

Second Quarter 2005 Financial and Operational Summary

The table below provides a summary of Harvest's financial and operating results for the three and six month periods ended June 30, 2005 and 2004.

(\$000's, except where noted)	Three months ended June 30			Six months ended June 30		
	2005	2004 (restated ⁵)	Change	2005	2004 (restated ⁵)	Change
FINANCIAL						
Revenue, net of royalties	120,263	44,461	170%	230,194	83,759	175%
Net income (loss)	19,516	151	12825%	(23,554)	(2,099)	1022%
Per Trust Unit, basic	\$ 0.45	\$ 0.01	4400%	\$ (0.55)	\$ (0.12)	(358%)
Per Trust Unit, diluted	\$ 0.44	\$ 0.01	4300%	\$ (0.56)	\$ (0.12)	(367%)
Funds flow from operations ⁴	57,217	15,839	261%	109,904	29,573	272%
Per Trust Unit, basic ⁴	\$ 1.32	\$ 0.91	45%	\$ 2.57	1.71	50%
Per Trust Unit, diluted ⁴	\$ 1.29	\$ 0.78	65%	\$ 2.45	1.45	69%
Distributions per Trust Unit, declared ⁶	\$ 0.60	\$ 0.60	0%	\$ 1.20	\$ 1.20	0%
Distributions declared	26,140	10,981	138%	62,266	21,306	192%
Payout ratio ^{2,4}	46%	69%	(23%)	47%	72%	(25%)
Capital asset additions (excluding acquisitions)	27,189	8,323	227%	50,412	18,513	172%
Acquisitions	26,183	191,565	(86%)	30,842	193,419	(84%)
Net debt ^{3,4}	436,643	227,900	92%	436,643	227,900	92%
Weighted average Trust Units outstanding, basic	43,327	17,382	149%	42,734	17,281	147%
Weighted average Trust Units outstanding, diluted	44,253	17,809	148%	43,060	17,281	149%
Trust Units outstanding, end of period	43,772	20,229	116%	43,772	20,229	116%
Trust Units fully diluted ⁷ , end of period	46,309	26,126	77%	46,309	26,126	77%
OPERATING						
Daily sales volumes						
Light oil (bbl/d)	9,826	5,216	88%	9,884	5,134	93%
Medium oil (bbl/d)	5,510	4,082	35%	5,590	4,116	36%
Heavy oil (bbl/d)	13,519	5,477	147%	13,993	5,451	157%
Natural gas liquids (bbl/d)	798	141	466%	789	95	731%
Natural gas (mcf/d)	28,857	2,249	1183%	27,990	1,582	1669%
Total (BOE/d) ¹	34,463	15,291	125%	34,921	15,060	132%
OPERATING NETBACK⁴ (\$/BOE)						
Revenues	45.67	38.30	19%	43.20	36.77	17%
Realized loss on derivative contracts	(7.49)	(8.80)	(15%)	(6.71)	(7.77)	(14%)
Royalties	(7.32)	(6.35)	15%	(6.78)	(6.21)	9%
As a percent of revenue (%)	16.0%	16.6%	(0.6%)	15.7%	16.9%	(1.2%)
Operating expense ⁸	(9.08)	(9.77)	(7%)	(8.81)	(9.95)	(11%)
Operating netback ⁴	21.78	13.38	63%	20.90	12.84	63%

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

Note 2 Ratio of distributions, excluding special distribution, to Funds Flow from Operations.

Note 3 Net debt is bank debt, senior notes, equity bridge notes, convertible debentures and any working capital deficit excluding the current portion of derivative contracts, future income tax and the accounting liability related to our Trust Unit incentive plan and the current future income tax.

Note 4 These are non-GAAP measures; please refer to "Certain Financial Reporting Measures" included in our MD&A.

Note 5 Prior year restated to reflect adoption of new accounting standards with respect to exchangeable shares and financial instruments. See Note 2 to the Consolidated Financial Statements.

Note 6 As if the Trust Unit was held throughout the period.

Note 7 Fully diluted Units differ from diluted Units for accounting purposes and is meant to reflect the number of units which would be outstanding if all potentially dilutive elements were exercised. Fully diluted includes Trust Units outstanding as at June 30 plus the impact of the conversion or exercise of exchangeable shares, Trust Unit rights and convertible debentures if converted at June 30.

Note 8 Includes realized gain on electricity derivative contracts of \$0.05 (\$0.51 – 2004) and \$0.05 (\$0.33 – 2004) for the three and six month periods ended June 30, 2005 and 2004, respectively.

Second Quarter Message to Unitholders

Throughout the second quarter of 2005, we continued to focus on the ongoing development and exploitation of our properties, including drilling and optimization efforts in our four core areas. Toward the end of the quarter, we announced the \$260 million Hay River property acquisition, a 25% increase to monthly distributions, an NYSE listing, and an update to Harvest's hedging portfolio.

The acquisition of the Hay River, B.C. property fits well with Harvest's strategy. The Hay River property produces approximately 5,200 BOE/d of medium gravity crude oil and has P+P reserves of 19.8 million BOE based on an independent engineering appraisal. The property has an estimated OOIP of approximately 180 million barrels (bbls), of which only 5.6% have been recovered to date. Hay River provides Harvest with an additional focus property in our Northern core area. With focused operations, infill drilling and production optimization opportunities, Harvest forecasts stable operating performance for this property and value creation through property enhancement. These are the hallmarks of Harvest's strategy which has proven successful to date. This acquisition increased Harvest's RLI to approximately 8.4, and our current production to approximately 39,000 to 40,000 BOE/d. The transaction closed on August 2, 2005 and will be reflected in our financial results from that date forward.

During the second quarter, our production was impacted by unusually heavy rainfall and flooding in Alberta and Saskatchewan, primarily at Suffield and Hayter, resulting in slightly lower realized heavy oil production relative to capacity. Our second quarter production was further impacted by extended turnarounds at Killarney and East Hayter, which resulted in a period of shut-in production in those areas. As a result, our second quarter per unit operating costs were negatively impacted by incremental workover costs due to the turnaround and flooding related downtime, and the fact that a large component of operating costs are fixed and are spread over a lower volume in this quarter. The effect of operating cost reduction projects undertaken through 2004 and year-to-date in 2005 have been somewhat offset by cost inflation in the Western Canadian oil and natural gas sector where utilization rates in the service industry are at all time highs. For the full year 2005, we estimate production to average between 36,000 and 37,000 BOE/d. We anticipate royalties as a percentage of revenue before hedging to be between 18% and 19%. Through a continued focus on operating efficiency measures in our capital program, our ongoing commitment to operating cost reduction, and the impact of the lower cost Hay River property, full year 2005 operating expenses per BOE are expected to average between \$8.25 and \$8.75. The capital spending budget focused on drilling and property enhancement, has been increased to \$110 million for 2005.

Following the announcement of the Hay River acquisition, Harvest concluded a bought deal financing, issuing 6.5 million subscription receipts at \$26.90 for \$175 million, subsequently converted into Trust Units, and \$75 million of 6.5% convertible debentures with a conversion price of \$31.00. This offering closed on August 2, 2005. The proceeds from the offering were primarily used to repay bank debt incurred to close the Hay River acquisition. We will continue to evaluate acquisition opportunities based on their potential to create value for our Unitholders, and will only pursue transactions that contribute to achieving this goal. We are well positioned both financially and operationally to take advantage of opportunities as they arise. We anticipate having approximately \$300 million of borrowing capacity under our new \$400 million credit facility, which will allow us to react quickly to large acquisition opportunities.

In addition to the growth in our production volumes resulting from the Hay acquisition, we have also experienced growth in our market capitalization and enterprise value, which is an added benefit to our unitholders. Our improved liquidity is further enhanced by our NYSE listing, which took place subsequent to the end of the quarter. On July 21, 2005, Harvest Trust Units began trading under the symbol "HTE" on the NYSE, and since that time, we have enjoyed a 95% increase in our total average daily trading volumes as well as exposure to a much broader investor audience.

In the second quarter, we announced an increase in our distributions to \$0.25 per Trust Unit per month, effective with the July distribution, payable on August 15, 2005. Today, we have announced a further increase to \$0.35 per Trust Unit per month for the August distribution, payable on September 15, 2005. Despite this higher distribution level, our payout ratio for 2005 is expected to remain below the peer group average, enabling Harvest to fully fund our capital development program as well as pay down debt with retained cash flows. If commodity prices in the third quarter are consistent with those of the second quarter, realized hedging losses will decline by \$9.5 million due to the expiry of certain oil price swaps and collars as at the end of June 2005.

An important component of Harvest's strategy to achieve sustainable funds flow per unit is our internal property development program. Our goal in this part of the business is to replace naturally declining production and reserves by investing prudently, in low-risk property enhancement activities. Typically, these activities involve development drilling, production and fluid handling optimization, operating cost efficiency programs and other property enhancements. These activities are all focused on creating incremental value from our assets to effectively overcome depletion and provide for longer term sustainable cash flows. In this regard, the second quarter was an active period of development, with capital expenditures totaling \$27.2 million. Drilling represented 69% of the total development capital, and Harvest drilled 26 net wells (11 in East Central Alberta, 2 in North Central Alberta, 10 in Southern Alberta and 3 in Southeast Saskatchewan) with an overall success rate of 96%.

Further to our objective of creating a sustainable stream of funds flow per unit, Harvest employs a comprehensive risk management program to remove downside uncertainty from cash flows. Consistent with this risk management approach, Harvest capitalized on an opportunity to enter into two hedges during the second quarter that significantly remove price uncertainty from Harvest's sales of 10,000 barrels of oil per day (bopd) of medium and heavy crude oil. Heavy and medium crude oil sell at a discount to West Texas Intermediate ("WTI"), the light oil price benchmark. The differential between WTI and heavy oil prices fluctuate as a percentage of WTI, and had widened considerably through the fourth quarter of 2004 and first quarter of 2005. Historically, the differential between Lloydminster heavy ("LLB") and Bow River ("BR") crude streams to WTI have averaged approximately 31% and 27%, respectively. Over the past five months, these differentials have ranged to as high as 46% and averaged approximately 41%. From July 2005 through June 2006, we have fixed the price differential on 10,000 bopd at approximately 29%, and from July 2006 to December 2006 we have fixed the price differential on 5,000 bopd at 30%. A complete summary of Harvest's hedging program can be accessed on our website at www.harvestenergy.ca under the "Financial Information" section.

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, 2004 as well as our unaudited consolidated financial statements and notes for the three and six month periods ended June 30, 2005. Certain comparative figures have been reclassified to conform with the current period presentation.

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.

Forward-Looking Information

This second quarter report 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 11, 2005.

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. These measures include: Funds Flow from Operations before changes in non-cash working capital and settlement of asset retirement obligations ("Funds Flow from Operations"), Net Operating Income, Net Debt, Payout Ratio and Operating Netbacks. 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. Specifically, management uses Funds Flow from Operations (referred to as cash flow from operations in our year end 2004 MD&A), to analyze operating performance and leverage. Funds Flow from Operations should not be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. For the three and six month periods ended June 30, 2005 and 2004, Funds Flow from Operations is reconciled to its closest GAAP measure, cash flow from operating activities, as follows:

<i>\$000s</i>	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Funds Flow from Operations before changes in non-cash working capital and settlement of asset retirement obligations	57,217	15,839	109,904	29,573
Changes in working capital	(6,983)	137	(55,677)	(2,158)
Settlement of asset retirement obligations	(663)	(89)	(1,164)	(153)
Cash flow from operating activities	49,571	15,887	53,063	27,262

Trust Overview and Strategy

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 disciplined approach to the oil and natural gas production business, whereby it acquires high working

interest, large resource-in-place, mature producing properties and employs “best practice” technical and field operational processes to extract maximum value. These operational processes include: diligent hands-on management to maintain and maximize production rates, the application of technology and selective capital investment to maximize reservoir recovery, enhancing operational efficiencies to control and reduce expenses, and unique marketing arrangements complemented by corporate hedging strategies to effectively manage Funds Flow from Operations. The Trust has operations in four core areas: Northern (which includes the newly acquired Hay River property in Northeast British Columbia), East Central Alberta, Southern Alberta and Southeast Saskatchewan.

Subsequent Acquisitions and Events

Subsequent to the end of the quarter, on August 2, 2005, we closed the acquisition of the Hay River property, as well as a \$250 million bought deal financing. The impact of the acquisition and financing on Harvest’s financial statements is effective as of the closing date.

Operationally, the addition of the Hay River property increased our production by approximately 5,200 BOE/d to between 39,000 to 40,000 BOE/d at the time of writing. At approximately \$7.75/BOE, the operating expenses at Hay River are lower than Harvest’s average, which should reduce our overall operating expenses and improve our netbacks. Given the accretive nature of the transaction, our per Trust Unit Funds Flow from Operations is expected to increase. However, our royalties as a percentage of revenue will increase as Hay River has a royalty rate of approximately 23% compared to our current royalty rate of 16%. Average price received should improve with the addition of these barrels which sell at a premium to our average medium gravity crude production, and overall, we would expect to see an improvement in our netback as a result.

The proceeds from the bought deal financing were used to repay bank debt incurred in the Hay River property acquisition. We issued 6.5 million Trust Units at \$26.90 for \$175 million, and \$75 million of 6.5% convertible debentures, with a conversion price of \$31.00. As a result of the offering, we have approximately 50.3 million Trust Units outstanding, approximately \$85 million of convertible debentures outstanding, and net debt (excluding convertible debentures) at a level consistent with that reported at June 30, 2005.

