Harvest OPERATIONS CORP.

For the three and six month periods ending **June 30, 2011**

Q2

FINANCIAL & OPERATING HIGHLIGHTS:

The table below is a summary of our financial and operating results for three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
FINANCIAL						
Revenues[(1)]	**$746,066**	$1,024,565	(27%)	**$1,964,768**	$1,594,045	23%
Cash from operating activities	**107,588**	121,830	(12%)	**254,364**	199,638	27%
Net income (loss)	**(19,529)**	(22,796)	14%	**18,435**	(42,748)	143%
Bank debt	**171,914**	182,421	(6%)	**171,914**	182,421	(6%)
Senior notes	**469,247**	224,744	109%	**469,247**	224,744	109%
Convertible debentures	**743,701**	770,780	(4%)	**743,701**	770,780	(4%)
Total financial debt	**1,384,862**	1,177,945	18%	**1,384,862**	1,177,945	18%
Total assets	**$6,121,547**	$4,764,141	29%	**$6,121,547**	$4,764,141	29%
UPSTREAM OPERATIONS						
Daily sales volumes (boe/d)	**55,338**	49,597	12%	**54,340**	49,886	9%
Average realized price						
Oil and NGLs ($/bbl)[(2)]	**87.31**	65.18	34%	**80.46**	68.15	18%
Gas ($/mcf)	**4.12**	4.17	(1%)	**3.99**	4.65	(14%)
Operating netback ($/boe)[(2)]	**36.94**	29.68	24%	**35.34**	32.95	7%
Capital asset additions (excluding acquisitions)	**$125,501**	$52,295	140%	**$363,150**	$165,821	119%
Property and business acquisitions (dispositions), net	**$411**	($966)	143%	**$515,908**	$29,972	1,621%
Abandonment and reclamation expenditures	**$4,282**	$2,367	81%	**$6,249**	$8,017	(22%)
Net wells drilled	**14.4**	10.8	33%	**119.3**	76.7	56%
Net undeveloped land acquired in business combination (acres)[(3)]	-	-	-	**223,405**	-	100%
Net undeveloped land additions (acres)	**54,560**	22,773	140%	**108,040**	45,160	139%
DOWNSTREAM OPERATIONS						
Average daily throughput (bbl/d)	**38,016**	94,833	(60%)	**67,563**	68,073	(1%)
Average Refining Margin (US$/bbl)	**8.09**	8.56	(5%)	**10.21**	5.86	74%
Capital asset additions	**108,741**	8,459	1,186%	**144,620**	17,142	744%

(1) Revenues are net of royalties and the effective portion of Harvest's realized crude oil hedges.
(2) Excludes the effect of risk management contracts designated as hedges.
(3) Excludes carried interest lands acquired in business combination.

PRESIDENTS MESSAGE: Q2 2011

During the second quarter of 2011, we made a number of important steps in developing and delivering on our business plan. Early in the second quarter, the success of our drilling program was evidenced by reaching record high production volumes due to greater than expected performance from recently drilled wells. With our oil-weighted asset base, we were able to enjoy the strength in oil prices during the quarter. Our portfolio of opportunities and undeveloped land base was substantially increased through acquisition, exploration and step-out drilling in areas that identified and confirmed future drilling opportunity.

However, during the quarter we also experienced some external challenges. Most significantly, the shutdown of the non-operated Rainbow pipeline in late April 2011 has resulted in restricted production from our northern Alberta and northeastern British Columbia assets. As well, we had been impacted from the wet weather and flooding in southeastern Saskatchewan and the significant forest fire activity in northern Alberta. Despite this, we largely delivered on our second quarter expectations through the strong performance of unaffected assets and in finding alternative markets for our production.

Capital spending in the quarter amounted to $234.2 million of which $125.5 million was committed to our upstream operations representing a 140% increase from the same quarter last year. 76% of the capital in the quarter was used for drilling and completion activities and well equipment, pipeline and facilities. In our downstream business, $108.7 million was spent on capital projects, which is a significant increase over the same quarter last year due to turnaround activity. Increases in production and capital spending is a result of Harvest's commitment as a growth-oriented oil and gas company, developing the unexploited potential of our asset base in both the upstream and downstream segments of our business.

UPSTREAM

Harvest's upstream production averaged 55,338 boe/d and 54,340 boe/d for the three and six month periods ended June 30, 2011 reflecting a 12% and 9% increase to production volumes year over year. The increase in sales volume and the strength in oil prices were the main contributors to the 65% improvement over the same quarter of 2010 in upstream cash contribution of $175.2 million for the quarter. Production for the second quarter was slightly below guidance of 56,000 boe/d due to the disruption in the non-operated Rainbow pipeline as well as forest fires in northern Alberta and flooding in SE Saskatchewan.

The second quarter marks the first full reporting period to incorporate the acquired assets of Hunt Oil Company of Canada ("Hunt") which closed in the first quarter of this year. Integration of the Hunt assets has been positive as land positions were complementary to existing Harvest lands. We now have drilled a series of wells on lands acquired from Hunt and are realizing better than expected performance. As Harvest pursues the development of our asset base, we also continue to evaluate attractive acquisition opportunities to enable further growth.

Upstream activity in the second quarter of 2011 focused on drilling opportunities. During the quarter, Harvest invested $125.5 million in upstream capital expenditures resulting in the drilling of 19 gross wells (14.4 net) with a 95% success rate. In our Kindersley area, we drilled 6 gross wells into the Viking light oil formation. Other areas of drilling included 4 gross wells drilled in Lloydminster in pursuit of heavy oil and 1 gross well in each of the Suffield and SE Saskatchewan areas. Tie-ins of wells acquired through the Hunt acquisition were completed in the first quarter, and in the second quarter we drilled additional wells in areas that had been acquired through Hunt and are very pleased with the initial results.

The BlackGold oil sands project has experienced cost and schedule pressure and we are evaluating possibilities to minimize the impact on the project. Progression of the project continued with detailed engineering work during the quarter. Construction activity was slowed due to spring break up conditions, however, drilling of the Steam Assisted Gravity Drainage ("SAGD") production wells are planned for the third quarter of this year. Site preparation and construction of the SAGD facility are ongoing as weather conditions allow.

DOWNSTREAM

Downstream operations remained active in the second quarter as we began a full refinery shutdown and turnaround at the end of May 2011. Due to the large scale maintenance activities, operating performance was impacted as throughput for the three and six month periods ended June 30, 2011 was 38,016 bbl/d and 67,563 bbl/d meeting expectations for the quarter.

During the shutdown, we replaced catalysts on a number of production units. In addition, we conducted turnaround activities on virtually all the refinery's major process units and common facilities. Refining gross margin averaged US$8.09/bbl for the quarter, a decrease of $0.47/bbl compared to the second quarter of 2010. As a result, downstream operations incurred a $9.0 million operating loss during the second quarter of 2011 reflecting the lower throughput and reduced margins.

Capital expenditures totaled $108.7 million during the quarter including $24.9 million related to Debottlenecking Projects and the remainder spent on turnaround costs and other discretionary projects. At the completion of the turnaround in early August, we anticipate improved efficiencies, yield and throughput.

As previously announced, Vitol Refining Group ("Vitol") provided notice to Harvest to terminate the existing Supply and Offtake Agreement ("SOA") at the end of October 2011. Harvest has been in discussions to negotiate a new SOA and is currently in the process of finalizing a new agreement.

CORPORATE

Cash from operating activities was $107.5 million and $254.3 million for the three and six month periods ended June 30, 2011, representing a (12)% and 27% change over the same period last year.

In April, Harvest successfully extended and amended our $500 million credit facility. The credit facility was extended by two years and matures April 30, 2015. Benefits of renewing the credit facility at this time include reduced borrowing costs and the addition of three new banks to the syndicate for a total of 10 Canadian and global banks strengthening the capabilities of the syndicate.

