11, 2004, Harvest appointed David J. Rain to the position of Vice President and Chief Financial Officer, replacing David M. Fisher. Mr. Fisher had been with Harvest since October 2002 and Harvest thanks him for his significant contributions and wishes him the best in his future endeavors.

All references are to Canadian dollars unless otherwise indicated. Natural gas volumes recorded in thousand cubic feet (“mcf”) are converted to barrels of oil equivalent (“BOE”) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (“bbl”). BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf: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.

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 audited consolidated financial statements and accompanying notes for the year ended December 31, 2003.

Forward-Looking Information

The following disclosure contains forward-looking information and estimates with respect to Harvest. 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. These risks and uncertainties include but are not limited to, factors intrinsic in domestic and international politics and economics, general industry conditions including the impact of environmental laws and regulations, imprecision of reserve estimates, fluctuations in commodity prices, interest rates or foreign exchange rates and stock market volatility. The information and opinions concerning the Trust’s future outlook are based on information available as at August 2004.

Certain Financial Reporting Measures

The Trust has used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas industry in the following MD&A discussion. The measures discussed are widely accepted measures of performance and value within the industry, and are used by analysts and investors to compare and evaluate oil and natural gas producing entities. These measures are not defined under Canadian generally accepted accounting principles (“GAAP”) and should not be considered in isolation or as an alternative to conventional GAAP measures. Certain of these measures are not necessarily comparable to a similarly titled measure of another company or trust. When these measures are used, they are defined as “non-GAAP” and should be given careful consideration by the reader.

Trust Overview

Harvest Energy Trust is an oil and natural gas royalty trust, which focuses on the operation of high quality, mature properties. The Trust employs a conservative approach to the oil and natural gas production business, whereby it acquires high working interest, mature, producing properties and employs distinct management and operational practices. These operational practices include diligent, hands-on management to maintain and maximize production rates, application of technology and selective capital investment to maximize reservoir recovery, enhancing operational efficiencies to control and reduce expenses, and unique marketing arrangements and corporate hedging techniques to effectively manage cash flow. The Trust has operations in the Provost and Red Earth regions of Alberta and in the Carlyle region of Southeastern Saskatchewan.

Industry Overview

Prices	Three month period ended June 30			Six month period ended June 30		
	2004	2003	% Change	2004	2003	% Change
West Texas Intermediate crude oil (US\$ per barrel)	\$ 38.32	\$ 28.91	33%	\$ 36.73	\$ 31.39	17%
Edmonton light crude (\$ per barrel)	50.62	41.10	23%	48.11	46.04	4%
Lloyd blend crude oil (\$ per barrel)	36.15	30.44	19%	34.68	34.59	0%
Bow river blend crude oil (\$ per barrel)	47.26	40.87	16%	45.79	44.73	2%
AECO natural gas (\$ per mcf)	6.80	6.71	1%	7.00	7.46	-6%
Alberta Power Pool electricity price (\$ per MWh)	60.15	50.94	18%	54.43	67.37	-19%
Canadian / U.S. dollar exchange rate (C\$)	1.360	1.398	-3%	1.339	1.454	-8%
Bank of Canada bank rate	2.28%	3.46%	-34%	2.50%	3.28%	-24%

The benchmark price of WTI crude oil impacts Harvest's revenues, because the Trust's primary product is crude oil. Foreign exchange also has an impact on Harvest's revenues because it affects the realized revenues in Canadian dollars for products denominated in U.S. dollars. Although Harvest's natural gas weighting is relatively low, fluctuations in AECO natural gas spot prices also impact the Trust's revenues. This impact is expected to increase once the EnCana acquisition closes, because Harvest's natural gas production weighting will increase to 13% from 2%.

Although the price of WTI in U.S. dollars has increased significantly period on period, crude prices in Canadian dollar terms did not keep pace as a result of the strengthening of the Canadian versus the U.S. dollar and slightly wider differentials for Canadian crude. The overall average increase in WTI of approximately 33% was slightly offset by the 3% increase in the value of the Canadian dollar relative to the U.S. dollar. Edmonton light (posted price for light oil delivered to Edmonton) rose 23% during the second quarter of 2004 relative to the same period of 2003.

The differential between heavy and light crude oil widened slightly in Canadian dollar terms as the lighter crudes were afforded a premium due to their proportionately higher gasoline yield and in response to higher WTI prices.

Harvest has been mostly exposed to swings in world oil prices (WTI) and light to medium/heavy differentials given the fact that, in the past, 97% of production was medium and heavy crude oil. In the second quarter of 2004, light oil made up 34% of total production. Proforma the acquisitions of the Red Earth and EnCana properties, light and medium gravity crude oil will make up 35% and gas and NGL's will make up 18% of total production. This diversification will reduce Harvest's exposure to WTI prices and heavy oil differentials and increase our exposure to North American gas prices.

The average Alberta Electricity System Operator (AESO) electricity price increased in the second quarter of 2004 by approximately 18% over the same period in 2003. The price increase was primarily the result of a higher number of days in which multiple large generators were simultaneously off-line combined with reduced output from a number of the province's low cost gas fired co-generation units. These outages coupled with second quarter year-over-year demand growth of 4% were the leading factors behind the second quarter increase in electricity prices. A 1% increase in AECO natural gas prices also contributed to the second quarter electricity price increases over the same period last year. The 42% decrease in prices seen in the first quarter of 2004 compared to the same period in 2003 continues to drive the cost decrease for the six month period ending June 30. Electricity prices are a significant component of Harvest's operating costs, which management has attempted to hedge through various derivative contracts.

Summary of Quarterly Results

Financial	<i>(Restated - Refer to note 3 of the consolidated financial statements)</i>					
	2004		2003			
	Q2	Q1	Q4	Q3	Q2	Q1
Revenue, net of royalties and hedging	\$ 32,503	\$ 30,418	\$ 30,474	\$ 21,181	\$ 17,622	\$ 14,738
Operating expense	13,600	13,674	12,984	9,661	6,596	6,804
Net operating income	\$ 18,903	\$ 16,744	\$ 17,490	\$ 11,520	\$ 11,026	\$ 7,934
Net income (loss)	1,594	(1,065)	6,134	5,673	1,063	3,468
Per trust unit, basic	0.02	(0.13)	0.38	0.45	0.09	0.33
Per trust unit, diluted	0.02	(0.13)	0.37	0.44	0.09	0.31
Cash flow from operations	17,160	14,839	13,115	16,759	9,547	6,489
Per trust unit, basic (non GAAP)	0.99	0.87	0.81	1.35	0.84	0.62
Per trust unit, diluted (non GAAP)	0.95	0.84	0.79	1.31	0.82	0.60
Sales Volumes						
Crude oil (bbl/d)	14,775	14,626	14,497	11,054	9,371	8,034
Natural gas liquids (bbl/d)	141	50	70	77	67	43
Natural gas (mcf/d)	2,249	915	1,744	1,453	1,161	875
Total (BOE/d)	15,291	14,829	14,858	11,373	9,632	8,223

The above table highlights Harvest's performance for the second quarter of 2004, and the preceding quarters following the Trust's Initial Public Offering in December of 2002.

Net revenues have trended higher since the first quarter of 2003, attributable to increasing production volumes and a strengthening commodity price environment. Production related to the Storm assets will be reflected for all of the third quarter, and production from the EnCana assets will be reflected from the date of closing of that acquisition, currently scheduled for September 1, 2004.

