



# Third Quarter Report *2012*

For the three and nine month periods ended  
September 30, 2012

**FINANCIAL & OPERATING HIGHLIGHTS:**

C\$ 000's unless otherwise stated	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
<b>FINANCIAL</b>				
Revenues <sup>(1)</sup>	1,275,117	848,239	4,235,065	2,923,854
Cash from operating activities	153,895	161,499	309,855	415,862
Net income (loss)	(38,309)	(49,204)	(183,683)	(30,768)
Bank loan	570,413	256,463	570,413	256,463
Convertible debentures	632,695	510,420	632,695	510,420
Senior notes	480,319	742,890	480,319	742,890
Related party loan	168,109	–	168,109	–
Total financial debt <sup>(2)</sup>	1,851,536	1,509,773	1,851,536	1,509,773
Total assets	6,162,913	6,483,568	6,162,913	6,483,568
<b>UPSTREAM OPERATIONS</b>				
Daily sales volumes (boe/d)	57,686	58,548	59,696	55,758
Average realized price				
Oil and NGLs (\$/bbl) <sup>(3)</sup>	70.71	74.49	73.66	77.67
Gas (\$/mcf)	2.52	3.97	2.30	3.98
Operating netback prior to hedging (\$/boe) <sup>(2)</sup>	26.55	30.96	27.75	33.79
Operating income (loss)	(11,394)	24,232	(48,862)	74,184
Cash contribution from operations <sup>(2)</sup>	133,294	161,372	421,316	467,187
Capital asset additions (excluding acquisitions)	113,912	190,597	477,139	553,747
Property and business acquisitions (dispositions), net	(8,082)	(2,582)	(8,835)	513,327
Decommissioning and environmental remediation expenditures	6,119	5,923	16,079	12,172
Net wells drilled	32.8	55.6	114.1	174.9
Net undeveloped land additions (acres) <sup>(4)</sup>	36,765	36,760	91,852	368,205
<b>DOWNSTREAM OPERATIONS</b>				
Average daily throughput (bbl/d)	84,889	43,357	99,760	60,826
Average refining gross margin (US\$/bbl) <sup>(2)</sup>	6.03	10.06	4.28	9.93
Operating income (loss)	(21,882)	(20,331)	(113,287)	(15,768)
Cash contribution (deficiency) from operations <sup>(2)</sup>	213	2,035	(38,598)	48,363
Capital asset additions	12,886	100,132	32,686	244,752

(1) Revenues are net of royalties and the effective portion of Harvest's realized crude oil hedges.

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

(3) Excludes the effect of risk management contracts designated as hedges.

(4) Excludes carried interest lands acquired in business combinations.

## MESSAGE TO STAKEHOLDERS:

Through the third quarter of 2012, Harvest continued to execute its capital program. In our Upstream operations, drilling focused on oil opportunities and our BlackGold oil sands project continued drilling SAGD producer and injector wells. Our Downstream operations focused on sustaining and reliability projects.

## UPSTREAM OPERATIONS

Upstream production volumes in the third quarter of 2012 averaged 57,686 boe/d. Production volumes decreased 1% compared to the third quarter of 2011 mainly due to a third party gas plant turnaround. For the first nine months of 2012 production volumes were 59,696 boe/d, an increase of 7% compared to the first nine months of 2011. This increase is a result of the full period benefit of the assets acquired from Hunt, the restoration of the Plains Rainbow pipeline in August 2011 and production increases from our capital program, partially offset by the Caroline plant turnaround.

During the third quarter of 2012 Harvest invested \$77.5 million in our conventional and unconventional assets, before BlackGold with the majority allocated to the drilling of 29 gross (25.8 net) wells with a 97% success rate, and the tie-in and completion of wells drilled earlier in 2012. Harvest's drilling activities were focused exclusively on oil development and 28 of the 29 wells were horizontal drills with the most active areas being Heavy Oil and Kindersley. For the first nine months of 2012, excluding BlackGold, Harvest has spent \$357.4 million in capital for the Upstream operations and has drilled 102 gross (88.1 net) wells.

In the third quarter of 2012, operating netback prior to hedging of \$26.55/boe decreased by 14% compared to the third quarter of 2011. For the first nine months of 2012, operating netback prior to hedging was \$27.75/boe, having decreased by 18% when compared to the same period in 2011. Decreases were due to lower realized commodity prices of \$52.02/boe and \$53.85/boe prior to hedging for the third quarter and first nine months of 2012, a 10% and 12 % decrease respectively compared to the same periods in 2011, and was partially offset by decreases in royalties and transportation costs.

## BlackGold Project

During the third quarter of 2012, \$36.4 million of the Upstream capital was used in the further development of the BlackGold oil sands project.

The BlackGold project designed Phase 1 with 30 SAGD wells (15 well pairs) of which 26 have been drilled to the end of the third quarter of 2012. The remaining 4 wells were drilled subsequent to the third quarter in October 2012. Engineering of the project is now approximately 80% complete and the site has been cleared and graded and now piling and foundation work is underway. Other near-term activities include completion of the detailed engineering work, delivery of equipment and modules to the site and the site construction. Phase 2 of the project, which is targeted to increase production capacity to 30,000 bbl/d, is in the regulatory approval process and approval is now anticipated in 2013.

## DOWNSTREAM OPERATIONS

Throughput at the facility averaged 84,889 bbl/d for the quarter, an improvement from 43,357 bbl/d in the same period of 2011. The third quarter of 2012 average daily throughput rate was less than the nameplate capacity of 115,000 bbl/d as a result of an exchanger leak on the amine unit resulting in an outage of the amine, sulphur recovery and hydrocracker units and reduction in crude throughput to approximately 80,000 bbl/day for two weeks combined with an operational issue with the sulphur recovery unit resulting in an unplanned outage of all refinery units for approximately three weeks. Throughput for the nine months ended September 30, 2012 was 99,760 bbl/d, an increase of 64% from the average throughput of 60,826 bbl/d for the same period in 2011. Throughput in 2011 reflects the impact of the planned shutdown of the refinery units for turnaround work for approximately two months in the third quarter of 2011 and for three months during the first nine months of 2011.

Harvest's average refining margin of US\$6.03/bbl was lower than US\$10.06/bbl in the third quarter of 2011. The decrease in margin is a result of the decrease in our realized sour crude differential, partially offset by improved product prices.

The Downstream business contributed \$0.2 million of cash during the quarter compared to a cash contribution of \$2.0 million in the same period of 2011 due to higher operating and purchased energy expenses, offset by higher volume. The stronger Canadian dollar in 2012 has had a negative impact to the contribution from our refinery operations relative to the prior year as substantially all of our gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

Capital spending in the third quarter of 2012 totaled \$12.9 million which was mainly allocated to sustaining capital projects. Third quarter 2011 capital spending totaled \$100.1 million mostly related to the significant 2011 turnaround.

### **CORPORATE UPDATE**

On July 31, 2012 Harvest extended the credit facility agreement by one year to April 30, 2016. All other terms of the credit facility agreement remain unchanged. At September 30, 2012, Harvest had \$573.5 million drawn from the \$800 million credit facility capacity.

On August 1, 2012, Harvest announced the completion of its offer to exchange up to (the "Exchange Offer") US\$500,000,000 in aggregate principal amount of its 6% Senior Notes due 2017 that have been registered under the United States Securities Act of 1933, as amended, for the same principal amount of outstanding unregistered 6% Senior Notes due 2017. Although no funds were received through the Exchange Offer, the 6% Senior Notes due 2017 are now available to a broader market of qualified and retail investors.

Harvest completed an intercompany agreement with ANKOR E&P Holdings ("ANKOR"), a U.S. subsidiary of Korea National Oil Corporation ("KNOC"), to borrow US\$170 million on August 16, 2012. Harvest used the proceeds of the intercompany loan to reduce bank debt and repay the 6.40% series of convertible debentures. The intercompany loan is a subordinated debt maturing in 2017 and carries an interest rate of 4.62% per annum.

Harvest redeemed \$106.8 million of the outstanding 6.40% series of convertible debentures on September 19, 2012. The debentures were traded on the TSX under the ticker HTE.DB.D and were delisted concurrently with the redemption on September 19, 2012. Harvest continues to have three series of convertible debentures trading on the TSX, the 7.25% convertible debentures due September 30, 2013 listed as HTE.DB.E, the 7.25% convertible debentures due February 28, 2014 listed as HTE.DB.F, and the 7.50% convertible debentures due May 31, 2015 listed as HTE.DB.G.

During the third quarter of 2012, Mr. John Zahary and Mr. J. Richard Harris resigned from our Board of Directors. The Harvest Board now consists of nine members. Harvest thanks both Mr. Zahary and Mr. Harris for their contributions to the Board.

In November, Dr. Seong-Hoon Kim announced his resignation as Chairman of the Board and as Chairman the Compensation and Corporate Governance Committee due to his retirement from his Senior Executive Vice President role with KNOC. We wish to express our gratitude to Dr. Kim for his efforts and dedication to the Harvest Board of Directors. Concurrently, we are very pleased to announce that Mr. Hong-Geun Im, Senior Executive Vice President of KNOC, has accepted the roles of Chairman of the Board and as Chairman the Compensation and Corporate Governance Committee. Mr. Im was a member of the Board of Directors in 2010 and is familiar with Harvest's operations. Mr. Im has been with KNOC since 1982 and has held various positions overseeing the exploration and development of oil and gas assets in both Korea and foreign countries.

Mr. Rob Pearce resigned as Chief Operating Officer, effective November 19th, 2012. Mr. Pearce joined Harvest in September of 2011. We would like to wish Mr. Pearce well in his future endeavors and thank him for his contributions to Harvest.

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In succession to Mr. Pearce's resignation, Harvest has appointed Mr. Les Hogan as Chief Operating Officer. Mr. Hogan was formerly the Vice President of Land and has been with Harvest since 2007. Mr. Hogan has over 30 years of experience in the oil and gas industry and has had an active role in Harvest's acquisition and divesture program.

Harvest has consistently maintained a disciplined approach in health, safety and environmental issues and remains committed to operating in a socially responsible manner. Protecting our people, our partners, our stakeholders and the environment are key elements of our business. While we are active throughout the organization, we never lose sight of the fact that safe and environmentally friendly business practices are critical to our social license to operate. In all aspects of our business, we are committed to minimizing our environmental footprint, being a good and responsible corporate citizen, and conducting all of our affairs in an environmentally and socially responsible manner. We regularly conduct emergency response training, and perform safety and environmental audits of our operating facilities.

In closing, we thank all of our stakeholders for your support of and interest in Harvest.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three and nine months ended September 30, 2012 and the audited consolidated financial statements and MD&A for the year ended December 31, 2011. The information and opinions concerning our future outlook are based on information available at November 14, 2012.

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

Natural gas volumes are converted to barrels of oil equivalent ("boe") using the ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. In accordance with Canadian practice, petroleum and natural gas revenues are reported on a gross basis before deduction of Crown and other royalties. In addition to disclosing reserves under the requirements of National Instrument ("NI") 51-101, Harvest also discloses our reserves on a company interest basis which is not a term defined under NI 51-101. This information may not be comparable to similar measures by other issuers.

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

### ADVISORY

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

### ADDITIONAL INFORMATION

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

## REVIEW OF OVERALL PERFORMANCE

### Upstream

- Sales volumes decreased 862 boe/d to 57,686 boe/d from the third quarter of 2011 primarily due to the extended turnaround of a third party natural gas plant.
- Operating netback per boe was \$26.55 prior to hedging for the third quarter of 2012, a decrease of 14% from the same quarter in 2011, reflecting lower realized prices and higher operating costs, partially offset by lower royalties and transportation costs.
- Operating loss was \$11.4 million for the third quarter of 2012 as compared to operating income of \$24.2 million for the third quarter of 2011. The decrease in operating income is mainly attributable to the lower operating netback per boe, lower volumes, increased depreciation, depletion and amortization, and increased exploration and evaluation costs.
- Cash contribution from operations was \$133.3 million for the third quarter of 2012, a \$28.1 million decrease from the same quarter in the prior year which was driven by the lower operating netback.
- Capital spending of \$113.9 million includes the drilling of 29 gross conventional wells and 7 gross SAGD wells.

### Downstream

- Throughput volume averaged 84,889 bbl/d, an increase of 96% as compared to a throughput volume of 43,357 bbl/d in the third quarter of 2011 due to the planned turnaround maintenance that occurred in 2011.
- Refining gross margin per bbl averaged US\$6.03 in the third quarter of 2012, a decrease of US\$4.03 from the same quarter in 2011 mainly due to lower product crack spreads, increased feedstock costs per bbl and lower refinery yields. The higher throughput volume in the third quarter of 2012 compensated for the decrease in refining gross margin per bbl, which resulted in higher gross margin when compared to the same period in 2011.
- Operating loss totaled \$21.9 million for the three months ended September 30, 2012 as compared to an operating loss of \$20.3 million in the same period in 2011. The increase in operating loss reflects the decrease in refining gross margin per bbl, increases in operating expense, depreciation and purchased energy expense, partially offset by higher throughput volume.
- Cash contribution from operations was \$0.2 million for the third quarter of 2012, a \$1.8 million decrease from the same quarter in the prior year mainly due to higher operating and purchased energy expenses, partially offset by a higher gross margin.
- Capital spending was \$12.9 million for the quarter and mostly related to feedstock and product tank recertification, reliability improvements, and the expansion of our retail gasoline operation.

### Corporate

- On July 31, 2012, Harvest agreed with its lenders to extend the credit facility agreement by one year to April 30, 2016.
- On August 1, 2012, Harvest completed its offer to exchange US\$500 million in aggregate principal amount of its 6% Senior Notes due 2017 that had been registered under the United States Securities Act of 1933, as amended ("the Act"), for the same principal amount of outstanding unregistered 6% Senior Notes due 2017 with 100% of the notes being exchanged. The terms of the exchanged notes are substantially identical but with the new notes having greater transferability.

- On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow US\$170 million at a fixed interest rate of 4.62% per annum. No payments of principal or interest are required before maturity on October 2, 2017.
- On September 19, 2012, Harvest redeemed \$106.8 million of the outstanding 6.40% series of convertible debentures at an amount of \$1,024.90 per \$1,000 principal amount. The redemption resulted in a nominal gain.



## UPSTREAM OPERATIONS

### Summary of Financial and Operating Results

C\$ 000's unless otherwise stated	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
<b>FINANCIAL</b>				
Petroleum and natural gas sales <sup>(1)</sup>	285,666	318,731	902,194	923,238
Royalties	(36,710)	(46,996)	(128,917)	(139,415)
<b>Revenues</b>	<b>248,956</b>	<b>271,735</b>	<b>773,277</b>	<b>783,823</b>
<b>Expenses</b>				
Operating	93,163	88,121	281,674	254,031
Transportation and marketing	5,287	9,758	16,354	23,886
Realized (gains) losses on risk management contracts <sup>(2)</sup>	850	(1,707)	1,024	(3,915)
Operating netback after hedging <sup>(3)</sup>	149,656	175,563	474,225	509,821
General and administrative	16,677	14,621	46,792	42,960
Depreciation, depletion and amortization	142,648	137,070	434,189	386,348
Exploration and evaluation	5,618	831	24,702	11,286
Impairment of property, plant and equipment	–	–	21,843	–
Unrealized (gains) losses on risk management contracts <sup>(4)</sup>	988	(1,126)	911	(4,212)
Gains on disposition of property, plant and equipment	(4,881)	(65)	(5,350)	(745)
Operating income (loss)	(11,394)	24,232	(48,862)	74,184
Capital asset additions (excluding acquisitions)	113,912	190,597	477,139	553,747
Property and business acquisitions (dispositions), net	(8,082)	(2,582)	(8,835)	513,327
Decommissioning and environmental remediation expenditures	6,119	5,923	16,079	12,172
<b>OPERATING</b>				
Light / medium oil (bbl/d)	24,438	23,621	24,995	23,805
Heavy oil (bbl/d)	8,275	8,825	8,794	8,807
Natural gas liquids (bbl/d)	4,920	5,392	5,351	4,935
Natural gas (mcf/d)	120,315	124,259	123,336	109,265
Total (boe/d)	57,686	58,548	59,696	55,758

(1) Including the effective portion of Harvest's realized crude oil hedges.

(2) Realized (gains) losses on risk management contracts include the settlement amounts for power, crude oil and foreign exchange derivative contracts, excluding the effective portion of realized (gains) losses from Harvest's previously designated crude oil hedges. See "Risk Management, Financing and Other" section of this MD&A for details.

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

(4) Unrealized (gains) losses on risk management contracts reflect the change in fair value of the power derivative contracts, the ineffective portion of previously designated crude oil hedges and the change in fair value of the crude and foreign exchange derivative contracts subsequent to the discontinuation of hedge accounting. See "Risk Management, Financing and Other" section of this MD&A for details.

### Commodity Price Environment

	Three Months Ended			Nine Months Ended		
	2012	2011	Change	2012	2011	Change
West Texas Intermediate ("WTI") crude oil	<b>92.22</b>	89.76	3%	<b>96.21</b>	95.48	1%
West Texas Intermediate ("WTI") crude oil	<b>91.70</b>	87.91	4%	<b>96.35</b>	93.29	3%
Edmonton light sweet crude oil (\$/bbl)	<b>84.26</b>	91.90	(8%)	<b>86.87</b>	94.40	(8%)
Western Canadian Select ("WCS") crude oil	<b>70.02</b>	70.63	(1%)	<b>74.30</b>	74.30	–
AECO natural gas daily (\$/mcf)	<b>2.27</b>	3.66	(38%)	<b>2.11</b>	3.76	(44%)
U.S. / Canadian dollar exchange rate	<b>1.005</b>	1.020	(1%)	<b>0.998</b>	1.023	(2%)
Differential Benchmarks						
WCS differential to WTI (\$/bbl)	<b>21.68</b>	17.28	25%	<b>22.05</b>	18.99	16%
WCS differential as a % of WTI	<b>23.6%</b>	19.6%	20%	<b>22.8%</b>	20.3%	12%

The average WTI benchmark price in the third quarter of 2012 was 3% higher than the third quarter of 2011 and is 1% higher for the nine months ended September 30, 2012. The average Edmonton light sweet crude oil price ("Edmonton Light") decreased 8% in both the third quarter of 2012 and for the nine months ended September 2012 as compared to the same periods in 2011 despite the increase in WTI, due to the widening of the light sweet differential.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil inventories, pipeline capacity to deliver heavy crude to U.S. markets and the seasonal demand for heavy oil. For the three and nine months ended September 30, 2012, the WCS price was comparable to the same periods in 2011, as the WTI price increase was offset by the widening of the WCS differential relative to WTI in both instances.