To reduce volatility in our cash flow, Harvest utilizes hedging of commodities and currency if considered fit. In April, 4,200 bbl/d was hedged for WTI in 2012 at $111.37/bbl in addition to the 16,400 bbl/d for WTI in 2011 at an average price of $93.54/bbl. A complete summary of Harvest's price risk management program can be accessed on our website at www.harvestenergy.ca under Investor Information and also in Note 17 of our financial statements.

In July, Mr. Rob Morgan resigned as Chief Operating Officer of our Upstream business. Mr. Morgan joined Harvest as COO in the 2006 merger with Viking Energy Trust and is now pursuing another opportunity within the oil & gas sector. We would like to thank Mr. Morgan for his hard work and contribution to the development of Harvest and we wish him well in his future endeavors.

As an integrated oil company, we are focused on the environmental, health and safety issues both in the upstream and in the downstream segments of our business. We use responsible practices to ensure the protection of people and the environment. Safety is at the core of our operations and is of utmost importance as we strive to always protect our people, our neighbors and the environment that we all share.

Thank you for your continued interest in and support of Harvest Operations Corp. We look forward to reporting on our future progress and direction in the quarters to come.

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 six months ended June 30, 2011 and the audited consolidated financial statements and MD&A for the year ended December 31, 2010. The information and opinions concerning our future outlook are based on information available at August 10, 2011.

On January 1, 2011, Harvest adopted International Financial Reporting Standards ("IFRS"). Harvest's previously reported consolidated financial statements in Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been adjusted to be in compliance with IFRS on January 1, 2010, the transition date.

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.

NON-IFRS MEASURES

Throughout this MD&A, the Company has referred to certain measures of financial performance that are not specifically defined under IFRS, herein after referred to as GAAP, such as "operating netbacks", "operating income", "gross margin", "total debt", "total capitalization" and "EBITDA". "Operating netbacks" are always 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" 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. "Operating income" 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. "Total debt", "total capitalization" and "EBITDA" are used to assist management in assessing liquidity and the Company's ability to meet financial obligations. The non-GAAP measures may not be comparable to similar measures by other issuers.

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from our unaudited interim consolidated financial statements for the three and six months ended June 30, 2011 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; the volatility in commodity prices 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.

REVIEW OF OVERALL PERFORMANCE

Upstream

- Sales volumes increased by 5,741 boe/d to 55,338 boe/d from the second quarter of 2010 primarily due to additional production from recently acquired properties, partially offset by production reductions due to the Plains Rainbow Pipeline outage and flooding in the SE Saskatchewan area.
- Harvest's operating netback was $36.94/boe prior to hedging for the second quarter of 2011; an increase of 24% from the same quarter in 2010, reflecting higher realized commodity prices in oil and natural gas liquids. Operating netback after hedging totaled $173.4 million as compared to $135.2 million in the same quarter of 2010. The increase in operating netback after hedging is primarily due to higher commodity prices and sales volume, partially offset by increase in operating, and transportation and marketing costs.
- Capital spending of $125.5 million includes the drilling of 19.0 gross (14.4 net) wells with a success rate of 95%. In the second quarter of 2010, capital expenditures of $52.3 million were incurred to drill 13.0 gross (10.8 net) wells.

Downstream

- Throughput volume averaged 38,016 bbl/d as compared to 94,833 bbl/d in the same quarter of 2010 due to a planned shutdown of the refinery units during the second quarter of 2011. Refining gross margin averaged $8.09/bbl in the second quarter of 2011, a decrease of 0.47/bbl, as compared to $8.56/bbl in the same quarter of 2010.
- Operating loss totaled $9.0 million in the second quarter of 2011 as compared to operating income of $29.1 million in the same quarter of 2010. The decrease is primarily due to lower throughput and refinery margins in 2011.
- Capital spending was $108.7 million as compared to $8.5 million in the same quarter of 2010. During the second quarter of 2011 and 2010, $24.9 million and $3.7 million were spent on the debottlenecking project respectively. The remaining increase in capital spending is mainly due to the capitalization of plant turnaround costs of $49.7 million and catalyst replacements of $18.0 million.

Corporate

- During the quarter, Harvest extended the credit facility agreement by two years to April 30, 2015. The minimum rate charged on the credit facility also decreased by 25 bps to 175 bps over the bankers' acceptance rates.

UPSTREAM OPERATIONS

Summary of Financial and Operating Results

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
FINANCIAL						
Petroleum and natural gas sales[2]	**$323,456**	$245,565	32%	**$604,506**	$517,296	17%
Royalties	**(56,561)**	(41,200)	37%	**(92,419)**	(82,956)	11%
Revenues	**266,895**	204,365	31%	**512,087**	434,340	18%
Operating expenses	**82,315**	68,328	20%	**165,910**	132,581	25%
Transportation and marketing	**11,126**	2,068	438%	**14,129**	4,275	231%
Realized loss (gain) on risk management contracts[3]	**16**	(1,200)	101%	**(2,208)**	(187)	(1,081%)
Operating netback after hedging[1] [3]	**173,438**	135,169	28%	**334,256**	297,671	12%
General and administrative expenses	**14,817**	11,726	26%	**28,339**	24,143	17%
Depreciation, depletion and amortization	**127,934**	117,806	9%	**249,278**	234,140	6%
Exploration and evaluation	**4,243**	2,502	70%	**10,454**	2,528	314%
Gain on disposition of property, plant and equipment	**(440)**	(756)	(42%)	**(680)**	(1,019)	(33%)
	$26,884	$3,891	591%	**$46,865**	$37,879	24%
Capital asset additions (excluding acquisitions)	**$125,501**	$52,295	140%	**$363,150**	$165,821	119%
Property and business acquisitions (dispositions)	**$411**	$(966)	143%	**$515,908**	$29,972	1,621%
Abandonment and reclamation expenditures	**$4,282**	$2,367	81%	**$6,249**	$8,017	(22%)
OPERATING						
Light / medium oil (bbl/d)	**22,294**	24,874	(10%)	**23,900**	24,681	(3%)
Heavy oil (bbl/d)	**8,559**	9,090	(6%)	**8,797**	9,170	(4%)
Natural gas liquids (bbl/d)	**5,937**	2,334	154%	**4,703**	2,574	83%
Natural gas (mcf/d)	**111,291**	79,797	39%	**101,643**	80,769	26%
Total (boe/d)	**55,338**	49,597	12%	**54,340**	49,886	9%

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.
(2) Inclusive of the effective portion of Harvest's realized crude oil hedges.
(3) Realized loss (gain) on risk management contracts includes the settlement amounts for power derivative contracts and the ineffective portion of realized crude oil hedges.

Commodity Price Environment

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
West Texas Intermediate crude oil (US$ per barrel)	**102.56**	78.03	31%	**98.33**	78.37	25%
Edmonton light crude oil ($ per barrel)	**103.26**	75.14	37%	**95.65**	77.71	23%
Bow River blend crude oil ($ per barrel)	**83.25**	66.56	25%	**77.29**	70.05	10%
AECO natural gas daily ($ per mcf)	**3.88**	3.89	-	**3.82**	4.42	(14%)
Canadian / U.S. dollar exchange rate	**1.033**	0.973	6%	**1.024**	0.967	6%
Differential Benchmarks						
Bow River blend differential to Edmonton Par ($/bbl)	**$20.01**	$8.58	133%	**$18.36**	$7.66	140%
Bow River blend differential as a % of Edmonton Par	**19.4%**	11.0%	76%	**19.2%**	9.9%	94%

The average WTI benchmark price of $102.56 in the second quarter of 2011 was 31% higher than the second quarter 2010 average price. The average Edmonton light crude oil price ("Edmonton Par") increased in the second quarter as well as for the six months ended June 2011, due to the higher WTI prices, the improvement of the sweet differential in the second quarter of 2011, partially offset by the stronger Canadian dollar.

During the three and six months ended June 30, 2011, the Bow River heavy oil differential relative to Edmonton Par widened, as compared to the same periods in 2010. 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. The Bow River blend crude oil price ("Bow River") increased in 2011 with the higher WTI price, and partially offset by the stronger Canadian dollar and wider Bow River differential.