Net income includes both cash and non-cash items. The non-cash items including depletion, depreciation and accretion (DD&A), future income taxes, foreign exchange, and unrealized gain or loss on derivatives can cause the net income to vary significantly. As demonstrated in the above table, net income has not demonstrated the same trend as net revenues. Given that distributions are paid out of cash flow from operations rather than net income, Harvest believes that net income is not necessarily indicative of future cash flows or Harvest's ability to continue making distributions to its unitholders.

Cash flow from operations has demonstrated a steady upward trend, with the exception of a non-recurring foreign exchange gain realized in the third quarter of 2003.

Sales Volumes

Harvest's production consists of light, medium and heavy crude oil, natural gas liquids, and natural gas from properties located in Red Earth, East Central Alberta and Southeastern Saskatchewan. Sales volumes, on a barrel of oil equivalent (BOE) basis, averaged 15,291 BOE/d and 15,060 BOE/d for the three and six month periods ended June 30, 2004, in comparison to 9,632 BOE/d and 8,734 BOE/d for the similar periods ended June 30, 2003. Compared to the second quarter of 2003, the higher average production in the second quarter of 2004 reflects the impact of acquisitions completed during the balance of 2003 and in 2004, as well as the ongoing optimization and development programs conducted by Harvest on its oil and natural gas properties.

Average production of 15,291 BOE/d for the second quarter of 2004 is slightly higher than the 14,829 BOE/d recorded in the previous quarter. The increase in the second quarter volumes is primarily due to successful development and optimization

work primarily at Harvest's Hazelwood and Hayter properties. The shift in production of light, medium and heavy oil in the second quarter of 2004 compared to the second quarter of 2003 is attributable to the light and medium crude oil production acquired in the Carlyle asset transaction in October 2003.

The average daily sales volumes by product were as follows:

	Three month period ended		Three month period ended	
	June 30, 2004		June 30, 2003	
Light crude oil (Bbls/d)	5,216	34%	-	0%
Medium crude oil (Bbls/d)	4,082	27%	4,232	44%
Heavy crude oil (Bbls/d)	5,477	36%	5,139	53%
Total oil (Bbls/d)	14,775	97%	9,371	97%
Natural gas liquids (Bbls/d)	141	1%	67	1%
Total oil and natural gas liquids (Bbls/d)	14,916	98%	9,438	98%
Natural gas (mcf/d)	2,249	2%	1,161	2%
Total oil equivalent (6:1 BOE/d)	15,291	100%	9,632	100%

	Six month period ended		Six month period ended	
	June 30, 2004		June 30, 2003	
Light crude oil (Bbls/d)	5,134	34%	-	0%
Medium crude oil (Bbls/d)	4,116	27%	3,488	40%
Heavy crude oil (Bbls/d)	5,451	36%	5,001	57%
Total oil (Bbls/d)	14,701	98%	8,489	97%
Natural gas liquids (Bbls/d)	95	1%	65	1%
Total oil and natural gas liquids (Bbls/d)	14,796	98%	8,554	98%
Natural gas (mcf/d)	1,582	2%	1,077	2%
Total oil equivalent (6:1 BOE/d)	15,060	100%	8,734	100%

Harvest's June 30, 2004 exit rate was approximately 19,200 BOE/d, an 82% increase over the exit rate of 10,556 BOE/d for the period ended June 30, 2003. The exit rate was also 26% higher than the 15,200 BOE/d exit rate as at March 31, 2004. The increases can primarily be attributed to the 4,000 BOE/d production acquired in the Red Earth acquisition and the Carlyle transaction noted above.

In Harvest's MD&A for December 31, 2003, the Trust set a 2004 performance goal of 15,000 – 15,500 BOE/d average production. In the first quarter 2004 report to unitholders, this target was increased by approximately 2,000 BOE/d to 17,000 - 17,500, to reflect the production acquired from the Red Earth and Carlyle transactions noted above. On the expectation that the acquisition of properties from EnCana closes September 1, 2004, Harvest is again increasing its 2004 production volume target by 5,500 - 6,500 BOE/d, for a full year average of 22,500 – 23,500 BOE/d.

Revenues

Revenues net of hedging losses and before royalties were 95% higher in the second quarter of 2004 at \$40.8 million, compared to \$20.9 million for the same period in 2003. For the first six months of 2004, revenues net of hedging losses and before royalties increased 105% to \$79.3 million, compared to \$38.6 million recorded for the same period in 2003. Higher net revenues in the three and six months ended June 30, 2004 are as a result of Harvest's higher production volumes as well as higher average commodity prices in 2004 compared to 2003. For the three and six month periods ended June 30, 2004, the average market price was \$38.13/BOE and \$36.69/BOE, compared to \$28.69/BOE and \$32.86/BOE for the same periods in the previous year.

The following is a breakdown of average market prices by product for the three and six month periods ended June 30, 2004 and 2003.

	Three month period ended June 30, 2004	Three month period ended June 30, 2003	Six month period ended June 30, 2004	Six month period ended June 30, 2003
Product prices:				
Light oil (\$/bbl)	\$ 44.28	-	\$ 42.71	-
Medium oil (\$/bbl)	36.95	30.05	36.69	36.99
Heavy oil (\$/bbl)	33.53	26.45	31.17	28.55
Natural gas liquids (\$/bbl)	30.39	35.39	31.60	30.97
Natural gas (\$/mcf)	5.91	7.15	5.78	6.68
BOE (\$/BOE)	\$ 38.13	\$ 28.69	\$ 36.69	\$ 32.86

Operating Netbacks

The following is a summary of Harvest's operating netbacks:

(Amounts expressed are \$/BOE)				
	Three month period ended June 30, 2004	Three month period ended June 30, 2003	Six month period ended June 30, 2004	Six month period ended June 30, 2003
Market price	\$ 38.13	\$ 28.69	\$ 36.69	\$ 32.86
Hedging loss	8.80	4.34	7.77	7.94
Realized price	29.33	24.35	28.92	24.92
Royalties, net	5.97	3.96	5.96	4.12
Royalties, percent	15.7%	13.8%	16.2%	12.5%
Operating costs	9.77	7.68	9.95	8.66
Netback	\$ 13.59	\$ 12.71	\$ 13.01	\$ 12.14

Operating netbacks in the second quarter of 2004 were 7% higher than the same period in 2003, and 7% higher in the six month period ended June 30, 2004 compared to 2003. The increase in netbacks is primarily attributable to higher market and realized prices slightly offset by higher royalties and operating costs per BOE, which are addressed below. Netbacks are an indicator of the amount of cash flow per BOE that Harvest realizes before head office expenses and financing charges.

As a result of the Storm transaction and following closing of the EnCana acquisition, Harvest's netbacks are expected to improve as a result of lower operating costs and lower royalty rates. The following table provides a comparison of Harvest's first quarter 2004 netbacks with netbacks realized on the Storm and EnCana properties.

First Quarter 2004						
(Amounts expressed are \$/BOE)						
		Harvest		Storm ⁽¹⁾		EnCana ⁽²⁾
Price received	\$	28.49	\$	40.30	\$	34.17
Royalties		(5.95)		(9.46)		(4.16)
Operating expenses		(10.13)		(4.48)		(5.75)
Netback	\$	12.41	\$	26.36	\$	24.26

⁽¹⁾ Per Storm's first quarter public data, included in Harvest's July 30, 2004 prospectus

⁽²⁾ Per EnCana's audited statements included in Harvest's July 30, 2004 prospectus

Royalties

Harvest's net royalties in the second quarter of 2004 totaled \$8.3 million (\$5.97/BOE), and were 150% higher than the same period in 2003 of \$3.3 million (\$3.96/BOE). For the six month period ended June 30, 2004, Harvest's net royalties were \$16.3 million (\$5.96/BOE), an increase of 163% compared to \$6.2 million (\$4.12/BOE) for the same period in 2003.