### Realized Commodity Prices

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2012	2011	Change	2012	2011	Change
Light to medium oil prior to hedging (\$/bbl)	<b>76.61</b>	80.43	(5%)	<b>79.20</b>	84.08	(6%)
Heavy oil (\$/bbl)	<b>63.81</b>	62.84	2%	<b>67.55</b>	66.28	2%
Natural gas liquids (\$/bbl)	<b>53.01</b>	67.51	(21%)	<b>57.87</b>	67.10	(14%)
Natural gas (\$/mcf)	<b>2.52</b>	3.97	(37%)	<b>2.30</b>	3.98	(42%)
Average realized price prior to hedging (\$/boe) <sup>(1)</sup>	<b>52.02</b>	57.85	(10%)	<b>53.85</b>	61.21	(12%)
Light to medium oil after hedging (\$/bbl) <sup>(2)</sup>	<b>80.89</b>	83.71	(3%)	<b>82.31</b>	82.77	(1%)
Average realized price after hedging (\$/boe) <sup>(1) (2)</sup>	<b>53.83</b>	59.17	(9%)	<b>55.16</b>	60.65	(9%)

(1) Inclusive of sulphur revenue.

(2) Inclusive of the effective portion of the realized gains (losses) from crude oil derivative contracts previously designated as hedges.

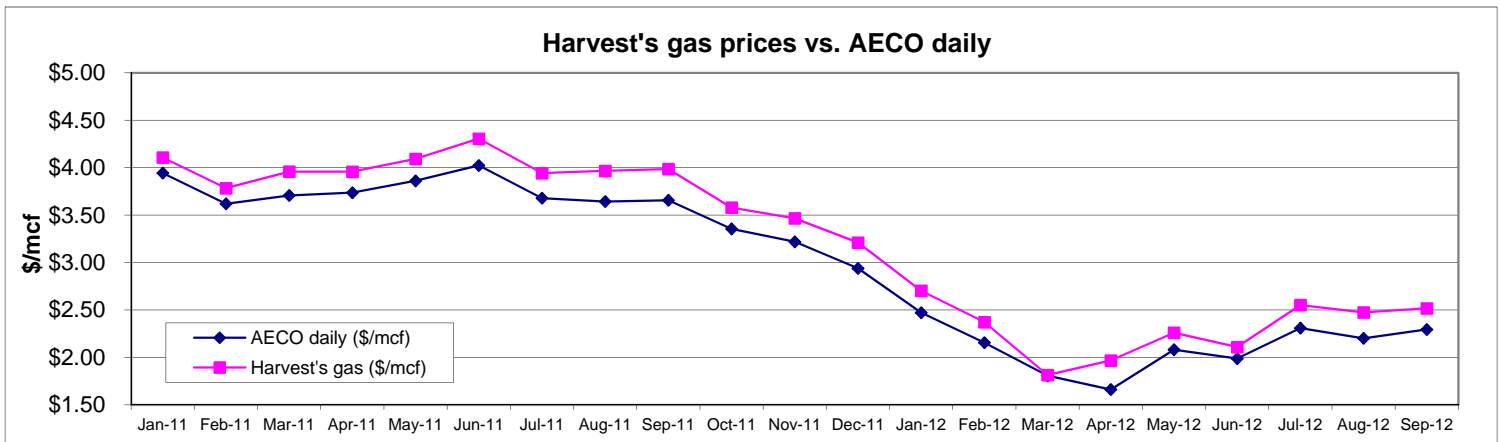
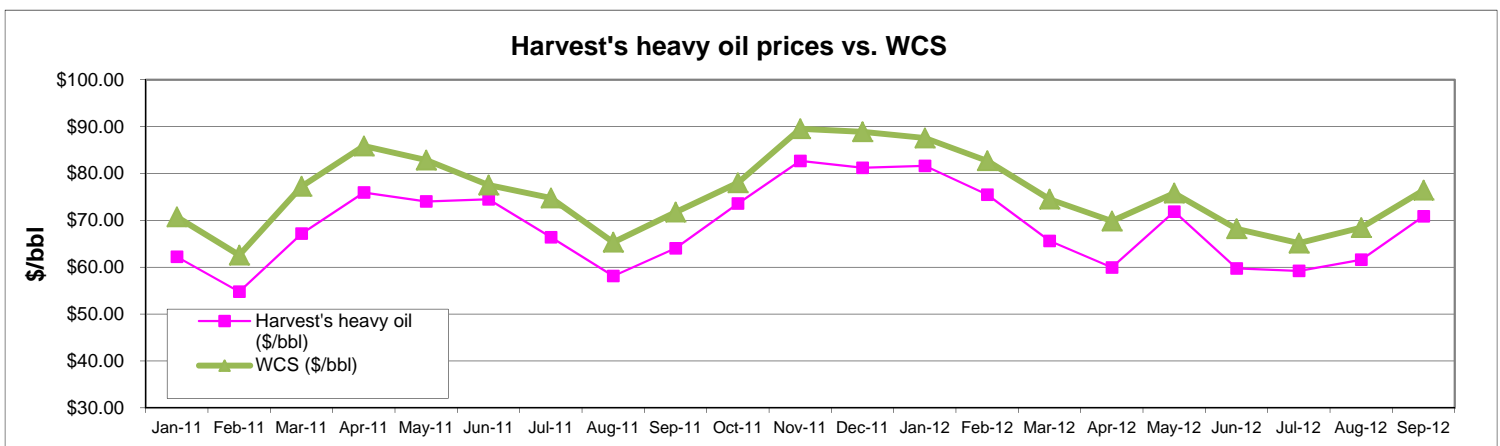
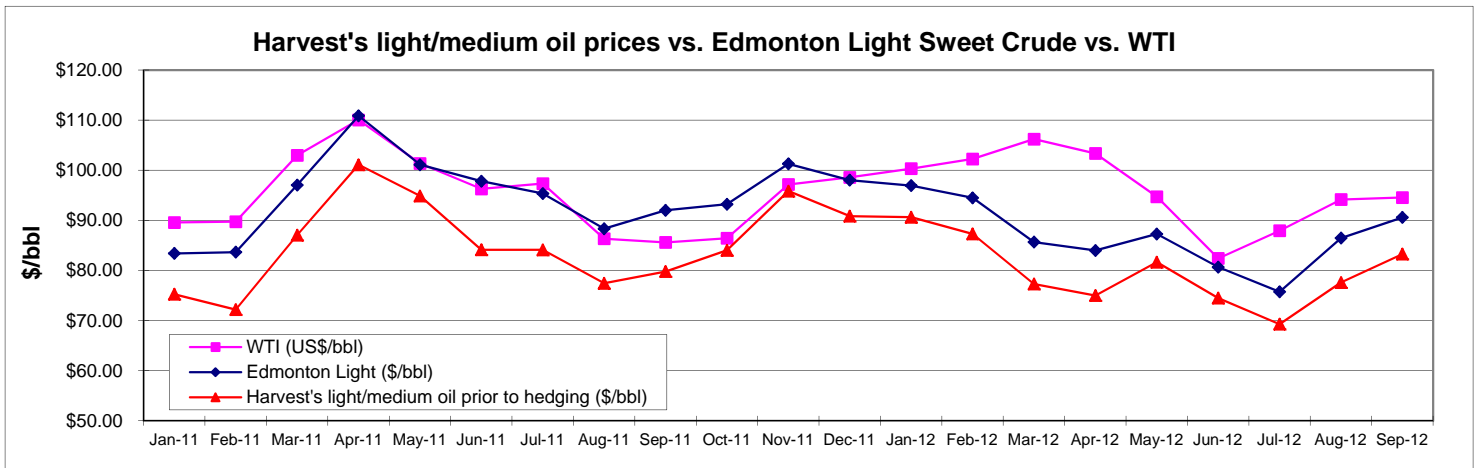
Prior to hedging activities, our realized price for light to medium oil for the three and nine months ended September 30, 2012 decreased by 5% and 6%, respectively, compared to the same periods in 2011. This decrease is consistent with the downward movement in Edmonton Light prices during the three and nine months ended September 30, 2012.

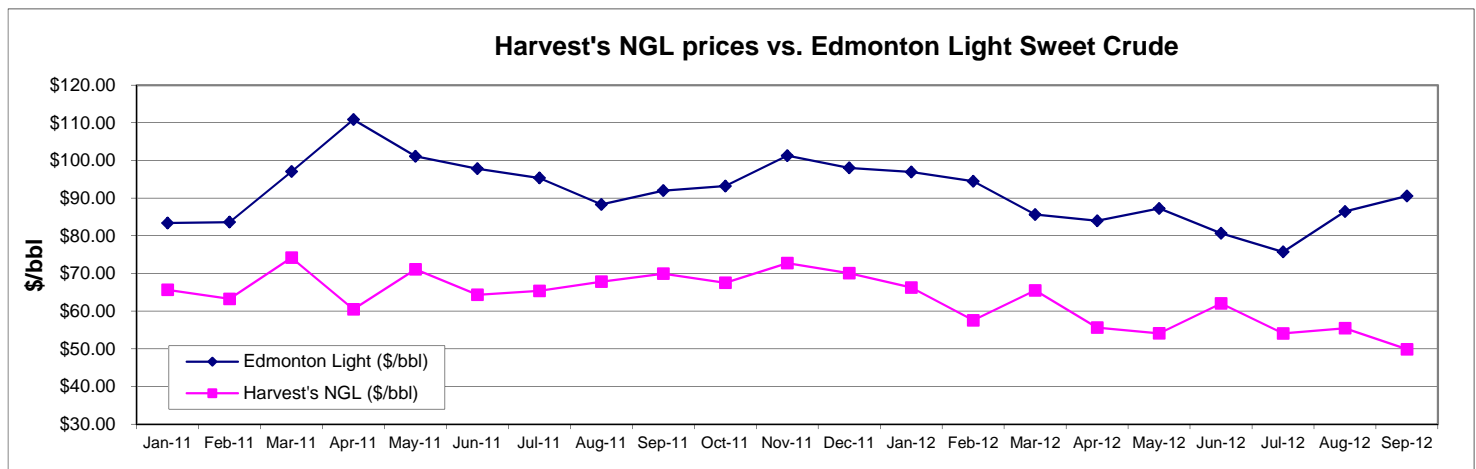
In order to mitigate the risk of fluctuating cash flows due to crude oil price volatility, Harvest has entered into fixed-for-floating swaps which expire in December 2012. The impact of this hedging activity resulted in an increase of \$4.28/bbl (2011 – increase of \$3.28/bbl) in Harvest's realized light to medium oil price for the three months ended September 30, 2012 and an increase of \$3.11/bbl (2011 – decrease of \$1.31/bbl) for the nine months ended September 30, 2012. With respect to our cash flow risk management program, see "Cash Flow Risk Management" in this MD&A.

Harvest's realized heavy oil prices for both the three months and nine months ended September 30, 2012 increased by 2% as compared to the same periods in 2011, which is slightly above the changes in the WCS benchmark for the same reference periods.

The realized prices for NGLs decreased 21% and 14% for the three months and nine months ended September 30, 2012 reflecting the decrease in natural gas liquids commodity prices.

The average realized price for Harvest's natural gas sales decreased by 37% for the three months ended September 30, 2012 and 42% for the nine months ended September 30, 2012 as compared to the same periods in 2011, reflecting the decrease in the AECO benchmark price.





### Sales Volumes

#### Three Months Ended September 30

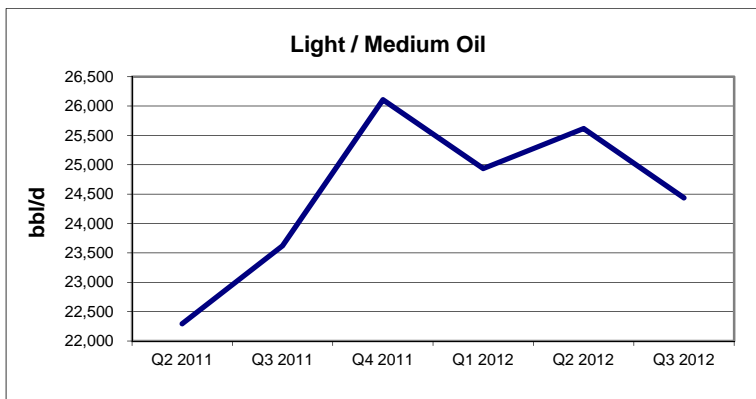
	2012		2011		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d) <sup>(1)</sup>	24,438	42%	23,621	40%	3%
Heavy oil (bbl/d)	8,275	14%	8,825	15%	(6%)
Natural gas liquids (bbl/d)	4,920	9%	5,392	9%	(9%)
Total liquids (bbl/d)	37,633	65%	37,838	64%	(1%)
Natural gas (mcf/d)	120,315	35%	124,260	36%	(3%)
Total oil equivalent (boe/d)	57,686	100%	58,548	100%	(1%)

#### Nine Months Ended September 30

	2012		2011		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d) <sup>(1)</sup>	24,995	42%	23,805	43%	5%
Heavy oil (bbl/d)	8,794	15%	8,807	16%	–
Natural gas liquids (bbl/d)	5,351	9%	4,935	9%	8%
Total liquids (bbl/d)	39,140	66%	37,547	68%	4%
Natural gas (mcf/d)	123,336	34%	109,265	32%	13%
Total oil equivalent (boe/d)	59,696	100%	55,758	100%	7%

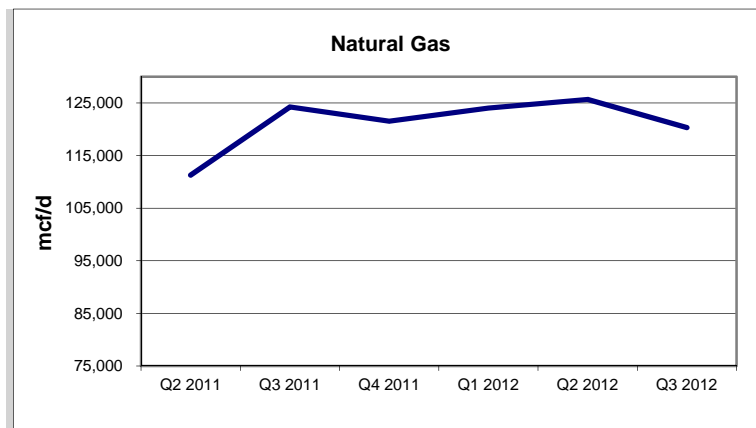
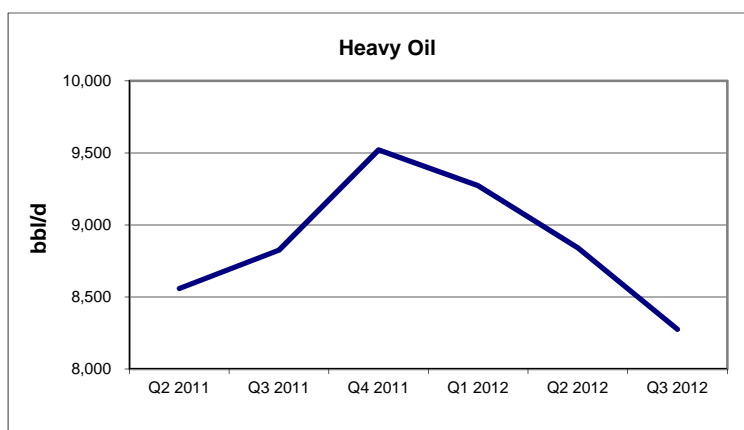
(1) Harvest classifies all oil production, except that produced from Hay River, as light to medium and heavy according to NI 51-101 guidance. The oil produced from Hay River has an average API of 24° (medium grade) and is classified as a light to medium oil; notwithstanding that, it benefits from a heavy oil royalty regime and therefore would be classified as heavy oil according to NI 51-101.

Harvest's sales volumes were 57,686 boe/d for the third quarter of 2012 and 59,696 boe/d for the first nine months of 2012, a decrease of 1% and an increase of 7% respectively, as compared to the same periods in 2011. The decrease in the third quarter reflects the extended turnaround of a third party natural gas plant in our Caroline area. The increase in the first nine months of 2012 reflects the full period benefit of the assets acquired from Hunt at the end of February 2011, the impact of the Plains Rainbow Pipeline outage in 2011, and production increases resulting from Harvest's capital program, partially offset by the turnaround of the Caroline plant.