Realized Commodity Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
Light to medium oil prior to hedging ($/bbl)	**94.08**	68.78	37%	**85.91**	71.53	20%
Heavy oil ($/bbl)	**74.84**	56.51	32%	**68.03**	61.26	11%
Natural gas liquids and others ($/bbl)[2]	**79.87**	60.68	32%	**76.02**	60.25	26%
Natural gas ($/mcf)	**4.12**	4.17	(1%)	**3.99**	4.65	(14%)
Average realized price prior to hedging ($/boe)	**66.73**	54.41	23%	**63.05**	57.29	10%
Light to medium oil after hedging ($/bbl)[1]	**87.87**	68.78	28%	**82.29**	71.53	15%
Average realized price after hedging ($boe)[1]	**64.23**	54.41	18%	**61.46**	57.29	7%

(1) Inclusive of the realized gain (loss) from crude oil contracts designated as hedges. Foreign exchange and power contracts are excluded from the realized price.
(2) Inclusive of sulphur revenue.

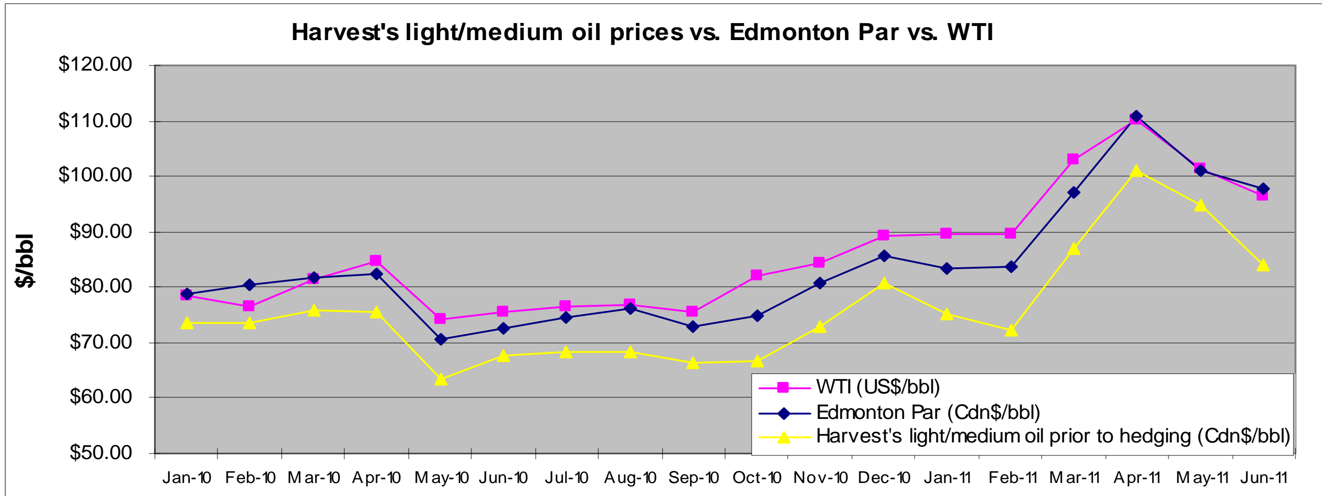
Prior to hedging activities, our realized prices for light to medium oil for the three and six months ended June 30, 2011 increased by 37% and 20%, respectively, compared to the same periods in 2010. This is consistent with the 37% and 23% increase in Edmonton Par prices for the three and six months ended 2011.

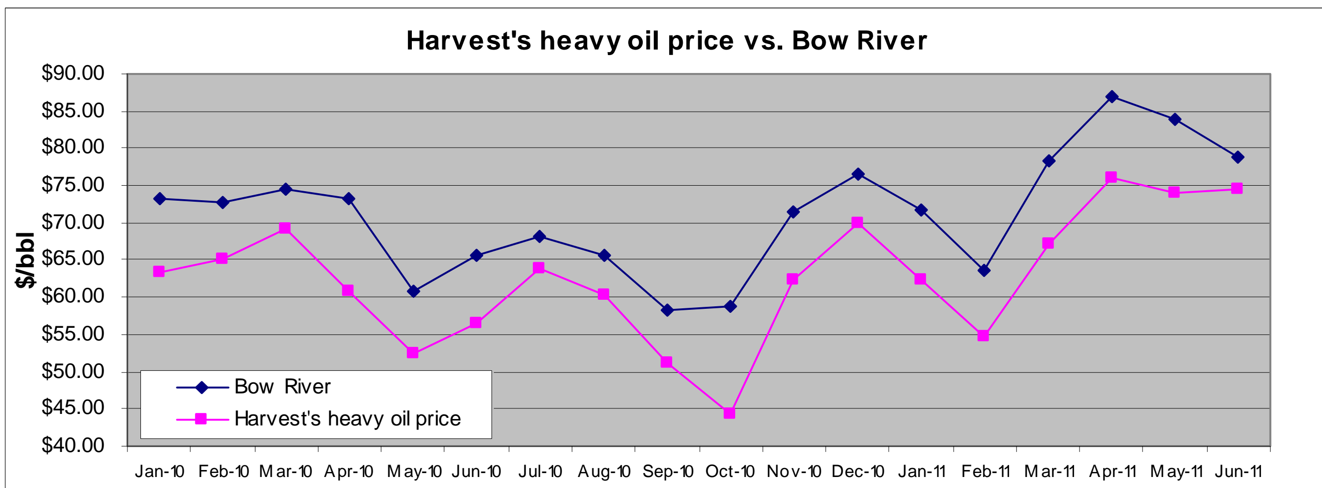
In order to manage commodity price volatility and the impact on cash flow, Harvest has entered into various crude oil fixed-for-floating swaps. The impact of this hedging activity resulted in a decrease of $6.21/bbl (2010 – $nil) in Harvest's realized light to medium oil price to $87.87/bbl in the second quarter of 2011. For the six months ended 2011, hedging activities resulted in a decrease of $3.62/bbl (2010 - $nil) to the realized light to medium oil price. Please see "Cash Flow Risk Management" section in this MD&A for further discussion with respect to our cash flow risk management program.

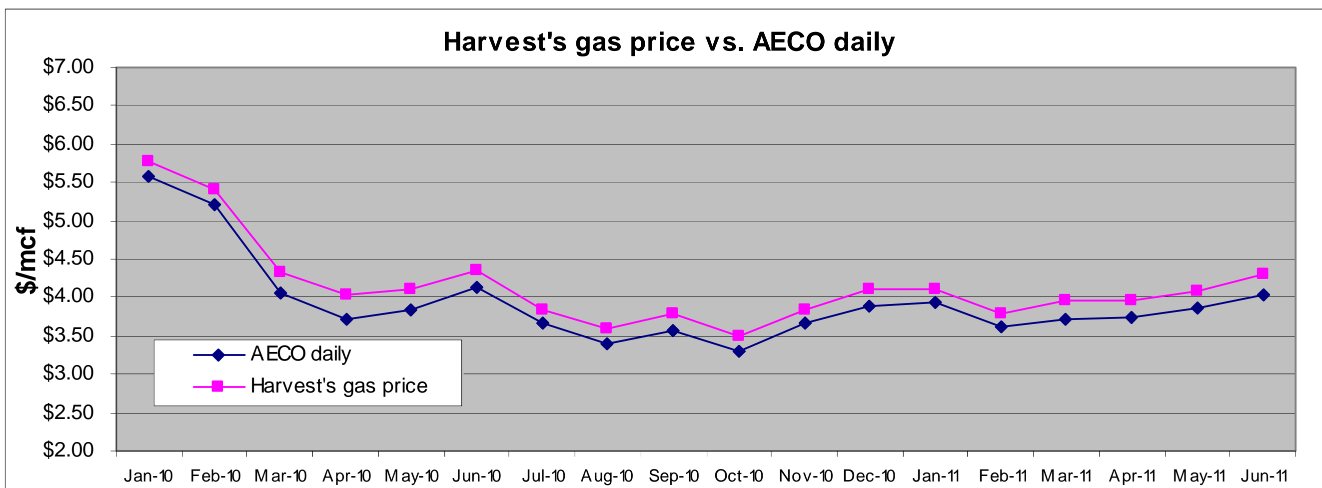
Harvest's realized heavy oil prices for the three and six months ended June 30, 2011 increased by 32% and 11% respectively, mainly due to the increase in the Bow River prices.