Higher net royalties in 2004 compared to 2003 is due to the change in Harvest's royalty structure as the result of the addition of the higher royalty burdened Carlyle properties acquired in the fourth quarter of 2003. Royalty expense as a percentage of revenues before hedging increased from 13.8% to 15.7% in the second quarter and from 12.5% to 16.2% in the six months ended June 30, 2004 compared to the same period the previous year. Royalties as a percentage of revenues are expected to decline in future quarters due to lower royalty rates for the EnCana property acquisition.

Operating Expenses

Harvest's operating expenses were \$13.6 million (\$9.77/BOE) and \$27.3 million (\$9.95/BOE) for the three and six month periods ended June 30, 2004. This compares to \$6.6 million (\$7.68/BOE) and \$13.4 million (\$8.66/BOE) for the same periods in 2003.

The \$2.09/BOE increase in unit operating expenses during the second quarter of 2004 compared to the second quarter of 2003 reflects the higher per unit operating costs associated with the Carlyle properties acquired in the fourth quarter of 2003.

During the second quarter of 2004, approximately 42% of Harvest's operating costs related to the consumption of electricity. Management has utilized fixed price electricity contracts to mitigate electricity price risk within Alberta. For the balance of the year, Harvest anticipates realizing further benefits from its electricity hedges (with approximately 25 MWh of its estimated Alberta electricity usage hedged at an average price of \$45.34 per MWh) and capital expenditures of approximately \$4.9 million in 2004 being dedicated to power efficiency projects. The increased exposure to natural gas production associated with the EnCana assets will provide a natural hedge to electricity prices and power costs.

The second quarter 2004 operating cost figure of \$9.77/BOE is in line with Harvest's performance goals set out in the December 31, 2003 MD&A. Further efficiencies realized from the Harvest capital program coupled with additional production volumes from the Storm and EnCana asset purchases are expected to reduce the overall 2004 average unit operating expenses to approximately \$8.50 - \$9.00/BOE. In addition, the impact of lower operating cost production associated with the Storm and EnCana assets will further reduce consolidated operating costs per BOE.

General and Administration Expenses

The portion of general and administrative expenditures charged against income totaled \$2.0 million (\$1.43/BOE) and \$3.5 million (\$1.29/BOE), respectively for the three and six month periods ended June 30, 2004. This compares to \$0.8 million (\$0.92/BOE) and \$1.5 million (\$0.98/BOE) for the same periods in 2003. The increase in general and administrative expenses on a per BOE basis quarter over quarter, is the result of a build-up of staff and systems required to operate a

growing enterprise, and approximately \$0.2 million related to unit appreciation right expenses as the result of adopting the new CICA recommendations on stock based compensation. Harvest's general and administrative expenses charged against income is anticipated to decrease to approximately \$0.90-\$1.00/BOE for the 2004 calendar year due to anticipated economies of scale following the Storm and EnCana acquisitions.

During the three and six month periods ended June 30, 2004, \$0.5 million and \$1.1 million of general and administrative costs were capitalized with regards to field enhancement and acquisition activities, while \$0.4 million and \$0.5 million were capitalized for the same respective periods in 2003.

Interest Expense and Amortization of Deferred Financing Charges

Interest expense and amortization of deferred financing charges were \$1.0 million and \$2.2 million for the three and six month periods ended June 30, 2004, respectively, compared to \$1.1 million and \$2.2 million for the same periods in 2003.

Depletion, Depreciation and Accretion

Harvest's depletion, depreciation, and accretion expense totaled \$12.8 million and \$25.0 million for the three and six month periods ended June 30, 2004, respectively. This compares to the depletion, depreciation and accretion expense total of \$7.8 million and \$13.5 million for the same periods in 2003.

For the three and six month periods ended June 30, 2004, the total depletion, depreciation and accretion expense primarily consists of: crude oil and natural gas properties depletion and depreciation of \$10.1 million and \$19.7 million; depletion of capitalized asset retirement costs of \$1.8 million and \$3.6 million; and approximately \$0.9 million and \$1.7 million for accretion on the asset retirement obligation. The depletion rate for oil and natural gas properties was approximately \$8.55/BOE and \$8.53/BOE for the three and six months ended June 30, 2004, respectively, and is based on the costs of the oil and natural gas properties purchased, capital expenditures incurred, capitalization of general and administrative expenses and the long-lived asset retirement costs. For the three and six month periods ended June 30, 2004, Harvest's depletion rate is lower compared to the same periods in 2003. This reduction in the depletion rate in 2004 is attributable to the addition of the Carlyle properties acquired in the fourth quarter of 2003, as well as reserve additions through acquisitions and positive reserve revisions.

For the three and six month periods ending June 30, 2003 respectively, the total depletion, depreciation and accretion expense primarily consists of: crude oil and natural gas properties depletion and depreciation of \$6.9 million and \$12.1 million; depletion of capitalized asset retirement costs of \$1.0 million and \$1.7 million; and approximately \$0.4 million and \$0.7 million for accretion on the asset retirement obligation. The depletion rate for oil and natural gas properties was approximately \$9.02/BOE and \$8.75/BOE.

It is anticipated that the depletion, depreciation and accretion expense per BOE will increase following the Red Earth acquisition due to the purchase price allocation which includes a future tax balance.

Future taxes

Future taxes for the three month period ended June 30, 2004 and 2003 are comprised of approximately \$1.6 million in recoveries and \$0.7 million in expense, respectively.

The estimated value of the tax pools associated with the Storm transaction will be less than the book value of the net assets acquired, resulting in a future tax liability of \$36.5 million on Harvest's balance sheet. Nonetheless, following completion of the Storm transaction, other than an increase in large corporation tax, neither the Trust nor its operating subsidiaries anticipate paying cash income taxes in 2004. Similarly, Harvest does not anticipate cash taxes associated with the acquisition of the EnCana assets.

Liquidity and Capital Resources

The Trust's capital investment and operational enhancement programs, as well as current financial commitments are expected to be supported by cash flow from operations net of distributions, bank credit facilities and Unitholder reinvestment of distributions through the distribution reinvestment plan.

For the three and six months ended June 30, 2004, the Trust's cash flow from operations was \$17.2 million and \$32.0 million and net income was \$1.6 million and \$0.5 million. For the same periods in 2003, cash flow from operations was \$9.5 million and \$16.0 million and net income was \$1.1 million and \$4.5 million.

The Trust's net debt (working capital plus demand loan) at June 30, 2004 was \$145 million, which is an increase of \$91.4 million in comparison to net debt of \$53.6 million as at December 31, 2003. The increase is primarily the result of the plan of arrangement with Storm whereby Harvest paid cash of \$75 million to Storm's shareholders, assumed Storm's debt of \$58.5 million and working capital deficit of approximately \$6.7 million.

During the second quarter of 2004, the Trust declared \$11.0 million in distributions payable to unitholders; \$0.20 per trust unit for each of April, May and June 2004. Of the distributions paid, \$1.9 million was reinvested into the Trust by unitholders through the issue of 140,426 trust units under the Distribution Reinvestment Plan ("DRIP"). This reflects 19% participation under the DRIP. The Trust will continue to declare its distributions monthly, and consistent with the preceding 19 months, the August 15, 2004 payment has been confirmed at \$0.20 per trust unit. The distributions will continue to be financed with cash flow from operations. Harvest anticipates its payout ratio, which is the ratio of distributions to cash flow from operations, to decline to below 45% after the acquisition of the EnCana assets. This low payout ratio will provide Harvest significant flexibility in servicing its outstanding debt and financing capital and acquisition activities.