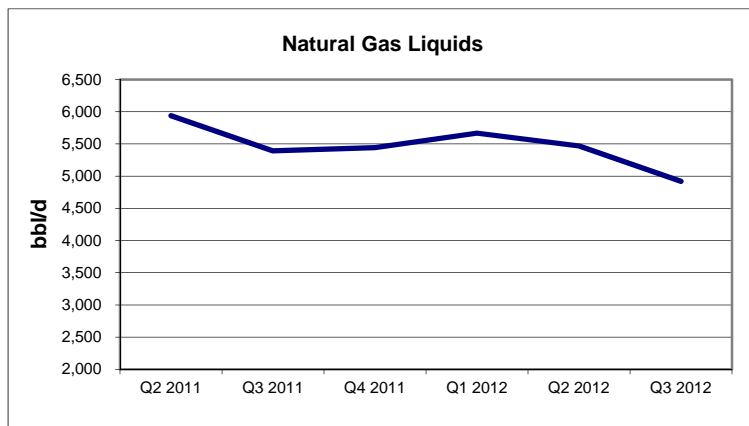
Harvest's average light/medium oil sales were 24,438 bbl/d and 24,995 bbl/d for the three and nine months ended September 30, 2012, a 3% and 5% increase, respectively, from the same periods in 2011. The increases are mainly due to the Plains Rainbow Pipeline outage from May to August of 2011.

Heavy oil sales decreased by 6% for the third quarter of 2012 but remained consistent with the nine month period ended September 30 2012, as compared to the same periods in 2011. The decrease in the third quarter is a result of natural production declines.



Natural gas sales decreased by 3% in the third quarter of 2012 compared to the third quarter of 2011 mainly due to the extended turnaround of a third-party natural gas plant in our Caroline area. Natural gas sales increased 13% in the first nine months of 2012, as compared to the same period in 2011 mainly due to the full period production from the assets acquired from Hunt in 2011 and the results of 2011 drilling in Willesden Green and Deep Basin, partially offset by the Caroline plant outage.

Natural gas liquids sales decreased by 9% in the third quarter of 2012 but increased by 8% for the nine months ended September 30, 2012, as compared to the same periods in 2011, for reasons consistent with those describing our natural gas results.



## Revenues

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Change	2012	2011	Change
Light / medium oil sales after hedging <sup>(1)</sup>	181,860	181,913	–	563,694	537,903	5%
Heavy oil sales	48,583	51,025	(5%)	162,781	159,350	2%
Natural gas sales	27,840	45,333	(39%)	77,889	118,716	(34%)
Natural gas liquids sales	23,995	33,492	(28%)	84,839	90,404	(6%)
Other <sup>(2)</sup>	3,388	6,968	(51%)	12,991	16,865	(23%)
<b>Petroleum and natural gas sales</b>	<b>285,666</b>	<b>318,731</b>	<b>(10%)</b>	<b>902,194</b>	<b>923,238</b>	<b>(2%)</b>
Royalties	(36,710)	(46,996)	(22%)	(128,917)	(139,415)	(8%)
<b>Revenues</b>	<b>248,956</b>	<b>271,735</b>	<b>(8%)</b>	<b>773,277</b>	<b>783,823</b>	<b>(1%)</b>

(1) Including the effective portion of realized gains (losses) from crude oil contracts designated as hedges.

(2) Including sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices and currency exchange rates. In the third quarter of 2012, total petroleum and natural gas sales decreased by \$33.1 million, mainly due to the 9% decrease in realized prices after hedging activities and the 1% decrease in sales volumes. For the first nine months of 2012, total petroleum and natural gas sales decreased by \$21.0 million, mainly due the 9% decrease in realized prices after hedging activities, partially offset by the 7% increase in sales volumes. Sulphur revenue represented \$2.5 million (2011 - \$7.5 million) of the total in other revenues for the third quarter of 2012 and \$11.9 million (2011 - \$15.3 million) for the first nine months of 2012, with the decreases mainly resulting from the extended turnaround of a third-party natural gas plant in our Caroline area.

## Royalties

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

For the third quarter of 2012, royalties as a percentage of gross revenue averaged 12.9% (2011 – 14.7%). The lower royalty rate is mainly due to higher Alberta Crown gas cost allowance credits in 2012 combined with lower gas and natural gas liquid royalties in the third quarter of 2012 due to the extended turnaround of the Caroline gas plant. For the nine months ended September 30, 2012, royalties as a percentage of gross revenue averaged 14.3% (2011 – 15.1%).

**Operating and Transportation Expenses**

	Three Months Ended September 30				
	2012	\$/boe	2011	\$/boe	\$/boe Change
Power and purchased energy	20,600	3.88	22,854	4.24	(0.36)
Well servicing	14,589	2.75	10,797	2.00	0.75
Repairs and maintenance	17,727	3.34	16,113	2.99	0.35
Lease rentals and property tax	8,781	1.65	9,280	1.72	(0.07)
Labor - internal	7,569	1.43	7,551	1.40	0.03
Labor - contract	4,807	0.91	5,085	0.95	(0.04)
Chemicals	4,818	0.91	3,446	0.65	0.26
Trucking	4,191	0.79	3,512	0.65	0.14
Processing and other fees	8,836	1.66	6,692	1.24	0.42
Other	1,245	0.23	2,791	0.52	(0.29)
<b>Total operating expenses</b>	<b>93,163</b>	<b>17.55</b>	<b>88,121</b>	<b>16.36</b>	<b>1.19</b>
<b>Transportation and marketing</b>	<b>5,287</b>	<b>1.00</b>	<b>9,758</b>	<b>1.81</b>	<b>(0.81)</b>

	Nine Months Ended September 30				
	2012	\$/boe	2011	\$/boe	\$/boe Change
Power and purchased energy	57,861	3.54	61,005	4.01	(0.47)
Well servicing	48,305	2.95	43,986	2.89	0.06
Repairs and maintenance	49,913	3.05	42,562	2.80	0.25
Lease rentals and property tax	27,310	1.67	25,025	1.65	0.02
Labor - internal	24,327	1.49	21,294	1.40	0.09
Labor - contract	14,698	0.90	14,205	0.93	(0.03)
Chemicals	13,961	0.85	11,419	0.75	0.10
Trucking	12,867	0.78	9,467	0.62	0.16
Processing and other fees	26,074	1.59	12,819	0.84	0.75
Other	6,358	0.39	12,249	0.80	(0.41)
<b>Total operating expenses</b>	<b>281,674</b>	<b>17.22</b>	<b>254,031</b>	<b>16.69</b>	<b>0.53</b>
<b>Transportation and marketing</b>	<b>16,354</b>	<b>1.00</b>	<b>23,886</b>	<b>1.57</b>	<b>(0.57)</b>

Operating costs for the third quarter of 2012 totaled \$93.2 million, an increase of \$5.0 million compared to the same period in 2011. Operating costs on a per barrel basis have increased by 7% to \$17.55/boe. The increased operating costs are mainly attributable to the increase in well servicing, repairs and maintenance, and processing and other fees.

On a year-to-date basis, operating costs for 2012 totaled \$281.7 million, an increase of \$27.6 million when compared to the same period in 2011 mainly due to increased production. On a per barrel basis, year-to-date operating costs increased by \$0.53/boe which is mainly attributable to higher processing and other fees, partially offset by lower power and purchased energy costs.

(\$ per boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Change	2012	2011	Change
Power and purchased energy costs	<b>3.88</b>	4.24	(0.36)	<b>3.54</b>	4.01	(0.47)
Realized gains on electricity risk management contracts	–	(0.59)	0.59	–	(0.38)	0.38
Net power and purchased energy costs	<b>3.88</b>	3.65	0.23	<b>3.54</b>	3.63	(0.09)
Alberta Power Pool electricity price (\$ /MWh)	<b>78.44</b>	94.71	(16.27)	<b>59.45</b>	76.72	(17.27)

Power and purchased energy costs per boe, comprised primarily of electric power costs, decreased for the three months and nine months ended September 30, 2012 as compared to the same periods in the prior year, reflecting the decline in the average Alberta electricity price. During the first nine months of 2012, Harvest did not have any risk management contracts relating to electricity.

Transportation and marketing costs relate primarily to delivery of natural gas to Alberta's natural gas sales hub, the AECO Storage Hub, and the cost of trucking clean crude oil to pipeline receipt points. As a result, the total dollar amount of costs generally fluctuates in relation to our sales volumes. Transportation and marketing expenses decreased by \$0.81/boe in the third quarter of 2012 compared to the third quarter of 2011 and by \$0.57/boe year-to-date. The primary reason for the decreases is due to reduced oil trucking costs at Hay River and Red Earth after the outage of the Plains Rainbow Pipeline from May to August of 2011.

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

(\$ per boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Change \$/boe	2012	2011	Change \$/boe
Petroleum and natural gas sales prior to hedging	<b>52.02</b>	57.85	(5.83)	<b>53.85</b>	61.21	(7.36)
Royalties	<b>(6.92)</b>	(8.72)	1.80	<b>(7.88)</b>	(9.16)	1.28
Operating expenses	<b>(17.55)</b>	<b>(16.36)</b>	<b>(1.19)</b>	<b>(17.22)</b>	(16.69)	(0.53)
Transportation expenses	<b>(1.00)</b>	(1.81)	0.81	<b>(1.00)</b>	(1.57)	0.57
Operating netback prior to hedging <sup>(1)</sup>	<b>26.55</b>	30.96	(4.41)	<b>27.75</b>	33.79	(6.04)
Hedging gains (losses) <sup>(2)</sup>	<b>1.60</b>	1.64	(0.04)	<b>1.22</b>	(0.30)	1.52
Operating netback after hedging <sup>(1)</sup>	<b>28.15</b>	32.60	(4.45)	<b>28.97</b>	33.49	(4.52)

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

(2) Hedging gains (losses) includes the settlement amounts for crude oil, foreign exchange and power contracts.

Harvest's operating netback represents the net amount realized on a per boe basis after deducting directly related costs. In the third quarter of 2012, operating netback prior to hedging decreased by 14% compared to the third quarter of 2011. For year-to-date 2012, operating netback prior to hedging decreased by 18% when compared to the same period in 2011. The decrease is primarily attributable to decreases in realized commodity prices and increased operating expenses, partially offset by decreases in royalties and transportation costs.



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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
G&A	<b>16,677</b>	14,621	<b>46,792</b>	42,960
G&A (\$/boe)	<b>3.14</b>	2.71	<b>2.86</b>	2.82

For the third quarter of 2012, G&A expenses increased by \$2.1 million compared to the third quarter of 2011 mainly due to increases in salaries and consulting fees. For the first nine months of 2012, G&A expense totaled \$46.8 million, an increase of approximately \$3.8 million when compared to the same period in 2011 mainly due to the increase in salaries and consulting fees partially offset by the reversal of a provision for a potential renunciation shortfall on a series of flow through shares that was no longer required. G&A expenses are mainly comprised of salaries and other employee related costs. Harvest does not have a stock option program, however there is a long-term cash incentive program.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
DD&A	<b>142,648</b>	137,070	<b>434,189</b>	386,348
DD&A (\$/boe)	<b>26.88</b>	25.45	<b>26.55</b>	25.38

DD&A expenses for the three months and nine months ended September 30, 2012 increased by \$5.6 million and \$47.8 million respectively, as compared to the same periods in 2011, mainly due to a lower depletable proved developed reserve base.

### Impairment

In the first quarter of 2012, Harvest recorded a pre-tax impairment charge of \$21.8 million (2011 – \$ nil) against the South Alberta Gas cash generating unit, as a result of the declining forecasted natural gas prices during the quarter. The fair value was determined based on the total proved plus probable reserves estimated by our independent reserves evaluators using the April 1, 2012 commodity price forecast discounted at a pre-tax discount rate of 10%. No impairment was recognized in the third quarters of 2012 and 2011.

### Capital Asset Additions

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Drilling and completion	<b>44,541</b>	100,607	<b>191,122</b>	287,845
Well equipment, pipelines and facilities	<b>21,823</b>	50,998	<b>126,192</b>	149,059
Geological and geophysical	–	1,282	<b>9,115</b>	15,214
Land and undeveloped lease rentals	<b>5,687</b>	7,107	<b>16,784</b>	17,208
Corporate	<b>730</b>	1,010	<b>1,269</b>	2,059
Other	<b>4,697</b>	1,029	<b>12,953</b>	11,922
Total additions before BlackGold	<b>77,478</b>	162,033	<b>357,435</b>	483,307
BlackGold oil sands ("BlackGold")				
Drilling and completion	<b>14,221</b>	9,979	<b>51,065</b>	15,249
Well equipment, pipelines and facilities	<b>18,036</b>	16,402	<b>57,167</b>	50,509
Geological and geophysical	<b>75</b>	–	<b>1,009</b>	158
Other	<b>4,102</b>	2,183	<b>10,463</b>	4,524
Total BlackGold additions	<b>36,434</b>	28,564	<b>119,704</b>	70,440
Total additions excluding acquisitions	<b>113,912</b>	190,597	<b>477,139</b>	553,747

The total capital additions before BlackGold are lower for the three and nine months of 2012 as compared to the same periods in 2011 due to a lower capital budget of \$411 million for the current year. As a result our drilling and completion expenditures decreased to \$191.1 million (2011 - \$287.8 million) for the nine months ended September 30, 2012. However, well equipment, pipelines and facilities expenditures did not decrease to the same degree because costs were incurred in the first and second quarters of 2012 for equipping and tying-in wells that had been drilled in late 2011.

The following table summarizes the wells drilled by Harvest and the related drilling and completion costs incurred in the period. A well is recorded in the table after it has been rig-released, however related drilling costs may be incurred in a period before a well has been rig-released and related completion costs may be incurred in a period afterwards.

Area	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Gross	Net		Gross	Net	
Hay River	–	–	\$ –	27.0	27.0	\$42,234
Heavy Oil	16.0	16.0	12,713	22.0	20.1	16,534
Red Earth	1.0	0.2	3,039	12.0	10.5	45,845
Kindersley	5.0	4.1	5,343	10.0	8.1	6,589
SE Saskatchewan	1.0	1.0	1,799	9.0	9.0	11,312
Western Alberta	3.0	1.5	5,055	10.0	5.4	17,877
Deep Basin	–	–	10,635	3.0	2.3	29,126
Other areas	3.0	3.0	5,957	9.0	5.8	21,605
Total before BlackGold	29.0	25.8	\$44,541	102.0	88.1	\$191,122
BlackGold	7.0	7.0	14,221	26.0	26.0	51,065
Total	<b>36.0</b>	<b>32.8</b>	<b>\$58,762</b>	<b>128.0</b>	<b>114.1</b>	<b>\$242,187</b>

During the third quarter of 2012, Harvest drilled 29 gross (25.8 net) wells (2011 – 69 gross; 55.6 net) in areas other than BlackGold and had an overall drilling success rate of 97%.

For the third quarter of 2012, Harvest's drilling activities were focused exclusively on oil development and 28 of the 29 wells were horizontal drills with the most active areas being Heavy Oil and Kindersley.

BlackGold oil sands

During the third quarter of 2012, Harvest continued drilling both pads of steam assisted gravity drainage ("SAGD") producer and injector wells and spent \$14.2 million drilling 7 gross wells. Harvest invested \$18.0 million on the engineering, procurement and construction ("EPC") of the central processing facility. During the first nine months of 2012, Harvest spent \$51.1 million drilling 26 gross SAGD producer and injector wells and spent \$58.3 million on the engineering, procurement and construction of the central processing facility, including the use of the \$24.4 million construction deposit against the costs incurred by the EPC contractor as a result of the EPC contract amendment. As at September 30, 2012, the engineering and procurement portion of the contract relating to the central processing facility is approximately 60% complete and the facility construction portion of the contract is approximately 25% complete. Please see the "Liquidity" section of this MD&A for discussion of the EPC contract amendment and its financial impact.

**Decommissioning and Environmental Remediation Liabilities**

Harvest's Upstream decommissioning and environmental remediation liabilities at September 30, 2012 were \$679.6 million (December 31, 2011 - \$672.7 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The increase of \$6.9 million during the first nine months of 2012 was mostly a result of new liabilities incurred on new wells and the BlackGold facility of \$14.2 million, plus accretion of \$15.0 million, partially offset by \$14.9 million of settlement expenditures and a \$7.5 million change in estimate. Please refer to note 7 of our unaudited interim consolidated financial statements for the three and nine months ended September 30, 2012 for a continuity table of these liabilities. The total of our decommissioning and environmental remediation liabilities are based on management's best estimate of costs to remediate, abandon and reclaim our wells, pipelines and facilities. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of these liabilities.

**DOWNSTREAM OPERATIONS**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
<b>FINANCIAL</b>				
Refined products sales <sup>(1)</sup>	<b>1,026,161</b>	576,504	<b>3,461,788</b>	2,140,031
Purchased products for processing and resale <sup>(1)</sup>	<b>968,620</b>	527,722	<b>3,309,139</b>	1,941,396
Gross margin <sup>(2)</sup>	<b>57,541</b>	48,782	<b>152,649</b>	198,635
<b>Expenses</b>				
Operating	<b>31,416</b>	24,077	<b>89,085</b>	75,883
Power and purchased energy	<b>21,918</b>	19,768	<b>94,801</b>	67,760
Marketing	<b>757</b>	2,295	<b>3,111</b>	5,229
General and administrative	<b>150</b>	441	<b>450</b>	1,323
Depreciation and amortization	<b>25,182</b>	22,532	<b>78,489</b>	64,208
Operating loss	<b>(21,882)</b>	(20,331)	<b>(113,287)</b>	(15,768)
Capital asset additions	<b>12,886</b>	100,132	<b>32,686</b>	244,752
<b>OPERATING</b>				
Feedstock volume (bbl/d) <sup>(3)</sup>	<b>84,889</b>	43,357	<b>99,760</b>	60,826
Yield (% of throughput volume) <sup>(4)</sup>				
Gasoline and related products	<b>26%</b>	30%	<b>29%</b>	31%
Ultra low sulphur diesel and jet fuel	<b>37%</b>	45%	<b>41%</b>	38%
High sulphur fuel oil	<b>32%</b>	23%	<b>26%</b>	29%
Total	<b>95%</b>	98%	<b>96%</b>	98%
Average refining gross margin (US\$/bbl) <sup>(5)</sup>	<b>6.03</b>	10.06	<b>4.28</b>	9.93

(1) Refined product sales and purchased products for processing and resale are net of intra-segment sales of \$134.6 million and \$447.8 million for the three and nine months ended September 30, 2012 respectively (2011 - \$122.2 million and \$363.0 million), reflecting the refined products produced by the refinery and sold by the marketing division.