For the three and six months ended June 30, 2011, our realized prices for natural gas liquids increased by $19.19/bbl (32%) and $15.77/bbl (26%), respectively, reflecting the increase in sulphur sales due to the Hunt acquisition in the first quarter of 2011 as well as the increase in natural gas liquids commodity prices.

The realized prices for Harvest's natural gas production for the three and six months ended June 30, 2011 decreased by 1% and 14%, respectively, compared to the same periods in 2010, mainly due to the decrease in AECO benchmark prices.







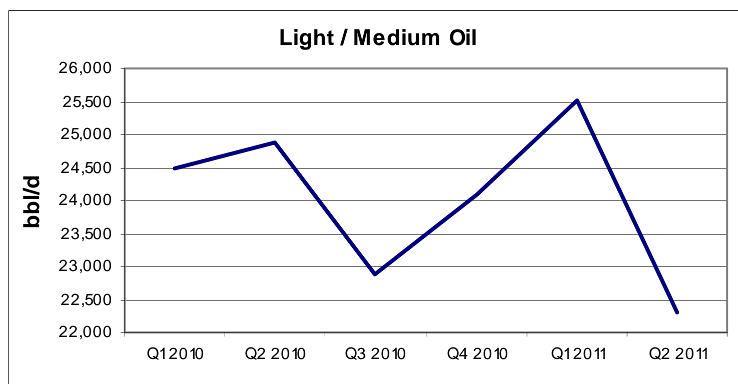
Sales Volumes

	Three Months Ended June 30				
	2011		2010		
	Volume	**Weighting**	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)[(1)]	**22,294**	**40%**	24,874	50%	(10%)
Heavy oil (bbl/d)	**8,559**	**15%**	9,090	18%	(6%)
Natural gas liquids (bbl/d)	**5,937**	**11%**	2,334	5%	154%
Total liquids (bbl/d)	**36,790**	**66%**	36,298	73%	1%
Natural gas (mcf/d)	**111,291**	**34%**	79,797	27%	39%
Total oil equivalent (boe/d)	**55,338**	**100%**	49,597	100%	12%

	Six Months Ended June 30				
	2011		2010		
	Volume	**Weighting**	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)[(1)]	**23,900**	**44%**	24,681	50%	(3%)
Heavy oil (bbl/d)	**8,797**	**16%**	9,170	18%	(4%)
Natural gas liquids (bbl/d)	**4,703**	**9%**	2,574	5%	83%
Total liquids (bbl/d)	**37,400**	**69%**	36,425	73%	3%
Natural gas (mcf/d)	**101,643**	**31%**	80,769	27%	26%
Total oil equivalent (boe/d)	**54,340**	**100%**	49,886	100%	9%

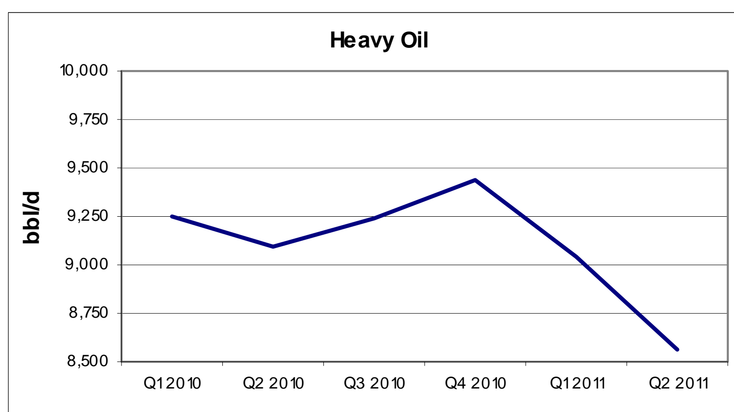
(1) Harvest classifies our oil production, except that produced from Hay River, as light to medium and heavy according to NI 51-101 guidance. The oil produced from Hay River has an average API of 24° (medium grade) and is classified as a light to medium oil, notwithstanding that, it benefits from a heavy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

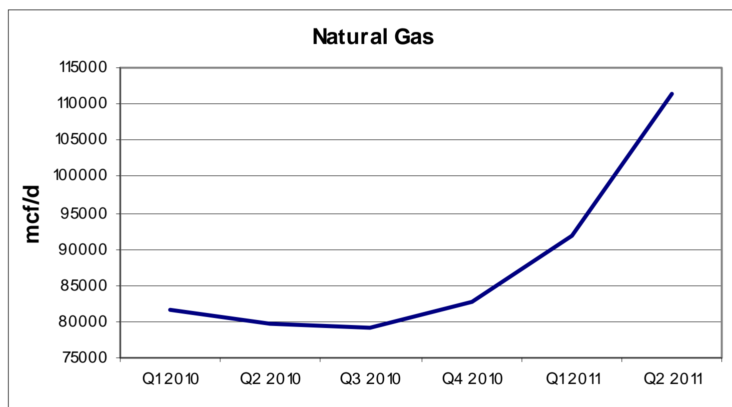
Total sales volumes were 55,338 boe/d for the second quarter of 2011 and 54,340 boe/d for the first six months of 2011, an increase of 12% and 9% respectively, compared to the same periods in 2010. These increases are primarily attributable to the acquisition of assets at the end of the third quarter of 2010 and the acquisition of the Hunt assets at the end of February 2011.



Harvest's second quarter of 2011 light/medium oil sales was 22,294 bbl/d, a 2,580 bbl/d (10%) reduction from the same quarter in 2010 and a reduction of 3,229 bbl/d (13%) from the first quarter of 2011. Harvest's year-to-date 2011 light/medium oil sales also declined by 781 bb/d (3%) from 2010. Sales volumes declined during the second quarter of 2011 mainly due to the impact of the Plains Rainbow Pipeline outage and production disruptions associated with flooding in the SE Saskatchewan area. These decreases were partially offset by the third quarter 2010 acquisition and the Hunt acquisition in the first quarter of 2011.

Heavy oil sales decreased by 6% in the second quarter of 2011 and 4% year-to-date, compared to the same periods in 2010. The decreases are primarily due to natural declines.





Natural gas sales averaged 111,291 mcf/d during the second quarter of 2011 reflecting a 19,403 mcf/d (21%) increase from the first quarter of 2011 and 31,494 mcf/d (39%) increase from the second quarter of 2010. For the six months ended June 30 2011, natural gas sales increased by 20,874 mcf/d (26%), compared to 2010. These increases are mainly due to the acquisition of Hunt assets at the end of February 2011.

Revenues

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
Light / medium oil sales after hedging[1]	**$178,265**	$155,678	15%	**$355,991**	$319,535	11%
Heavy oil sales	**58,293**	46,747	25%	**108,325**	101,678	7%
Natural gas sales	**41,704**	30,253	38%	**73,383**	68,018	8%
Natural gas liquids sales and other[2]	**45,194**	12,887	251%	**66,807**	28,065	138%
Petroleum and natural gas sales	**323,456**	245,565	32%	**604,506**	517,296	17%
Royalties	**(56,561)**	(41,200)	37%	**(92,419)**	(82,956)	11%
Revenues	**$266,895**	$204,365	31%	**$512,087**	$434,340	18%

(1) Inclusive of realized gain (loss) from crude oil contracts designated as hedges. Foreign exchange and power contracts are excluded from the sales revenue.