The listing of our Trust Units on the NYSE took place on July 21, 2005, and we believe this will lead to improved access to U.S. equity markets and greater financing flexibility.

Summary of Historical Quarterly Results

Financial	<i>(Restated - Refer to note 2 of the consolidated financial statements)</i>						<i>(Restated)</i>	
	2005		2004				2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue, net of royalties	\$ 120,263	\$ 109,931	\$ 106,964	\$ 85,096	\$ 44,461	\$ 39,298	\$ 33,575	\$ 24,706
Operating expense	(28,635)	(27,348)	(25,725)	(19,538)	(14,306)	(13,873)	(13,335)	(10,271)
Net operating income ¹	\$ 91,628	\$ 82,583	\$ 81,239	\$ 65,558	\$ 30,155	\$ 25,425	\$ 20,240	\$ 14,435
Net income (loss)	19,516	(43,070)	11,600	1,740	151	(2,250)	5,495	5,488
Per Trust Unit, basic ²	0.45	(1.02)	0.29	0.06	0.01	(0.13)	0.30	0.44
Per Trust Unit, diluted ²	0.44	(1.02)	0.27	0.06	0.01	(0.13)	0.29	0.43
Funds Flow from Operations ^{1,2,3}	57,217	52,687	52,870	41,267	15,839	13,734	13,699	16,758
Per Trust Unit, basic ^{1,2}	1.32	1.25	1.31	1.42	0.91	0.80	0.85	1.35
Per Trust Unit, diluted ^{1,2}	1.29	1.19	1.18	1.12	0.78	0.67	0.82	1.31

Sales Volumes

Crude oil (bbl/d)	28,855	30,087	30,992	22,397	14,775	14,626	14,497	11,054
Natural gas liquids (bbl/d)	798	780	1,309	377	141	50	70	77
Natural gas (mcf/d)	28,857	27,114	28,338	11,909	2,249	915	1,744	1,453
Total (BOE/d)	34,463	35,386	37,024	24,759	15,291	14,829	14,858	11,373

Note 1 This is a non-GAAP measure as referred to in the "Certain Financial Reporting Measures" section of this MD&A.

Note 2 The sum of the interim periods does not equal the total per year amount as there were large fluctuations in the weighted average number of Trust Units outstanding in each individual quarter.

Note 3 Funds Flow from Operations in 2005 includes interest on convertible debentures and equity bridge notes. In prior periods, this was part of cash flow from financing activities.

The above table highlights Harvest's performance for the second quarter of 2005, and the preceding 7 quarters.

Net revenues and net operating income have trended steadily higher over the eight quarters shown above, with the most significant increase through the third and fourth quarters of 2004. The two acquisitions completed in 2004, which closed in June and September, were the most significant reasons for the increase in production volumes, revenue and Funds Flow from Operations since the second quarter of 2004. The revenue increase since the second quarter of 2003 is primarily attributable to increasing production volumes and a strong commodity price environment through 2004 and for the first half of 2005.

Net income reflects both cash and non-cash items. Changes in non-cash items, including depletion, depreciation and accretion (DD&A), unrealized foreign exchange gains and losses, unrealized gains and losses on derivative contracts, Trust Unit right compensation expense and future income taxes can cause net income to vary significantly. However, these items do not impact the Funds Flow from Operations available for distribution to Unitholders, and therefore we believe net income may be a less meaningful measure of performance for Harvest. Due primarily to the inclusion of unrealized mark-to-market gains and losses on derivative contracts, net income (loss) has not reflected the same trend as net revenues or Funds Flow from Operations. The net loss reported for the three month period ended March 31, 2005 is entirely due to the change in the fair value of our outstanding derivative contacts at the end of the period of \$70.7 million. Net income for the three month period ended June 30, 2005 was \$19.5 million. Lower mark-to-market losses in the second quarter reduced the impact on net income for that period. Mark-to-market losses arise from changes in the fair values of the derivative contracts in the period. We ceased hedge accounting for all of our derivative instruments in October 2004 and this has accounted for increased volatility in our earnings.

Funds Flow from Operations is a very important measure for a royalty trust because it represents the source for cash distributions to Unitholders. Funds Flow from Operations enables us to repay debt and also finances capital expenditures which are used to replace produced reserves, leading to sustainability. Our low payout ratio is a key competitive advantage in creating future sustainability. Excluding the substantial non-recurring foreign exchange gain realized in the third quarter of 2003, our Funds Flow from Operations has demonstrated a strengthening trend. Funds Flow from Operations can be

impacted by factors outside of management's control such as commodity prices and currency exchange rates. We strive to mitigate the impact of these factors by using hedging (generally referred to herein as 'derivatives' or 'derivative contracts') on a portion of our transactions to establish a fixed floor for future commodity prices, and mitigate the impact of fluctuating heavy oil price differentials and currency exchange rates.

Revenues

	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
Oil and natural gas sales (\$/BOE)	45.67	38.30	19%	43.20	36.77	17%
Royalty expense (\$/BOE)	(7.32)	(6.35)	15%	(6.78)	(6.21)	9%
Net revenues (\$/BOE)	38.35	31.95	20%	36.42	30.56	19%
Net revenues (\$ millions)	120.3	44.5	170%	230.2	83.8	175%

Net revenue is impacted by production volumes, commodity prices, currency exchange rates and royalty rates. Due to the two significant acquisitions completed during the latter half of 2004, which substantially increased production volumes, and a crude oil price environment that has continued to strengthen for the past 4 quarters, our net revenues in the three and six month periods ending June 30, 2005 increased 170% and 175%, respectively, over the same periods in 2004. Changes in realized prices, volumes and royalty rates are discussed separately below. The impact of our hedging activities on current and future periods' income is discussed under "Derivative Contracts".

Sales Volumes

At 34,463 BOE/d, second quarter 2005 sales volumes were in line with our original full-year target of between 34,000 and 36,000 BOE/d and were 125% higher than the 15,291 BOE/d realized in the three month period ended June 30, 2004. Volumes averaged 34,921 BOE/d for the first six months of 2005, and were 132% higher than the 15,060 BOE/d realized in the same period in 2004. This increase in production year-over-year is due to the volumes associated with properties acquired in June and September 2004, as well as successful development and optimization work across our core areas.

The average daily sales volumes by product were as follows:

	Three months ended June 30				
	2005		2004		% Change
	Volume	Weighting	Volume	Weighting	
Light oil (Bbl/d)	9,826	29%	5,216	34%	88%
Medium oil (Bbl/d)	5,510	16%	4,082	27%	35%
Heavy oil (Bbl/d)	13,519	39%	5,477	36%	147%
Total oil (Bbl/d)	28,855	84%	14,775	97%	95%
Natural gas liquids (Bbl/d)	798	2%	141	1%	466%
Total oil and natural gas liquids (Bbl/d)	29,653	86%	14,916	98%	99%
Natural gas (mcf/d)	28,857	14%	2,249	2%	1183%
Total oil equivalent (BOE/d)	34,463	100%	15,291	100%	125%

	Six months ended June 30				
	2005		2004		% Change
	Volume	Weighting	Volume	Weighting	
Light oil (Bbl/d)	9,884	28%	5,134	34%	93%
Medium oil (Bbl/d)	5,590	16%	4,116	27%	36%
Heavy oil (Bbl/d)	13,993	40%	5,451	36%	157%
Total oil (Bbl/d)	29,467	84%	14,701	97%	100%
Natural gas liquids (Bbl/d)	789	2%	95	1%	731%
Total oil and natural gas liquids (Bbl/d)	30,256	87%	14,796	98%	104%
Natural gas (mcf/d)	27,990	13%	1,582	2%	1669%
Total oil equivalent (BOE/d)	34,921	100%	15,060	100%	132%

Second quarter 2005 production was impacted by unusually heavy rainfall and flooding in Alberta and Saskatchewan, primarily at Suffield and Hayter, resulting in lower realized heavy oil production relative to capacity. Extended turnarounds in Killarney and East Hayter resulted in an extended period of shut-in production in those areas as well.

Following the Hay River, B.C. property acquisition on August 2, 2005, an additional 5,200 BOE/d of medium gravity crude oil was added to our production, resulting in revised forecasts for full year 2005 production volumes. We now estimate that Harvest's full year 2005 production will average between 36,000 and 37,000 BOE/d.

Realized Commodity Prices

The following table provides a breakdown of our first quarter and year to date 2005 and 2004 average commodity prices by product type before realized losses on derivative contracts.

	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
Product prices:						
Light oil (\$/bbl)	\$ 59.13	\$ 44.28	34%	\$ 57.47	\$ 42.71	35%
Medium oil (\$/bbl)	43.43	36.95	18%	41.44	36.69	13%
Heavy oil (\$/bbl)	36.04	33.53	7%	33.79	31.17	8%
Natural gas liquids (\$/bbl)	47.31	30.39	56%	41.75	31.60	32%
Natural gas (\$/mcf)	7.92	5.91	34%	7.25	5.78	25%
BOE (\$/BOE)	\$ 45.67	\$ 38.30	19%	\$ 43.20	\$ 36.77	17%
Realized loss on derivative contracts gain (loss) (\$/BOE) ¹						
	(7.49)	(8.80)	15%	(6.71)	(7.77)	14%
Realized price after hedging (\$/BOE)	\$ 38.18	\$ 29.50	29%	\$ 36.49	\$ 29.00	26%

¹ Includes amounts realized on oil and foreign exchange contracts, and excludes amounts realized on electricity contracts.

Average realized prices continued to strengthen during the second quarter and were 19% higher during the period compared to the second quarter of 2004. For the first six months of 2005, our average realized prices were 17% higher than the same period in 2004. In the three and six months ended June 30, 2005, revenues were impacted by realized losses on commodity derivative contracts totaling \$23.5 million and \$42.4 million, respectively. This is higher than the \$12.2 million and \$21.3 million losses realized in the three and six months ended June 30, 2004, respectively. However, on a per BOE basis, our realized losses relative to revenue for the three month period ended June 30, 2005 decreased to \$7.49 / BOE compared to \$8.80 / BOE in the same period in 2004. For the six month period ended June 30, 2005, the realized loss per BOE relative to revenue was \$6.71 / BOE compared to \$7.77 / BOE in the same period the previous year.

The decline in hedging losses per BOE in 2005 despite a 40% increase in WTI reflects our new hedging strategy in 2005, which is to provide firm floors with upside participation. We anticipate that these structures will enable us to realize oil

prices that are closer to spot price levels during 2005 and 2006 than would have been the case with our 2004 hedging instruments which were primarily swaps and collars. The table below provides an example of the impact of Harvest's 2005 commodity derivative contracts in light of varying WTI oil price levels. This data is designed to provide readers with directional information only.

Average Annual Oil Price Scenario (\$U.S.)	Harvest Average WTI Oil Price After Hedging (\$U.S.)
\$35.00 WTI	\$38.21
\$55.00 WTI	\$49.55
\$75.00 WTI	\$67.55

At the time of writing, we have entered into oil price derivative contracts on approximately 72% of our total 2005 net crude oil production, approximately 50% of our estimated 2006 net crude oil production, and 14% of our estimated 2007 net crude oil production (based on an assumption of flat production through 2007). The majority of our 2005 and all of our 2006 and 2007 commodity derivative contracts provide a fixed crude oil floor price, while retaining the ability to participate in upward price appreciation. Examples of such contracts include 'indexed puts' and 'participating swaps', and additional information on these and other commodity derivative contracts can be found in the "Derivative Contracts" section of this MD&A.

Benchmarks	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
West Texas Intermediate crude oil (US\$ / bbl)	\$ 53.17	\$ 38.32	39%	\$ 51.51	\$ 36.73	40%
Edmonton Par light crude (\$ / bbl)	\$ 65.79	\$ 50.59	30%	\$ 63.67	\$ 48.09	32%
Lloyd blend crude oil (\$ / bbl)	\$ 39.65	\$ 36.14	10%	\$ 38.54	\$ 34.67	11%
Bow river blend crude oil (\$ / bbl)	\$ 39.72	\$ 37.12	7%	\$ 39.07	\$ 35.77	9%
Natural Gas Liquids (\$ / bbl)	\$ 51.16	\$ 41.48	23%	\$ 51.51	\$ 39.82	29%
AECO natural gas (\$ / mcf)	\$ 7.38	\$ 6.80	9%	\$ 7.03	\$ 6.71	5%
U.S. / Canadian dollar exchange rate	1.244	1.360	(9%)	1.236	1.339	(8%)
Bank of Canada interest rate	2.75%	2.72%	0.03%	2.75%	2.50%	0.25%

The benchmark price of WTI crude oil has the greatest impact on Harvest's revenues because the majority of the Trust's production is crude oil. Foreign exchange also has an impact on Harvest's revenues as oil prices denominated in U.S. dollars. With a second quarter production weighting to natural gas of approximately 13% compared to 1% in the second quarter of 2004, fluctuations in natural gas prices now have a greater impact on our revenue than in 2004.

A stronger Canadian dollar and wider differentials for heavy crude versus WTI tempered the effect of higher worldwide crude prices on our revenues during the three and six months ended June 30, 2005 relative to the same periods in 2004. The price of WTI was approximately 39% higher in the second quarter of 2005 and 40% higher in the six months ended June 30, 2005 relative to the same periods in 2004 but was somewhat offset by a much stronger Canadian dollar.