(2) These are non-GAAP measures; please refer to "Non-GAAP Measures" in this MD&A.

(3) Barrels per day are calculated using total barrels of crude oil feedstock and vacuum gas oil.

(4) Based on production volumes after adjusting for changes in inventory held for resale.

(5) Average refining gross margin is calculated based on per barrel of feedstock throughput.

### Refining Benchmark Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Change	2012	2011	Change
WTI crude oil (US\$/bbl)	<b>92.22</b>	89.76	3%	<b>96.21</b>	95.48	1%
Brent crude oil (US\$/bbl)	<b>109.43</b>	112.29	(3%)	<b>112.24</b>	111.49	1%
Argus Sour Crude Index ("ASCI") (US\$/bbl)	<b>104.19</b>	109.49	(5%)	<b>107.78</b>	107.52	-
Brent – WTI differential (US\$/bbl)	<b>17.21</b>	22.53	(24%)	<b>16.03</b>	16.01	-
Brent – ASCI differential (US\$/bbl)	<b>5.24</b>	2.80	87%	<b>4.46</b>	3.97	12%
Refined product prices						
RBOB <sup>(1)</sup> (US\$/bbl)	<b>123.86</b>	121.72	2%	<b>125.31</b>	121.34	3%
Heating Oil <sup>(1)</sup> (US\$/bbl)	<b>126.18</b>	125.46	1%	<b>126.79</b>	123.86	2%
High Sulphur Fuel Oil <sup>(2)</sup> (US\$/bbl)	<b>97.77</b>	99.34	(2%)	<b>101.62</b>	96.30	6%
U.S. / Canadian dollar exchange rate	<b>1.005</b>	1.020	(1%)	<b>0.998</b>	1.023	(2%)

(1) Market prices sourced from NYMEX.

(2) Market price sourced from Platts.

### Summary of Refinery Gross Margins

	Three Months Ended September 30					
	2012			2011		
	Volumes <sup>(4)</sup>	(US\$/bbl) <sup>(5)</sup>		Volumes <sup>(4)</sup>	(US\$/bbl) <sup>(5)</sup>	
<b>Sales</b>						
Gasoline products	<b>329,173</b>	<b>2,686</b>	<b>123.16</b>	201,584	1,763	116.63
Distillates	<b>417,521</b>	<b>3,196</b>	<b>131.29</b>	269,242	2,184	125.74
High sulphur fuel oil	<b>246,987</b>	<b>2,529</b>	<b>98.15</b>	64,943	643	103.02
Total sales	<b>993,681</b>	<b>8,411</b>	<b>118.73</b>	535,769	4,590	119.06
<b>Feedstocks<sup>(1)</sup></b>						
Crude oil	<b>799,800</b>	<b>7,493</b>	<b>107.27</b>	324,134	3,370	98.11
Vacuum gas oil ("VGO")	<b>35,298</b>	<b>317</b>	<b>111.91</b>	66,025	619	108.80
Total feedstocks	<b>835,098</b>	<b>7,810</b>	<b>107.46</b>	390,159	3,989	99.76
Other <sup>(2)</sup>	<b>111,687</b>			106,274		
Purchased products for processing and resale	<b>946,785</b>			496,433		
<b>Refinery gross margin<sup>(3)</sup></b>	<b>46,896</b>		<b>6.03</b>	39,336		10.06
<b>Marketing</b>						
Sales	<b>167,113</b>			162,968		
Cost of products sold	<b>156,468</b>			153,522		
<b>Marketing gross margin<sup>(3)</sup></b>	<b>10,645</b>			9,446		
<b>Total gross margin<sup>(3)</sup></b>	<b>57,541</b>			48,782		

(1) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.

(2) Includes inventory adjustments, additives and blendstocks.

(3) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A. Per barrel amount is determined using throughput volume.

(4) Volumes are in 000's bbls. Sales volumes represent the quantity of refined products sold, whereas feedstock volumes reflect our throughput.

(5) Translated using the average US/Canadian exchange rate for each period.

Nine Months Ended September 30

	2012			2011		
	Volumes <sup>(4)</sup>	(US\$/bbl) <sup>(5)</sup>		Volumes <sup>(4)</sup>	(US\$/bbl) <sup>(5)</sup>	
<b>Sales<sup>(1)</sup></b>						
Gasoline products	1,093,469	8,938	122.09	699,192	6,150	116.30
Distillates	1,527,392	11,828	128.88	885,425	7,205	125.72
High sulphur fuel oil	749,978	7,541	99.25	433,020	4,710	94.05
<b>Total sales</b>	<b>3,370,839</b>	<b>28,307</b>	<b>118.84</b>	2,017,637	18,065	114.26
<b>Feedstocks<sup>(1)</sup></b>						
Crude oil	2,815,466	25,644	109.57	1,472,843	15,175	99.29
Vacuum gas oil ("VGO")	199,663	1,690	117.91	153,668	1,430	109.93
<b>Total feedstocks</b>	<b>3,015,129</b>	<b>27,334</b>	<b>110.09</b>	1,626,511	16,605	100.21
Other <sup>(2)</sup>	238,592			229,903		
Purchased products for processing and resale	3,253,721			1,856,414		
<b>Refinery gross margin<sup>(3)</sup></b>	<b>117,118</b>		<b>4.28</b>	161,223		9.93
<b>Marketing</b>						
Sales	538,776			485,370		
Cost of products sold	503,245			447,958		
<b>Marketing gross margin<sup>(3)</sup></b>	<b>35,531</b>			37,412		
<b>Total gross margin<sup>(3)</sup></b>	<b>152,649</b>			198,635		

(6) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.

(7) Includes inventory adjustments, additives and blendstocks.

(8) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A. Per barrel amount is determined using throughput volume.

(9) Volumes are in 000's bbls. Sales volumes represent the quantity of refined products sold, whereas feedstock volumes reflect our throughput.

(10) Translated using using the average US/Canadian exchange rate for each period.

Feedstock throughput averaged 84,889 bbl/d in the third quarter of 2012, an increase of 96% from 43,357 bbl/d average daily throughput in the third quarter of the prior year. The feedstock throughput for the nine months ended September 30, 2012 was 99,760 bbl/d, an increase of 64% from an average daily throughput of 60,826 bbl/d for the same period in the prior year. The third quarter of 2012 average daily rate is less than the nameplate capacity of 115,000 bbl/d as a consequence of an exchanger leak on the amine unit resulting in an outage of the amine, sulphur recovery and hydrocracker units and reduction in crude rate throughput to approximately 80,000 bbl/day for two weeks combined with an operational issue with the sulphur recovery unit resulting in an unplanned outage of all refinery units for approximately three weeks. As a consequence of these two outages, our refinery has a higher yield in high sulphur fuel oil and lower yields in the other products. The prior year reflects the impact of the planned shutdown of the refinery units for turnaround work for approximately two months in the third quarter of 2011 and for three months during the first nine months of 2011.

The two tables below provide a comparison between the product crack spread realized by our refinery and the benchmark crack spread for the three and nine months ended September 30, 2012 with both crack spreads referring to the price of Brent crude oil.

	Three Months Ended September 30					
	2012			2011		
	Refinery	Benchmark	Difference	Refinery	Benchmark	Difference
Gasoline products (US\$/bbl)	<b>15.70</b>	<b>14.43<sup>(1)</sup></b>	<b>1.27</b>	16.87	9.43 <sup>(1)</sup>	7.44
Distillates (US\$/bbl)	<b>23.83</b>	<b>16.75<sup>(2)</sup></b>	<b>7.08</b>	25.98	13.17 <sup>(2)</sup>	12.81
High Sulphur Fuel Oil (US\$/bbl)	<b>(9.31)</b>	<b>(11.66)<sup>(3)</sup></b>	<b>2.35</b>	3.26	(12.95) <sup>(3)</sup>	16.21

	Nine Months Ended September 30					
	2012			2011		
	Refinery	Benchmark	Difference	Refinery	Benchmark	Difference
Gasoline products (US\$/bbl)	<b>12.00</b>	<b>13.07<sup>(1)</sup></b>	<b>(1.07)</b>	16.09	9.85 <sup>(1)</sup>	6.24
Distillates (US\$/bbl)	<b>18.79</b>	<b>14.55<sup>(2)</sup></b>	<b>4.24</b>	25.51	12.37 <sup>(2)</sup>	13.14
High Sulphur Fuel Oil (US\$/bbl)	<b>(10.84)</b>	<b>(10.62)<sup>(3)</sup></b>	<b>(0.22)</b>	(6.16)	(15.19) <sup>(3)</sup>	9.03

(1) RBOB benchmark market price sourced from NYMEX.

(2) Heating Oil benchmark market price sourced from NYMEX. Our distillate products are mainly comprised of ultra-low sulphur diesel which is a higher quality product and sells at a premium to the heating oil benchmark.

(3) High Sulphur Fuel Oil benchmark market price sourced from Platts. Our high sulphur fuel oil normally contains a higher sulphur content than the 3% content reflected in the benchmark price.

Our product crack spreads are different from the benchmarks due to several factors including timing of actual sales and feedstock purchases differing from the calendar month benchmarks, transportation costs, sour crude differentials, quality differentials and variability in our throughput volume over a given period of time. Our refinery sales also include products for which market prices are not reflected in the benchmarks (such as hydrocracker bottoms that sell at spot market prices with a premium to the high sulphur fuel oil benchmark).

Our overall gross margin is also impacted by the purchasing of blendstocks to meet summer gasolines specifications, additives to meet product specifications, and inventory write-downs and reversals. These costs are included in "other" in the Summary of Gross Margin Table above.

The gross margin per bbl decreased from the prior year for both the three months and nine months ended September 30, 2012 mainly due to increased feedstock costs. During the first nine months of 2011, our refinery benefited from lower priced crude feedstock as our feedstock price was linked to WTI – Brent differentials. As the differentials widened in 2011, our feedstock prices decreased. A similar benefit did not exist in 2012 as we no longer include the WTI – Brent differentials in our feedstock pricing. Therefore, despite the decreases in Brent prices and the increases in Brent – Argus differentials in the three ended September 30, 2012, and the nominal changes in these benchmarks in the nine months ended September 30, 2012, our feedstock price increased from the same periods in 2011.

During the three months ended September 30, 2012, the increases in our feedstock prices have been partially offset by improved product prices resulting in the reversal of previously recorded inventory impairments of \$4.2 million. The impact of changes in our inventory value is reflected in the "other" category of the feedstock costs.

During the three and nine months ended September 30, 2012, the Canadian dollar strengthened as compared to the US dollar. The stronger Canadian dollar in 2012 has had a negative impact to the contribution from our refinery operations relative to the prior year as substantially all of our gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

## Operating Expenses

	Three Months Ended September 30					
	2012			2011		
	Refining	Marketing	Total	Refining	Marketing	Total
Operating cost	<b>26,445</b>	<b>4,971</b>	<b>31,416</b>	19,292	4,785	24,077
Power and purchased energy	<b>21,918</b>	–	<b>21,918</b>	19,768	–	19,768
	<b>48,363</b>	<b>4,971</b>	<b>53,334</b>	39,060	4,785	43,845
(\$/bbl of feedstock)						
Operating cost	<b>3.38</b>	–	–	4.83	–	–
Power and purchased energy	<b>2.81</b>	–	–	4.96	–	–
	<b>6.19</b>	–	–	9.79	–	–
	Nine Months Ended September 30					
	2012			2011		
	Refining	Marketing	Total	Refining	Marketing	Total
Operating cost	<b>74,266</b>	<b>14,819</b>	<b>89,085</b>	61,790	14,093	75,883
Power and purchased energy	<b>94,801</b>	–	<b>94,801</b>	67,760	–	67,760
	<b>169,067</b>	<b>14,819</b>	<b>183,886</b>	129,550	14,093	143,643
(\$/bbl of feedstock)						
Operating cost	<b>2.72</b>	–	–	3.72	–	–
Power and purchased energy	<b>3.47</b>	–	–	4.08	–	–
	<b>6.19</b>	–	–	7.80	–	–

During the three and nine months ended September 30, 2012, refining operating costs were higher than the prior year, yet the costs per barrel of feedstock throughput decreased 30% and 27% respectively. 2011 results reflect lower operating costs and lower throughput volumes and higher cost per barrel of throughput due to the planned shutdown of the units for major maintenance work.

Purchased energy, consisting of low sulphur fuel oil ("LSFO") and electricity, is required to provide heat and power to refinery operations. Purchased energy costs in the third quarter of 2012 are slightly higher than the costs in the third quarter of 2011, reflecting higher LSFO prices of \$5.0 million and higher electricity consumption of \$0.6 million offset by lower consumption of LSFO of \$3.4 million. The \$27.0 million higher energy costs for the nine months ended September 30, 2012 is a result of higher LSFO prices of \$17.1 million combined with higher electricity consumption of \$1.5 million and higher consumption of LSFO of \$8.4 million. The consumption of purchased energy is impacted by unit outages and availability of internally produced fuels.

## Capital Asset Additions

Capital spending for the three and nine months ended September 30, 2012 totaled \$12.9 million and \$32.7 million respectively (2011 - \$100.1 million and \$244.8 million respectively) relating to various capital improvement projects. Prior year capital expenditures included significant costs related to the turnaround, replacement of catalysts and addition of the packinox and naphtha hydrotreater heat exchangers.



**Depreciation and Amortization Expense**

	Three Months Ended September 30		Nine Months Ended September 30	
	<b>2012</b>	2011	<b>2012</b>	2011
Refining	<b>24,324</b>	21,566	<b>75,762</b>	61,394
Marketing	<b>858</b>	966	<b>2,727</b>	2,814
Total depreciation and amortization	<b>25,182</b>	22,532	<b>78,489</b>	64,208

The process units are amortized over an average useful life of 20 to 30 years and turnaround costs are amortized over 2 to 4 years. Total depreciation and amortization expense for the three and nine months ended September 30, 2012 increased by \$2.7 million and \$14.3 million respectively, as compared to the same periods in 2011, mainly due to the amortization of the turnaround and other capital costs that were completed in 2011.

## RISK MANAGEMENT, FINANCING AND OTHER

### Cash Flow Risk Management

The Company enters into crude oil and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales. The following is a summary of Harvest's risk management contracts outstanding at September 30, 2012:

#### Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair Value
4,200 bbls/day	Crude oil price swap	Oct – Dec 2012	US \$111.37/bbl	\$ 6,939
US \$468/day	Foreign exchange swap	Oct – Dec 2012	\$1.0236 Cdn/US	1,692
				\$ 8,631

Effective July 31, 2012, the Company discontinued hedge accounting for its crude oil and foreign exchange derivative contracts that had been previously designated as cash flow hedges as the hedges were no longer considered highly effective. Though the hedges no longer meet the criteria for hedge accounting, the hedged forecast crude sales are still expected to occur. As such, the cumulative gains or losses that had been recognized in OCI during the period when the hedges were effective remain in AOCI until the hedged transactions occur. Changes in the fair value of these derivative contracts subsequent to July 31, 2012 have been recognized in "risk management contracts gains or losses" within the consolidated statements of comprehensive income. As at September 30, 2012, \$6.7 million of gains remained in AOCI related to the effective cash flow hedges prior to the discontinuation of hedge accounting and are expected to be released to revenues within the next three months when the hedged sales affect earnings.

The following is a summary of Harvest's realized and unrealized (gains) losses on risk management contracts:

	Three Months Ended September 30					
	2012			2011		
	Crude Oil	Currency	Total	Power	Currency	Total
<b>Contracts not designated as hedges</b>						
Realized (gains) losses	753	143	896	(3,178)	–	(3,178)
Unrealized (gains) losses	874	2	876	1,507	(163)	1,344
(Gains) losses recognized in net income	1,627	145	1,772	(1,671)	(163)	(1,834)
<b>Contracts designated as hedges</b>			Crude Oil			Crude Oil
Realized (gains) losses						
Reclassified from other comprehensive income ("OCI") to revenues, before tax			(9,610)			(7,128)
Ineffective portion recognized in net income			(46)			1,471
			(9,656)			(5,657)
Unrealized (gains) losses						
Recognized in OCI, net of tax			426			(48,290)
Ineffective portion recognized in net income			112			(2,470)
			538			(50,760)
<b>Total (gains) losses from all risk management contracts</b>						
Recognized in OCI, net of tax			7,382			(42,930)
Recognized in revenues			(9,610)			(7,128)
Recognized in net income outside of revenues			1,838			(2,833)

Nine Months Ended September 30

	2012			2011		
	Crude Oil	Currency	Total	Power	Currency	Total
<b>Contracts not designated as hedges</b>						
Realized (gains) losses	753	299	1,052	(5,794)	–	(5,794)
Unrealized (gains) losses	874	2	876	(1,453)	(163)	(1,616)
(Gains) losses recognized in net income	1,627	301	1,928	(7,247)	(163)	(7,410)
<b>Contracts designated as hedges</b>						
	Crude Oil			Crude Oil		
Realized (gains) losses						
Reclassified from other comprehensive income (“OCI”) to revenues, before tax			(21,306)			8,508
Ineffective portion recognized in net income			(28)			1,879
			(21,334)			10,387
Unrealized (gains) losses						
Recognized in OCI, net of tax			(7,735)			(47,154)
Ineffective portion recognized in net income			35			(2,596)
			(7,700)			(49,750)
<b>Total (gains) losses from all risk management contracts</b>						
Recognized in OCI, net of tax			7,688			(53,518)
Recognized in revenues			(21,306)			8,508
Recognized in net income outside of revenues			1,935			(8,127)

**Financing Costs**

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Bank loan	3,783	1,979	11,325	5,026
Convertible debentures	12,222	12,471	36,884	37,250
Senior notes	9,082	8,913	27,173	26,391
Related party loan	965	–	965	–
Amortization of deferred finance charges	223	130	733	667
Interest and other financing charges	26,275	23,493	77,080	69,334
Capitalized interest	(3,878)	(2,611)	(10,125)	(5,894)
Gain on redemption of convertible debentures	(48)	–	(48)	–
	22,349	20,882	66,907	63,440
Accretion of decommissioning liabilities and environmental remediation liabilities	5,158	5,819	15,488	17,662
Total finance costs	27,507	26,701	82,395	81,102

Interest and other financing charges for the three and nine months ended September 30, 2012, including the amortization of deferred finance charges, increased by \$2.8 million and \$7.7 million, respectively, compared to the same periods in 2011. These increases are mainly as a result of the increased amount of bank loan outstanding as well as interest accrued on the related party loan (see the “Related Party Transactions” section of this MD&A for discussion of the related party loan). For the three months and nine months ended

September 30, 2012, interest charges on our bank loan reflected an effective interest rate of 3.14% and 4.42%, respectively (2011 – 2.98% for both periods).