(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is impacted by changes in sales volumes, commodity prices and currency exchange rates. In the second quarter of 2011, total petroleum and natural gas sales increased by $77.9 million, compared to the second quarter of 2010. The 32% increase is attributable to the increase of 18% in realized prices after hedging activities and 12% in sales volumes. For the first six months of 2011, total petroleum and natural gas sales increased by $87.2 million (17%), reflecting the increase of 7% in realized prices after hedging activities and 9% in sales volumes.

The significant increase in natural gas liquids sales for the three and six months ended June 30, 2011 is mainly due to increases in sales volumes and sulphur revenue from the acquisition of Hunt assets at the end of February 2011. Sulphur revenue represented $7.8 million of the total natural gas liquids sales for the six months ended June 30, 2011 (2010 - $0.1 million). The increase in natural gas liquids prices for the three and six months ended June 30, 2011 further increased the natural gas liquids sales.

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 a sliding scale dependent on production volumes and commodity prices.

For the second quarter of 2011, royalties as a percentage of gross revenue averaged 17.5% (2010 – 16.8%). The higher royalty rate is mainly due to an Alberta Crown gas cost allowance adjustment combined with higher rates on the Hunt assets. For the six months ended June 30, 2011, royalties as a percentage of gross revenue averaged 15.3% (2010 – 16.0%).

Operating Expenses

	Three Months Ended June 30				
	2011	**Per BOE**	2010	Per BOE	Per BOE Change
Operating expense					
Power and fuel	**$16,599**	**$3.30**	$18,671	$4.13	$(0.83)
Well servicing	**16,276**	**3.23**	11,328	2.51	0.72
Repairs and maintenance	**13,578**	**2.70**	10,199	2.26	0.44
Lease rentals and property tax	**7,977**	**1.58**	7,713	1.71	(0.13)
Labor - internal	**6,695**	**1.33**	5,484	1.22	0.11
Labor - contract	**5,047**	**1.00**	3,897	0.86	0.14
Chemicals	**4,147**	**0.82**	4,056	0.90	(0.08)
Trucking	**3,402**	**0.68**	2,578	0.57	0.11
Processing and other fees	**4,819**	**0.96**	3,064	0.68	0.28
Other	**3,775**	**0.75**	1,338	0.30	0.45
Total operating expenses	**$82,315**	**$16.35**	$68,328	$15.14	$1.21
Transportation and marketing	**$11,126**	**$2.21**	$2,068	$0.46	$1.75

	Six Months Ended June 30				
	2011	**Per BOE**	2010	Per BOE	Per BOE Change
Operating expense					
Power and fuel	**$38,150**	**$3.88**	$31,716	$3.51	$0.37
Well servicing	**33,189**	**3.37**	24,245	2.69	0.68
Repairs and maintenance	**26,449**	**2.69**	20,838	2.31	0.38
Lease rentals and property tax	**15,745**	**1.60**	15,829	1.75	(0.15)
Labor - internal	**13,743**	**1.40**	11,738	1.30	0.10
Labor - contract	**9,120**	**0.93**	7,917	0.88	0.05
Chemicals	**7,973**	**0.81**	7,857	0.87	(0.06)
Trucking	**5,956**	**0.61**	4,683	0.52	0.09
Processing and other fees	**6,126**	**0.62**	6,979	0.77	(0.15)
Other	**9,459**	**0.96**	779	0.08	0.88
Total operating expenses	**$165,910**	**$16.87**	$132,581	$14.68	$2.19
Transportation and marketing	**$14,129**	**$1.44**	$4,275	$0.47	$0.97

Operating costs for the second quarter of 2011 totaled $82.3 million, an increase of $14.0 million compared to the same period in 2010. The increase in operating costs is attributable to the acquisition of assets at the end of September 2010 and February 2011 combined with increased well servicing and repairs and maintenance activities. Operating costs on a per barrel basis have increased to $16.35/boe as compared to $15.14/boe in the second quarter of 2010. The 8% increase on a per barrel basis is substantially attributed to higher activity levels on well servicing and repairs and maintenance.

On a year-to-date basis, operating costs for 2011 totaled $165.9 million, an increase of $33.3 million when compared to the same period in 2010. On a per barrel basis, year-to-date operating costs increased by $2.19/boe (15%) which is attributable to higher power and fuel, well servicing, and repairs and maintenance costs.

($ per boe)	Three Months Ended June 30 2011	2010	Change	Six Months Ended June 30 2011	2010	Change
Electric power and fuel costs	**$3.30**	$4.13	$(0.83)	**$3.88**	$3.51	$0.37
Realized loss (gain) on electricity risk management contracts	**(0.07)**	(0.27)	0.20	**(0.27)**	(0.02)	(0.25)
Net electric power and fuel costs	**$3.23**	$3.86	$(0.63)	**$3.61**	$3.49	$0.12
Alberta Power Pool electricity price ($ per MWh)	**$52.12**	$80.56	$(28.44)	**$67.73**	$60.72	$7.01

Power and fuel costs, comprised primarily of electric power costs, represented approximately 20% of our total operating costs during the second quarter of 2011 (2010 – 27%). The 11% decrease from the second quarter of 2010 is primarily attributable to the decrease in the average Alberta electric power price to $52.12/MWh in the second quarter of 2011 from $80.56/MWh in 2010. The power and fuel costs for the first six months of 2011 totaled $38.2 million, an increase of 20% compared to 2010, mainly attributable to the higher average power prices (2011 - $67.73/MWh; 2010 - $60.72/MWh).

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 fluctuates in relation with our production volumes. The transportation and marketing expense increased by $1.75/boe or $9.1 million in the second quarter of 2011 compared to the second quarter of 2010. Year-to-date 2011 transportation and marketing expense increased by $0.97/boe or $9.9 million compared to the same period in 2010. The primary reason for the increases is due to the outage of the Plains Rainbow Pipeline in the second quarter of 2011. In response to the outage, Harvest incurred higher oil trucking costs at Hay and Red Earth.

Operating Netback

($ per BOE)	Three Months Ended June 30 2011	2010	Change	Six Months Ended June 30 2011	2010	Change
Petroleum and natural gas sales prior to hedging	**$66.73**	$54.41	23%	**$63.05**	$57.29	10%
Royalties	**(11.23)**	(9.13)	23%	**(9.40)**	(9.19)	2%
Operating expense	**(16.35)**	(15.14)	8%	**(16.87)**	(14.68)	15%
Transportation expense	**(2.21)**	(0.46)	380%	**(1.44)**	(0.47)	206%
Operating netback prior to hedging [(1)]	**36.94**	29.68	24%	**35.34**	32.95	7%
Hedging gain (loss)[(2)]	**(2.50)**	0.27	(1,026%)	**(1.37)**	0.02	(6,950%)
Operating netback after hedging [(1)]	**$34.44**	$29.95	15%	**$33.97**	$32.97	3%

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.
(2) Hedging gain (loss) includes the settlement amounts for crude oil and power contracts.

Harvest's operating netback represents the net amount realized on a per boe basis after deducting directly related costs. In the second quarter of 2011, operating netback prior to hedging increased by $7.26/boe or 24% compared to the second quarter of 2010. For year-to-date 2011, operating netback prior to hedging increased by $2.39/boe, an increase of 7% when compared to the same period in 2010. The increase is primarily attributable to increases in realized commodity prices and sales volumes, partially offset by increases in royalties, operating costs and transportation costs.

General and Administrative ("G&A") Expense

	Three Months Ended June 30 2011	2010	Change	Six Months Ended June 30 2011	2010	Change
G&A expense	**$14,817**	$11,726	26%	**$28,339**	$24,143	17%
G&A per boe ($/boe)	**$2.94**	$2.60	13%	**$2.88**	$2.67	8%

For the second quarter of 2011, G&A expense increased by $3.1 million compared to $11.7 million in the second quarter of 2010. For the first six months of 2011, G&A expense totaled $28.3 million, an increase of approximately $4.2 million when compared to the same period in 2010. The increase in G&A is primarily due to increased salary expense. Approximately 92% of the G&A expenses are related to 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 ("DDA")

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
Depletion, depreciation and amortization	**$127,934**	$117,806	9%	**$249,278**	$234,140	6%
Per BOE ($/BOE)	**$25.41**	$26.10	(3%)	**$25.34**	$25.93	(2%)

DDA expense for the three and six months ended June 30, 2011 increased by $10.1 million and $15.1 million, respectively, compared to the same periods in 2010, mainly due to higher sales volumes.