A breakdown of the Trust's outstanding trust units and potentially dilutive elements are as follows:

	As at March 31, 2004	As at June 30, 2004
Trust units outstanding	17,281,528	20,228,860
Exchangeable shares outstanding ⁽¹⁾	-	600,587
Trust unit rights outstanding ⁽²⁾	1,063,725	1,168,100
Convertible debentures ⁽³⁾	59,000	57,795

(1) Exchangeable into trust units at the election of the holder at any time

(2) Exercisable at an average price of \$6.62 per trust unit as at June 30, 2004 and \$6.39 per trust unit as at March 31, 2004

(3) Each debenture has a face value of \$1,000 and is convertible, at the option of the holder at any time, into trust units at a price of \$14.00 per trust unit. The Trust may also elect to redeem the debentures upon maturity with the issue of trust units at a price equal to 95% of the weighted average trading price for the preceding 20 consecutive trading days, 5 days prior to settlement date

Capital Expenditures

Capital expenditures, excluding the plan of arrangement with Storm, totaled \$8.6 million for the three month period ended June 30, 2004, resulting in year to date capital expenditures of \$20.6 million. The capital expenditures were dedicated to ongoing optimization and development of existing assets. This compares to \$19.1 million spent in the second quarter of 2003 and \$25.0 million for the six months ending June 30, 2003. Total consideration for the plan of arrangement with Storm was approximately \$189 million, bringing the Trust's total capital expenditures in the second quarter to \$198 million, including acquisitions.

Excluding acquisitions, Harvest continues to expect full year 2004 capital expenditures of approximately \$42 to \$45 million, and will be focused on production, reserve additions, and operating efficiency programs. Harvest expects to reallocate capital for the properties acquired in the EnCana acquisition, but does not anticipate a material increase to its 2004 capital budget.

Future Liquidity Requirements

From time to time the Trust may require external financing, through both debt and equity, to maintain its business plan of growing through acquisitions and capital expenditures. Harvest's ability to obtain the necessary financing is subject to external factors including, but not limited to, fluctuations in equity and commodity markets, economic downturns and interest

and foreign exchange rates. Adverse changes in these factors could require Harvest's Management to alter the current business plan of the Trust.

As a result of the EnCana asset acquisition, Harvest anticipates a significant increase in its bank credit facilities. Harvest has received from National Bank of Canada, a fully underwritten commitment for credit facilities totaling \$440 million. The credit facilities will be used to finance the EnCana acquisition, for general corporate purposes and to refinance Harvest's existing revolving credit facility. The incremental borrowing capacity combined with the issue of subscription receipts and the convertible debentures, which closed August 10, 2004, are expected to be sufficient to finance the \$526 million acquisition. However, dependent upon market conditions, the Trust will consider additional financings in the form of convertible debentures or trust units to strengthen the balance sheet, expand the capital program or to finance additional acquisitions. The Trust currently has access to and may also utilize bridge financing, similar to that used in 2003, if required.

Following the EnCana purchase, the Trust anticipates that the remaining borrowing capacity, cash flow generated from operating activities and funds from the DRIP will be sufficient for the Trust to pay unitholder distributions, service interest obligations associated with the convertible debentures and carry out the anticipated optimization and development capital expenditures currently contemplated.

Contractual Obligations

The Trust has entered into the following contractual obligations:

Annual Contractual Obligation (\$ thousands)	Maturity			
	Less than 1 year	Years 1 - 3	Years 4 - 5	After 5 Years
Product transportation agreements	35	39	25	-
Operating and premise leases	325	646	646	-

At June 30, 2004, the Trust had \$145 million drawn and approximately \$3.3 million in letters of credit outstanding under the credit facility.

As at June 30, 2004 Harvest Operations Corp. has entered into physical and financial contracts for production with average deliveries of approximately 10,603 barrels per day for the balance of 2004 and 9,033 barrels per day in 2005. Harvest has also entered into financial contracts to minimize its exposure to fluctuating electricity prices and the US / Canadian dollar exchange rate. Please see Note 11 to the consolidated financial statements for further details.

Critical Accounting Policies

The Management of the Trust is required to make estimates and assumptions that affect the reported amounts of assets and liabilities when applying Canadian generally accepted accounting principles. Certain accounting policies have been deemed critical by Management in the preparation of the financial results of the Trust. These critical accounting policies are described in the Trust's first quarter report MD&A and include accounting policies related to oil and natural gas operations, the asset retirement obligation and the Trust's unit incentive plan.

Changes in Accounting Policies

Note 2 to the consolidated financial statements describes changes to accounting policies in 2004, including the adoption of the CICA's recommendations related to oil and natural gas accounting, asset retirement obligations and financial instruments.

Transactions with Related Parties

See Note 13 to the consolidated financial statements for a description of related party transactions reflected during the period ended June 30, 2004.

Risk Management Activities

All of Harvest's risk management activities are carried out under policies approved by the Board of Directors. Harvest intends to execute its business plan to create value for unitholders by paying stable monthly distributions and views its risk management activities as a key component of achieving this objective.

As at June 30, 2004 Harvest Operations Corp. had entered into physical and financial contracts for production with a current delivery of approximately 10,603 barrels per day for the balance of 2004 and 9,033 barrels per day in 2005. Harvest has also entered into financial swap and collared contracts for WTI crude oil, LLB differential, US / Canadian dollar exchange rate, electricity and natural gas heat rate. Collectively these contracts had a mark to market unrealized loss of \$26.9 million as at June 30, 2004. Please refer to Note 11 in the Consolidated Financial Statements for further information.

Under Harvest's risk management policy, management enters into crude oil based financial and physical contracts to mitigate the risk of price volatility for its expected production. Management also enters into electricity price based swaps to assist in maintaining stable operating costs. Finally, as a further means to manage revenue risks, management has entered into foreign exchange contracts to minimize the effect of adverse foreign exchange fluctuations of the Canadian dollar against the U.S. dollar.

The following table summarizes the risk management activities undertaken by the Trust, the volumes hedged and the associated unrecognized mark to market gains and losses as at June 30, 2004:

	Maturity		
	2004	2005	2006
Volumes Hedged			
West Texas intermediate crude oil price based swaps (bbls/d)	3,853	1,033	-
West Texas intermediate crude oil price based collars (bbls/d)	5,500	4,000	-
West Texas intermediate crude oil price based floors (bbls/d)	1,250	4,000	-
Lloyd blend crude oil price based swaps (bbls/d)	4,500	-	-
Alberta electricity price based swaps (MW)	25	15	3
Electricity heat rate (GJ/MWh)	-	5	-
Canadian / U.S. dollar based swap (U.S. \$ million)	3	-	-

	Maturity		
	2004	2005	2006
Mark to Market Gains (Losses) (\$ thousands)			
West Texas intermediate crude oil price based swaps	(10,987)	(6,067)	-
West Texas intermediate crude oil price based collars	(10,686)	(3,124)	-
West Texas intermediate crude oil price based options	(854)	(1,207)	-
Lloyd blend crude oil price based swaps	2,280	-	-
Alberta electricity price based swaps	1,773	1,596	285
Electricity heat rate	-	113	-
Canadian / U.S. dollar put option	12	-	-
	(18,462)	(8,689)	285

Taxability of Cash Distributions paid to Unitholders

Harvest declared and paid distributions of \$0.20 per trust unit in each month of the first and second quarters of 2004. Cash distributions are comprised of a taxable (dividend) portion, and a return of capital portion (tax deferred). Harvest anticipates that between 10% and 25% of the distributions will be a return of capital in 2004. Harvest anticipates that cash distributions will be highly taxable in 2005 pro forma the EnCana asset acquisition.