The differential between heavy and light crude oil prices narrowed toward the end of the second quarter; however, heavy oil in Canada was priced at an average of 40% discount to WTI during the second quarter. This compares to a 31% differential in the second quarter of 2004. The narrowing differentials late in the quarter can be attributed to a number of factors including increased demand for heavier products in Asia and the onset of the summer paving season and increased demand for asphalt. Harvest has taken steps to mitigate the future impact of fluctuating heavy oil differentials with two new hedges entered into in the second quarter which take effect in July 2005. See "Derivative Contracts".

The two significant acquisitions completed in 2004 significantly increased our product diversification to include more natural gas and light oil in our portfolio. This diversification reduces Harvest's outright exposure to heavy oil differentials and

increases our exposure to North American natural gas prices. The production acquired from the Hay River property is primarily medium gravity crude, but has historically realized differentials which are significantly less than the typical medium oil differential of \$15.00 to \$25.00.

Royalties

In the second quarter of 2005, royalties as a percentage of revenues before hedging loss, were approximately 16% compared to 16.6% in the second quarter of 2004. For the six month period ended June 30, 2005, royalties as a percent of revenue were 15.7%, compared to 16.9% in the same period in 2004. This decrease from 2004 is primarily attributable to the impact of the lower royalty rate properties acquired in September 2004. The Saskatchewan government recently changed its legislation to make its resource surcharge applicable to trusts producing oil and natural gas in the province effective April 1, 2005. The surcharge is 3.6% of gross resource revenues (2% for production from wells drilled subsequent to October 2002). We estimate the blended rate applied to Harvest's Saskatchewan properties will be approximately 3.2% with Saskatchewan revenues which makes up 20% of Harvest's total. This increased our royalty rate from 15% in the first quarter of 2005 to 16% in the second quarter of 2005. The new Hay River properties acquired in August 2005 have a higher royalty rate, which is estimated to increase our overall royalty rates to approximately 18% to 19% for the latter half of 2005.

Operating Expenses

(\$ per BOE)	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
Operating expense	\$ 9.13	\$ 10.28	(11%)	\$ 8.86	10.28	(14%)
Realized gains on electricity derivative contracts	(0.05)	(0.51)	(90%)	(0.05)	(0.33)	(85%)
Net operating expense	\$ 9.08	\$ 9.77	(7%)	\$ 8.81	\$ 9.95	(11%)

The decrease in operating expenses (before gains on electricity derivative contracts), during the second quarter of 2005 compared to the second quarter of 2004 reflects lower cost assets purchased in 2004, as well as the effect of operating cost reduction projects completed in 2004. These operating cost reductions have been somewhat offset by cost inflation in the Western Canadian oil and natural gas sector and the impact of incremental workover costs spread over lower volumes due to the downtime which occurred due to turnarounds and flooding, as described under "Sales Volumes". The Hay River properties acquired in August 2005 have lower operating costs at approximately \$7.75/BOE, which will result in slightly lower operating costs per BOE through the balance of 2005.

For the three and six month periods ended June 30, 2005, approximately 25% and 27%, respectively, of our operating costs is related to the consumption of electricity. Over the last 9 months the 450 megawatts (MW) of additional power from the Genesee #3 coal-fired plant in Alberta has proven to dampen both electricity price volatility and spot market prices. Management has also utilized fixed price electricity contracts to mitigate electricity price risk within Alberta. Our electricity hedges (approximately 85% of our estimated Alberta electricity usage is hedged at an average price of \$47.71 per MWh through December 2006) will help further moderate the impact of cost swings, as will realizing the benefits of capital projects undertaken in 2004 that were dedicated to power efficiency projects.

Benchmark Price	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
Alberta Power Pool electricity price (\$ per MWh)	\$ 51.46	\$ 60.07	(14%)	48.67	54.43	(11%)

General and Administration Expenses (“G&A”)

(\$millions except per BOE)	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
G&A - cash	\$ 2.9	1.5	93%	6.2	2.7	130%
Per BOE (\$/BOE)	0.94	1.07	(12%)	0.98	0.98	0%
G&A - non-cash unit compensation expense	3.7	0.2	1750%	5.9	0.4	1375%
Per BOE (\$/BOE)	1.17	0.15	680%	0.93	0.14	564%
Total G&A	\$ 6.6	\$ 1.7	288%	12.1	3.1	290%
Per BOE (\$/BOE)	\$ 2.11	\$ 1.22	73%	\$ 1.91	\$ 1.12	71%

The increase in cash G&A, excluding unit right compensation expense, is the result of higher staff and system expenses associated with the additional properties in our portfolio. For 2005, we anticipate that Harvest’s cash G&A/BOE will be less than \$1.00/BOE, before unit right compensation expense. Management does not anticipate a significant increase in cash G&A expenses associated with the Hay acquisition and increased production should result in slightly lower cash G&A/BOE. However, Trust Unit prices have increased significantly since June 30, 2005, which could lead to a higher unit right compensation expense in the third quarter.

General and administration expenses charged against income in the second quarter of 2005 totaled \$6.6 million (\$2.11/BOE) compared to \$1.7 million (\$1.22/BOE) in the same quarter in 2004. For the six month period ended June 30, 2005, G&A charged against income totaled \$12.1 million (\$1.91/BOE) compared to \$3.1 million (\$1.12/BOE) in the same period in 2004.

The significant increase in G&A in 2005 compared to 2004 is a result of a modification made to our Unit Incentive Rights Plan in the fourth quarter of 2004, resulting in a prospective change in accounting for Unit appreciation rights (UARs). In the third quarter of 2004, the Plan was modified so unitholders could settle in cash and therefore we now value vested UARs at the difference between exercise price and market price at each reporting period end to determine the related liability at that date. Changes in the assumptions used in determining this liability, such as our Trust Unit price, the exercise price and the number of UARs vested at each accounting period will cause this liability to fluctuate and the difference is reflected as an expense on the consolidated statement of income.

Interest Expense

(\$millions)	Three months ended June 30			Six months ended June 30		
	2005	2004 (restated)	Change	2005	2004 (restated)	Change
Interest on short term debt	\$ 1.6	\$ 0.4	300%	\$ 2.8	\$ 1.1	155%
Amortization of deferred charges - short term debt	1.3	0.6	117%	2.5	1.3	92%
Total interest on short term debt	2.9	1.0	190%	5.3	2.4	121%
Interest on long term debt	6.6	1.3	408%	13.0	2.2	491%
Amortization of deferred charges - long term debt	0.3	0.1	200%	0.8	0.2	300%
Total interest on long term debt	6.9	1.4	393%	13.8	2.4	475%
Total interest expense	\$ 9.8	\$ 2.4	308%	\$ 19.1	\$ 4.8	298%

In the three and six month periods ended June 30, 2005, cash interest on short term debt totaled \$1.6 million and \$2.8 million, compared to \$0.4 million and \$1.1 million for the same periods in 2004. Interest on short term debt relates to the interest paid on our outstanding bank debt. Cash interest on long term debt totaled \$6.6 million and \$13.0 million in the second quarter and six months ended June 30, 2005, and \$1.3 million and \$2.2 million in the same periods in 2004. Of the interest on long term debt, \$6.2 million in the three month period and \$12.2 million in the six month period ended June 30, 2005 pertains to our U.S.\$250 million senior notes, issued in October 2004. These notes provide Harvest with a long-term (Oct 15, 2011 maturity), fixed interest rate (7.875%) source of debt, a natural hedge to currency exchange rates, and can be redeemed after four years. For the three and six month periods ending June 30, 2005, the remaining \$0.4 million and \$0.8 million of long term interest expense relates to our convertible debentures. Previously, we had recorded the interest incurred on our

convertible debentures as a charge to accumulated income rather than net income. As a result of changes in accounting standards that came into effect for the first quarter of 2005, we now reflect this as interest expense on the statement of income. This change is discussed further under "New Accounting Policies" and the 2004 amounts have been retroactively restated to reflect this new presentation.

Our second quarter total interest expense and amortization of deferred charges of \$9.8 million is higher than the \$2.4 million reflected in the second quarter of 2004. For the six month period ended June 30, 2005 total interest expense and amortization of deferred charges was \$19.1 million compared to \$4.8 million for the same period in 2004. The increase in total interest expense in 2005 is due to higher bank debt and the senior notes, which were used to partially finance the July and September 2004 acquisitions.

Total interest expense is expected to be slightly higher through the balance of 2005 given \$75 million of new 6.5% convertible debentures issued in August 2005 associated with the Hay River acquisition.

Depletion, Depreciation and Accretion (DD&A)

<i>(\$millions except per BOE)</i>	Three months ended June 30			Six months ended June 30		
	2005	2004	Change	2005	2004	Change
Depletion and depreciation	\$ 32.5	\$ 10.1	222%	69.0	19.7	250%
Depletion of capitalized asset retirement costs	2.6	1.8	44%	5.4	3.6	50%
Accretion on asset retirement obligation	2.3	0.9	156%	4.6	1.6	188%
Total depletion, depreciation and accretion	\$ 37.4	\$ 12.8	192%	\$ 79.0	\$ 24.9	217%
Per BOE (\$/BOE)	\$ 11.93	\$ 9.22	29%	12.49	9.09	37%

Our second quarter depletion, depreciation, and accretion expense totaled \$37.4 million (\$11.93/BOE) compared to \$12.8 million (\$9.20/BOE) for the same quarter in 2004. Our total DD&A for the six month period ended June 30, 2005 was \$79.0 million (\$12.50/BOE), compared to \$24.9 million (\$9.08/BOE) for the same period in 2004. Relative to the second quarter of 2004 and the six month period ended June 30, 2004, our higher DD&A is primarily attributable to the significant acquisitions completed in June and September 2004, and reflects the higher netback production acquired. We anticipate full year 2005 DD&A rates to range between \$13 and \$15 per BOE with the Hay River acquisition completed in August.

Foreign Exchange Losses and Gains

Foreign exchange gains and losses are attributable to the effect of changes in the value of the Canadian dollar relative to the U.S. dollar on our U.S. dollar denominated senior notes, as well as any U.S. dollar deposits and credit facility balances. Our senior notes, which were issued in October 2004, reduce our net exposure to fluctuations in foreign exchange rates by offsetting the impact of fluctuations on net oil prices realized. We have entered into a currency exchange put option for calendar 2005, on U.S. \$8.33 million per month at \$1.20 per \$U.S. to provide a further hedge against foreign exchange volatility.

The largest portion of our foreign exchange gains and losses are directly related to our U.S. dollar denominated senior notes. In the second quarter of 2005, the Canadian dollar weakened against the U.S. dollar, and we incurred unrealized losses on our senior notes of \$3.9 million. This amount was partially offset by realized settlements of amounts held on deposit denominated in U.S. dollars. The net result for the second quarter 2005 was a foreign exchange loss of \$3.2 million. In the second quarter of 2004, we did not have any U.S. dollar denominated debt and as a result, in a time of a weakening Canadian dollar, we recorded gains because changes in foreign exchange were largely related to sales transactions.

For the six month period ended June 30, 2005, we realized a foreign exchange loss of \$5.4 million, compared to a foreign exchange gain of \$1.3 million for the same period in 2004. Again, this reflects the impact of a weakened Canadian dollar at June 30, 2005 compared to December 31, 2004 on our senior notes.

Derivative Contracts

All of our hedging activities are carried out pursuant to policies approved by the Board of Directors of Harvest Operations Corp. Management intends to facilitate stable, long-term monthly distributions by reducing the impact of volatility in commodity prices. As part of our risk management policy, management utilizes a variety of derivative instruments (primarily options) to manage commodity price, heavy oil price differentials, foreign currency and interest rate exposures. These instruments are commonly referred to as 'hedges' but may not receive hedge treatment for accounting purposes. Management also enters into electricity price and heat rate based derivatives to assist in maintaining stable operating costs. We reduce our exposure to credit risk associated with these financial instruments by only entering into transactions with financially sound, credit-worthy counterparties.

As of October 1, 2004, we ceased to apply hedge accounting to our derivative contracts. As a result, from October 1, 2004 all of our derivatives are marked-to-market with the resulting gain or loss reflected in earnings for the reporting period. The mark-to-market valuation represents the amount that would be required to settle the contract on the period end date. Collectively, our derivative contracts had a mark-to-market unrealized non-cash loss position on the balance sheet of \$77.5 million as at June 30, 2005. The difference between this value and the mark-to-market amount at December 31, 2004 (\$15.4 million) is reflected as an unrealized loss in the six month period ended June 30, 2005. Please refer to Note 10 in the consolidated financial statements for further information.

The following table provides a reconciliation of the changes in Harvest's mark-to-market position on its derivative contracts from January 1, 2005 to June 30, 2005.

<i>(\$millions)</i>	As at June 30, 2005	As at December 31, 2004
Opening mark-to-market position	(15.4)	-
Unrealized loss on outstanding derivative contracts ¹	(68.7)	(27.9)
Unrealized gain on outstanding derivative contracts ¹	6.6	12.5
Closing mark-to-market position	(77.5)	(15.4)

Note 1 Excludes amortization of deferred charges (gain) recorded upon adoption of mark-to-market accounting and reflected in unrealized gains and losses on derivative contracts on the statement of income.

We determine the value of our derivative contracts using prices from actively quoted markets. Where we are unable to obtain quoted prices, we use widely accepted valuation models.