Capital Expenditures

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
Drilling and completion	**$55,511**	$20,998	164%	**$193,208**	$94,757	104%
Well equipment, pipelines and facilities	**40,372**	16,225	149%	**98,061**	45,730	114%
Geological and geophysical	**3,132**	2,878	9%	**13,932**	11,429	22%
Land and undeveloped lease rentals	**4,410**	10,236	(57%)	**10,100**	10,407	(3%)
Capitalized G&A expenses	**2,570**	1,825	41%	**4,922**	3,178	55%
Furniture, leaseholds and office equipment	**405**	133	205%	**1,051**	320	228%
	106,400	52,295	103%	**321,274**	165,821	94%
BlackGold oil sands	**19,101**	-	100%	**41,876**	-	100%
Total development capital expenditures excluding acquisitions	**$125,501**	$52,295	140%	**$363,150**	$165,821	119%

The second quarter of 2011 was more active for Harvest when compared to the same quarter in 2010. Total capital spending excluding BlackGold for the second quarter of 2011 was $106.4 million as compared to $52.3 million in the second quarter of 2010. In particular, capital spending on well equipment, pipelines and facilities increased by 149% as compared to the same quarter in 2010 due to increase in activities related to tie-in of wells drilled in Q1 2011, particularly in the Hay, Red Earth and Crossfield areas. During the second quarter of 2011, Harvest drilled 6 gross (5.8 net) horizontal wells in the Kindersley area in the Viking light oil formation and completed an additional 7 wells drilled in Q1 2011 for a total expenditure of $11.0 million. In SE Saskatchewan, Harvest drilled one (gross/net) light oil well into the Tilston formation. In the heavy oil areas, Harvest drilled 4 gross (3.3 net) wells in the Dina formation in Lloydminster and one (gross/net) well into the Glauc formation at

Suffield for a total expenditure of $12.4 million. Building on the success of the Q1 2011 program into the Company's liquids rich natural gas opportunities, Harvest drilled 5 gross (2.0 net) wells including a Falher horizontal well in the Peace River Arch Deep basin for a total expenditure of $12.3 million. In addition, Harvest spent $18.8 million in the second quarter of 2011 to complete wells drilled in Q1 2011 in the Hay, Crossfield and Red Earth areas.

Capital spending excluding BlackGold for the six months ended June 30, 2011 totaled $321.3 million (2010 - $165.8 million). For the first six months in 2011, Harvest drilled a total of 134.0 gross (119.3 net) wells (2010 – 93.0 gross and 76.7 net wells). The increase in capital spending compared to 2010 is due to a more active winter drilling program in the Company's large resource oil pools.

Below is a summary of the wells drilled by Harvest during the three and six months ended June 30, 2011. For the second quarter of 2011, Harvest's overall success rate was 95%.

	June 30, 2011			
	Three Months Ended		Six Months Ended	
Area	**Gross**	**Net**	**Gross**	**Net**
Hay River	-	-	38.0	38.0
Red Earth	-	-	23.0	21.0
Rimbey/Markerville	1.0	0.4	10.0	4.9
Lloydminster Heavy Oil	4.0	3.3	12.0	11.3
Kindersley	6.0	5.8	13.0	12.8
SE Saskatchewan	1.0	1.0	4.0	4.0
Crossfield	-	-	3.0	2.4
Suffield	1.0	1.0	3.0	3.0
Other Areas	6.0	2.9	16.0	9.9
Oil sands	-	-	12.0	12.0
Total	19.0	14.4	134.0	119.3

BlackGold oil sands

The BlackGold oil sands project continued to progress in the second quarter of 2011 but with reduced site activities due to spring break-up conditions. For the three and six months ended June 30, 2011, Harvest invested a total of $19.1 million (2010 - $nil) and $41.9 million (2010 - $nil) respectively, in the BlackGold oil sands project for the construction of the central processing facility and well pads.

Decommissioning Liabilities

Harvest's decommissioning liabilities increased by $52.8 million during the first six months of 2011 mainly as a result of $38.0 million of liabilities acquired from Hunt, combined with accretion of $11.7 million, new liabilities of $6.2 million incurred on new drills and a revision of estimates of $3.1 million, partially offset by $6.2 million of reclamation and abandonment expenditures.

DOWNSTREAM OPERATIONS

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
FINANCIAL						
Refined products sales [1]	**479,171**	820,200	(42%)	**1,452,681**	1,159,705	25%
Purchased products for processing and resale [1]	**441,037**	732,643	(40%)	**1,302,829**	1,064,039	22%
Gross margin[2]	**38,134**	87,557	(56%)	**149,852**	95,666	57%
Operating expense	**25,723**	29,082	(12%)	**51,806**	57,737	(10%)
Purchased energy expense	**20,136**	27,040	(26%)	**47,992**	42,470	13%
Marketing expense	**1,239**	2,364	(48%)	**2,933**	3,315	(12%)
Operating income (loss)[2]	**(8,964)**	29,071	(131%)	**47,121**	(7,856)	700%
General and administrative	**441**	441	-	**882**	882	-
Depreciation and amortization	**22,276**	20,179	10%	**41,676**	40,624	3%
	(31,681)	8,451	(475%)	**4,563**	(49,362)	109%
Capital expenditures	**108,741**	8,459	1,186%	**144,620**	17,142	744%
OPERATING						
Feedstock volume (bbl/d)[3]	**38,016**	94,833	(60%)	**67,563**	68,073	(1%)
Yield (% of throughput volume)[4]						
Gasoline and related products	**33%**	34%	(3%)	**32%**	31%	3%
Ultra low sulphur diesel and jet fuel	**41%**	41%	-	**37%**	38%	(3%)
High sulphur fuel oil	**25%**	27%	(7%)	**28%**	29%	(3%)
Total	**99%**	102%	(3%)	**97%**	98%	(1%)
Average refining gross margin (US$/bbl)[5]	**8.09**	8.56	(5%)	**10.21**	5.86	74%

(1) Refined product sales and purchased products for processing and resale are net of intra-segment sales of $124.4 million and $240.7 million for the three and six months ended June 30, 2011 respectively (2010 - $120.8 million and $208.5 million respectively), 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 June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
WTI crude oil (US$/bbl)	**102.56**	78.03	31%	**98.33**	78.37	25%
Brent crude oil (US$/bbl)	**117.17**	79.94	47%	**111.09**	78.63	41%
Mars premium (discount) (US$/bbl)	**9.41**	(1.58)	696%	**8.43**	2.25	275%
2-1-1 crack spread (US$/bbl)	**26.67**	11.78	126%	**23.77**	10.08	136%
RBOB crack spread (US$/bbl)	**27.84**	13.04	113%	**22.81**	11.25	103%
Heating Oil crack spread (US$/bbl)	**25.50**	10.51	143%	**24.72**	8.90	178%
High Sulphur Fuel Oil discount (US$/bbl)	**(1.61)**	(8.79)	(82%)	**(3.56)**	(8.38)	(58%)
Canadian / U.S. dollar exchange rate	**1.033**	0.973	6%	**1.024**	0.967	6%