Key Performance Indicators and 2004 Outlook

Based upon current operations and assuming the successful completion of the EnCana asset acquisition on September 1, 2004, the following table provides guidance in respect to 2004 and relative performance for the past year:

	Results	Performance Goals	Results
	Q2 2004	Full Year 2004	Full Year 2003
Daily production (BOE/d)	15,291	22,500 - 23,500	11,040
Average Royalty Rate, net	15.7%	16.5%-17.0%	14.3%
Operating expense (\$/BOE)	\$9.77	\$8.50-\$9.00	\$8.94

Harvest plans to continue with its business plan of acquiring and operating high quality, mature crude oil and natural gas properties that can be enhanced through operational and exploitation techniques. Harvest also plans to continue to identify new areas in the Western Canadian sedimentary basin that can provide the required growth and stability for sustainable distributions and growth in net asset value per unit.

It is important to note that the above figures are estimates based upon management's current expectations. The ultimate results may vary, perhaps materially.

Sensitivities

The table below indicates the impact of changes in key variables on Harvest's cash flow and distributions for the balance of 2004, including the impacts of the hedging program. The figures in this table are provided for directional information only and are based on the units outstanding as at June 30, 2004.

	Variable				
	WTI price/bbl	Heavy Oil LLB differential/bbl	Crude Oil production	Canadian bank prime rate	Foreign exchange Cdn. / U.S.
Assumption	\$40.30 US	\$10.00 US	32,000 bbl/d	4.25%	1.31
Change (plus or minus)	\$1.00 US	\$1.00 US	1,000 bbl/d	1.00%	0.01
Cash flow from operations (\$000's)	\$3,500	\$2,500	\$4,700	\$1,300	\$1,100
Per trust unit, basic	\$0.15	\$0.10	\$0.20	\$0.05	\$0.05
Per trust unit, diluted	\$0.10	\$0.07	\$0.14	\$0.04	\$0.03
Payout ratio	1.0%	0.7%	1.3%	0.4%	0.3%

Harvest Energy Trust is a Calgary-based energy trust actively managed 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. Trust units of Harvest are traded on the Toronto Stock Exchange (TSX) under the symbol "HTE.UN". For further information on Harvest, please visit our website at www.harvestenergy.ca.

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ADVISORY: Certain information regarding Harvest Energy Trust and its subsidiaries including management's assessment of future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risks associated with oil and gas exploration, production, marketing and transportation such as loss of market, volatility of prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources; as a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Harvest Energy Trust

Consolidated Balance Sheets

(thousands of dollars)

(Restated, Note 3)

	June 30, 2004	December 31, 2003
Assets	(Unaudited)	(Audited)
Current assets		
Accounts receivable	\$ 32,857	\$ 19,168
Prepaid expenses and deposits	14,652	12,131
	47,509	31,299
Deferred financing charges, net of amortization	672	1,989
Future income tax	-	12,609
Property, plant and equipment [Notes 3 and 4]	419,746	210,543
Goodwill [Note 4]	20,277	-
	\$ 488,204	\$ 256,440
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 44,001	\$ 18,083
Cash distributions payable	4,046	3,422
Bank debt [Note 5]	144,559	63,349
	192,606	84,854
Commodity derivative contracts [Note 11]	9,732	-
Asset retirement obligation [Notes 3 and 4]	50,007	42,009
Future income tax [Note 4]	19,640	-
	271,985	126,863
Unitholders' equity		
Unitholders' capital [Notes 4 and 7]	162,859	117,407
Exchangeable shares [Notes 4 and 8]	8,870	-
Equity bridge notes [Notes 6 and 13]	25,000	25,000
Convertible debentures [Note 10]	55,129	-
Accumulated income	17,584	19,478
Contributed surplus	630	239
Accumulated cash distributions	(53,853)	(32,547)
	216,219	129,577
	\$ 488,204	\$ 256,440

Subsequent events [Note 14]

Contingencies [Note 15]

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

Director

Director

Harvest Energy Trust

Consolidated Statements of Income and Accumulated Income

(Unaudited)

(thousands of dollars, except per trust unit amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
		<i>(Restated, Note 3)</i>		<i>(Restated, Note 3)</i>
Revenue				
Oil and natural gas sales	\$ 53,057	\$ 24,639	\$ 100,557	\$ 50,869
Royalty expense, net	(8,305)	(3,289)	(16,331)	(6,213)
Hedging loss	(12,249)	(3,727)	(21,304)	(12,296)
Mark to market loss on commodity derivative contracts <i>[Note 11]</i>	(4,241)	-	(9,732)	-
	28,262	17,623	53,190	32,360
Expenses				
Operating	13,600	6,596	27,274	13,400
General and administrative	1,992	789	3,545	1,520
Interest	364	672	882	1,378
Amortization of deferred finance charges	593	406	1,338	813
Depletion, depreciation and accretion	12,824	8,301	24,940	14,527
Foreign exchange gain	(1,222)	(984)	(1,289)	(3,487)
	28,151	15,780	56,690	28,151
Income (loss) before taxes	111	1,843	(3,500)	4,209
Taxes				
Large corporation tax	120	32	136	52
Future tax expense (recovery)	(1,603)	747	(4,166)	(376)
Net income for the period	1,594	1,064	530	4,533
Interest on equity bridge notes <i>[Notes 6 and 13]</i>	(7)	-	(192)	-
Interest on convertible debentures <i>[Note 10]</i>	(1,314)	-	(2,232)	-
Accumulated income, beginning of period	17,311	8,605	19,478	5,136
Accumulated income, end of period	\$ 17,584	\$ 9,669	\$ 17,584	\$ 9,669
Net income (loss) per trust unit <i>[Notes 7 and 9]</i>				
Income (loss) per trust unit, basic	\$ 0.02	\$ 0.09	\$ (0.11)	\$ 0.42
Income (loss) per trust unit, diluted	\$ 0.02	\$ 0.09	\$ (0.11)	\$ 0.41

See accompanying notes to consolidated financial statements.

Harvest Energy Trust

Consolidated Statements of Cash Flows (Unaudited)

(thousands of dollars, except per trust unit amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	<i>(Restated, Note 3)</i>		<i>(Restated, Note 3)</i>	
Cash provided by (used in)				
Operating Activities				
Net income for the period	\$ 1,594	\$ 1,064	\$ 530	\$ 4,533
Items not requiring cash				
Depletion, depreciation and accretion	12,824	8,301	24,940	14,527
Foreign exchange gain	(697)	(984)	(764)	(3,487)
Amortization of deferred finance charges	593	406	1,338	813
Mark to market loss on commodity derivative contracts <i>[Note 11]</i>	4,241	-	9,732	-
Future tax expense (recovery)	(1,603)	747	(4,166)	(376)
Unit based compensation	208	12	391	25
Cash flow from operations	17,160	9,546	32,001	16,035
Site restoration and reclamation expenditures	(89)	-	(153)	-
Change in non-cash working capital <i>[Note 12]</i>	137	(4,490)	(2,159)	1,454
	17,208	5,056	29,689	17,489
Financing Activities				
Issue of trust units, net of costs	(59)	-	(131)	14,096
Issue of trust units under the distribution reinvestment plan, net of costs <i>[Note 7]</i>	1,945	2,824	3,180	4,099
Issue of equity bridge notes <i>[Notes 6 and 13]</i>	25,000	-	25,000	-
Repayment of equity bridge notes <i>[Notes 6 and 13]</i>	-	-	(25,000)	-
Interest on equity bridge notes	-	-	(850)	-
Issuance of convertible debentures, net of costs	-	-	57,334	-
Interest on convertible debentures	(1,801)	-	(1,801)	-
Increase in bank debt	245,767	27,741	273,265	33,379
Repayment of bank debt	(197,556)	(6,180)	(250,163)	(29,556)
Financing costs	(22)	-	(22)	-
Cash distributions	(11,015)	(6,692)	(21,306)	(13,015)
Change in non-cash working capital <i>[Note 12]</i>	589	225	624	585
	62,848	17,918	60,130	9,588
Investing Activities				
Additions to property, plant and equipment	(8,596)	(19,120)	(20,640)	(24,971)
Acquisition of a private company	-	(3,000)	-	(3,000)
Acquisition of Storm Energy Ltd.	(75,000)	-	(75,000)	-
Change in non-cash working capital <i>[Note 12]</i>	3,540	(1,439)	5,821	(2,428)
	(80,056)	(23,559)	(89,819)	(30,399)
Decrease in cash and short-term investments	-	(585)	-	(3,322)
Cash and short term investments, beginning of period	-	1,766	-	4,503
Cash and short term investments, end of period	\$ -	\$ 1,181	\$ -	\$ 1,181
Cash interest payments	\$ 2,203	\$ 890	\$ 2,721	\$ 945
Cash tax payments	\$ 50	\$ 11	\$ 66	\$ 47
Cash distributions declared per unit	\$ 0.60	\$ 0.60	\$ 1.20	\$ 1.20