In the three months ended June 30, 2005, we recorded a net realized loss on commodity derivative contracts of \$23.3 million, and a net unrealized gain, including amortization of deferred charges and gains, of \$5.0 million for a total loss of \$18.3 million. For the six month period ended June 30, 2005, we recorded a realized loss on commodity derivative contracts of \$42.1 million, and an unrealized loss including amortization of deferred charges and gains, of \$69.5 million for a total loss of \$111.6 million. The realized loss portion reflects the effective cost of our hedges related to production during the period. If we had experienced similar WTI price levels in 2005 as 2004, realized derivative contract losses in 2005 would have been lower than those experienced in 2004 as the majority of our 2005 derivative contracts provide a firm floor but allow for participation in strengthening commodity prices. The volume of our production hedged with swaps and collars that have fixed price ceilings has greatly diminished for 2005 and is nil for 2006 and 2007.

The table below provides a summary of gains and losses on derivative contracts:

(\$thousands)	Three months ended June 30, 2005				Three months ended June 30, 2004
	Oil	Currency	Electricity	Total	Total
Unrealized (losses) / gains on derivative contracts	7,797	(1,145)	1,978	8,630	(4,242)
Realized (losses) / gains on derivative contracts	(23,327)	(168)	147	(23,348)	(11,542)
Amortization of deferred charges relating to derivative contracts	(3,983)	-	-	(3,983)	-
Amortization of deferred gains relating to derivative contracts	-	-	445	445	-
Total (losses) / gains on derivative contracts	(19,513)	(1,313)	2,570	(18,256)	(15,784)

(\$thousands)	Six months ended June 30, 2005				Six months ended June 30, 2004
	Oil	Currency	Electricity	Total	Total
Unrealized (losses) / gains on derivative contracts	(64,515)	(4,192)	6,585	(62,122)	(4,242)
Realized (losses) / gains on derivative contracts	(43,058)	672	313	(42,073)	(20,399)
Amortization of deferred charges relating to derivative contracts	(8,344)	-	-	(8,344)	(5,490)
Amortization of deferred gains relating to derivative contracts	-	-	890	890	-
Total (losses) / gains on derivative contracts	(115,917)	(3,520)	7,788	(111,649)	(30,131)

Prepaid Expenses and Deposits

Our prepaid expenses and deposits balance includes \$44.5 million of amounts which are held on margin with counterparties to our derivative contracts. This balance will decrease as our hedges settle, provided oil prices do not increase further.

Deferred Charges and Deferred Gains

The deferred charges asset balance on the balance sheet is comprised of two main components: deferred financing charges and deferred assets related to the discontinuation of hedge accounting. The deferred financing charges relate primarily to the issuance of the senior notes, convertible debentures and bank debt and are amortized over the life of the corresponding debt.

Deferred charges

(\$thousands)	As at June 30, 2005				As at December 31, 2004			
	On Dis-continuation of Hedge Accounting	Financing Costs	Discount on Senior Notes	Total	On Dis-continuation of Hedge Accounting	Financing Costs (restated)	Discount on Senior Notes	Total
Opening Balance	10,759	12,781	2,000	25,540	-	1,989	-	1,989
Additions	-	534	-	534	25,705	20,971	2,075	48,751
Transferred to unit issue costs	-	(563)	-	(563)	-	(5,721)	-	(5,721)
Amortization	(8,344)	(3,285)	(148)	(11,777)	(14,946)	(4,458)	(75)	(19,479)
Closing Balance	2,415	9,467	1,852	13,734	10,759	12,781	2,000	25,540

We discontinued the use of hedge accounting for all of our derivative financial instruments effective October 1, 2004. For contracts where hedge accounting had previously been applied, a deferred charge and a deferred gain was recorded equal to the fair value of the contracts at the time hedge accounting was discontinued, and a corresponding amount was recorded as a derivative contracts asset or liability. The deferred amount is recognized in income in the period in which the underlying transaction is recognized.

For the six month period ended June 30, 2005, \$8.3 million of the deferred charge and \$0.9 million of the deferred gain was been amortized and recorded in gains and losses on derivative contracts. At June 30, 2005, a \$2.4 million deferred charge and a \$1.3 million deferred gain is remaining relating to the balances initially set up upon discontinuation of hedge accounting.

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 that acquired business. In June 2004, Harvest completed a Plan of Arrangement with Storm Energy Ltd., and acquired certain oil and natural gas producing properties in North Central Alberta for total consideration of \$192.2 million. This transaction has been accounted for using the purchase price method, and resulted in Harvest recording goodwill of \$43.8 million in 2004. This goodwill balance will be assessed annually for impairment or more frequently if events or changes in circumstances would reasonably be expected to reduce the fair value of the acquired business to a level below its carrying amount.

Future Income Taxes

Future income taxes reflect the net tax effects of temporary differences between the financial statement amounts of assets and liabilities held in Harvest's corporate operating subsidiaries and the related income tax balances. Future income taxes arise, for example, as depletion and depreciation expense recorded against capital assets differs from claims against related tax pools. Future income taxes also arise when tax pools associated with assets acquired are different from the purchase price recorded for accounting purposes. We recorded a recovery of future income taxes for the three and six month period ended June 30, 2005 of \$3.8 million and \$29.8 million, respectively, compared to a \$1.6 million recovery and \$4.2 million recovery for the same periods last year. The significant increase in the future income tax recovery in the six month period reflects the large loss before taxes and non-controlling interest.

Asset Retirement Obligation (ARO)

In connection with a property acquisition or development expenditure, we record the discounted fair value of the ARO as a liability in the year in which an obligation to reclaim and restore the related asset is incurred, which is generally when the related well or facility is created or acquired. Our ARO costs are capitalized as part of the carrying amount of the related assets, and are depleted and depreciated over our estimated net proved reserves. ARO estimates are adjusted at the end of each period to reflect the impact of the passage of time on the discounted present value as well as changes in the estimated future costs that make up the obligation.

Our asset retirement obligation has increased by approximately \$4.0 million in the first half of 2005 mainly due to the accretion of the asset retirement obligation.

Non-Controlling Interest

At June 30, 2005, we have recorded a non-controlling interest amount on our consolidated balance sheet of \$3.5 million. The non-controlling interest arises as a result of adopting the guidance from the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants (EIC 151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts") (see "New Accounting Policies – Exchangeable Shares"). This EIC requires that when shares are issued by a subsidiary of a trust, and they are exchangeable into Units of the trust, they should be classified as either non-controlling interest or equity. EIC 151 requires, among other things, that exchangeable shares not be transferable to third parties in order to be classified as equity. As the exchangeable shares issued by Harvest Operations Corp. do not meet the criteria to be considered equity of the Trust, they have been classified as non-controlling interest. Previously, they had been recorded as part of the equity of the Trust.

The exchangeable shares were originally issued by Harvest Operations Corp. as partial consideration for the purchase of a corporate entity in 2004. The exchangeable shares rank equally with the Trust Units and participate in distributions through an increase in the exchange ratio applied to the exchangeable shares when they are converted to Trust Units.

Over time, the exchangeable shares will continue to be converted into Trust Units and the non-controlling interest on the balance sheet will be eliminated. The non-controlling interest on the balance sheet represents the book value of the remaining exchangeable shares plus the accumulated earnings or loss of the Trust attributed to those exchangeable shares. The non-controlling interest on the income statement represents the current period loss attributed to the non-controlling interest holders during the period. The total net income (loss) attributed to non-controlling interest for the three and six months ended June 30, 2005 was \$120,000 and \$(375,000), respectively.

Liquidity and Capital Resources

Our drilling and operational enhancement programs, as well as current financial commitments, are expected to be financed from Funds Flow from Operations (see "Certain Financial Reporting Measures" in this MD&A). Our cash distributions to Unitholders are financed solely from Funds Flow from Operations. In the second quarter of 2005, our distribution payout ratio of 46% (calculated by dividing distributions to Unitholders by Funds Flow from Operations) resulted in excess Funds Flow from Operations available for our capital expenditure programs. This compares to a payout ratio of 69% in the second quarter of 2004. Our payout ratio for the six month period ended June 30, 2005 was 47% (excluding the special distribution of 2004 income paid in Trust Units) compared to 72% for the same period in 2004. During the second quarter, we announced a 25% increase to our monthly distribution level, effective with the July distribution, payable in August. We have also announced an increase to \$0.35 per Trust Unit per month commencing with the September 15 payment. This increase in distributions is a reflection of the success of Harvest's strategy to date.

As at June 30, 2005, Harvest's net debt increased to \$436.6 million from \$429.6 million at December 31, 2004, primarily as a result of the deposit made by Harvest for the \$260 million Hay River acquisition. The Hay River acquisition closed on August 2, 2005 and was financed by drawing on Harvest's new \$400 million senior secured credit facility. Net proceeds from the equity and convertible debenture financing, which closed the same day, of \$237 million were used to repay amounts drawn under the credit facility. Following the acquisition and the financings, we anticipate net bank debt to be approximately \$100 million.

We anticipate that sufficient Funds Flow from Operations for the balance of 2005 will be available to finance our planned capital development program, expected distributions of \$0.35 per Unit per month and still leave us with sufficient funds to repay a portion of our outstanding bank debt. Given the significant amount of oil price protection we have in place, we believe that our Funds Flow from Operations in 2005 will exceed cash distributions as well as our budgeted capital expenditures under most WTI price scenarios. It is also important to note that to the extent our Unitholders elect to receive distributions in the form of Trust Units rather than cash under our Distribution Reinvestment Plan (DRIP), this further reduces net cash outlays. During the second quarter of 2005, DRIP participation averaged approximately 5%.

The table below provides an analysis of our debt structure, including some key debt ratios. We believe that the current capital structure is appropriate given our low payout ratio, the significant oil price protection in place, and the long term to maturity of the majority of our debt. As noted above, we intend to use Funds Flow from Operations after distributions and capital expenditures to repay bank debt through the balance of 2005 and through 2006. Pro forma the Hay River acquisition, net debt will be lower by approximately \$26 million, and cash flows will reflect the incremental production acquired. Management anticipates pro forma debt to Funds Flow from Operations to be approximately 1.5 times.

(\$ millions)		As at June 30, 2005		As at December 31, 2004	Change
Bank debt	\$	138.1	\$	75.5	83%
Working capital deficit (surplus) excluding bank debt ¹		(18.6)		27.8	167%
Senior notes		306.4		300.5	2%
Convertible debentures		10.7		25.8	(59%)
Net debt obligations	\$	436.6	\$	429.6	2%
Annualized quarterly funds flow ²	\$	228.9	\$	211.5	8%
Net debt to funds flow (times)		1.9		2.0	0%

Note 1 Excludes current portion of derivative contracts assets and liabilities, future income tax and Trust Unit incentive plan liability.

Note 2 Reflects realized hedging losses which were significant in the second quarter given the nature of our oil price hedges. Our hedges in the latter half of 2005 are primarily instruments which do not place a cap on WTI price realizations.

Since inception, we have communicated our intention to pursue a strategy that will allow us to sustain or increase our Funds Flow from Operations and distributions per Unit. During the three month periods ended June 30, 2005 and 2004, we declared \$26.1 million and \$11 million, respectively, in distributions payable to Unitholders (\$0.20 per Trust Unit per month for each of April, May and June). Year to date in 2005, distributions declared total \$62.3 million, including the payment of a special one-time distribution relating to undistributed 2004 taxable income of \$10.7 million, compared to \$21.3 million declared during the same period in 2004. Effective with the August distribution (payable September 15, 2005), we have increased our distribution level to \$0.35 per Trust Unit per month. The higher level of distributions paid in the second quarter of 2005 reflects the increased number of Trust Units outstanding compared to the first quarter of 2004.

Our payout ratio, which is the ratio of distributions to Funds Flow from Operations, remains among the lowest in the trust sector. We reported a 46% payout ratio in the second quarter of 2005, and a 47% payout ratio year-to-date, compared to 69% and 72% in the same periods in 2004. We anticipate that our payout ratio will range between 50% and 55%, assuming a \$0.35 monthly distribution and current commodity prices. This low payout ratio will provide Harvest significant flexibility in financing capital and acquisition activities and servicing our outstanding debt. Reducing our debt will help position us to take advantage of any future acquisition opportunities.

Of the total second quarter 2005 distributions, the Distribution Reinvestment Plan ("DRIP") accounted for 5% of total distributions, or \$1.4 million represented by approximately 63,000 Trust Units. Harvest's DRIP enables Unitholders to reinvest their cash distributions back into Harvest Units, rather than receive the amount paid in cash. Management anticipates that during the balance of 2005, the DRIP will increase from second quarter levels and average closer to our historical average of 20% participation. Should the percentage participation in our DRIP decrease, we will need to use a larger amount of Funds Flow from Operations to pay monthly distributions.

Payments to U.S. Unitholders are subject to 15% Canadian withholding tax, which applies to the taxable portion of the distribution. After consulting with our U.S. tax advisors, we are of the view that our distributions are "qualified dividends" under the Jobs and Growth Tax Relief Reconciliation Act of 2003. These dividends are eligible for the reduced tax rate applicable to long-term capital gains. However, the distributions may not be qualified dividends in certain circumstances, depending on the holder's personal situation (i.e. if an individual holder does not meet a holding period test). Where the distributions do not qualify, they should be reported as ordinary dividends. U.S. and other non-resident Unitholders are urged to obtain independent legal advice on how their distributions should be treated for tax purposes.

Harvest's Trust Units listed for trading on the New York Stock Exchange (NYSE) on July 21, 2005. This listing will provide Harvest's unitholders with additional liquidity, and Harvest with greater access to the U.S. capital market. From time to time the Trust may require external financing, in the form of both debt and equity, to further its business plan of maintaining production, reserves and distributions through acquisitions and capital expenditures. Our 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.

Of the convertible debentures outstanding at June 30, 2005, approximately \$2.1 million have converted into Units through August 11, 2005 and we anticipate continued conversions of in-the-money debentures through 2005.