Summary of Gross Margins

	Three Months Ended June 30					
	2011			2010		
	(000's Cdn $)	**Volumes (000's bbls)**	**(US$/bbl)**	(000's Cdn $)	Volumes (000's bbls)	(US$/ bbl)
Refinery						
Sales						
Gasoline products	**151,725**	**1,193**	**$131.38**	$275,023	3,025	$88.46
Distillates	**190,185**	**1,515**	**129.68**	351,691	3,838	89.16
High sulphur fuel oil	**96,800**	**1,006**	**99.40**	164,573	2,331	68.70
Total sales	**438,710**	**3,714**	**122.02**	791,287	9,194	83.74
Feedstock [1]						
Middle Eastern	**337,646**	**3,143**	**110.97**	490,136	6,539	72.93
Russian	**-**	**-**	**-**	15,897	194	79.73
South American	**-**	**-**	**-**	92,971	1,368	66.13
	337,646	**3,143**	**110.97**	599,004	8,101	71.95
Vacuum gas oil	**34,633**	**316**	**113.21**	43,209	529	79.48
Total feedstock	**372,279**	**3,459**	**111.18**	642,213	8,630	72.41
Other[2]	**39,347**			73,172		
Total feedstock and other costs	**411,626**			715,385		
Refinery gross margin[3]	**$27,084**		**$8.09**	$75,902		$8.56
Marketing						
Sales	**164,817**			149,673		
Cost of products sold	**153,767**			138,018		
Marketing gross margin[3]	**$11,050**			$11,655		
Total gross margin[3]	**$38,134**			$87,557		

(1) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.
(2) Includes inventory adjustments and additives and blendstocks
(3) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

	Six Months Ended June 30					
	2011			2010		
	(000's Cdn $)	**Volumes (000's bbls)**	**(US$/bbl)**	(000's Cdn $)	Volumes (000's bbls)	(US$/ bbl)
Refinery						
Sales						
Gasoline products	**$497,608**	**4,387**	**$116.15**	$360,387	3,972	$87.74
Distillates	**564,576**	**4,606**	**125.52**	463,998	5,053	88.80
High sulphur fuel oil	**308,838**	**3,481**	**90.85**	277,942	3,861	69.61
Total sales	**1,371,022**	**12,474**	**112.55**	1,102,327	12,886	82.72
Feedstock [1]						
Middle Eastern	**1,147,398**	**11,791**	**99.65**	669,592	8,788	73.68
Russian	**1,311**	**14**	**95.89**	128,480	1,552	80.05
South American	**-**	**-**	**-**	97,455	1,430	65.90
	1,148,709	**11,805**	**99.64**	895,527	11,770	73.57
Vacuum gas oil	**44,683**	**423**	**108.17**	45,070	551	79.10
Total feedstock	**1,193,392**	**12,228**	**99.94**	940,597	12,321	73.82
Other[2]	**55,743**			87,111		
Total feedstock and other costs	**1,249,135**			1,027,708		
Refinery gross margin[3]	**$121,887**		**$10.21**	$74,619		$5.86
Marketing						
Sales	**322,400**			265,824		
Cost of products sold	**294,435**			244,777		
Marketing gross margin[3]	**$27,965**			$21,047		
Total gross margin[3]	**$149,852**			$95,666		

(1) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.
(2) Includes inventory adjustments and additives and blendstocks
(3) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

Feedstock throughput averaged 38,016 bbl/d in the second quarter of 2011, a decrease of 60% from 94,833 bbl/d average feedstock throughput in the second quarter of the prior year. The decrease in average throughput rates is a result of the shutdown of the refinery units in May 2011 for a planned turnaround. The daily average throughput rate for the six months ended June 30, 2011 is comparable to the same period in the prior year due to an unplanned shutdown for fire repairs in 2010.

The decrease in the refinery gross margin for the three months ended June 30, 2011 as compared to the second quarter of 2010 reflects the impact from the planned turnaround. For the six months ended June 30, 2011 refinery gross margins increased as compared to the prior year reflecting significantly stronger global refinery margin, partially offset by the increase in sour crude premium. The Downstream operations' refining gross margin is impacted by several factors including the configuration of the refinery product yields, timing of sales under the Supply and Offtake Agreement ('SOA") with Vitol Refining S.A., transportation costs, location differentials, quality differentials and variability in our throughput volume over a given period of time.

Refinery sales decreased by $352.6 million in the second quarter of 2011 from $791.3 million in the same quarter of 2010 due to the shutdown of the refinery units. The increase of $268.7 million for refinery sales for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010 is mainly the result of higher market prices on refined products.

The cost of our crude oil feedstock before vacuum gas oil ("VGO") in the second quarter of 2011 was US$8.41/bbl premium to the benchmark WTI as compared to a discount of US$6.08/bbl in the same period of the prior year. Similarly, the cost of crude oil feedstock before VGO for the six months ended June 30, 2011 was US$1.31/bbl premium to the benchmark WTI as compared to a discount of US$4.80/bbl in 2010. The change from a discount to a premium is a result of the widening spread between WTI and Brent.

During the three months ended June 30, 2011, the Canadian dollar continued to strengthen as compared to the US dollar. The strengthening of the Canadian dollar in 2011 has negatively impacted the contribution from our refinery operations relative to the prior year as substantially all of its gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

Operating Expenses

	Three Months Ended June 30					
	2011			2010		
	Refining	**Marketing**	**Total**	Refining	Marketing	Total
Operating cost	**20,922**	**4,801**	**25,723**	24,509	4,573	29,082
Purchased energy	**20,136**	**-**	**20,136**	27,040	-	27,040
	41,058	**4,801**	**45,859**	51,549	4,573	56,122
($/bbl of feedstock throughput)						
Operating cost	**6.05**	**-**	**-**	2.84	-	-
Purchased energy	**5.82**	**-**	**-**	3.13	-	-
	11.87	**-**	**-**	5.97	-	-

	Six Months Ended June 30					
	2011			2010		
	Refining	**Marketing**	**Total**	Refining	Marketing	Total
Operating cost	**42,499**	**9,307**	**51,806**	49,653	8,084	57,737
Purchased energy	**47,992**	**-**	**47,992**	42,470	-	42,470
	90,491	**9,307**	**99,798**	92,123	8,084	100,207
($/bbl of feedstock throughput)						
Operating cost	**3.48**	**-**	**-**	4.03	-	-
Purchased energy	**3.92**	**-**	**-**	3.45	-	-
	7.40	**-**	**-**	7.48	-	-

During the three months ended June 30, 2011, refining operating costs per barrel of feedstock throughput increased 113% as compared to the same period in the prior year. The higher cost per barrel in the second quarter of 2011 reflects the lower throughput volume from the planned maintenance in May. During the six

months ended June 30, 2011, refining operating costs per barrel of feedstock throughput decreased 14% as compared to the prior year. Maintenance costs were higher in 2010 due to repairs from the fire.

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 second quarter of 2011 decreased 26% from the second quarter of 2010 due to a volume variance of US$16.7 million offset by a price variance of US$11.7 million. During the six months ended June 30, 2011 purchased energy costs increased 13% as compared to the prior year. The increase in costs is a result of a price variance of US$13.3 million offset by a volume variance of US$6.0 million. The increase in the per barrel cost of energy is attributable to the decreased throughput rates in 2011.

Capital Expenditures

Capital spending for the three and six months ended June 30, 2011 totaled $108.7 million and $144.6 million respectively (2010 - $8.5 million and $17.1 million respectively) relating to various capital improvement projects including $24.9 million and $40.8 million respectively (2010 - $3.7 million and $9.6 million respectively) for the debottlenecking project. The remaining increase in capital spending for the three and six months ended June 30, 2011 is mainly due to the capitalization of turnaround costs of $49.7 million and $53.9 million, respectively, as well as the replacement of catalysts for $18.0 million and $29.7 million, respectively.

Depreciation and Amortization Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	**2011**	2010
Refining	**21,349**	19,340	**39,828**	38,913
Marketing	**927**	839	**1,848**	1,711
Total depreciation and amortization	**22,276**	20,179	**41,676**	40,624

The process units are amortized over an average useful life of 20 to 30 years.