See accompanying notes to consolidated financial statements.

Harvest Energy Trust

Notes to Consolidated Financial Statements

June 30, 2004

*(thousands of dollars, except per trust unit amounts)***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 interim consolidated 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 consolidated financial statements of the Trust for the year ended December 31, 2003 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. Changes in accounting policy

a) Full cost accounting guideline

Effective January 1, 2004, the Trust has adopted the CICA Accounting Guideline 16 “Oil and Gas Accounting – Full Cost”. The changes under the new guideline include modifications to the ceiling test and depletion and depreciation calculations. There were no changes to previously reported net income, property plant and equipment or any other financial statement amounts as a result of the implementation of this guideline.

b) Asset retirement obligation

Effective January 1, 2004, the Trust has adopted the CICA Handbook standard for accounting for asset retirement obligation. The new standard requires the Trust to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and the normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets and depleted and depreciated using the unit of production method over estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligations.

c) Financial instruments

Effective January 1, 2004, the Trust has implemented CICA Accounting Guideline 13 “Hedging Relationships”. This guideline addresses the identification, designation and effectiveness of financial contracts for the purpose of applying hedge accounting. Under this guideline, financial derivative contracts must be designated to the underlying revenue or expense stream that they are intended to hedge, and tested to ensure they remain sufficiently effective. For transactions that do not qualify as designated hedges, the Trust applies a fair value method of accounting by initially recording an asset or liability, and recognizing changes in the fair value of the derivative instruments in income [Note 11].

d) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the fair value for accounting purposes of the net identifiable assets and liabilities of the acquired business [Note 4]. The goodwill balance is assessed for impairment annually at year-end, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The test for impairment is carried by the comparison of the carrying amount to the fair value of the reporting entity. If the fair value of the consolidated Trust is less than the book value, impairment is measured by allocating the fair value of the

consolidated Trust to the identifiable assets and liabilities at their fair values. The excess of this allocation is the fair value of goodwill. Any excess of the book value of goodwill over this implied fair value is the impairment amount. Impairment is charged to income in the period in which it occurs. Goodwill is stated at cost less impairment and is not amortized.

3. Asset retirement obligation

The Trust's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Trust estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$90 million which will be incurred between 2004 and 2019. The majority of the costs will be incurred between 2015 and 2019. A credit-adjusted risk-free rate of 7.5 percent was used to calculate the fair value of the asset retirement obligations reflected as \$50.0 million at June 30, 2004. None of these balances reflect salvage values which the Company anticipates it will recover on completion of the related asset retirements.

A reconciliation of the asset retirement obligation is provided below:

(\$000)	Three month period ended June 30	
<i>Asset retirement obligations</i>	2004	2003
Balance, beginning of period	\$ 42,744	\$ 15,858
Liabilities incurred in the period	6,477	11,406
Liabilities settled in the period	(89)	-
Accretion expense	875	391
Balance, end of period	\$ 50,007	\$ 27,655

(\$000)	Six month period ended June 30		Year ended
<i>Asset retirement obligations</i>	2004	2003	December 31, 2003
Balance, beginning of period	\$ 42,009	\$ 15,566	\$ 15,566
Liabilities incurred in the period	6,477	11,406	25,175
Liabilities settled in the period	(153)	-	(577)
Accretion expense	1,674	683	1,845
Balance, end of period	\$ 50,007	\$ 27,655	\$ 42,009

The effect of the change in accounting policy [Note 2] has been recorded retroactively with restatement of prior periods as follows:

(\$000)	As at
<i>Balance sheet</i>	December 31, 2003
Asset retirement costs, included in property, plant and equipment	\$ 35,166
Asset retirement obligations	42,009
Site restoration provision	(4,899)
Future income tax	1,024
Accumulated income	\$ (1,498)

(\$000)	Three month period		Six month period	
<i>Income statement</i>	ended June 30, 2004		ended June 30, 2004	
Accretion expense	\$	391	\$	683
Depletion and depreciation on asset retirement costs		974		1,700
Site restoration and reclamation		(818)		(1,383)
Future tax recovery		(430)		(614)
Net earnings change		(117)		(386)
Net income change per trust unit, basic		(0.01)		(0.04)
Net income change per trust unit, diluted	\$	(0.01)	\$	(0.04)

4. Plan of Arrangement with Storm Energy Ltd.

On June 30, 2004, the Trust completed a Plan of Arrangement with Storm Energy Ltd. ("Storm"). Under this plan, the Trust acquired certain oil and natural gas producing properties for total consideration of approximately \$189 million. This amount consisted of the issuance of 2,720,837 trust units at a price of \$14.77 per unit [Note 7], the issuance of 600,587 exchangeable shares [Note 8], \$75 million in cash, the assumption of approximately \$58.5 million in debt and a working capital deficit of \$6.7 million. The acquisition was financed with the new credit facility [Note 5] and with a draw on the equity bridge notes [Note 6]. This transaction 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 Trust has not yet completed its final calculation of the assets acquired and liabilities assumed and therefore, the purchase price allocation may be subject to change.

	Amount (\$000s)	
Property, plant & equipment	\$	211,829
Goodwill		20,277
Working capital deficiency		(6,669)
Bank debt		(58,452)
Asset retirement obligation		(6,477)
Future income tax		(36,455)
	\$	124,053
Consideration for the acquisition:		
Cash	\$	75,000
Issuance of trust units		40,183
Issuance of exchangeable shares		8,870
	\$	124,053

5. Bank debt

On June 30, 2004, Harvest Operations Corp. entered into a credit agreement with a syndicate of Canadian chartered banks and the Alberta Treasury Branches. This facility consists of a \$145 million production loan, a \$15 million operating loan and a U.S.\$18.8 million mark to market credit to be used for financial instrument hedging. The term of the facility is to June 29, 2005. The facility permits drawings in Canadian or U.S. dollars, and includes bankers acceptances, LIBOR loans and letters of credit. Outstanding balances bear interest at rates ranging from 0% to 2.25% above the applicable Canadian or U.S. prime rate depending upon the type of borrowing and the ratio of debt to annualized cash flow. The debt is secured by a \$250 million debenture with a floating charge over all of the assets of the Corporation, and a guarantee by the Trust and its subsidiaries. Distributions to the

Trust's Unitholders, and payments on the Equity Bridge notes [Note 6], and the convertible debentures [Note 10] are subordinate to the bank debt. The credit facility agreement includes certain restrictive covenants, including a working capital ratio of at least one to one and a requirement that Harvest not hedge more than 75% of its net after royalty production.