A breakdown of our outstanding Trust Units and potentially dilutive elements is as follows:

	As at June 30, 2005	As at December 31, 2004	As at June 30, 2004
Market price of Trust Units at end of period (\$/unit)	27.05	22.95	14.70
Trust Units outstanding	43,772,207	41,788,500	20,228,860
Exchangeable shares outstanding ¹	240,011	455,547	600,587
Trust Units represented by Exchangeable shares	268,640	485,003	600,587
Total market value of Trust Units at end of period ² (\$millions)	\$ 1,191.3	\$ 970.0	\$ 306.2
9% Convertible debentures ³ , face value (\$millions)	\$ 2.8	\$ 10.7	\$ 57.8
8% Convertible debentures ⁴ , face value (\$millions)	\$ 8.0	\$ 15.2	\$ -
Trust Unit rights outstanding ⁵	1,569,966	1,128,387	1,168,100
Total Trust Units, diluted ⁶	46,309,075	45,099,038	26,125,761

Note 1 Exchangeable shares are exchangeable into Trust Units at the election of the holder at any time. The exchange ratio in effect on June 30, 2005 was 1.11928:1, and on December 31, 2004 was 1.06466:1. The June 30, 2005 exchange ratio was used to determine Trust Units represented by Exchangeable shares.

Note 2 Including Trust Units outstanding and assuming exchange of all exchangeable shares.

Note 3 Each debenture in this series 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 \$13.85 per Trust Unit. If Debenture holders converted all outstanding debentures in this series at June 30, 2005 and December 31, 2004, an additional 200,939 and 764,286 Trust Units would be issuable, respectively. For accounting purposes the convertible debentures are recorded at a discount to reflect the implied interest rate on issuance.

Note 4 Each debenture in this series 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 \$16.07 per Trust Unit. If Debenture holders converted all outstanding debentures in this series at June 30, 2005 and December 31, 2004, an additional 497,324 and 932,862 Trust Units would be issuable, respectively. For accounting purposes the convertible debentures are recorded at a discount to reflect the implied interest rate on issuance.

Note 5 Exercisable at an average price of \$13.51 per Trust Unit as at June 30, 2005, and \$10.09 per Trust Unit as at December 31, 2004. Also includes Unit Award Incentive Plan Rights of 31,441 as at June 30, 2005 and 10,662 at December 31, 2004. Each Unit Award Incentive Plan Right can be converted into one Trust Unit once vested with no additional consideration.

Note 6 Fully diluted Units differ from diluted Units for accounting purposes. Fully diluted includes Trust Units outstanding as at June 30, 2005 or December 31, 2004 plus the impact of the conversion or exercise of exchangeable shares, Trust Unit Rights, Unit Award Rights and convertible debentures if completed at June 30, 2005 or December 31, 2004.

(\$millions)	As at June 30, 2005	As at December 31, 2004	% Change
Total market capitalization ¹	\$ 1,191.3	\$ 970.2	23%
Net debt	436.6	429.6	0
Enterprise value (total capitalization) ²	\$ 1,627.9	\$ 1,399.8	16%
Net debt as a percentage of enterprise value ³ (%)	27%	31%	(4%)

Note 1 Reflects conversion of exchangeable shares into Trust Units.

Note 2 Enterprise value as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Total capitalization is not intended to represent the total funds we have received from equity and debt.

Note 3 This ratio changed following the \$175 million Trust Unit and \$75 million convertible debenture financing which closed on August 2, 2005. As of that date, the ratio was approximately 25%.

Contractual Obligations

Our contractual obligations have not changed significantly from those disclosed in the MD&A and financial statements for the year ended December 31, 2004.

Off Balance Sheet Arrangements

We have a number of immaterial operating leases in place on moveable field equipment, vehicles and office space. The leases require periodic lease payments and are recorded as either operating costs or G&A. We also finance our annual insurance premiums, whereby a portion of the annual premium is deferred and paid monthly over the balance of the term.

Related Party Transactions

A corporation controlled by one of our directors sublets office space from us and we provide administrative services to that corporation on a cost recovery basis. See Note 12 to the Consolidated Financial Statements.

Capital Asset Expenditures

Development capital expenditures, excluding property acquisitions totaled \$27.2 million and \$50.4 million for the three and six month periods ended June 30, 2005. This compares to development capital expenditures of \$8.3 million in the second quarter of 2004 and \$18.5 million for the six months ended June 30, 2004. The three and six month periods ending June 30, 2005, include non-cash capital additions of approximately \$1 million relating to non-cash UAR costs that have been capitalized. For the three month period ended June 30, 2005, property acquisitions totaled \$26.2 million, including \$26 million paid to the vendor as a deposit for the Hay River property. For the six month period ended June 30, 2005, property acquisitions totaled \$30.8 million. Property acquisition expenditures for the same periods in 2004 were \$191.6 million and \$193.4 million, respectively. The acquisition of Storm Energy took place in the second quarter of 2004, and represents the majority of the acquisition expenditures in the first half of that year. This acquisition was financed with \$75 million of debt and the remaining with Trust Units and Exchangeable Shares. The increase in development capital expenditures in 2005 compared to 2004 is due to several factors, including an increased number of producing properties, higher drilling activity, additional well workovers and optimization activities, and generally reflects the expanded base of internal growth opportunities resulting from past acquisitions.

We continue to review opportunities within the acquisition market, and initiated the acquisition of the Hay River property late in the second quarter. This \$238 million acquisition, after adjustments, closed on August 2, 2005, and provides us with 5,200 BOE/d of medium oil production, 19.8 mmBOE of proved plus probable reserves, 54,000 net acres of undeveloped land, and an estimated 74 future drilling locations.

Following the announcement of the acquisition, we also increased our forecasted capital budget for 2005 to \$110 million. Our 2005 budget includes drilling of just under 90 wells. We will continue to be active in analyzing potential acquisition opportunities. In the event the acquisition market becomes too expensive and Harvest cannot create value by purchasing assets, we have a sufficient drilling inventory to keep us active for the next 2 to 3 years.

Sensitivities

The table below indicates the impact of changes in key variables on several financial measures of Harvest. The figures in this table are based on the Units outstanding as at June 30, 2005 and our existing hedging program, and are provided for directional information only.

	Variable				
	WTI Price/bbl	Heavy Oil Price differential/bbl	Crude Oil Production	Canadian Bank Prime Rate	Foreign Exchange Rate Cdn. / U.S.
Assumption	\$45.00 U.S.	\$15.00 U.S.	39,000 boe/d	4.25%	1.21
Change	\$1.00 U.S.	\$1.00 U.S.	1,000 boe/d	1%	0.01
Annualized impact on:					
Funds flow from operations (\$000's)	\$6,622	\$2,109	\$11,797	\$1,043	\$2,549
Per Trust Unit, basic	\$0.13	\$0.04	\$0.25	\$0.01	\$0.06
Per Trust Unit, diluted	\$0.12	\$0.04	\$0.24	\$0.01	\$0.06
Payout ratio	1.0%	0.4%	1.9%	0.2%	0.4%

As noted above, our commodity price risk management program provides significant downside price protection, while allowing Harvest to participate in upward price movements. Thus, cash flow sensitivities are less extreme with WTI price declines than with price increases.

Oil price derivative contracts in place as at June 30, 2005 are summarized in the table below. The prices shown for collars, indexed puts and participating swaps are floor prices.

	2005		2006		2007	
	Volume (bbls/d)	Pricing (\$/bbl)	Volume (bbls/d)	Pricing (\$/bbl)	Volume (bbls/d)	Pricing (\$/bbl)
WTI Crude Oil Swaps	500	\$ 24.00	-	-	-	-
WTI Crude Oil Collars	3,500	\$ 28.07	-	-	-	-
WTI Indexed Put Contracts	18,500	\$ 35.95	3,719	\$ 34.00	-	-
WTI Participating Swaps ¹	-	-	11,271	\$ 39.73	2,479	49.03
WTI Participating Swaps ²	-	-	5,000	\$ 49.03	2,479	49.03

¹50% upside participation

²75% upside participation.

The percent of WTI shown in the table below represents the average of all outstanding contracts.

Oil Price Differential Swap Contracts ¹	2005		2006	
	Volume (bbls/d)	Percent of WTI	Volume (bbls/d)	Percent of WTI
July - December 2005	10,000	28.7%	-	-
January - December 2006	-	-	7,500	28.7%

¹Certain of these contracts overlap a portion of both years.

Critical Accounting Policies and Critical Accounting Estimates

Our critical accounting policies and estimates are substantially the same as those presented in our 2004 annual MD&A.

Impact on Net Income of Change in Accounting Policies

The implementation of new accounting policies in 2005 as discussed below resulted in changes to the accounting treatment for exchangeable shares, convertible debentures and the equity bridge notes. As a result, we have restated previously reported annual and quarterly net income. The restatements were required per the transitional provisions of the respective accounting standards.

The following table illustrates the impact of the new accounting policies on quarterly net income (loss) and net income (loss) per Unit for periods which have been presented for comparative purposes:

(\$ thousands)	2004			
	Q4	Q3	Q2	Q1
Net Income (loss) before change in accounting policies ¹	12,536	5,166	1,594	(1,065)
Increase (decrease) in net income:				
Interest expense ²	(751)	(3,386)	(1,443)	(1,185)
Non-controlling interest ³	(185)	(40)	-	-
Net income (loss) after change in accounting policies	11,600	1,740	151	(2,250)
Net income (loss) per Trust Unit, as reported				
Basic	0.29	0.07	0.02	(0.13)
Diluted	0.28	0.07	0.02	(0.13)
Net income (loss) per Trust Unit, as restated				
Basic	0.29	0.06	0.01	(0.13)
Diluted	0.27	0.06	0.01	(0.13)

Note 1 This represents net income as reported before retroactive restatement for changes in accounting policies.

Note 2 Adoption of the amendment to CICA Handbook Section 3860 "Financial Instruments – Disclosure and Presentation" resulted in the convertible debentures and equity bridge notes being classified as debt whereas previously they were classified as equity. In addition, the interest expense relating to these instruments was required to be charged against net income rather than directly to accumulated income. Also, the deferred financing charges associated with the convertible debentures are now reflected separately in deferred charges on the balance sheet and amortized to income over the term of the debt; previously they were applied as a reduction to the outstanding balance.

Note 3 Adoption of EIC 151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", resulted in the exchangeable shares being classified as minority interest and the income attributed to minority interest holders being applied against net income.

New Accounting Policies

Financial Instruments

On January 1, 2005, the Trust retroactively adopted the amendment to the Canadian Institute of Chartered Accountants (“CICA”) handbook section 3860 “Financial Instruments”. These changes require that fixed-amount contractual obligations that can be settled by issuing a variable number of equity instruments be classified as liabilities. The convertible debentures and the equity bridge notes previously issued by the Trust have characteristics that meet the noted criteria and we have retroactively accounted for these instruments as debt and reflected related interest costs as interest expense in the statement of income.

Exchangeable Shares

On January 19, 2005, the CICA issued EIC-151 “Exchangeable Securities Issued by Subsidiaries of Income Trusts” that states that equity interests held by third parties in subsidiaries of an income trust should be reflected as either non-controlling interest or debt in the consolidated balance sheet unless they meet certain criteria. EIC-151 requires that the shares be non-transferable in order to be classified as equity. The exchangeable shares issued by Harvest Operations Corp. are transferable and, in accordance with EIC-151, have been reclassified to non-controlling interest on the consolidated balance sheet. In addition, a portion of consolidated income or loss before non-controlling interest is reflected as a reduction to such income or loss in the Trust’s consolidated statement of income. Prior periods have been retroactively restated.

Variable Interest Entities (“VIEs”)

In June 2003, the CICA issued Accounting Guideline 15 “Consolidation of Variable Interest Entities” (“AcG-15”). AcG-15 defines VIEs as entities in which either: the equity at risk is not sufficient to permit that entity to finance its activities without additional financial support from other parties; or equity investors lack voting control, an obligation to absorb expected losses or the right to receive expected residual returns. AcG-15 harmonizes Canadian and U.S. GAAP and provides guidance for companies consolidating VIEs in which it is the primary beneficiary. The guideline is effective for all annual and interim periods beginning on or after November 1, 2004. We have performed a review of entities in which Harvest has an interest and have determined that we do not have any variable interest entities at this time.

Recent Canadian Accounting and Related Pronouncements

In an effort to harmonize Canadian GAAP with U.S. GAAP, the Canadian Accounting Standards Board has recently issued new Handbook sections:

- 1530, Comprehensive Income;
- 3855, Financial Instruments – Recognition and Measurement; and
- 3865, Hedges.

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives. Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- certain financial instruments that qualify for hedge accounting.

Sections 3855 and 3865 make use of the term “other comprehensive income”. Other comprehensive income comprises revenues, expenses, gains and losses that are excluded from net income. Unrealized gains and losses on qualifying hedging instruments, unrealized foreign exchange gains and losses, and unrealized gains and losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standard. These standards are effective for interim and annual

financial statements relating to fiscal years beginning on or after October 1, 2006. As we do not apply hedge accounting to any of our derivative instruments, we do not expect these pronouncements to have a significant impact on our consolidated financial results.

Non-Monetary Transactions

The AcSB has approved revisions to Section 3830, Non-Monetary Transactions, that require all non-monetary transactions to be measured at fair market value unless:

- the transaction lacks commercial substance;
- the transaction is an exchange of production or property held for sale in the ordinary course of business for production or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;
- neither the fair value of the assets or services received nor the fair value of the assets or services given up is reliably measurable; or
- the transaction is a non-monetary, non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation.