### **Currency Exchange**

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on our U.S. dollar denominated 6% senior notes, related party loan and on any other U.S. dollar denominated monetary assets or liabilities. At September 30, 2012, the Canadian dollar relative to the U.S. dollar strengthened compared to the exchange rate as at both June 30, 2012 and December 31, 2011, resulting in an unrealized foreign exchange gain of \$5.8 million (2011 - \$21.2 million loss) and \$5.0 million (2011 - \$10.1 million loss) for the three and nine months ended September 30, 2012, respectively. Harvest recognized a realized foreign exchange loss of \$1.5 million (2011 - \$ 9.0 million gain) and a \$0.8 million loss (2011 - \$9.2 million gain) for the three and nine months ended September 30, 2012, respectively, as a result of the settlement of U.S. dollar denominated transactions.

The cumulative translation adjustment recognized in other comprehensive income results from the translation of the Downstream operation's U.S. dollar functional currency financial statements to Canadian dollars. During the third quarter of 2012, Downstream recognized a net cumulative translation loss of \$26.2 million (2011 - \$79.3 million gain), which resulted from the strengthening of the Canadian dollar relative to the U.S. dollar at September 30, 2012 as compared to June 30, 2012. During the first nine months of 2012, Downstream recognized a net cumulative translation loss of \$26.2 million (2011 - \$50.3 million gain), as the value of the Canadian dollar strengthened relative to the U.S. dollar at September 30, 2012 as compared to December 31, 2011. As Downstream's functional currency is U.S. dollars, the weakening of the U.S. dollar would result in losses from decommissioning liabilities, pension obligations, accounts payable and other balances that are denominated in Canadian dollars, which partially offset the unrealized gains recognized on the senior notes and Upstream U.S. dollar denominated monetary items.

### **Deferred Income Taxes**

For the three and nine months ended September 30, 2012, Harvest recorded a deferred income tax recovery of \$18.2 million (2011 – \$14.2 million expense) and \$56.7 million (2011 - \$7.1 million expense) respectively. Our deferred income tax assets and liabilities will fluctuate during each accounting period to reflect changes in the respective temporary differences between the book value and tax basis of our assets and liabilities, non-capital losses and legislative tax rates. Currently the principal source of our temporary differences is the net book value of the Company's property, plant and equipment and the unclaimed tax pools, which include non-capital losses.

### **LIQUIDITY**

Cash from operating activities for the three and nine months ended September 30, 2012 was \$153.9 million and \$309.9 million respectively, compared to \$161.5 million and \$415.9 million for the same periods in 2011. For the third quarter of 2012, the change in non-cash working capital was a surplus of \$50.6 million (2011 – contribution of \$16.2 million) and \$6.1 million (2011 – \$5.9 million) was incurred in the settlement of decommissioning liabilities and environmental provision. For the first nine months of 2012, the change in non-cash working capital was a contribution of \$11.4 million (2011 – deficit of \$32.8 million) and \$16.1 million (2011 – \$12.2 million) was incurred in the settlement of decommissioning liabilities and environmental provision.

The cash contribution from Harvest's Upstream operations was \$133.3 million in the third quarter of 2012, a decrease of \$28.1 million as compared to the same quarter in 2011 mainly due to lower operating netback. The

cash contribution from Harvest's Downstream operations was \$0.2 million in the third quarter of 2012, a decrease of \$1.8 million as compared to the same quarter in 2011 as a result of higher operating and purchased energy expenses, partially offset by higher gross margin.

For the nine months ended September 30, 2012, the cash contribution from Harvest's Upstream operations was \$421.3 million, a decrease of \$45.9 million as compared to the same period in 2011 mainly due to lower operating netback. The cash deficiency from Harvest's Downstream operations was \$38.6 million in the first nine months of 2012, an decrease of \$87.0 million as compared to the same period in 2011 as a result of a lower gross margin and higher operating and purchased energy expenses.

For the third quarter of 2012, Harvest's financing activities repaid \$68.8 million (2011 - \$83.9 million borrowed) of cash to the credit facility and also fully redeemed the remaining 6.4% convertible debentures at a cost of \$106.8 million. Harvest funded the repayment of our credit facility and redemption of the 6.4% convertible debentures through the borrowing of USD \$170 million from a related party (see the "Related Party Transactions" section of this MD&A for discussion of the related party loan). For the nine months ended September 30 2012, \$215.3 million (2011 - \$244.2 million) of net cash was borrowed under the credit facility. During the first nine months of the prior year, \$505.4 million of cash was invested into Harvest by our sole shareholder, Korea National Oil Corporation ("KNOC") to fund the acquisition of the Hunt assets.

For the three and nine months ended September 30, 2012, Harvest funded \$121.9 million (2011 - \$295.6 million) and \$504.2 million (2011 - \$809.6 million), respectively, of capital expenditures and net asset acquisition activity with cash generated from operating activities and financing activities.

Harvest had a working capital deficiency of \$415.6 million at September 30, 2012, as compared to a \$265.6 million deficiency at December 31, 2011. The increase in our working capital deficiency at September 30, 2012 compared to December 31, 2011 is primarily due to an additional net \$225.0 million of the Company's convertible debentures coming due within the next twelve months. The Company's working capital is expected to fluctuate from time to time, and may be funded from cash flows from operations, borrowings from Harvest's credit facility, equity from KNOC, bank debt, and long-term debt as required.

Through a combination of cash available at September 30, 2012, cash from operating activities and the available undrawn amount from the credit facility, it is anticipated that Harvest will have adequate liquidity to fund future operations and the majority of its forecasted capital expenditures (excluding major acquisitions). Harvest regularly monitors its capital structure, liquidity and payment obligations. The Company has the ability to adjust its capital spending programs and issue replacement debt, new debt or equity as may be needed. Refer to the "Contractual Obligations and Commitments" section below for Harvest's future commitments and discussion on certain significant items.

### **BlackGold Oil Sands Project**

On May 30, 2012, Harvest amended certain aspects of its BlackGold oil sands project engineering, procurement and construction ("EPC") contract, including revising the compensation terms from a lump sum price to a cost reimbursable price and confirming greater Harvest control over project execution. The cost pressures and resultant contract changes are expected to increase the net EPC costs to approximately \$520 million from \$311 million, after allowing for certain costs which are not reimbursable to the EPC contractor. Harvest and the EPC contractor also agreed to apply the cumulative progress payments made under the lump sum contract and the remaining deposit of \$24.4 million as at May 30, 2012 towards costs incurred to date.

Under the amended EPC contract, a maximum of approximately \$101 million of the EPC costs will be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work in 2014. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar

instruments. As at September 30, 2012, Harvest recognized a liability of \$3.3 million using a discount rate of 4.50%.

The Company has designed Phase 1 with 30 SAGD wells (15 well pairs) of which 26 have been drilled to the end of the third quarter of 2012. The remaining 4 wells were drilled subsequent to the third quarter in October 2012. Engineering of the project is now approximately 80% complete and the site has been cleared and graded and now piling and foundation work is underway. Other near-term activities include completion of the detailed engineering work, delivery of equipment and modules to the site and the site construction. Phase 2 of the project, which is targeted to increase production capacity to 30,000 bbl/d, is in the regulatory approval process and approval is now anticipated in 2013.

Harvest had originally budgeted 2012 capital spending of \$215 million for the BlackGold oil sands project which has now been reduced to approximately \$160 million. Activities that will be deferred are primarily related to facility construction. Harvest plans to fund the capital expenditures with cash flows from operating activities and the undrawn amount from the credit facility. As of September 30, 2012, Harvest has spent \$120.9 million (including the \$31.1 million deposit) on the EPC contract and has invested \$243.2 million in the entire project since acquiring the BlackGold assets in 2010.

### Contractual Obligations and Commitments

Harvest has contractual obligations and commitments entered into in the normal course of operations including the purchase of assets and services, operating agreements, transportation commitments, purchase commitments, royalty obligations, and land lease obligations. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner. As at September 30, 2012, Harvest has the following significant contractual commitments:

	Maturity				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt repayments <sup>(1)</sup>	330,548	296,629	573,495	658,744	1,859,416
Debt interest payments <sup>(1)</sup>	98,690	136,643	89,606	–	324,939
Purchase commitments <sup>(2)</sup>	259,836	83,663	20,000	60,000	423,499
Operating leases	11,928	16,814	6,645	786	36,173
Transportation agreements <sup>(3)</sup>	9,659	12,714	2,790	218	25,381
Feedstock & other purchase commitments <sup>(4)</sup>	842,509	–	–	–	842,509
Employee benefits <sup>(5)</sup>	10,730	15,787	9,351	236	36,104
Decommissioning and environmental remediation liabilities <sup>(6)</sup>	22,664	37,865	34,256	1,372,370	1,467,155
<b>Total</b>	<b>1,586,564</b>	<b>600,115</b>	<b>736,143</b>	<b>2,092,354</b>	<b>5,015,176</b>

(1) Assumes constant period end foreign exchange rate.

(2) Relates to the BlackGold oil sands project commitment, drilling commitments, and Downstream capital commitments.

(3) Relates to firm transportation commitments.

(4) Includes commitments to purchase refinery crude stock under the supply and offtake agreement, purchased fuel and other additives.

(5) Relates to the expected contributions to employee benefit plans and long-term incentive plan payments.

(6) Represents the undiscounted obligation by period.

## CAPITAL RESOURCES

The following table summarizes our capital structure as at September 30, 2012 and December 31, 2011 and provides the key financial ratios defined in Harvest's credit facility agreement.

	September 30, 2012	December 31, 2011
<b>Debts</b>		
Bank loan <sup>(1)</sup>	573,495	358,885
Senior notes, at principal amount (US\$500 million) <sup>(2)</sup>	491,600	508,500
Related party loan (US\$170 million) <sup>(2)</sup>	167,144	–
Convertible debentures, at principal amount	627,177	733,973
	<b>1,859,416</b>	<b>1,601,358</b>
<b>Shareholder's Equity</b>		
386,078,649 common shares issued <sup>(3)</sup>	3,228,092	3,453,644
	<b>5,087,508</b>	<b>5,055,002</b>
<b>Financial Ratios<sup>(4) (5)</sup></b>		
Senior Debt to Annualized EBITDA <sup>(6)</sup>	1.38	0.73
Total Debt to Annualized EBITDA <sup>(7)</sup>	3.73	2.72
Senior Debt to Total Capitalization <sup>(6) (8)</sup>	14%	10%
Total Debt to Total Capitalization <sup>(7) (8)</sup>	38%	36%

(1) The bank loan net of deferred financing costs is \$570.4 million (2011 - \$355.6 million).

(2) Principal amount converted at the period end exchange rate.

(3) As at November 14, 2012, the number of common shares issued is 386,078,649.

(4) Calculated based on Harvest's credit facility covenant requirements (see note 11 of the September 30, 2012 financial statements).

(5) The financial ratios and their components are non-GAAP measures; please refer to the "Non-GAAP Measures" section of this MD&A.

(6) Senior debt consists of letters of credit of \$8.1 million (2011 - \$8.7 million), bank loan of \$570.4 million (2011 - \$355.6 million) and guarantees of \$75.8 million (2011 - \$92.1 million) at September 30, 2012.

(7) Total debt includes the senior debt, convertible debentures of \$632.7 million (2011 - \$742.1 million) and senior notes of \$480.3 million (2011 - \$495.7 million) at September 30, 2012.

(8) Total capitalization includes total debt, related party loan of \$167.1 million (2011 - \$ nil) and shareholder's equity less equity attributed to BlackGold of \$458.8 million at September 30, 2012 (2011 - \$459.9 million).

Under the credit facility agreement, Harvest is required to maintain certain financial ratios. On June 29, 2012, the credit facility agreement was amended to revise the maximum allowable total debt to annualized EBITDA ratio from 3.5:1 to the following:

Twelve months ending	Total Debt to Annualized EBITDA
June 30, 2012	4.25:1.0 or less
September 30, 2012	4.25:1.0 or less
December 31, 2012	4.00:1.0 or less
March 31, 2013	3.75:1.0 or less
June 30, 2013 and thereafter	3.50:1.0 or less

In July 2012, Harvest agreed with its lenders to extend the credit facility agreement by one year to April 30, 2016.

Except for the above amendments, all other terms to the credit facility agreement remain unchanged.

## OFF BALANCE SHEET ARRANGEMENTS

As of September 30, 2012, there were no off balance sheet arrangements in place.

## RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2012, Harvest billed KNOC and certain KNOC subsidiaries for a total of \$0.9 million and \$1.7 million, respectively (2011 - \$0.2 million and \$0.5 million) primarily related to technical services provided by Harvest's Global Technology and Research Centre ("GTRC"). As at September 30, 2012, \$0.8 million (2011 - \$1.1 million) remained outstanding from KNOC in accounts receivable. KNOC billed Harvest \$0.1 million for the nine months ended September 30, 2012 (2011 - \$ nil) for reimbursement to KNOC for secondee salaries. As at September 30, 2012, \$0.2 million (2011 - \$0.6 million) remains outstanding in accounts payable.

KNOC Trading Corporation ("KNOC Trading") is a wholly owned subsidiary of North Atlantic. On a monthly basis, KNOC Trading receives revenue from ANKOR E&P Holdings Corp. ("ANKOR") and Dana Petroleum plc ("Dana"), both of which are wholly owned U.S. subsidiaries of KNOC, by providing oil marketing service such as the sale of products on behalf of ANKOR and Dana. For the three and nine months ended September 30, 2012, all of KNOC Trading's revenue of \$0.3 million and \$0.6 million respectively (2011 - \$nil) were derived from ANKOR and Dana.

On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow USD \$170 million at a fixed interest rate of 4.62% per annum. The principal balance outstanding and accrued interest is revalued using the exchange rate at the end of each reporting period. At September 30, 2012, \$167.1 million of principal and \$1.0 million of accrued interest remained outstanding. Interest expenses were \$1.0 million for the three and nine months ended September 30, 2012. Harvest may, at its sole discretion, repay the principal in whole or in part without premium or penalty, together with all accrued interest at any time during the term of the agreement. No payments of principal or interest are required before the maturity of the loan on October 2, 2017. The loan is unsecured and the loan agreement contains no restrictive covenants. For purposes of Harvest's bank loan covenant requirements, the loan is excluded from the 'total debt' amount but included in the 'total capitalization' amount.



## SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights our third quarter of 2012 results relative to the preceding 7 quarters:

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>FINANCIAL</b>								
Revenues	<b>1,275,117</b>	1,533,808	1,426,140	1,469,918	848,241	786,733	1,288,882	1,301,348
Net income (loss)	<b>(38,309)</b>	(73,293)	(72,081)	(73,885)	(49,204)	(19,529)	37,961	(12,333)
Cash from operating activities	<b>153,895</b>	70,850	85,110	144,625	161,499	107,536	146,828	142,134
Total long-term financial debt	<b>1,519,352</b>	1,770,748	1,652,424	1,486,170	1,509,773	1,384,862	1,244,825	1,239,024
Total assets	<b>6,162,913</b>	6,277,496	6,322,250	6,284,370	6,483,568	6,121,547	6,041,118	5,388,740
<b>OPERATIONS</b>								
<b>Upstream</b>								
Daily sales volumes (boe/d)	<b>57,686</b>	60,874	60,550	61,324	58,548	55,338	53,331	50,054
Realized price prior to hedges (\$/boe)	<b>52.02</b>	51.42	58.07	64.61	57.85	66.73	59.19	56.03
<b>Downstream</b>								
Average daily throughput (bbl/d)	<b>84,889</b>	114,552	100,000	89,468	43,357	38,749	101,007	111,317
Average refining gross margin (loss) (\$US/bbl)	<b>6.03</b>	2.71	4.58	(4.11)	10.06	7.94	10.57	6.13

The quarterly revenues and cash from operating activities are mainly impacted by the Upstream sales volumes, realized prices and operating expenses and Downstream throughput volumes, cost of feedstock and realized prices. Significant items that impacted Harvest's quarterly revenues include:

- Revenues were highest in the second quarter of 2012 as a result of the refinery operating at near capacity. Revenues were second highest during the fourth quarter of 2011, reflecting higher commodity prices and stronger sales volumes in the Upstream operations.
- The lower revenue in the second and third quarters of 2011 was due to lower Downstream sales as a result of a planned shutdown, partially offset by increased Upstream sales from the assets acquired from Hunt in the first quarter 2011 and higher commodity prices.
- The increasing Upstream sales volumes since the fourth quarter of 2010 were mainly attributable to the acquisition of oil and gas assets in the third quarter of 2010 and first quarter of 2011, combined with our active drilling programs. The decrease in the third quarter of 2012 was mainly due to the impact of natural declines and facility turnarounds which more than offset the increases from our drilling program.
- Downstream's refining margin/bbl increased in the first and third quarter of 2011, reflecting the higher global refining crack spreads during these periods. However the weaker margins experienced in the four most recent quarters reflect the decrease in the sour-crude differential from the Brent benchmark price for crude oil.
- Downstream's average daily throughput was lower in the third quarter of 2012 as compared to the three previous quarters due to a two-week partial outage of some process units and a three-week

unplanned shutdown of all process units while repairs were completed to the sulphur recovery unit. The average daily throughput was significantly lower than the 115,000bbl/d nameplate capacity of the refinery for the second and third quarters of 2011 due to a planned turnaround.