6. Equity bridge notes

On January 26 and 29, 2004, the Trust repaid the two equity bridge notes outstanding in the amounts of \$7.4 million and \$17.6 million, respectively. During the month, the Trust also paid the accrued and outstanding interest in the amount \$850,000.

On June 29, 2004, the Trust drew \$25 million under the equity bridge note agreement that is with a corporation controlled by a director of Harvest Operations Corp. Interest in respect of the equity bridge notes accrues at 10% per annum and is a charge to unitholders' equity and is not included in income.

7. Unitholders' capital

(a) Authorized

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

(b) Issued

	Number of units	Amount (\$000s)
As at December 31, 2003	17,109,006	\$ 117,407
Unit appreciation rights exercise (i)	6,250	57
Storm Plan of Arrangement (ii)	2,720,837	40,183
Convertible debenture conversions (iii)	157,497	2,163
Distribution reinvestment plan issuance (iv)	235,270	3,180
Trust unit issue costs	-	(131)
As at June 30, 2004	20,228,860	\$ 162,859

- (i) On March 17, 2004, 6,250 trust unit appreciation rights were exercised for proceeds of \$57,000.
- (ii) On June 30, 2004, 2,720,837 trust units were issued under the Plan of Arrangement with Storm Energy Ltd. [Note 4].
- (iii) For the six month period ended June 30, 2004, 2,205 convertible debentures were converted at the option of the holders, into 157,497 trust units and \$32,000 in accrued interest and fractional units. [Note 10].
- (iv) For the three and six month periods ended June 30, 2004, 140,426 trust units in the amount of \$1.9 million and 235,270 trust units in the amount of \$3.2 million were issued under the distribution reinvestment plan ("DRIP"), respectively.

(c) Per trust unit information

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

	Three months ended June 30	
	2004	2003
Weighted average trust units outstanding	17,382,068	11,351,728
Weighted average exchangeable shares outstanding	6,600	-
Weighted average trust units outstanding, basic	17,388,668	11,351,728
Effect of trust unit appreciation rights	420,130	226,795
Weighted average trust units outstanding, diluted	17,808,798	11,578,523
	Six months ended June 30	
	2004	2003
Weighted average trust units outstanding	17,281,383	10,891,161
Weighted average exchangeable shares outstanding	3,300	-
Weighted average trust units outstanding, basic	17,284,683	10,891,161
Effect of trust unit appreciation rights	392,624	190,578
Weighted average trust units outstanding, diluted	17,677,307	11,081,739

The income (loss) per trust unit is calculated on the basis of net income available to the Trust Unitholder, and as such deducts the interest on the equity bridge notes and convertible debentures in the numerator of the calculation.

8. Exchangeable shares

(a) Authorized

Harvest Operations Corp. is authorized to issue an unlimited number of exchangeable shares without nominal or par value.

(b) Issued

Exchangeable shares, series 1		
	Number	Amount (\$000s)
Storm Plan of Arrangement (i)	600,587	\$ 8,870
As at, June 30, 2004	600,587	\$ 8,870

- (i) On June 30, 2004, 600,587 exchangeable shares, series 1 were issued at \$14.77 per exchangeable share as partial consideration for the Plan of Arrangement with Storm [Note 4]. The exchangeable shares had an exchange ratio of 1:1 as at June 30, 2004.

The exchangeable shares, series 1 can be converted at the option of the holder at any time into trust units. The number of trust units issued to the holder upon conversion is based upon the applicable exchange ratio at that time. The exchange ratio is calculated monthly and adjusts to account for distributions paid to unitholders during the period that the exchangeable shares are outstanding. The exchangeable shares are not eligible to receive distributions. The exchangeable shares that have not been converted by the holder, may be redeemed by Harvest Operations Corp. at any date subsequent to June 30, 2006 until June 30, 2009, at which time all remaining exchangeable shares in this series will be redeemed. Harvest Operations Corp. also has the

option to convert up to 20% of the initial amount of the exchangeable shares outstanding annually in the first 90 days of each calendar year, and may also redeem all of the exchangeable shares if the aggregate amount outstanding is less than 500,000.

9. 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 1,487,250 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:

	Trust unit rights	Weighted average exercise price
As at December 31, 2003	1,065,150	\$ 6.86
Granted	133,200	14.48
Cancelled	(15,875)	(8.59)
Exercised in trust units	(6,250)	(5.20)
Exercised in cash	(8,125)	(7.37)
Average reduction in exercise price due to distributions	-	(1.06)
As at June 30, 2004	1,168,100	\$ 6.62

All of the trust unit rights outstanding vest equally over the four years following their anniversary date.

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:

	June 30	
	2004	2003
Expected volatility	27.5%	27.5%
Risk free interest rate	4.0%	3.0%
Expected life of the trust unit rights	4 years	4 years
Estimated annual distributions per unit	\$2.40	\$2.40

For the purposes of pro forma disclosures, the estimated fair value of all of the trust unit rights issued subsequent to December 31, 2002 is amortized to expense over the vesting periods. The Trust's pro forma net income and per trust unit amounts would have been accounted for as follows:

<i>(thousands of dollars except per trust unit amounts)</i>		<i>(Restated, Note 3)</i>		<i>(Restated, Note 3)</i>	
		Three months ended June 30		Six months ended June 30	
		2004	2003	2004	2003
Net income	As reported	\$1,594	\$1,064	\$530	\$4,533
	Pro forma	\$1,211	\$621	(\$235)	\$3,652
Income (loss) per unit - basic	As reported	\$0.02	\$0.09	(\$0.11)	\$0.41
	Pro forma	(\$0.01)	\$0.06	(\$0.15)	\$0.33
Income (loss) per unit - diluted	As reported	\$0.02	\$0.09	(\$0.11)	\$0.40
	Pro forma	(\$0.01)	\$0.05	(\$0.15)	\$0.32

During the three and six month periods ended, the Trust has recognized \$208,000 and \$391,000 in 2004 and \$12,000 and \$25,000 in 2003 respectively, in compensation expense related to Trust unit rights and included it in general and administrative expense in the consolidated statement of income and accumulated income.

10. Convertible debentures

On January 29, 2004, the Trust closed an issue of 60,000 9% convertible unsecured subordinated debentures due May 31, 2009. Interest on the debentures is payable semi-annually in arrears in equal installments on May 31 and November 30 in each year, commencing May 31, 2004. The debentures are convertible into fully paid and non-assessable trust units at the option of the holder at any time prior to the close of business on the earlier of May 31, 2009 and the business day immediately preceding the date specified by the Trust for redemption of the Debentures, at a conversion price of \$14.00 per trust unit plus a cash payment for accrued interest and in lieu of any fractional trust units resulting on the conversion. The debentures may be redeemed by the Trust at its option in whole or in part subsequent to May 31, 2007, at a price equal to \$1,050 per debenture between June 1, 2007 and May 31, 2008 and at \$1,025 per debenture between June 1, 2008 and May 31, 2009. Any redemption will include accrued and unpaid interest at such time when completed. The Trust may also elect to redeem the debentures upon maturity with the issue of trust units at a price equal to 95% of the weighted average trading price for the preceding 20 consecutive trading days, 5 days prior to settlement date. Under both redemption options, the Trust may elect to pay both the debenture and accrued interest in the form of trust units. A settlement in trust units is subject to specified notice and regulatory approval.