The new requirements apply to non-monetary transactions, initiated in periods beginning on or after January 1, 2006. Earlier adoption is permitted as of the beginning of a period beginning on or after July 1, 2005. We do not expect the adoption of this section will have any material impact on our results of operations or financial position.

Operational and Other Business Risks

Our operational and other business risks are substantially the same as those presented in our 2004 annual MD&A.

Key Performance Indicators and Outlook

We have indicated guidance on full year 2005 performance measures elsewhere in this MD&A.

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 geographic areas that can support sustainable distributions and growth in net asset value per Unit.

It is important to note that any future guidance provided is based upon management's current expectations. The ultimate results may vary, perhaps materially.

Additional information on Harvest Energy Trust, including our most recently filed Annual Information Form and annual report, can be accessed from SEDAR at www.sedar.com or from our website at www.harvestenergy.ca.

Harvest Energy Trust

Consolidated Balance Sheets

(thousands of Canadian dollars, except per Trust Unit amounts)

	June 30, 2005	(Restated, Note 2) December 31, 2004
Assets		
Current assets		
Accounts receivable	\$ 66,329	\$ 44,028
Current portion of derivative contracts [Note 10]	9,809	8,861
Prepaid expenses and deposits	45,929	3,014
Future income tax	9,963	3,101
	132,030	59,004
Deferred charges [Note 10]	13,734	25,540
Long term portion of derivative contracts [Note 10]	3,608	3,710
Capital assets	924,588	918,397
Goodwill	43,832	43,832
	\$ 1,117,792	\$ 1,050,483
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities [Note 3]	\$ 101,672	\$ 76,251
Cash distribution payable	8,754	8,358
Current portion of derivative contracts [Note 10]	38,291	27,927
Bank debt	-	75,519
	148,717	188,055
Bank debt	138,090	-
Deferred gains [Note 10]	1,287	2,177
Long term portion of derivative contracts [Note 10]	52,603	-
Convertible debentures [Notes 1, 2 and 9]	10,723	25,750
Senior notes	306,350	300,500
Asset retirement obligation [Note 4]	94,042	90,085
Future income tax	14,806	37,772
	766,618	644,339
Non-controlling interest [Notes 1,2 and 8]	3,489	6,895
Unitholders' equity		
Unitholders' capital [Note 6]	499,836	465,524
Equity component of convertible debentures [Note 9]	60	116
Accumulated income	7,165	30,719
Accumulated distributions	(159,376)	(97,110)
	347,685	399,249
	\$ 1,117,792	\$ 1,050,483

Commitments, contingencies and guarantees [Note 13]

Subsequent Events [Note 14]

See accompanying notes to these consolidated financial statements.

Harvest Energy Trust
Consolidated Statements of Income and Accumulated Income
(thousands of Canadian dollars, except per Trust Unit amounts)

		<i>(Restated, Note 2)</i>		<i>(Restated, Note 2)</i>
	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Revenue				
Oil and natural gas sales	\$ 143,218	\$ 53,295	\$ 273,044	\$ 100,790
Royalty expense, net	(22,955)	(8,834)	(42,850)	(17,031)
	120,263	44,461	230,194	83,759
Expenses				
Operating	28,635	14,306	55,983	28,179
General and administrative	6,606	1,701	12,075	3,080
Interest on short-term debt	2,878	964	5,369	2,412
Interest on long-term debt	6,907	1,436	13,778	2,436
Depletion, depreciation and accretion	37,408	12,824	78,975	24,940
Foreign exchange loss (gain)	3,248	(1,222)	5,367	(1,290)
Derivative contracts <i>[Note 10]</i>	18,256	15,784	111,649	30,131
	103,938	45,793	283,196	89,888
Income(loss) before taxes and non-controlling interest	16,325	(1,332)	(53,002)	(6,129)
Taxes				
Large corporations tax	478	120	755	136
Future income tax recovery	(3,789)	(1,603)	(29,828)	(4,166)
Net income (loss) before non-controlling interest	19,636	151	(23,929)	(2,099)
Non-controlling interest <i>[Notes 1, 2 and 8]</i>	120	-	(375)	-
Net income (loss)	19,516	151	(23,554)	(2,099)
Accumulated (loss) income, beginning of period	(12,351)	17,228	30,719	19,478
Accumulated income, end of period	\$ 7,165	\$ 17,379	\$ 7,165	\$ 17,379
Net income (loss) per trust unit, basic <i>[Note 6]</i>	\$ 0.45	\$ 0.01	\$ (0.55)	\$ (0.12)
Net income (loss) per trust unit, diluted <i>[Note 6]</i>	\$ 0.44	\$ 0.01	\$ (0.56)	\$ (0.12)

See accompanying notes to these consolidated financial statements.

Harvest Energy Trust
Consolidated Statements of Cash Flows
(thousands of Canadian dollars, except per Trust Unit amounts)

		(Restated, Note 2)		(Restated, Note 2)
	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Cash provided by (used in)				
Operating Activities				
Net income(loss) for the period	\$ 19,516	\$ 151	\$ (23,554)	\$ (2,099)
Items not requiring cash				
Depletion, depreciation and accretion	37,408	12,824	78,975	24,940
Unrealized foreign exchange loss (gain)	3,681	(697)	5,791	(765)
Amortization of deferred finance charges	1,638	714	3,285	1,540
Unrealized (gain) loss on derivative contracts	(5,093)	4,241	69,576	9,731
Non-cash interest expense	77	1	155	1
Future income tax expense (recovery)	(3,789)	(1,603)	(29,828)	(4,166)
Non-controlling interest	120	-	(375)	-
Non-cash unit right compensation expense	3,659	208	5,879	391
	57,217	15,839	109,904	29,573
Settlement of asset retirement obligation	(663)	(89)	(1,164)	(153)
Change in non-cash working capital [Note 11]	(6,983)	137	(55,677)	(2,158)
	49,571	15,887	53,063	27,262
Financing Activities				
Trust unit issue costs	-	(59)	(88)	(131)
Issue of equity bridge notes	-	25,000	-	25,000
Repayment of equity bridge notes [Notes 5 and 12]	-	-	-	(25,000)
Issuance of convertible debentures [Note 9]	-	-	-	60,000
Issue costs for convertible debentures	-	-	-	(2,667)
Financing costs	(30)	(22)	(534)	(22)
Net increase in bank debt	34,425	48,211	62,571	23,104
Cash distributions	(24,582)	(8,447)	(45,028)	(17,502)
Change in non-cash working capital [Note 11]	(5,992)	(514)	(313)	(228)
	3,821	64,169	16,608	62,554
Investing Activities				
Additions to capital assets	(26,154)	(8,323)	(49,377)	(18,513)
Property acquisitions	(26,183)	(273)	(30,842)	(2,127)
Property dispositions	1,212	-	1,212	-
Acquisition of Storm Energy Ltd.	-	(75,000)	-	(75,000)
Change in non-cash working capital [Note 11]	(2,267)	3,540	9,336	5,824
	(53,392)	(80,056)	(69,671)	(89,816)
Increase in cash and short-term investments	-	-	-	-
Cash (bank indebtedness), beginning of period	-	-	-	-
Cash (bank indebtedness), end of period	\$ -	\$ -	\$ -	\$ -
Cash interest payments	\$ 2,878	\$ 2,203	\$ 4,216	\$ 2,721
Cash tax payments	\$ 275	\$ 50	\$ 346	\$ 66
Cash distributions declared per trust unit	\$ 0.60	\$ 0.60	\$ 1.20	\$ 1.20

See accompanying notes to these consolidated financial statements.

Harvest Energy Trust
Notes to Consolidated Financial Statements
Period ended June 30, 2005

(Tabular amounts in thousands of Canadian dollars, except where noted)

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 consolidated financial statements of the Trust for the year ended December 31, 2004 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, its wholly owned subsidiaries and its proportionate interest in a partnership with a third party.

a) Convertible debentures

The Trust presents its convertible debentures in their debt and equity component parts, where applicable, as follows:

- (i) The debt component represents the total discounted present value of the semi-annual interest obligations to be satisfied by cash and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. Typically, this results in a lower accounting value assigned to the debt component of the convertible debentures compared to the principal amount due at maturity. The debt component amount presented on the balance sheet increases over the term of the relevant debenture to the full face value of the outstanding debentures. The difference is reflected as increased interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the convertible debenture.
- (ii) The equity component of the convertible debentures is presented under “Unitholders’ Equity” in the consolidated balance sheets. The equity component represents the value ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures. Upon conversion of the debentures into units by the holders, a proportionate amount is transferred to Unitholders’ capital.

b) Non-controlling interest

Non-controlling interest represents the exchangeable shares issued by a subsidiary of the Trust to third parties which are ultimately only exchangeable for units of the Trust. These exchangeable shares were issued as partial consideration for the acquisition of Storm Energy Ltd. in 2004. Non-controlling interest on the consolidated balance sheet is recognized based on the fair value of the exchangeable shares on issuance together with a portion of the Trust’s accumulated earnings or loss attributable to the non-controlling interest subsequent to their issuance. Net income or loss is reduced for the portion of earnings attributable to the non-controlling interest. As the exchangeable shares are converted to Trust Units, the non-controlling interest on the consolidated balance sheet is reduced on a pro-rata basis together with a corresponding increase in Unitholders’ capital.

Harvest Energy Trust
Notes to Consolidated Financial Statements
Period ended June 30, 2005

(Tabular amounts in thousands of Canadian dollars, except where noted)

2. Changes in accounting policy

a) Financial Instruments

On January 1, 2005, the Trust retroactively adopted the amendment to the Canadian Institute of Chartered Accountants (“CICA”) handbook section 3860 “*Financial Instruments – Disclosure and Presentation*” (“Section 3860”). These changes require that fixed-amount contractual obligations that can be settled by issuing a variable number of equity instruments be classified as liabilities. The convertible debentures and the equity bridge notes previously issued by the Trust have characteristics that meet the noted criteria.

Convertible debentures

The convertible debentures may be redeemed at the option of the Trust on or after a predetermined date, and may, at the option of the Trust, be redeemed through the issuance of units. The number of units issued varies depending on the weighted average market price of the units for the preceding 20 consecutive trading days, five days prior to the settlement date.

The convertible debentures also have an option that allows the holder to convert the debentures into a fixed number of units. In accordance with CICA handbook section 3860, the convertible debentures have been reclassified from equity to long term debt with a portion, representing the value of the equity conversion feature, remaining in equity.

Equity bridge notes

Under the terms of the equity bridge notes, the interest and principal may have, at the option of the Trust, been repaid in Trust Units. The number of Trust Units issued would have been dependent on the market value of the units at the time of issue. As at June 30, 2004, \$25 million of equity bridge notes were outstanding and at December 31, 2004 there were no equity bridge notes payable. For the three and six month periods ended June 30, 2004 and the year ended December 31, 2004, interest payments were made related to these notes. In accordance with the amended CICA handbook section 3860, these notes would have been classified as debt rather than equity. The interest associated with these notes has been reflected in these consolidated financial statements as a direct charge to income rather than to equity as it was previously classified.

b) Exchangeable shares

On January 19, 2005, the CICA issued EIC-151 “*Exchangeable Securities Issued by Subsidiaries of Income Trusts*” (“EIC-151”) that states that equity interests held by third parties in subsidiaries of an income trust should be reflected as either non-controlling interest or debt in the consolidated balance sheet unless they meet certain criteria. EIC-151 requires that the shares be non-transferable in order to be classified as equity. The exchangeable shares issued by Harvest Operations Corp. (the “Corporation”) are transferable and, in accordance with EIC-151, have been reclassified to non-controlling interest on the consolidated balance sheets. In addition, a provision for non-controlling interest is reflected in the consolidated statements of income. Prior periods have been retroactively restated to reflect this presentation.

Harvest Energy Trust
Notes to Consolidated Financial Statements
Period ended June 30, 2005

(Tabular amounts in thousands of Canadian dollars, except where noted)

c) Impact of changes in accounting policy

Balance sheet	As reported December 31, 2004	Change upon adoption of CICA Section 3860	Change upon adoption of EIC -151	As restated December 31, 2004
Deferred charges	\$ 24,507	\$ 1,033	\$ -	\$ 25,540
Convertible debentures - debt	-	25,750	-	25,750
Non-controlling interest	-	-	6,895	6,895
Unitholders' capital	465,131	335	58	465,524
Exchangeable shares	6,728	-	(6,728)	-
Convertible debentures-equity	24,696	(24,580)	-	116
Accumulated income	31,416	(472)	(225)	30,719

Income statement	Three months ended June 30, 2004	Six months ended June 30, 2004
Interest on long-term debt - as reported	\$ -	\$ -
Add: interest on convertible debentures	1,315	2,233
Add: amortization of deferred financing costs	121	203
Interest on long-term debt - as restated	\$ 1,436	\$ 2,436

Income statement	Three months ended June 30, 2004	Six months ended June 30, 2004
Interest on short-term debt - as reported	\$ 364	\$ 883
Add: interest on equity bridge notes	7	192
Add: amortization of deferred financing costs ⁽¹⁾	593	1,337
Interest on short-term debt - as restated	\$ 964	\$ 2,412

(1) Previously classified as finance charges

Net income (loss)	Three months ended June 30, 2004	Six months ended June 30, 2004
Net income - as reported	\$ 1,594	\$ 529
Less: amortization of deferred financing costs	(121)	(203)
Less: interest on equity bridge notes	(7)	(192)
Less: interest on convertible debentures	(1,315)	(2,233)
Net income (loss) - as restated	\$ 151	\$ (2,099)

Income (loss) per unit	Three months ended June 30, 2004	Six months ended June 30, 2004
Basic as reported	\$ 0.02	\$ (0.11)
Basic as restated	0.01	(0.12)
Diluted as reported	0.02	(0.11)
Diluted as restated	0.01	(0.12)

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3. Accounts payable and accrued liabilities

	June 30, 2005	December 31, 2004
Trade accounts payable	\$ 25,104	\$ 13,697
Accrued interest	5,680	5,993
Trust unit incentive plans	16,688	9,774
Premium on derivative contracts	3,077	4,500
Accrued closing adjustments on asset acquisition	-	13,546
Other accrued liabilities	49,581	27,139
Large corporations tax payable	1,542	1,602
	\$ 101,672	\$ 76,251

4. Asset retirement obligation

The Trust's asset retirement obligation results from its 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 its asset retirement obligation is approximately \$337 million, the majority of which will be settled between 2015 and 2023. A credit-adjusted risk-free rate of 10 percent was used to calculate the fair value of the asset retirement obligation on the consolidated balance sheet.