Net income (loss) reflects both cash and non-cash items. Changes in non-cash items including deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on risk management contracts impact net income (loss) from period to period. For these reasons, the net income (loss) may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to.

The significant increase in total assets in the first quarter of 2011 was due to the February 2011 acquisition of oil and gas properties from Hunt while the increases in other quarters are mainly attributable to organic additions from Harvest's capital program.

## **OUTLOOK**

Guidance for 2013 relating to both our Upstream and Downstream operations will be provided in early 2013 after the Board of Directors approves the capital budget in mid-December.

### **Upstream**

The Upstream capital spending estimate for 2012 has been increased \$30 million for a total of \$441 million. The capital spending in the fourth quarter will primarily be for the completion and tie-in of the remaining wells drilled during our 2012 summer and fall drilling program. The additional \$30 million of capital spending will be used in the fourth quarter for our winter drilling programs to ensure completion and tie-in of wells prior to 2013 spring break up.

Harvest's 2012 fourth quarter production is expected to average approximately 57,000 boe/d with full year production averaging 59,000 boe/d. There is no change in royalty guidance of 16% of revenue, and average general & administrative costs of \$2.80/boe. Based on the actual operating costs incurred to date in 2012, guidance to operating costs has been revised to average approximately \$17.00/boe.

The BlackGold oil sands project capital budget remains at \$160 million for 2012. First oil production from Phase 1 is expected in 2014. ERCB approval for Phase 2 is anticipated in early 2013.

As part of our continuous asset review process Harvest is divesting selected non-core assets comprised of less than 3% of production in an effort to high-grade our asset base and enhance our financial flexibility. Proceeds from our divestitures will be used to reduce bank debt in the short term.

### **Downstream**

The 2012 capital spend for Downstream will be approximately \$71 million. Most of the capital spending during the fourth quarter will be allocated to sustaining and maintenance projects focused on compressor replacement, catalyst change out in the isomax unit and decoking of the visbreaker.

Throughput volume is expected to average between 100,000 to 105,000 bbl/d in 2012, with operating costs and purchased energy costs aggregating to approximately \$6.50/bbl.

## **ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

The preparation of Harvest's financial and operating results requires management to make judgments, estimates and assumptions in the application of accounting policies that could have a significant impact on our results. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Further information on the basis of presentation and our significant accounting policies and estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2011. There have been no changes to our critical accounting policies and estimates in the third quarter of 2012.

## **RECENT PRONOUNCEMENTS**

There have been no updates during the third quarter of 2012 to the future accounting policies that were described in the annual MD&A for the year ended December 31, 2011. Harvest is currently assessing the potential impact from the adoption of those new standards.

## **OPERATIONAL AND OTHER BUSINESS RISKS**

Harvest's operational and other business risks remain substantially unchanged from those discussed in our annual MD&A for the year ended December 31, 2011 as filed on SEDAR at [www.sedar.com](http://www.sedar.com), except for the following additional risk relating to our Downstream operations:

- Greater competition now exists in Newfoundland for business resources such as qualified personnel, materials, and equipment. There is a risk that we may have difficulty sourcing such resources which could lead to disruptions in operations and increased operating and capital costs.

## **CHANGES IN REGULATORY ENVIRONMENT**

Harvest's regulatory environment remains unchanged from those discussed in our annual MD&A for the year ended December 31, 2011 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the interim period ended September 30, 2012, there were no significant changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

## **ADDITIONAL GAAP MEASURE**

Harvest uses "operating income (loss)", an additional GAAP measure that is not defined under International Financial Reporting Standards ("IFRS") hereinafter also referred to as "GAAP". The measure is commonly used for comparative purposes in the petroleum and natural gas and refining industries to reflect operating results before items not directly related to operations. Harvest uses this measure to assess and compare the performance of its two operating segments.

## **NON-GAAP MEASURES**

Throughout this MD&A, the Company has referred to certain measures of financial performance that are not specifically defined under GAAP such as "operating netbacks", "operating netback prior to/after hedging", "gross margin (loss)", "cash contribution (deficiency) from operations", "total debt", "total financial debt", "total capitalization", "Annualized EBITDA", "senior debt to Annualized EBITDA", "total debt to Annualized EBITDA", "senior debt to total capitalization", and "total debt to total capitalization".

"Operating netbacks" are reported on a per boe basis and used extensively in the Canadian energy sector for comparative purposes. "Operating netbacks" include revenues, operating expenses, transportation and marketing expenses, and realized gains or losses on risk management contracts. "Gross margin (loss)" is

commonly used in the refining industry to reflect the net funds received from the sale of refined products after considering the cost to purchase the feedstock and is calculated by deducting purchased products for resale and processing from total revenue. "Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of the each segment of Harvest to generate the cash from our operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. "Total debt", "total financial debt", "total capitalization", and "Annualized EBITDA" are used to assist management in assessing liquidity and the Company's ability to meet financial obligations. "Senior debt to Annualized EBITDA", "total debt to Annualized EBITDA", "senior debt to total capitalization" and "total debt to total capitalization" are terms defined in Harvest's credit facility agreement for the purpose of calculation of our financial covenants. The non-GAAP measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other issuers. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for Annualized EBITDA and cash contribution (deficiency) which are shown below.

### Annualized EBITDA

Annualized EBITDA is defined in Harvest's credit facility agreement as earnings before finance costs, income tax expense or recovery, DD&A, exploration and evaluation costs, impairment of assets, unrealized gains or losses on risk management contracts, unrealized gains or losses on foreign exchange, gains or losses on disposition of assets and other non-cash items. The following is a reconciliation of Annualized EBITDA to the nearest GAAP measure net loss:

<i>Twelve months rolling:</i>	<b>September 30, 2012</b>	December 31, 2011
Net loss	<b>(257,568)</b>	(104,657)
DD&A	<b>688,821</b>	626,698
Finance costs	<b>110,420</b>	109,127
Income tax recovery	<b>(93,660)</b>	(29,827)
EBITDA	<b>448,013</b>	601,341
Unrealized (gains) losses on risk management contracts	<b>4,376</b>	(746)
Unrealized (gains) losses on foreign exchange	<b>(12,572)</b>	2,555
Unsuccessful exploration and evaluation costs	<b>28,744</b>	17,757
Impairment of PP&E	<b>21,843</b>	–
Gains on disposition of PP&E	<b>(12,488)</b>	(7,883)
Other non-cash items	<b>(2,992)</b>	4,795
Adjustments on acquisitions and dispositions <sup>(1)</sup>	–	6,481
Less earnings from non-restricted subsidiaries <sup>(1)</sup>	<b>(1,568)</b>	(1,516)
Annualized EBITDA <sup>(1)</sup>	<b>473,356</b>	622,784

(1) As stipulated by the credit facility agreement, Annualized EBITDA is a twelve month rolling measure which includes the net income impact from acquisitions or dispositions as if the transaction had been effected at the beginning of the period and excludes earnings attributable to the BlackGold assets and non-restricted subsidiaries.

### Cash Contribution (Deficiency) from Operations

Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: general and administrative, exploration and evaluation, depletion, depreciation and amortization, gains on disposition of PP&E, risk management contracts gains or losses, impairment on PP&E, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included

in operating income (loss). The measure demonstrates the ability of each segment of Harvest to generate cash from its operations. The most directly comparable additional GAAP measure is operating income (loss). Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below:

	Three Months Ended September 30					
	Downstream		Upstream		Total	
	2012	2011	2012	2011	2012	2011
Operating income (loss)	<b>(21,882)</b>	(20,331)	<b>(11,394)</b>	24,232	<b>(33,276)</b>	3,901
Adjustments:						
Operating	<b>(3,087)</b>	(166)	<b>523</b>	–	<b>(2,564)</b>	(166)
General and administrative	–	–	<b>(58)</b>	548	<b>(58)</b>	548
Exploration and evaluation	–	–	<b>5,468</b>	713	<b>5,468</b>	713
Depletion, depreciation and amortization	<b>25,182</b>	22,532	<b>142,648</b>	137,070	<b>167,830</b>	159,602
(Gains) losses on disposition of PP&E	–	–	<b>(4,881)</b>	(65)	<b>(4,881)</b>	(65)
Unrealized (gains) losses on risk management contracts	–	–	<b>988</b>	(1,126)	<b>988</b>	(1,126)
<b>Cash contribution from operations</b>	<b>213</b>	2,035	<b>133,294</b>	161,372	<b>133,507</b>	163,407
Inclusion of items not attributable to segments:						
Net cash interest paid					<b>22,568</b>	21,142
Realized foreign exchange (gains) losses					<b>1,515</b>	(9,029)
<b>Consolidated cash contribution from operations</b>					<b>109,424</b>	151,294

	Nine Months Ended September 30					
	Downstream		Upstream		Total	
	2012	2011	2012	2011	2012	2011
Operating income (loss)	<b>(113,287)</b>	(15,768)	<b>(48,862)</b>	74,184	<b>(162,149)</b>	58,416
Adjustments:						
Operating	<b>(3,800)</b>	(77)	<b>(3,100)</b>	–	<b>(6,900)</b>	(77)
General and administrative	–	–	<b>(255)</b>	660	<b>(255)</b>	660
Exploration and evaluation	–	–	<b>21,940</b>	10,952	<b>21,940</b>	10,952
Depletion, depreciation and amortization	<b>78,489</b>	64,208	<b>434,189</b>	386,348	<b>512,678</b>	450,556
(Gains) losses on disposition of PP&E	–	–	<b>(5,350)</b>	(745)	<b>(5,350)</b>	(745)
Unrealized (gains) losses on risk management contracts	–	–	<b>911</b>	(4,212)	<b>911</b>	(4,212)
Impairment on PP&E	–	–	<b>21,843</b>	–	<b>21,843</b>	–
<b>Cash contribution (deficiency) from operations</b>	<b>(38,598)</b>	48,363	<b>421,316</b>	467,187	<b>382,718</b>	515,550
Inclusion of items not attributable to segments:						
Net cash interest paid					<b>67,389</b>	63,931
Realized foreign exchange (gains) losses					<b>823</b>	(9,195)
<b>Consolidated cash contribution from operations</b>					<b>314,506</b>	460,814

## **FORWARD-LOOKING INFORMATION**

This MD&A highlights significant business results and statistics from our unaudited consolidated financial statements for the three and nine months ended September 30, 2012 and the accompanying notes thereto. In the interest of providing our lenders and potential lenders with information regarding Harvest, including our assessment of our future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

Such risks and uncertainties include, but are not limited to: risks associated with conventional petroleum and natural gas operations; risks associated with refining and marketing operations; risks associated with the construction of the oil sands project; the volatility in commodity prices, interest rates and currency exchange rates; risks associated with realizing the value of acquisitions; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources; and, such other risks and uncertainties described from time to time in our regulatory reports and filings made with securities regulators.

Forward-looking statements in this MD&A include, but are not limited to, the forward looking statements made in the "Outlook" section as well as statements made throughout with reference to production volumes, refinery throughput volumes, royalty rates, operating costs, commodity prices, administrative costs, price risk management activities, acquisitions and dispositions, capital spending, reserve estimates, access to credit facilities, income taxes, cash from operating activities, and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "target", "plan", "potential", "intend", and similar expressions.

Readers are cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Although we consider such information reasonable at the time of preparation, it may prove to be incorrect and actual results may differ materially from those anticipated. Harvest assumes no obligation to update forward-looking statements should circumstances, estimates or opinions change, except as required by law. Forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

<i>(thousands of Canadian dollars)</i>	Notes	As At	
		September 30, 2012	December 31, 2011
<b>Assets</b>			
Current assets			
Cash and cash equivalents	17	\$ 9,187	\$ 6,607
Accounts receivable and other	17	170,578	212,252
Inventories	4	76,033	60,952
Prepaid expenses		14,087	18,526
Risk management contracts	17	8,631	20,162
		<b>278,516</b>	<b>318,499</b>
Non-current assets			
Long-term deposit		5,000	24,925
Investment tax credits and other		53,860	53,994
Deferred income tax asset		20,241	–
Exploration and evaluation assets	5	74,328	74,517
Property, plant and equipment	6	5,317,516	5,400,387
Other long-term asset		8,509	7,105
Goodwill		404,943	404,943
		<b>5,884,397</b>	<b>5,965,871</b>
<b>Total assets</b>		<b>\$ 6,162,913</b>	<b>\$ 6,284,370</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	17	\$ 339,248	\$ 464,148
Current portion of convertible debentures	10, 17	332,184	107,146
Current portion of decommissioning liabilities and environmental remediation liabilities	7	22,664	12,782
		<b>694,096</b>	<b>584,076</b>
Non-current liabilities			
Bank loan	9, 17	570,413	355,575
Convertible debentures	10, 17	300,511	634,921
Senior notes	17	480,319	495,674
Related party loan	17, 20	168,109	–
Long-term liability	8, 17	3,317	–
Decommissioning and environmental remediation liabilities	7	671,901	674,522
Post-employment benefit obligations		32,074	25,958
Deferred credits and other		560	5,093
Deferred income tax liability		13,521	54,907
		<b>2,240,725</b>	<b>2,246,650</b>
<b>Total liabilities</b>		<b>\$ 2,934,821</b>	<b>\$ 2,830,726</b>
<b>Shareholder's equity</b>			
Shareholder's capital		3,860,786	3,860,786
Deficit		(572,678)	(388,995)
Accumulated other comprehensive loss	16	(60,016)	(18,147)
<b>Total shareholder's equity</b>		<b>3,228,092</b>	<b>3,453,644</b>
<b>Total liabilities and shareholder's equity</b>		<b>\$ 6,162,913</b>	<b>\$ 6,284,370</b>

Commitments [Note 19]. The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended September 30,		Nine months ended September 30,	
		<b>2012</b>	2011	<b>2012</b>	2011
Petroleum, natural gas, and refined products sales		\$ 1,311,827	\$ 895,235	\$ 4,363,982	\$ 3,063,269
Royalties		<b>(36,710)</b>	(46,996)	<b>(128,917)</b>	(139,415)
<b>Revenues</b>	12	<b>1,275,117</b>	848,239	<b>4,235,065</b>	2,923,854
<b>Expenses</b>					
Purchased products for processing and resale		<b>968,620</b>	527,722	<b>3,309,139</b>	1,941,396
Operating		<b>146,497</b>	131,966	<b>465,560</b>	397,674
Transportation and marketing		<b>6,044</b>	12,053	<b>19,465</b>	29,115
General and administrative		<b>16,827</b>	15,062	<b>47,242</b>	44,283
Depletion, depreciation and amortization	6	<b>167,830</b>	159,602	<b>512,678</b>	450,556
Exploration and evaluation	5	<b>5,618</b>	831	<b>24,702</b>	11,286
Gains on disposition of property, plant and equipment		<b>(4,881)</b>	(65)	<b>(5,350)</b>	(745)
Finance costs	13	<b>27,507</b>	26,701	<b>82,395</b>	81,102
Risk management contracts (gains) losses	17	<b>1,838</b>	(2,833)	<b>1,935</b>	(8,127)
Foreign exchange (gains) losses	14	<b>(4,296)</b>	12,220	<b>(4,162)</b>	948
Impairment on property, plant and equipment	6	–	–	<b>21,843</b>	–
<b>Loss before income tax</b>		<b>(56,487)</b>	(35,020)	<b>(240,382)</b>	(23,634)
Income tax (recovery) expense		<b>(18,178)</b>	14,184	<b>(56,699)</b>	7,134
<b>Net loss</b>		<b>(38,309)</b>	(49,204)	<b>(183,683)</b>	(30,768)
<b>Other comprehensive income (loss)</b>					
Gains (losses) on designated cash flow hedges, net of tax	16,17	<b>(7,382)</b>	42,930	<b>(7,688)</b>	53,518
Gains (losses) on foreign currency translation	16	<b>(26,163)</b>	79,260	<b>(26,231)</b>	50,319
Actuarial loss, net of tax	16	<b>(3,331)</b>	(7,642)	<b>(7,950)</b>	(7,642)
<b>Comprehensive income (loss)</b>		<b>\$ (75,185)</b>	\$ 65,344	<b>\$ (225,552)</b>	\$ 65,427

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



**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)**

<i>(thousands of Canadian dollars)</i>	Notes	Shareholder's Capital	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance at December 31, 2011		\$ 3,860,786	\$ (388,995)	\$ (18,147)	\$ 3,453,644
Losses on derivatives designated as cash flow hedges, net of tax	16	–	–	(7,688)	(7,688)
Losses on foreign currency translation	16	–	–	(26,231)	(26,231)
Actuarial loss, net of tax	16	–	–	(7,950)	(7,950)
Net loss		–	(183,683)	–	(183,683)
<b>Balance at September 30, 2012</b>		<b>\$ 3,860,786</b>	<b>\$ (572,678)</b>	<b>\$ (60,016)</b>	<b>\$ 3,228,092</b>
Balance at December 31, 2010		\$ 3,355,350	\$ (284,338)	\$ (54,157)	\$ 3,016,855
Issue of share capital for cash		505,436	–	–	505,436
Gains on derivatives designated as cash flow hedges, net of tax		–	–	53,518	53,518
Gains on foreign currency translation		–	–	50,319	50,319
Actuarial loss, net of tax		–	–	(7,642)	(7,642)
Net loss		–	(30,768)	–	(30,768)
<b>Balance at September 30, 2011</b>		<b>\$ 3,860,786</b>	<b>\$ (315,106)</b>	<b>\$ 42,038</b>	<b>\$ 3,587,718</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