The following table summarizes the issuance and conversions of the convertible debentures:

	Number of debentures	Amount (\$000s)
January 29, 2004, issuance	60,000	\$ 60,000
Converted for trust units (i)	(2,205)	(2,205)
Convertible debenture issue costs	-	(2,666)
As at June 30, 2004	57,795	\$ 55,129

- (i) During the three months ended June 30, 2004, 1,205 convertible debentures were converted at the option of the holders, into 86,069 trust units and \$21,000 in accrued interest and fractional units.

11. Financial instruments

The Trust uses oil sales contracts and derivative financial instruments to mitigate the effect of fluctuations in commodity prices. The following is a summary of the oil sales contracts with price swap or collar features as at June 30, 2004, that have fixed future sales prices:

Commodity swap contracts based on West Texas Intermediate

Daily Quantity	Term	Price per Barrel ^(Note 1)	Mark to Market Gain (Loss)(\$000)
500 Bbls/d	July through December 2004	U.S. \$24.12 (\$15.50)	\$ (1,544)
1,500 Bbls/d	July through December 2004	U.S. \$28.02	(3,200)
1,880 Bbls/d	July through September 2004	U.S. \$23.19	(3,194)
1,825 Bbls/d	October through December 2004	U.S. \$22.95	(3,049)
500 Bbls/d	January through December 2005	U.S. \$24.00	(2,668)
1,100 Bbls/d	January through March 2005	U.S. \$22.38	(1,774)
1,030 Bbls/d	April through June 2005	U.S. \$22.18	(1,625)

Commodity swap contracts based on the Lloydminster Blend Crude differential

4,500 Bbls/d	July through December 2004	U.S. \$7.82	\$ 2,280
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Commodity collar contracts based on West Texas Intermediate

2,500 Bbls/d	July through December 2004	U.S. \$22.00 – 28.10	\$ (5,287)
3,000 Bbls/d	July through December 2004	U.S. \$25.19 – 29.40 (\$18.88)	(5,399)
2,500 Bbls/d	January through June 2005	U.S. \$28.40 – 32.25 (\$21.80)	(2,075)
1,500 Bbls/d	July through December 2005	U.S. \$28.17 – 32.10 (\$22.33)	(1,049)
2,000 Bbls/d	January through December 2005	U.S. \$28.00 – 42.00	-

Note 1 Harvest has sold put options at the average price denoted in parenthesis, for the same volumes as the associated commodity contracts. The counterparty may exercise these options if the respective index falls below the specified price on a monthly settlement basis.

Commodity option contracts based on West Texas Intermediate			
Daily Quantity	Term	Price per Barrel	Mark to Market Gain (Loss) (\$000)
1,250 Bbls/d	July through December 2004 - short put	U.S. \$24.00	\$ (854)
4,000 Bbls/d	January through December 2005 - long put	U.S. \$30.00	3,309
1,972 Bbls/d	January through December 2005 - short call	U.S. \$30.00	(6,739)
1,972 Bbls/d	January through December 2005 - long call	U.S. \$40.00	2,223

The following is a summary of electricity price hedging physical and financial swap contracts entered into by Harvest Operations Corp. to fix the cost of future electricity usage as at June 30, 2004:

Commodity swap contracts based on electricity prices			
Quantity	Term	Price per Megawatt	Mark to Market Gain (\$000)
15MW	July through December 2004	Cdn \$45.83	\$ 1,203
5MW	January through December 2005	Cdn \$43.00	456
9.75MW	July 2004 through March 2006	Cdn \$44.50	1,995

Commodity swap contracts based on electricity heat rate			
Swaps	Term	Price	Mark to Market Gain (\$000)
5MW	January through December 2005	8.40 GJ/MWh	\$ 113

Foreign Currency Contracts			
Monthly Contract Amount	Term	Contract Rate	Mark to Market Gain (\$000)
U.S. \$3 million	April through December 2004	1.3333 Cdn / U.S.	\$ 12

At June 30, 2004 the net mark-to-market unrealized loss for all the financial derivative contracts entered into by Harvest Operations Corp. was approximately \$26.9 million. Harvest Operations Corp. has provided deposits to some counterparties for a portion 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, 2004, the amounts deposited totaled \$13.4 million and are recorded in the prepaid expense and deposits balance.

Upon the implementation of the CICA Accounting Guideline 13, the Trust recorded a liability and a corresponding unrealized mark to market loss of \$5.5 million. As at June 30, 2004, the mark to market loss is \$9.7 million. The realized losses on all derivative contracts are included in the period in which they are incurred.

12. Change in non-cash working capital

(\$000)	Three month period ended June 30		Six month period ended June 30	
	2004	2003	2004	2003
Changes in non-cash working capital items:				
Accounts receivable	\$ (19,161)	(2,958)	\$ (13,689)	(1,810)
Prepaid expenses and deposits	4,657	(851)	(2,521)	(1,834)
Accounts payable and accrued liabilities	24,226	(2,045)	25,918	2,085
Cash distributions payable	590	225	624	585
	\$ 10,312	(5,629)	\$ 10,332	(974)
Changes relating to operating activities	\$ 137	(4,490)	\$ (2,159)	1,454
Changes relating to financing activities	589	225	624	585
Changes relating to investing activities	3,540	(1,439)	5,821	(2,428)
Add: Non cash changes	6,046	75	6,046	(585)
	\$ 10,312	(5,629)	\$ 10,332	(974)

13. Related party transactions

A director and a corporation controlled by a director of Harvest Operations Corp., were repaid and then reissued \$25 million under the equity bridge notes during the six month period ended June 30, 2004. The Trust paid \$850,000 of the total interest accrued and payable during the year. [Note 6]

A corporation controlled by a director of Harvest Operations Corp. sublets office space and is provided administrative services by Harvest Operations Corp. at fair market value.

14. Subsequent events

On July 15, 2004, the Trust entered into an agreement to purchase oil and natural gas producing properties for \$526 million. In conjunction with the acquisition of the properties, the Trust has entered into an underwriting agreement to issue approximately \$175 million in subscription receipts and \$100 million in 8% convertible unsecured subordinated debentures. The subscription receipts will be exchanged for 12,166,666 trust units upon closing of the acquisition. The balance of the acquisition cost will be funded with a new credit facility arrangement. The new credit facility will be similar to the existing credit facility [Note 5] but will have a \$440 million borrowing limit and will be secured by a \$750 million debenture. Directors and officers participated in this financing by acquiring 1,845,495 subscription receipts.

On August 4, 2004, Harvest Operations Corp. sold forward U.S.\$13.5 million to be settled for Cdn.\$17.8 million on August 25, 2004.

Subsequent to June 30, 2004, 9,531 convertible debentures were converted at the option of the holders, into 680,781 trust units and \$125,000 in accrued interest and fractional units.

Subsequent to June 30, 2004, 8,430 exchangeable shares were converted into 8,544 trust units.

The following is a summary of the Trust distributions announced and paid subsequent to June 30, 2004:

Distribution Month	Record Date	Payment Date	Trust units issued under DRIP	Total Amount of Distribution (\$000)
June	June 30, 2004	July 15, 2004	83,629	\$ 4,046
July	July 31, 2004	August 15, 2004		

Note: The trust units to be distributed under the DRIP for the July distribution have not yet been determined.

15. Contingencies

From time to time, the Trust is involved in litigation or has claims sought against it in the normal course of business operations. Management of the Trust is not currently aware of any claims or actions that would materially affect the Trust's reported financial position or results from operations.

The Trust has letters of credit outstanding in the amount of approximately \$3.3 million, related to electricity infrastructure usage. These letters are provided by the Trust's lenders under the availability of the demand loan. The letters expire throughout 2004 and 2005, and are expected to be renewed as required.