A reconciliation of the asset retirement obligation is provided below:

	Three months ended June 30, 2005	Three months ended June 30, 2004
Balance, beginning of period	\$ 92,009	\$ 42,743
Revision of estimates	45	-
Liabilities incurred	304	6,478
Liabilities settled	(663)	(89)
Accretion expense	2,347	875
Balance, end of period	\$ 94,042	\$ 50,007

	Six months ended June 30, 2005	Six months ended June 30, 2004	Year ended December 31, 2004
Balance, beginning of period	\$ 90,085	\$ 42,009	\$ 42,009
Revision of estimates	45	-	(8,704)
Liabilities incurred	435	6,477	53,488
Liabilities settled	(1,164)	(153)	(929)
Accretion expense	4,641	1,674	4,221
Balance, end of period	\$ 94,042	\$ 50,007	\$ 90,085

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5. Equity bridge notes

No equity bridge notes were outstanding at June 30, 2005.

On June 29, 2004, the Trust drew \$25 million under an equity bridge note agreement with a corporation controlled by a director of the Corporation. Interest in respect of the equity bridge notes accrues at 10% per annum and is a charge to income.

On January 26 and 29, 2004, the Trust repaid two equity bridge notes outstanding in the amounts of \$7.4 million and \$17.6 million, respectively. During the six months ended June 30, 2004, the Trust also paid accrued and outstanding interest in the amount of \$850,300.

6. Unitholders' capital

(a) Authorized

The authorized capital consists of an unlimited number of Trust Units.

(b) Issued

	Number of Trust Units (000s)	Amount (restated Note 2)
As at December 31, 2003	17,109	\$ 117,407
Issued pursuant to corporate acquisition	2,721	40,183
Conversion of subscription receipts	12,167	175,200
Convertible debenture conversions-9% series	3,521	49,287
Convertible debenture conversions-8% series	5,221	84,226
Equity component of convertible debenture conversions-9% series	-	14
Equity component of convertible debenture conversions-8% series	-	632
Exchangeable share retraction	152	2,200
Distribution reinvestment plan issuance	752	12,553
Unit appreciation rights exercise	145	721
Trust unit issue costs	-	(16,899)
As at December 31, 2004	41,788	\$ 465,524
Convertible debenture conversions-9% series	571	7,916
Convertible debenture conversions-8% series	442	7,118
Equity component of convertible debenture conversions-9% series	-	2
Equity component of convertible debenture conversions-8% series	-	54
Exchangeable share retraction	234	3,031
Distribution reinvestment plan issuance	272	6,164
Special distribution	465	10,678
Trust unit issue costs	-	(651)
As at June 30, 2005	43,772	\$ 499,836

On February 28, 2005, the Trust declared a special distribution of 2004 income to be made to unitholders' effective as at December 31, 2004. The special distribution was paid in units, with each unitholder of record on March 31, 2005 receiving 0.01098 of a Trust Unit per Trust unit held on that date.

(c) Per Trust Unit information

The following table summarizes the Trust Units and net income (loss) used in calculating income (loss) per Trust Unit:

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<i>Net income adjustments:</i>				
	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net income (loss), basic	19,516	151	(23,554)	(2,099)
Non-controlling interest	-	-	(375)	-
Net income (loss), diluted ⁽¹⁾	19,516	151	(23,929)	(2,099)

<i>Weighted average Trust Unit adjustments:</i>				
Number of units (000s)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Weighted average Trust Units				
outstanding, basic	43,327	17,382	42,734	17,281
Effect of exchangeable shares	-	7	326	-
Effect of unit appreciation rights	926	420	-	-
Weighted average Trust Units				
outstanding, diluted ⁽¹⁾	44,253	17,809	43,060	17,281

Note 1 Weighted average Trust Units, diluted, does not include the impact of the conversion of the convertible debentures as the impact would be anti-dilutive. Total units excluded amount to 182 and 1,280 for the three and six month period ended June 30, 2005, respectively (4,189 and 4,220 - for the three months and six months ended June 30, 2004). Weighted average Trust Units, diluted, for the six months ended June 30, 2005 and 2004 do not include the impact of the Trust Unit appreciation rights as the impact would be anti-dilutive. Total Units excluded were 813 (393 - six months ended June 30, 2004). Weighted average Trust Units, diluted, for the three month period ended June 30, 2005 and the six months ended June 30, 2004 excludes the impact of exchangeable shares as the impact would be anti-dilutive. Total units excluded were 262 and 3 respectively.

7. Trust Unit incentive plans

As at June 30, 2005, a total of 1,538,525 unit appreciation rights were outstanding under the regular Trust Unit incentive plan at an average exercise price of \$13.51. This represents 3.5% of the total Trust Units outstanding.

For the three and six month periods ended June 30, 2005, the Trust incurred non-cash compensation costs related to this incentive plan of \$4.1 million and \$6.7 million, respectively (\$208,000 and \$391,000 - three and six month periods ended June 30, 2004, respectively). For the three months ended June 30, 2005, \$3.5 million (\$208,000 - June 30, 2004) of this amount was expensed and reflected as general and administrative costs in the statement of income, and \$683,000 (nil - June 30, 2004) of costs associated with personnel whose compensation is reflected in capital asset costs was capitalized. For the six months ended June 30, 2005 \$5.7 million (\$391,000 - June 30, 2004) was expensed and \$1 million (nil - June 30, 2004) was capitalized.

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The following summarizes the Trust Units reserved for issuance under the Trust Unit incentive plan:

	Six months ended June 30, 2005		Year ended December 31, 2004	
	Number of Unit Appreciation Rights	Weighted Average Exercise Price	Number of Unit Appreciation Rights	Weighted Average Exercise Price
Outstanding, beginning of period	1,117,725	\$ 11.92	1,065,150	\$ 9.04
Granted	473,575	24.53	445,600	16.47
Exercised	(18,850)	12.63	(253,750)	8.30
Cancelled	(33,925)	17.94	(139,275)	10.91
Outstanding before exercise price reductions	1,538,525	15.66	1,117,725	11.92
Exercise price reductions	-	(2.15)	-	(1.83)
Outstanding, end of period	1,538,525	\$ 13.51	1,117,725	\$ 10.09
Exercisable before exercise price reductions	230,888	\$ 9.45	206,688	\$ 8.89
Exercise price reductions	-	(3.39)	-	(2.64)
Exercisable, end of period	230,888	\$ 6.06	206,688	\$ 6.25

The following table summarizes information about unit appreciation rights outstanding at June 30, 2005.

Exercise Price before price reductions	Exercise Price net of price reductions	Number Outstanding at June 30, 2005	Exercise Price net of price reductions^(a)	Remaining Contractual Life (Years)^(a)	Number Exercisable at June 30, 2005	Exercise Price net of price reductions^(a)
\$8.00 - 10.21	\$4.26 - \$6.94	506,500	\$ 4.34	2.4	162,125	\$ 4.31
\$10.30 - \$13.15	\$7.06 - \$10.66	186,525	9.26	3.2	43,838	8.75
\$13.35 - \$17.95	\$11.05 - \$16.55	270,350	13.53	4.0	24,925	12.70
\$18.55 - \$25.68	\$17.23 - \$24.96	575,150	22.97	4.7	-	n/a
\$8.00 - \$25.68	\$4.26 - \$24.96	1,538,525	\$ 13.51	3.6	230,888	\$ 6.06

^(a) Based on weighted average unit appreciation rights outstanding

When the Trust adopted the fair value method of accounting for its Trust Unit incentive plan on January 1, 2003, it was required to calculate the pro forma impact of having adopted that method from the date all rights were initially granted.

For purposes of those calculations the fair value of each Trust Unit right has been estimated on the grant date using the following:

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

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As at June 30, 2004 for the purposes of pro forma disclosures, the expense related to all of the Trust Unit rights issued prior to December 31, 2002 is reflected in pro forma net income as shown below:

		<i>(Restated Note 2)</i> Three Months Ended June 30, 2004	<i>(Restated Note 2)</i> Six Months Ended June 30, 2004
Net income (loss)	As reported	\$ 151	\$ (2,099)
	Pro forma	(232)	(2,864)
Income (loss) per unit – basic	As reported	\$ 0.01	\$ (0.12)
	Pro forma	\$ (0.01)	\$ (0.17)
Income (loss) per unit – diluted	As reported	\$ 0.01	\$ (0.12)
	Pro forma	\$ (0.01)	\$ (0.17)

Unit Award Incentive Plan

At June 30, 2005, 31,441 units were outstanding under the Unit Award Incentive Plan. The Trust recorded compensation expense of \$201,000 and \$239,000 for the three and six month period ended June 30, 2005, respectively (nil – three and six month period ended June 30, 2004) related to this plan.

Number	Six Months Ended June 30, 2005	Year ended December 31, 2004
Outstanding, beginning of period	10,662	-
Granted	20,248	15,000
Adjusted for distributions	531	662
Cancelled	-	(5,000)
Outstanding, end of period	31,441	10,662

8. Exchangeable shares

(a) Authorized

Harvest Operations Corp., a wholly-owned subsidiary of the Trust, is authorized to issue an unlimited number of exchangeable shares without nominal or par value.

(b) Issued

Exchangeable shares, series 1 (Number)	Six Months Ended June 30, 2005	Year Ended December 31, 2004
Outstanding, beginning of period	455,547	-
Issued pursuant to corporate acquisition	-	600,587
Shareholder retractions	(215,536)	(145,040)
Outstanding, end of period	240,011	455,547
Exchange ratio at end of period	1.11928	1:1.06466

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The Trust retroactively applied EIC-151 “Exchangeable Securities Issued by a Subsidiary of an Income Trust” at January 1, 2005. The non-controlling interest on the consolidated balance sheet consists of the fair value of the exchangeable shares upon issuance plus the accumulated earnings attributable to such non-controlling interest less conversions to date. The non-controlling interest on the statement of income represents the share of net income or loss attributable to the non-controlling interest based on the Trust Units issuable for exchangeable shares in proportion to total Trust Units issued and issuable at each period end.

The following is a summary of the non-controlling interest:

	June 30, 2005	December 31, 2004 (restated)
Non-controlling interest, beginning of period	\$ 6,895	\$ -
Issue of exchangeable shares	-	8,870
Exchanged for Trust Units	(3,031)	(2,200)
Current period (loss) income attributable to non-controlling interest	(375)	225
Non-controlling interest, end of period	3,489	6,895
Accumulated (loss) income attributable to non-controlling interest	(150)	225

9. Convertible debentures

The following is a summary of certain terms of the Trust’s outstanding series of convertible debentures:

Issue date	Interest rate	Original face value	Conversion price ^(a)	Maturity	Earliest redemption date
January 29, 2004	9%	\$60 million	\$13.85 per trust unit	May 31, 2009	May 31, 2007
August 10, 2004	8%	\$100 million	\$16.07 per trust unit	September 30, 2009	September 30, 2007

(a) The conversion price for the 9% debentures and the 8% debentures changed from \$14.00 and \$16.25 per unit respectively, as a result of the special distribution described in Note 6.

See Note 14 regarding subsequent issue of additional convertible debentures.

As at January 1, 2005, the Trust adopted the amended CICA Handbook Section 3860 relating to the classification of liabilities that may be settled with a variable number of equity instruments such as Trust Units. The adoption has resulted in the convertible debentures being classified as debt rather than equity, with a portion remaining in equity representing the value of the conversion feature. As the debentures are converted, a portion of the debt and equity amounts are transferred to Unitholders’ capital. The debt balance associated with the convertible debentures accretes over time to the amount owing on maturity and such increases in the debt balance are reflected as non-cash interest expense in the statement of income.

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

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	9% Series		8% Series		Total
	Number of debentures	Amount	Number of debentures	Amount	Amount
January 29, 2004 issuance	60,000	\$ 60,000	-	-	\$ 60,000
August 10, 2004 issuance	-	-	100,000	\$ 100,000	100,000
Portion allocated to equity	-	(17)	-	(745)	(762)
Accretion of non-cash interest expense	-	2	-	23	25
Converted into Trust Units	(49,300)	(49,287)	(84,841)	(84,226)	(133,513)
As at December 31, 2004	10,700	\$ 10,698	15,159	\$ 15,052	\$ 25,750
Accretion of non-cash interest expense	-	-	-	7	7
Converted into Trust Units	(7,917)	(7,916)	(7,167)	(7,118)	(15,034)
As at June 30, 2005	2,783	\$ 2,782	7,992	\$ 7,941	\$ 10,723

The following table summarizes the reclassification of the equity component of convertible debentures to Unitholders' capital:

	9% Series	8% Series	Total
	Equity Value	Equity Value	
January 29, 2004 issuance	\$ 17	\$ -	\$ 17
August 10, 2004 issuance	-	745	745
Converted into Trust Units	(14)	(632)	(646)
As at December 31, 2004	\$ 3	\$ 113	\$ 116
Converted into Trust Units	(2)	(54)	(56)
As at June 30, 2005	\$ 1	\$ 59	\$ 60

10. Financial instruments

The Trust is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations.