<i>(thousands of Canadian dollars)</i>	Notes	Nine Months Ended September 30,	
		<b>2012</b>	2011
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net loss		\$ (183,683)	\$ (30,768)
Items not requiring cash			
Depletion, depreciation and amortization		512,678	450,556
Accretion of decommissioning and environmental remediation liabilities	7, 13	15,488	17,662
Unrealized (gains) losses on risk management contracts	17	911	(4,212)
Unrealized (gains) losses on foreign exchange	14	(4,985)	10,143
Non-cash interest income		(432)	(491)
Unsuccessful exploration and evaluation costs	5	21,940	10,952
Impairment on property, plant and equipment	6	21,843	–
Gains on disposition of property, plant and equipment		(5,350)	(745)
Deferred income tax (recovery) expense		(56,707)	7,129
Other non-cash items		(7,207)	582
Settlement of decommissioning and environmental remediation liabilities	7	(16,079)	(12,172)
Change in non-cash working capital	15	11,438	(32,774)
		<b>309,855</b>	<b>415,862</b>
<b>Financing Activities</b>			
Issue of common shares, net of issue costs		–	505,436
Bank borrowing, net of repayments		215,335	244,179
Borrowings from related party loan	20	167,977	–
Redemption of convertible debentures	10	(106,796)	–
Other cash items		(224)	–
		<b>276,292</b>	<b>749,615</b>
<b>Investing Activities</b>			
Business acquisitions		–	(509,591)
Additions to property, plant and equipment	6	(471,493)	(750,647)
Additions to exploration and evaluation assets	5	(38,332)	(47,851)
Additions to other long term assets		(2,014)	(7,413)
Property dispositions (acquisitions), net		8,835	(3,736)
Change in long-term liability	8	3,317	–
Change in non-cash working capital	15	(83,880)	142,588
		<b>(583,567)</b>	<b>(1,176,650)</b>
Change in cash and cash equivalents		2,580	(11,173)
Effect of exchange rate changes on cash		–	107
Cash and cash equivalents, beginning of period		6,607	18,906
Cash and cash equivalents, end of period		\$ 9,187	\$ 7,840
Interest paid		\$ 52,983	\$ 46,594
Income tax paid		\$ 8	\$ 5

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and nine months ended September 30, 2012 and 2011

*(Tabular amounts in thousands of Canadian dollars)*

### **1. Nature of Operations and Structure of the Company**

Harvest Operations Corp. (“Harvest” or the “Company”) is an energy company with petroleum and natural gas operations focused on the operation and further development of assets in western Canada (“Upstream”) and a medium gravity sour crude hydrocracking refinery and retail and wholesale petroleum marketing business both located in the Province of Newfoundland and Labrador (“Downstream”). Harvest’s Downstream business operates under its wholly owned subsidiary, North Atlantic Refining Limited (“North Atlantic”).

Harvest is a wholly owned subsidiary of Korea National Oil Corporation (“KNOC”). The Company is incorporated and domiciled in Canada. Harvest’s principal place of business is located at 2100, 330 – 5th Avenue SW, Calgary, Alberta, Canada T2P 0L4.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on November 14, 2012.

### **2. Basis of Presentation**

These interim consolidated financial statements have been prepared in accordance with IAS 34 – “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The interim consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements as at and for the year ended December 31, 2011, which were prepared in accordance with IFRS as issued by the IASB.

#### **(a) Basis of Measurement**

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

#### **(b) Functional and Presentation Currency**

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

### **3. Significant Accounting Policies**

These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 2 to the Company’s Audited Consolidated Financial Statements as at and for the year ended December 31, 2011.

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period consolidated financial statements.

#### 4. Inventories

	September 30, 2012	December 31, 2011
Petroleum products		
Upstream – pipeline fill	\$ 1,063	\$ 1,325
Downstream	71,203	56,298
Total petroleum product inventory	72,266	57,623
Parts and supplies	3,767	3,329
	\$ 76,033	\$ 60,952

For the three months and nine months ended September 30, 2012, Downstream recognized an inventory recovery (net of impairments) of \$4.2 million (2011 – impairment of \$4.8 million) and an impairment charge (net of reversals) of \$7.5 million (2011 - \$8.0 million), respectively. These amounts are included with “purchased products for processing and resale” in the consolidated statements of comprehensive income.

#### 5. Exploration and Evaluation Assets (“E&E”)

As at December 31, 2010	\$ 59,554
Additions	50,883
Acquisition	18,627
Dispositions	(717)
Unsuccessful exploration & evaluation costs	(17,757)
Transfer to property, plant & equipment	(36,073)
As at December 31, 2011	\$ 74,517
Additions	38,332
Disposition	(368)
Unsuccessful exploration and evaluation costs	(21,940)
Transfer to property, plant and equipment	(16,213)
<b>As at September 30, 2012</b>	<b>\$ 74,328</b>

Harvest determined certain E&E costs to be unsuccessful and not recoverable, which were expensed as follows, together with pre-licensing expenses:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Pre-licensing costs	\$ 150	\$ 118	\$ 2,762	\$ 334
Unsuccessful E&E costs	5,468	713	21,940	10,952
E&E expense	\$ 5,618	\$ 831	\$ 24,702	\$ 11,286

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

	Upstream	Downstream	Total
<b>Cost:</b>			
As at December 31, 2010	\$ 3,964,155	\$ 1,081,885	\$ 5,046,040
Additions	682,497	284,244	966,741
Acquisitions	533,963	–	533,963
Change in decommissioning liabilities	(18,245)	3,767	(14,478)
Transfers from E&E	36,073	–	36,073
Disposals	(882)	(18,031)	(18,913)
Exchange adjustment	–	36,928	36,928
Investment tax credits	–	(10,187)	(10,187)
<b>As at December 31, 2011</b>	<b>\$ 5,197,561</b>	<b>\$ 1,378,606</b>	<b>\$ 6,576,167</b>
Additions	438,807	32,686	471,493
Acquisitions	1,270	–	1,270
Change in decommissioning liabilities	6,674	–	6,674
Transfers from E&E	16,213	–	16,213
Disposals	(4,385)	–	(4,385)
Exchange adjustment	–	(46,409)	(46,409)
Investment tax credits	–	(496)	(496)
<b>As at September 30, 2012</b>	<b>\$ 5,656,140</b>	<b>\$ 1,364,387</b>	<b>\$ 7,020,527</b>
<b>Accumulated depletion, depreciation, amortization and impairment losses:</b>			
As at December 31, 2010	\$ 484,302	\$ 78,502	\$ 562,804
Depreciation, depletion and amortization	535,384	91,006	626,390
Disposals	–	(18,031)	(18,031)
Exchange adjustment	–	4,617	4,617
<b>As at December 31, 2011</b>	<b>1,019,686</b>	<b>156,094</b>	<b>1,175,780</b>
Depreciation, depletion and amortization	433,579	78,489	512,068
Impairment	21,843	–	21,843
Exchange adjustment	–	(6,680)	(6,680)
<b>As at September 30, 2012</b>	<b>\$ 1,475,108</b>	<b>\$ 227,903</b>	<b>\$ 1,703,011</b>
<b>Net Book Value</b>			
<b>As at September 30, 2012</b>	<b>\$ 4,181,032</b>	<b>\$ 1,136,484</b>	<b>\$ 5,317,516</b>
As at December 31, 2011	\$ 4,177,875	\$ 1,222,512	\$ 5,400,387

General and administrative costs of \$5.6 million and \$17.2 million have been capitalized during the three and nine months ended September 30, 2012 (2011 – \$5.5 million and \$14.5 million respectively). Borrowing costs relating to the development of BlackGold assets and the Downstream debottlenecking project have been capitalized within PP&E during the three and nine months ended September 30, 2012 in the amounts of \$3.9 million and \$10.1 million (2011 – \$2.6 million and \$5.9 million respectively), at a weighted average interest rate of 5.74% and 5.65% respectively (2011 – 6.36% and 6.76% respectively).

At September 30, 2012 the following costs were excluded from the asset base subject to depreciation, depletion and amortization: BlackGold oil sands assets of \$625.7 million (2011 – \$497.2 million); Downstream

assets under construction of \$118.4 million (2011 – \$102.5 million); and Downstream major parts inventory of \$7.3 million (2011 – \$7.5 million).

PP&E impairment expense for the three and nine months ended September 30, 2012 was \$nil and \$21.8 million respectively (2011 - \$nil). During the first quarter of 2012, Harvest recorded an impairment of \$21.8 million (before tax) to its Upstream PP&E relating to certain gas properties in the South Alberta cash generating unit to reflect lower forecasted gas prices, which resulted in lower estimated future cash flows. The recoverable amount was based on the assets' value-in-use, estimated using the net present value of the future cash flows using a pre-tax discount rate of 10%.

## 7. Decommissioning & Environmental Remediation Liabilities

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.5 billion at September 30, 2012 (2011 - \$1.4 billion), which will be incurred between now and 2072. A risk-free discount rate of 3.0% (2011 - 3.0%) and inflation rate of 1.7% (2011 - 1.7%) were used to calculate the fair value of the decommissioning and environmental remediation liabilities. The following is a reconciliation of the decommissioning liabilities:

	Upstream	Downstream	Total
Decommissioning liabilities at December 31, 2010	\$ 649,098	\$ 10,426	\$ 659,524
Liabilities assumed on acquisitions	36,403	–	36,403
Liabilities incurred	26,922	–	26,922
Settled during the period	(22,110)	–	(22,110)
Revisions (change in estimate)	(46,627)	3,767	(42,860)
Disposals	(708)	–	(708)
Accretion	22,895	400	23,295
Decommissioning liabilities at December 31, 2011	\$ 665,873	\$ 14,593	\$ 680,466
Environmental remediation at December 31, 2011	6,838	–	6,838
Balance at December 31, 2011	\$ 672,711	\$ 14,593	\$ 687,304
Decommissioning liabilities at December 31, 2011	\$ 665,873	\$ 14,593	\$ 680,466
Liabilities incurred	14,210	–	14,210
Settled during the period	(14,939)	–	(14,939)
Revisions (change in estimated timing and costs)	(7,536)	–	(7,536)
Accretion	15,007	324	15,331
Decommissioning liabilities at September 30, 2012	\$ 672,615	\$ 14,917	\$ 687,532
Environmental remediation at September 30, 2012	7,033	–	7,033
<b>Balance at September 30, 2012</b>	<b>\$ 679,648</b>	<b>\$ 14,917</b>	<b>\$ 694,565</b>
Current portion	\$ 22,664	\$ –	\$ 22,664
Non-current portion	656,984	14,917	671,901
<b>Balance at September 30, 2012</b>	<b>\$ 679,648</b>	<b>\$ 14,917</b>	<b>\$ 694,565</b>

## 8. Long-Term Liability

On May 30, 2012, Harvest amended certain aspects of its BlackGold oil sands project engineering, procurement and construction (“EPC”) contract, including revising the compensation terms from a lump sum price to a cost

reimbursable price and confirming greater Harvest control over project execution. The cost pressures and resultant contract changes are expected to increase the net EPC costs to approximately \$520 million from \$311 million, after allowing for certain costs which are not reimbursable to the EPC contractor. Harvest and the EPC contractor also agreed to apply the cumulative progress payments made under the lump sum contract and the remaining deposit of \$24.4 million as at May 30, 2012 towards costs incurred to date.

Under the amended EPC contract, a maximum of approximately \$101 million of the EPC costs will be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work in 2014. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at September 30, 2012, Harvest recognized a liability of \$3.3 million using a discount rate of 4.50%.

## 9. Bank Loan

Under the credit facility agreement, Harvest is required to maintain certain financial ratios. On June 29, 2012, the credit facility agreement was amended to revise the maximum allowable total debt to annualized EBITDA ratio from 3.5:1 to the following:

<b>Twelve months ending</b>	<b>Total debt to annualized EBITDA<sup>(1)</sup></b>
June 30, 2012	4.25:1.0 or less
September 30, 2012	4.25:1.0 or less
December 31, 2012	4.00:1.0 or less
March 31, 2013	3.75:1.0 or less
June 30, 2013 and thereafter	3.50:1.0 or less

(1) Calculated based on Harvest's credit facility covenant requirements (see note 11).

On July 31, 2012, Harvest extended the credit facility agreement by one year to April 30, 2016. Except for the above amendments, all other terms to the credit facility agreement remain unchanged.

At September 30, 2012, Harvest had \$573.5 million drawn from the \$800 million credit facility capacity (2011 - \$358.9 million). The carrying value of the bank loan includes \$3.1 million of deferred financial charges at September 30, 2012 (2011 - \$3.3 million). For the three and nine month periods ended September 30, 2012, interest charges on bank loans aggregated to \$4.6 million and \$12.7 million (2011 - \$1.7 million and \$3.0 million respectively), reflecting an effective interest rate of 3.14% and 4.42% (2011 - 2.98% for both periods).

## 10. Convertible Debentures

On September 19, 2012, Harvest redeemed \$106.8 million of the outstanding 6.40% series of convertible debentures at an amount of \$1,024.90 per \$1,000 principal amount. The redemption price was equal to the principal plus all accrued and unpaid interest thereon. Harvest recognized a nominal gain on the redemption, which has been included in "finance costs" in the consolidated statements of comprehensive income (see note 13).

## 11. Capital Structure

Harvest considers its capital structure to be its credit facility, senior notes, related party loan, convertible debentures and shareholder's equity.

	September 30, 2012	December 31, 2011
Bank loan <sup>(1)</sup>	\$ 573,495	\$ 358,885
Senior notes (US\$500 million) <sup>(2)</sup>	491,600	508,500
Related party loan (US\$170 million) <sup>(2)</sup>	167,144	—
Principal amount of convertible debentures	627,177	733,973
	\$ 1,859,416	\$ 1,601,358
Shareholder's equity	3,228,092	3,453,644
	\$ 5,087,508	\$ 5,055,002

(1) Excludes deferred financing fees

(2) Principal amount converted at the period end exchange rate

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future growth. Harvest monitors its capital structure and makes adjustments according to market conditions to remain flexible while meeting these objectives. Accordingly, Harvest may adjust its capital spending programs, issue equity, issue new debt or repay existing debt.

Harvest evaluates its capital structure using the following financial ratios. These ratios are also included in the externally imposed capital requirements under the Company's credit facility, senior notes and convertible debentures. Harvest was in compliance with all debt covenants at September 30, 2012.

	Covenant	September 30, 2012	December 31, 2011
Senior debt <sup>(1)</sup> to Annualized EBITDA <sup>(3)</sup>	3.00 to 1.0 or less	1.38	0.73
Total debt <sup>(2)</sup> to Annualized EBITDA <sup>(3)</sup>	4.25 to 1.0 <sup>(4)</sup> or less	3.73	2.72
Senior debt <sup>(1)</sup> to Capitalization <sup>(5)</sup>	50% or less	14%	10%
Total debt <sup>(2)</sup> to Capitalization <sup>(5)</sup>	55% or less	38%	36%

(1) Senior debt consists of letters of credit of \$8.1 million (December 31, 2011 - \$8.7 million), bank loan of \$570.4 million (December 31, 2011 - \$355.6 million) and guarantees of \$75.8 million (December 31, 2011 - \$92.1 million) at September 30, 2012.

(2) Total debt consists of senior debt, convertible debentures and senior notes.

(3) Annualized EBITDA is defined in Harvest's credit facility agreement as earnings before finance costs, income tax expense or recovery, depletion, depreciation and amortization, exploration and evaluation costs, impairment of assets, unrealized gains or losses on risk management contracts, unrealized gains or losses on foreign exchange, gains or losses on disposition of assets and other non-cash items.

(4) The covenant ratio was changed from 3.5 to 1.0 to 4.25 to 1.0 on June 29, 2012. See note 9.

(5) Capitalization consists of total debt, related party loan and shareholder's equity less equity for BlackGold of \$458.8 million at September 30, 2012 (December 31, 2011 - \$459.9 million).