(a) Interest Rate Risk

The Trust is exposed to interest rate risk on its bank debt; the Trust's other debt has fixed interest rates.

(b) Credit Risk

Substantially all accounts receivable are due from customers in the oil and natural gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad customer base, including a number of companies engaged in joint operations with the Trust. The Trust periodically assesses the financial strength of its partners and customers, including parties involved in marketing or other commodity arrangements. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

(c) Foreign Exchange Rate Risk

The Trust is exposed to the risk of changes in the Canadian/US dollar exchange rate on sales of commodities that are denominated in US dollars or directly influenced by US dollar benchmark prices. In addition, the Trust's senior notes are denominated in US dollars (US\$250 million). These notes act as an economic hedge to help offset the impact of exchange rate movements on commodity sales during the year. As at June 30, 2005 the full balance of the

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notes is still outstanding and is not repayable until October 15, 2011. Interest is payable semi-annually on the notes in US dollars.

(d) Commodity Risk

The Trust is exposed to fluctuations in prices for oil and natural gas and the differentials between prices received for light oil versus those received for medium and heavy gravity oil. The Trust uses derivative financial instruments to manage its commodity price exposure. Under the terms of certain of the derivative instruments, the Trust is required to provide security if the contracts favour the counterparty. The Trust is also exposed to counterparty risk on balances due if the contracts favour the Trust. This risk is managed by diversifying the Trust's derivative portfolio among a number of counterparties and by dealing with large investment grade institutions.

The following is a summary of the oil sales price derivative contracts as at June 30, 2005.

Oil price swap contracts based on West Texas Intermediate

Daily Quantity	Term	Price per Barrel (U.S.\$)	Mark to Market Gain (Loss)
500 bbl/d	July through December 2005	\$24.00	\$ (3,943)

Participating swap contracts based on West Texas Intermediate

8,750 bbl/d	January – December 2006	\$38.16 ^(b)	\$ (38,459)
5,000 bbl/d	July – December 2006	\$45.17 ^(b)	(6,286)
5,000 bbl/d	January 2006 – June 2007	\$49.03 ^(c)	(1,004)

Oil price collar contracts based on West Texas Intermediate

1,500 bbl/d	July through December 2005	\$28.17 – 32.10 (\$22.33) ^(a)	\$ (9,095)
2,000 bbl/d	July through December 2005	\$28.00 – 42.00	(7,653)

(a) *The Trust 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.*

(b) *This price is a floor. The Trust realizes this price plus 50% of the difference between spot price and this price.*

(c) *This price is a floor. The Trust realizes this price plus 75% of the difference between spot price and this price.*

Oil price indexed put contracts based on West Texas Intermediate

Daily Quantity	Term	Type	Price per Bbl (U.S.\$)	Mark to Market Gain (Loss)
4,000 bbl/d	July - December 2005	Long Put	\$30.00	\$ 1
1,972 bbl/d	July - December 2005	Short Call	\$30.00	(12,967)
1,972 bbl/d	July - December 2005	Long Call	\$40.00	8,583
7,000 bbl/d	July - December 2005	Long Put	\$35.00 ⁽²⁾	\$ (246)
2,380 bbl/d	July - December 2005	Short Call	\$35.00	(12,998)
2,380 bbl/d	July - December 2005	Long Call	\$45.00	7,773
7,500 bbl/d	July - December 2005	Long Put	\$40.00	\$ 73
3,675 bbl/d	July - December 2005	Short Call	\$40.00	(15,992)
3,675 bbl/d	July - December 2005	Long Call	\$50.00	8,207
7,500 bbl/d	January - June 2006	Long Put	\$34.00	\$ 666
3,750 bbl/d	January - June 2006	Short Call	\$34.00	(22,839)
3,750 bbl/d	January - June 2006	Long Call	\$44.00	15,319

(1) *Each group of a long put, short call and a long call reflect an "indexed put option". These series of puts and calls serve to fix a floor price while retaining upward price exposure on a portion of price movements above the floor price.*

(2) *Harvest pays a premium of U.S.\$1.00 per Bbl on 7,000 Bbl/d for each month in which WTI exceeds U.S.\$50.00/Bbl.*

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Oil price differential swap contract based on Bow River Crude Blend			
Daily Quantity	Term	Percent of WTI (%)	Mark to Market Gain
4,000 bbl/d	July 2005 – June 2006	29.9	\$ 2,034
5,000 bbl/d	July 2005 – June 2006	27.5	\$ 2,368
4,000 bbl/d	July 2006 – December 2006	29.58	\$ 466
Oil price differential swap contract based on Wainwright Crude Blend			
1,000 bbl/d	July 2005 – June 2006	29.9	\$ 509
1,000 bbl/d	July 2006 – December 2006	29.58	\$ 117

The following is a summary of electricity price physical and financial swap contracts entered into by Harvest to fix the cost of future electricity usage as well as a put option related to the US/Canadian dollar exchange rate as at June 30, 2005.

Swap contracts based on electricity prices			
Weighted Average Quantity	Term	Average Price per Megawatt	Mark to Market Gain
24.8 MWH	July through December 2005	Cdn \$47.43	\$ 4,305
29.9 MWH	January through December 2006	Cdn \$47.51	3,025

Swap contracts based on electricity heat rate			
Quantity	Term	Heat Rate	Mark to Market Loss
5 MW	July through December 2005	8.40 GJ/MWh	\$ (34)

Natural Gas Contracts			
Quantity	Term	Price per GJ	Mark to Market Gain
1,008 GJ/day	July through December 2005	7.59/GJ	285

The following is a derivative contract utilized to mitigate the impact of a strengthening Canadian dollar.

Foreign currency contract				
Monthly Contract Amount	Term	Type	Contract Rate	Mark to Market Gain
U.S. \$8.33 million	July through December 2005	Long Put	1.20 Cdn / US	\$ 308

At June 30, 2005, the net unrealized loss position reflected on the balance sheet for all the financial derivative contracts outstanding at that date was approximately \$77.5 million.

For the three and six month periods ended June 30, 2005, the total unrealized (gain)loss recognized in the statement of income, including amortization of deferred charges and gains, was \$(5.1) million (\$4.2 million – three months ended June 30, 2004) and \$69.6 million (\$9.7 million – six months ended June 30, 2004), respectively. The realized gains and losses on all derivative contracts are included in the period in which they are incurred. Both of these amounts are reflected in gains and losses on derivative contracts on the statement of income.

At October 1, 2004, the Trust discontinued hedge accounting for all of its derivative financial instruments. For those contracts where hedge accounting had previously been applied, a deferred charge or gain was recorded equal to the fair

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value of the contracts at the time hedge accounting was discontinued with a corresponding amount recorded in the derivative contracts balance. The deferred charge or gain is subsequently recognized in income in the period in which the underlying transaction is recognized.

For the three and six month periods ended June 30, 2005, \$4.0 million and \$8.3 million, respectively (nil – three months ended June 30, 2004 and \$5.5 million-six months ended June 30, 2004) of the deferred charge and \$445,000 and \$890,000, respectively (nil – three months ended June 30, 2004 and nil – six months ended June 30, 2004) of the deferred gain has been amortized and recorded in gains and losses on derivative contracts in the statement of income. At June 30, 2005, \$2.4 million (\$10.8 million – December 31, 2004) and \$1.3 million (\$2.2 million – December 31, 2004) has been recorded as a deferred charge and a deferred gain, respectively on the balance sheet relating to derivatives.

Deferred finance charges – asset	Six Months Ended June 30, 2005	Year Ended December 31, 2004
Balance, beginning of period	\$ 25,540	\$ 1,989
Deferred charge related to derivative contracts recorded upon adoption of AcG-13	-	5,490
Deferred charge related to derivative contracts recorded upon discontinuing hedge accounting	-	20,215
Discount on senior notes	-	2,075
Financing costs incurred	534	20,971
Financing costs transferred to share issue costs on conversion of debentures	(563)	(5,721)
Amortization of deferred charges related to derivative contracts ⁽¹⁾	(8,344)	(14,946)
Interest expense	(148)	(75)
Amortization of deferred financing costs ⁽²⁾	(3,285)	(4,458)
Balance, end of period	\$ 13,734	\$ 25,540
	As at June 30, 2005	As at December 31, 2004
Comprised of:		
Derivative asset	\$ 2,415	\$ 10,759
Financing costs	9,467	12,781
Discount on senior notes	1,852	2,000
Balance, end of period	\$ 13,734	\$ 25,540
Deferred gains - liability	Six Months Ended June 30, 2005	Year Ended December 31, 2004
Balance, beginning of period	\$ 2,177	\$ -
Deferred gains related to derivative contracts recorded upon discontinuing hedge accounting	-	2,527
Amortization of deferred gains related to derivative contracts ⁽¹⁾	(890)	(350)
Balance, end of period	\$ 1,287	\$ 2,177

(1) Recorded within gains and losses on derivative contracts.

(2) Recorded within interest expense on long-term debt and short-term debt.

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11. Change in non-cash working capital

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Changes in non-cash working capital items:				
Accounts receivable	\$ (4,653)	\$ (19,161)	\$ (22,301)	\$ (13,689)
Current portion of derivative contracts assets	(4,227)	-	(948)	
Prepaid expenses and deposits	(6,061)	4,657	(42,915)	(2,521)
Accounts payable and accrued liabilities	(101)	24,226	25,421	25,918
Cash distribution payable	224	590	396	624
Current portion of derivative contracts liabilities	(16,976)	-	10,364	-
	\$ (31,794)	\$ 10,312	\$ (29,983)	\$ 10,332
Changes relating to operating activities	\$ (6,983)	\$ 137	\$ (55,677)	\$ (2,158)
Changes relating to financing activities	(5,992)	(514)	(313)	(228)
Changes relating to investing activities	(2,267)	3,540	9,336	5,824
Add: Non-cash changes	(16,552)	7,149	16,671	6,894
	\$ (31,794)	\$ 10,312	\$ (29,983)	\$ 10,332

12. Related party transactions

A director and a corporation controlled by a director of Harvest Operations Corp. were repaid \$25 million under the equity bridge notes during the six month period ended June 30, 2004. The Trust also paid \$850,300 of accrued interest during the period. See Note 5.

A corporation controlled by a director of Harvest Operations Corp. sublets office space from and is provided administrative services by the Trust on a cost recovery basis.

13. Commitments, contingencies and guarantees

From time to time, the Trust is involved in litigation or has claims brought 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.

In the normal course of operations, management may also enter into certain types of contracts that require the Trust to indemnify parties against possible third party claims, particularly when these contracts relate to purchase and sale agreements. The terms of such contracts vary and generally a maximum is not explicitly stated; as such the overall maximum amount of the obligations cannot be reasonably estimated. Management does not believe payments, if any, related to such contracts would have a material affect on the Trust's reported financial position or results from operations.

The Trust has letters of credit outstanding in the amount of approximately \$5 million related to electricity infrastructure usage. These letters are provided pursuant to the secured senior credit facility. These letters expire throughout 2005, and are expected to be renewed as required.

Harvest Energy Trust
Notes to Consolidated Financial Statements
Period ended June 30, 2005

(Tabular amounts in thousands of Canadian dollars, except where noted)

The following is a summary of the Trust's contractual obligations and commitments as at June 30, 2005:

	Remaining Payments Due by Period				Total
	2005	2006 – 2007	2008 – 2009	Thereafter	
Debt repayments ⁽¹⁾	\$ -	\$ 138,090	-	\$ 306,350	\$ 444,440
Operating leases	400	\$ 2,869	\$ 2,869	956	7,094
Total contractual obligations	\$ 400	\$ 140,959	\$ 2,869	\$ 307,306	\$ 451,534

(1) Includes long-term and short-term debt. Assumes that the outstanding convertible debentures are either exchanged at the holders' option for units or are redeemed for units at the Trust's option. The initial maturity of the Trust's bank debt has been extended to July 31, 2006 with a one year term-out option, pursuant to the new credit facility described in Note 14.

14. Subsequent Events

On June 24, 2005, the Trust entered into an agreement to purchase properties located in Northern BC for \$260 million, before working capital adjustments. A \$26 million deposit paid to the vendor as part of this acquisition is included in the capital assets balance at June 30, 2005. This acquisition closed on August 2, 2005 and the Trust's consolidated financial statements will reflect the results from the acquired properties from that date onward. The purchase was financed with the drawings from the Corporation's senior secured credit facility, which was increased in size from \$325 million to \$400 million coincident with the closing of the acquisition.

On August 2, 2005, the Trust completed the issuance of 6,505,600 subscription receipts for gross proceeds of \$175 million and \$75 million principal amount of 6.5% convertible extendible unsecured subordinated debentures. Net proceeds from this financing were used to settle outstanding bank debt under the credit facility.

On August 11, 2005, the Board of Directors of Harvest Operations Corp. approved an increase in monthly cash distributions to \$0.35 per Trust Unit commencing with the August distribution payable September 15, 2005.