## 12. Revenues

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Petroleum and natural gas sales, net of royalty	\$ 239,346	\$ 264,607	\$ 751,971	\$ 792,331
Refined products sales	1,026,161	576,504	3,461,788	2,140,031
Effective portion of realized crude oil hedges	9,610	7,128	21,306	(8,508)
	\$ 1,275,117	\$ 848,239	\$ 4,235,065	\$ 2,923,854



### 13. Finance Costs

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Interest and other finance charges	\$ 26,275	\$ 23,493	\$ 77,080	\$ 69,334
Accretion of decommissioning and environmental remediation liabilities	5,158	5,819	15,488	17,662
Gain on redemption of convertible debentures	(48)	—	(48)	—
Less: capitalized interest	(3,878)	(2,611)	(10,125)	(5,894)
	\$ 27,507	\$ 26,701	\$ 82,395	\$ 81,102

### 14. Foreign Exchange

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Realized (gains) losses on foreign exchange	\$ 1,515	\$ (9,029)	\$ 823	\$ (9,195)
Unrealized (gains) losses on foreign exchange	(5,811)	21,249	(4,985)	10,143
	\$ (4,296)	\$ 12,220	\$ (4,162)	\$ 948

### 15. Supplemental Cash Flow Information

	Nine months ended September 30	
	2012	2011
Source (use) of cash:		
Accounts receivable and other	\$ 41,674	\$ 3,218
Prepaid expenses and long-term deposit	24,364	45,530
Inventories	(15,081)	(52,808)
Accounts payable and accrued liabilities	(124,900)	117,848
Net changes in non-cash working capital	\$ (73,943)	\$ 113,788
Changes relating to operating activities	11,438	(32,774)
Changes relating to investing activities	(83,880)	142,588
Add: Non-cash changes	(1,501)	3,974
	\$ (73,943)	\$ 113,788

**16. Other Comprehensive Income (“OCI”) and Accumulated Other Comprehensive Income (“AOCI”)**

	Foreign Currency Translation Adjustment	Designated Cash Flow Hedges, Net of Tax	Actuarial Loss, Net of Tax	Total
AOCI at December 31, 2010	\$ (45,920)	\$ (5,020)	\$ (3,217)	\$ (54,157)
Reclassification to net income of losses on cash flow hedges	–	7,050	–	7,050
Gains on derivatives designated as cash flow hedges	–	12,371	–	12,371
Actuarial loss	–	–	(4,891)	(4,891)
Gains on foreign currency translation	21,480	–	–	21,480
AOCI at December 31, 2011	\$ (24,440)	\$ 14,401	\$ (8,108)	\$ (18,147)
Reclassification to net income of gains on cash flow hedges	–	(15,423)	–	(15,423)
Gains on derivatives designated as cash flow hedges	–	7,735	–	7,735
Actuarial loss	–	–	(7,950)	(7,950)
Losses on foreign currency translation	(26,231)	–	–	(26,231)
<b>AOCI at September 30, 2012</b>	<b>\$ (50,671)</b>	<b>\$ 6,713</b>	<b>\$ (16,058)</b>	<b>\$ (60,016)</b>

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

	Three months ended September 30				Nine months ended September 30			
	After - tax		Pre - tax		After - tax		Pre - tax	
	2012	2011	2012	2011	2012	2011	2012	2011
(Gains) losses reclassified from OCI to revenues	<b>\$(6,956)</b>	\$(5,360)	<b>\$(9,610)</b>	\$(7,128)	<b>\$(15,423)</b>	\$6,364	<b>\$(21,306)</b>	\$ 8,508
Gains (losses) recognized in OCI	<b>\$(426)</b>	\$48,290	<b>\$(588)</b>	\$64,221	<b>\$ 7,735</b>	\$47,154	<b>\$ 10,685</b>	\$63,031
<b>Total</b>	<b>\$(7,382)</b>	\$42,930	<b>\$(10,198)</b>	\$57,093	<b>\$(7,688)</b>	\$53,518	<b>\$(10,621)</b>	\$71,539

Effective July 31, 2012, the Company discontinued hedge accounting for its crude oil and foreign exchange derivative contracts that had been previously designated as cash flow hedges as the hedges were no longer considered highly effective. Though the hedges no longer meet the criteria for hedge accounting, the hedged forecast crude sales are still expected to occur. As such, the cumulative gains or losses that had been recognized in OCI during the period when the hedges were effective remain in AOCI until the hedged transactions occur. Changes in the fair value of these derivative contracts subsequent to July 31, 2012 have been recognized in “risk management contracts gains or losses” within the consolidated statements of comprehensive income (see note 17). As at September 30, 2012, \$6.7 million of gains remained in AOCI related to the effective cash flow hedges prior to the discontinuation of hedge accounting and are expected to be released to revenues within the next three months when the hedged sales affect earnings.

## 17. Financial Instruments

### (a) Fair Values

The carrying value and fair value of Harvest's financial instruments are disclosed below by financial instrument category:

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
<u>Loans and Receivables</u>				
Accounts receivable and other	\$ 170,578	\$ 170,578	\$ 212,252	\$ 212,252
<u>Held for Trading</u>				
Cash and cash equivalents	9,187	9,187	6,607	6,607
Risk management contracts	8,631	8,631	20,162	20,162
<b>Total Financial Assets</b>	<b>\$ 188,396</b>	<b>\$ 188,396</b>	<b>\$ 239,021</b>	<b>\$ 239,021</b>
<b>Financial Liabilities</b>				
<u>Measured at Amortized Cost</u>				
Accounts payable and accrued liabilities	339,248	339,248	464,148	464,148
Bank loan	570,413	573,495	355,575	358,885
Senior notes	480,319	538,302	495,674	523,119
Related party loan	168,109	168,109	–	–
Convertible debentures	632,695	643,496	742,067	752,345
Long-term liability	3,317	3,317	–	–
<b>Total Financial Liabilities</b>	<b>\$ 2,194,101</b>	<b>\$ 2,265,967</b>	<b>\$ 2,057,464</b>	<b>\$ 2,098,497</b>

### (b) Risk Management Contracts

Harvest at times uses electricity price swap contracts to manage some of its price risk exposure. These swap contracts are not designated as hedges and are entered into for periods consistent with forecast electricity purchases. Harvest did not have any electricity price swap contracts during the three and nine months ended September 30, 2012.

The Company enters into crude oil and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales. Effective July 31, 2012, Harvest no longer designates its crude oil derivative contracts and certain foreign exchange contracts as cash flow hedges. Prior to the discontinuation of hedge accounting, the effective portion of the unrealized gains and losses was included in OCI. The effective portion of the realized gains and losses was removed from AOCI and included in petroleum, natural gas, and refined product sales (see note 16). The ineffective portion of the unrealized and realized gains and losses were recognized in the consolidated income statement. Subsequent to the discontinuation of hedge accounting, all changes in the fair value of these derivative contracts are recognized in the consolidated income statement.

Risk management contracts (gains) losses recorded to income include the ineffective portion of the gains or losses on the derivative contracts designated as cash flow hedges, the gains or losses on the derivatives that were not designated as hedges and the gains or losses subsequent to the discontinuation of hedge accounting on the previously designated derivatives:

Three months ended September 30								
2012					2011			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses	\$ –	\$ 707	\$ 143	\$ 850	\$(3,178)	\$1,471	\$ –	\$(1,707)
Unrealized (gains) losses	–	986	2	988	1,507	(2,470)	(163)	(1,126)
	\$ –	\$1,693	\$ 145	\$1,838	\$(1,671)	\$ (999)	\$ (163)	\$(2,833)

Nine months ended September 30								
2012					2011			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses	\$ –	\$ 725	\$ 299	\$1,024	\$(5,794)	\$ 1,879	\$ –	\$(3,915)
Unrealized (gains) losses	–	909	2	911	(1,453)	(2,596)	(163)	(4,212)
	\$ –	\$1,634	\$ 301	\$1,935	\$(7,247)	\$ (717)	\$ (163)	\$(8,127)

The following is a summary of Harvest's risk management contracts outstanding at September 30, 2012:

**Contracts Not Designated as Hedges**

Contract Quantity	Type of Contract	Term	Contract Price	Fair Value
4,200 bbls/day	Crude oil price swap	Oct – Dec 2012	US \$111.37/bbl	\$ 6,939
US \$468/day	Foreign exchange swap	Oct – Dec 2012	\$1.0236 Cdn/US	1,692
				\$ 8,631

## 18. Segment Information

Harvest operates in Canada and has two reportable operating segments: Upstream and Downstream. Harvest's Upstream operations consist of development, production and subsequent sale of petroleum, natural gas and natural gas liquids, while its Downstream operations include the purchase of crude oil, the refining of crude oil, the sale of the refined products including a network of retail operations and the supply of refined products to commercial and wholesale customers.

	Three months ended September 30					
	Downstream <sup>(2)</sup>		Upstream <sup>(2)</sup>		Total	
	2012	2011	2012	2011	2012	2011
Petroleum, natural gas and refined products sales <sup>(1)</sup>	\$1,026,161	\$ 576,504	\$285,666	\$318,731	\$1,311,827	\$ 895,235
Royalties	—	—	(36,710)	(46,996)	(36,710)	(46,996)
<b>Revenues</b>	<b>\$1,026,161</b>	<b>\$ 576,504</b>	<b>\$248,956</b>	<b>\$271,735</b>	<b>\$1,275,117</b>	<b>\$ 848,239</b>
<b>Expenses</b>						
Purchased products for resale and processing	968,620	527,722	—	—	968,620	527,722
Operating	53,334	43,845	93,163	88,121	146,497	131,966
Transportation and marketing	757	2,295	5,287	9,758	6,044	12,053
General and administrative	150	441	16,677	14,621	16,827	15,062
Depletion, depreciation and amortization	25,182	22,532	142,648	137,070	167,830	159,602
Exploration and evaluation	—	—	5,618	831	5,618	831
Gains on disposition of PP&E	—	—	(4,881)	(65)	(4,881)	(65)
Risk management contracts (gains) losses	—	—	1,838	(2,833)	1,838	(2,833)
Operating income (loss)	\$ (21,882)	\$ (20,331)	\$ (11,394)	\$ 24,232	\$ (33,276)	\$ 3,901
Finance costs					27,507	26,701
Foreign exchange (gains) losses					(4,296)	12,220
Loss before income tax					\$ (56,487)	\$ (35,020)
Income tax recovery (expense)					(18,178)	14,184
<b>Net loss</b>					<b>\$ (38,309)</b>	<b>\$ (49,204)</b>

(1) Of the total Downstream revenue, one customer represents sales of \$853.1 million for the three months ended September 30, 2012 (2011 – two customers with sales of \$368.9 million and \$30.9 million). No other single customer within either segment represents greater than 10% of Harvest's total revenue.

(2) There is no intersegment activity.

Three months ended September 30

	Downstream		Upstream		Total	
	2012	2011	2012	2011	2012	2011
<b>Capital Expenditures</b>						
Business acquisition	\$ —	\$ —	\$ —	\$ (2,932)	\$ —	\$ (2,932)
Additions to PP&E	<b>12,886</b>	100,132	<b>106,276</b>	184,316	<b>119,162</b>	284,448
Additions to E&E	—	—	<b>7,636</b>	6,281	<b>7,636</b>	6,281
Additions to other long term assets	—	—	<b>2,014</b>	7,413	<b>2,014</b>	7,413
Property acquisitions (dispositions), net	—	—	<b>(8,082)</b>	350	<b>(8,082)</b>	350
Total expenditures	<b>\$ 12,886</b>	\$ 100,132	<b>\$ 107,844</b>	\$ 195,428	<b>\$ 120,730</b>	\$ 295,560

Nine months ended September 30

	Downstream <sup>(2)</sup>		Upstream <sup>(2)</sup>		Total	
	2012	2011	2012	2011	2012	2011
Petroleum, natural gas and refined products sales <sup>(1)</sup>	<b>\$3,461,788</b>	\$2,140,031	<b>\$ 902,194</b>	\$923,238	<b>\$4,363,982</b>	\$ 3,063,269
Royalties	—	—	<b>(128,917)</b>	(139,415)	<b>(128,917)</b>	(139,415)
<b>Revenues</b>	<b>\$3,461,788</b>	\$2,140,031	<b>\$ 773,277</b>	\$783,823	<b>\$4,235,065</b>	\$ 2,923,854
<b>Expenses</b>						
Purchased products for resale and processing	<b>3,309,139</b>	1,941,396	—	—	<b>3,309,139</b>	1,941,396
Operating	<b>183,886</b>	143,643	<b>281,674</b>	254,031	<b>465,560</b>	397,674
Transportation and marketing	<b>3,111</b>	5,229	<b>16,354</b>	23,886	<b>19,465</b>	29,115
General and administrative	<b>450</b>	1,323	<b>46,792</b>	42,960	<b>47,242</b>	44,283
Depletion, depreciation and amortization	<b>78,489</b>	64,208	<b>434,189</b>	386,348	<b>512,678</b>	450,556
Exploration and evaluation	—	—	<b>24,702</b>	11,286	<b>24,702</b>	11,286
Gains on disposition of PP&E	—	—	<b>(5,350)</b>	(745)	<b>(5,350)</b>	(745)
Risk management contracts (gains) losses	—	—	<b>1,935</b>	(8,127)	<b>1,935</b>	(8,127)
Impairment on PP&E	—	—	<b>21,843</b>	—	<b>21,843</b>	—
Operating income (loss)	<b>\$ (113,287)</b>	\$ (15,768)	<b>\$ (48,862)</b>	\$ 74,184	<b>\$(162,149)</b>	\$ 58,416
Finance costs					<b>82,395</b>	81,102
Foreign exchange (gains) losses					<b>(4,162)</b>	948
Loss before income tax					<b>\$(240,382)</b>	\$ (23,634)
Income tax (recovery) expense					<b>(56,699)</b>	7,134
Net loss					<b>\$(183,683)</b>	\$ (30,768)

(1) Of the total Downstream revenue, one customer represents sales of \$2.9 billion for the nine months ended September 30, 2012 (2011 – two customers with sales of \$1.4 billion and \$161.3 million). No other single customer within either segment represents greater than 10% of Harvest's total revenue.

(2) There is no intersegment activity.

Nine months ended September 30

	Downstream		Upstream		Total	
	2012	2011	2012	2011	2012	2011
<b>Capital Expenditures</b>						
Business acquisition	\$ –	\$ –	\$ –	\$ 509,591	\$ –	\$ 509,591
Additions to PP&E	<b>32,686</b>	244,752	<b>438,807</b>	505,895	<b>471,493</b>	750,647
Additions to E&E	–	–	<b>38,332</b>	47,851	<b>38,332</b>	47,851
Additions to other long term assets	–	–	<b>2,014</b>	7,413	<b>2,014</b>	7,413
Property acquisitions (dispositions), net	–	–	<b>(8,835)</b>	3,736	<b>(8,835)</b>	3,736
Total expenditures	<b>\$ 32,686</b>	\$ 244,752	<b>\$ 470,318</b>	\$1,074,486	<b>\$ 503,004</b>	\$1,319,238

	Total Assets	PP&E	E&E	Other Long-Term Assets	Goodwill
<b>September 30, 2012</b>					
Downstream	\$ 1,317,454	\$ 1,136,484	\$ –	\$ –	\$ –
Upstream	<b>4,845,459</b>	<b>4,181,032</b>	<b>74,328</b>	<b>8,509</b>	<b>404,943</b>
<b>Total</b>	<b>\$ 6,162,913</b>	<b>\$ 5,137,516</b>	<b>\$ 74,328</b>	<b>\$ 8,509</b>	<b>\$ 404,943</b>
<b>December 31, 2011</b>					
Downstream	\$ 1,408,112	\$ 1,222,512	\$ –	\$ –	\$ –
Upstream	4,876,258	4,177,875	74,517	7,105	404,943
Total	\$ 6,284,370	\$ 5,400,387	\$ 74,517	\$ 7,105	\$ 404,943

### 19. Commitments

The following is a summary of Harvest's contractual obligations and commitments as at September 30, 2012:

Maturity:	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments <sup>(1)</sup>	\$ 330,548	\$ 296,629	\$ 573,495	\$ 658,744	\$ 1,859,416
Debt interest payments <sup>(1)</sup>	98,690	136,643	89,606	–	324,939
Purchase commitments <sup>(2)</sup>	259,836	83,663	20,000	60,000	423,499
Operating leases	11,928	16,814	6,645	786	36,173
Transportation agreements <sup>(3)</sup>	9,659	12,714	2,790	218	25,381
Feedstock & other purchase commitments <sup>(4)</sup>	842,509	–	–	–	842,509
Employee benefits <sup>(5)</sup>	10,730	15,787	9,351	236	36,104
Decommissioning liabilities and environmental remediation liabilities <sup>(6)</sup>	22,664	37,865	34,256	1,372,370	1,467,155
<b>Total</b>	<b>\$1,586,564</b>	<b>\$ 600,115</b>	<b>\$ 736,143</b>	<b>\$ 2,092,354</b>	<b>\$ 5,015,176</b>

(1) Assumes constant period end foreign exchange rate.

(2) Relates to the BlackGold oil sands project commitment, drilling commitments, and Downstream capital commitments.

(3) Relates to firm transportation commitments.

(4) Includes commitments to purchase refinery crude stock under the supply and offtake agreement, purchased fuel and other additives.

(5) Relates to the expected contributions to employee benefit plans and long-term incentive plan payments.

(6) Represents the undiscounted obligation by period.

## 20. Related Party Transactions

For the three and nine months ended September 30, 2012, Harvest billed KNOC and certain KNOC subsidiaries for a total of \$0.9 million and \$1.7 million, respectively (2011 - \$0.2 million and \$0.5 million) primarily related to technical services provided by Harvest's Global Technology and Research Centre ("GTRC"). As at September 30, 2012, \$0.8 million (2011 - \$1.1 million) remained outstanding from KNOC in accounts receivable. KNOC billed Harvest \$0.1 million for the nine months ended September 30, 2012 (2011 - \$nil) for reimbursement to KNOC for secondee salaries. As at September 30, 2012, \$0.2 million (2011 - \$0.6 million) remains outstanding in accounts payable.

KNOC Trading Corporation ("KNOC Trading") is a wholly owned subsidiary of North Atlantic. On a monthly basis, KNOC Trading receives revenue from ANKOR E&P Holdings Corp. ("ANKOR") and Dana Petroleum plc ("Dana"), both of which are wholly owned U.S. subsidiaries of KNOC, by providing oil marketing service such as the sale of products on behalf of ANKOR and Dana. For the three and nine months ended September 30, 2012, all of KNOC Trading's revenue of \$0.3 million and \$0.6 million respectively (2011 - \$nil) were derived from ANKOR and Dana.

On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow US \$170 million at a fixed interest rate of 4.62% per annum. The principal balance outstanding and accrued interest is revalued using the exchange rate at the end of each reporting period. At September 30, 2012, \$167.1 million of principal and \$1.0 million of accrued interest remained outstanding. Interest expense was \$1.0 million for the three and nine months ended September 30, 2012. Harvest may, at its sole discretion, repay the principal in whole or in part without premium or penalty, together with all accrued interest at any time during the term of the agreement. No payments of principal or interests are scheduled before the maturity of the loan on October 2, 2017. The loan is unsecured and the loan agreement contains no restrictive covenants. For purposes of Harvest's bank loan covenant requirements, the loan is excluded from the 'total debt' amount but included in the 'total capitalization' amount.