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

The following is a summary of Harvest's risk management contracts outstanding at June 30, 2011:

Contracts not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
30 MWh	Electricity price swap contracts	Jan - Dec 2011	Cdn $46.87	$ 3,966

Contracts Designated as Hedges

Contract quantity	Type of Contract	Term	Contract Price	Fair value
8200 bbls/d	Crude oil price swap contract	Jan - Dec 2011	US $91.23/bbl	$ (8,241)
5000 bbls/d	Crude oil price swap contract	Feb - Dec 2011	US $95.82/bbl	(952)
3200 bbls/d	Crude oil price swap contract	Mar - Dec 2011	US $95.87/bbl	(581)
4200 bbls/d	Crude oil price swap contract	Jan – Dec 2012	US $111.37/bbl	16,794
20,600 bbls/d				$ 7,020

For the second quarter of 2011, Harvest recognized a realized gain of $0.3 million and an unrealized loss of $0.6 million in the consolidated statement of income relating to the electricity price swap contracts. For the first six months of 2011, the total realized and unrealized gain recognized was $2.6 million and $3.0 million respectively. In comparison to 2010, Harvest had electricity price swap contracts in place for 25.0 MWh from January to December 2010 at an average contract price of $59.22/MWh. Harvest recognized a realized and unrealized gain of $1.2 million and $2.2 million, respectively, for the second quarter of 2010. For the six months ended June 30, 2010, the total realized and unrealized gain recognized was $0.2 million and $2.3 million respectively.

The Company enters into crude oil swap contracts to reduce the volatility of cash flows from some of its forecast sales. The swaps are designated as cash flow hedges and are entered into for periods consistent with the forecast petroleum sales. The effective portion of the unrealized gain for the three months and unrealized loss for the six months ended June 30, 2011 of $41.8 million (2010 – $nil) and $0.9 million (2010 – $nil) respectively (net of tax of $15.2 million and $0.3 million recovery, respectively) was included in other comprehensive income. The ineffective portion of the unrealized gains for the three and six months ended June 30, 2011 recognized in net income were $0.4 million and $0.1 million respectively. The amount removed from accumulated other comprehensive income during the period and included in petroleum, natural gas, and refined product sales was $9.2 million (2010 – $nil) and $11.5 million (2010 – $nil) (net of tax of $3.3 million and $4.2 million) for the three and six months ended June 30, 2011 respectively. The Company expects that the $5.6 million of gains reported in accumulated other comprehensive income will be released to net income within the next eighteen months. The ineffective portion of the realized cash flow hedges recognized in net income for the three and six months ended June 30, 2011 was $0.3 million (2010 – $nil) and $0.4 million (2010 – $nil) of losses respectively.

Financing Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	**2011**	2010	Change
Bank loan	**$1,413**	$1,337	6%	**$3,046**	$2,707	13%
Convertible Debentures	**12,452**	12,816	(3%)	**24,779**	26,307	(6%)
Senior notes	**8,702**	3,950	120%	**17,479**	8,356	109%
Amortization of deferred finance charges	**257**	187	37%	**538**	187	188%
Interest and other financing charges	**$22,824**	$18,290	25%	**$45,842**	$37,557	22%
Capitalized interest	**(1,987)**	-	(100%)	**(3,284)**	-	(100%)
	20,837	18,290	14%	**42,558**	37,557	13%
Accretion of decommissioning liabilities	**6,047**	5,733	5%	**11,843**	11,456	3%
Total finance costs	**$26,884**	$24,023	12%	**$54,401**	$49,013	11%

Interest and other financing charges for the three and six months ended June 30, 2011, including the amortization of related financing costs increased by $4.5 million (25%) and $8.3 million (22%), respectively, compared to the same periods in 2010. The increase from prior year is primarily due to the increased amount of senior notes principle outstanding during the three and six months ended 2011, compared to 2010.

Interest expense on Harvest's bank loan for the three and six months ended June 30, 2011 was $1.4 million (2010 - $1.3 million) and $3.0 million (2010 - $2.7 million) respectively. Interest charges on our bank loan reflected an effective interest rate of 2.94% and 2.99%, respectively, compared to 1.95% and 1.51% for the same periods in 2010. Interest rate for the three and six months ended June 30, 2011 reflects amended terms to our bank loan that was amended on April 29, 2011 whereby the minimum rate charged was amended from 200 bps to 175 bps over the bankers' acceptance rates. For further discussion of the amendments, please see the "Capital Resources" section of the MD&A.

Interest expense on our senior notes totaled $8.7 million and $17.5 million, respectively, for the three and six months ended June 30, 2011, an increase of $4.8 (120%) million and $9.1 million (109%) when compared to the same periods in 2010. The increase is due to the higher principle balance of the 67/8% senior notes issued in the fourth quarter of 2010, as compared to the 77/8% senior notes outstanding during the first six months of 2010, which were fully redeemed by the end of the 2010 fiscal year.

During the three and six months ended June 30, 2011, a total of $2.0 million and $3.3 million of interest expense, respectively, was capitalized to the BlackGold oil sands project and the Downstream debottlenecking project. No interest expense was capitalized for the same periods in 2010.

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 67/8% Senior Notes as well as any other U.S. dollar cash balances. At June 30, 2011, the Canadian dollar has strengthened compared to December 31, 2010, resulting in an unrealized foreign exchange gain of $1.5 million (2010 - $3.4 million gain) and $11.1 million (2010 - $3.3 million loss) for the three and six months ended June 30, 2011. Harvest recognized a realized foreign exchange loss of $nil (2010 - $5.6 million loss) and a realized foreign exchange gain of $0.2 million (2010 - $5.2 million loss) for the three and six months ended June 30, 2011, respectively, as a result of the settlement of U.S. dollar denominated transactions.

The cumulative translation adjustment recognized in other comprehensive income represents the translation of the Downstream operation's U.S. dollar functional currency financial statements to Canadian dollars using the current rate method. During the three and six months ended June 30 2011, the strengthening of the Canadian dollar relative to the U.S. dollar resulted in a $5.0 million and $28.9 million net cumulative translation loss respectively (2010 – $46.5 million gain and $19.9 million gain respectively), as the weaker U.S. dollar results in a decrease in the relative value of the net assets in our Downstream operations.

Deferred Income Taxes

For the three and six months ended June 30, 2011, Harvest recorded a deferred income tax recovery of $10.8 million and $7.1 million respectively. Our deferred income tax liability will fluctuate during each accounting period to reflect changes in the respective temporary differences between the book value and tax basis of their assets as well as further legislative tax rate changes. Currently, the principal source of our temporary differences is the difference between the net book value of the Company's property, plant and equipment versus their unclaimed tax pools.

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, sales commitments, royalty obligations, and land lease obligations. These obligations are of recurring and consistent nature and impact cash flow in an ongoing manner. As at June 30, 2011, Harvest has the following significant contractual commitments:

	Maturity				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt Repayments[1]	$ -	$497,394	$410,579	$482,250	$1,390,223
Debt interest payments[1]	90,061	149,377	69,493	58,021	366,952
Purchase Commitments[2]	224,539	67,386	-	-	291,925
Operating Leases	8,180	14,325	4,867	282	27,654
Transportation Agreements[3]	9,557	13,240	4,530	2,090	29,417
Feedstock & other purchase commitments[4]	431,337	-	-	-	431,337
Employee benefits[5]	5,483	9,272	7,917	2,013	24,685
Decommissioning liabilities[6]	21,338	34,227	40,446	1,294,935	1,390,946
Total	$790,495	$785,221	$537,832	$1,839,591	$3,953,139

(1) Assumes constant foreign exchange rate.
(2) Relates to drilling commitments, AFE commitments, BlackGold oil sands project commitment and Downstream purchase commitments.
(3) Relates to firm transportation commitments.
(4) Includes commitments to purchase refined products for resale.
(5) Relates to the expected contributions to employee benefit plans.
(6) Represents the undiscounted obligation by period.

Off Balance Sheet Arrangements

As of June 30, 2011, there were no off balance sheet arrangements in place.

LIQUIDITY

Cash flow from operating activities for the three and six months ended June 30, 2011 was $107.6 million and $254.4 million, respectively, compared to $121.8 million and $199.6 million for the same periods in 2010. For the second quarter of 2011, the change in non-cash working capital was a deficit of $16.1 million (2010 – deficit of $3.3 million) and $4.3 million (2010 - $2.4 million) was incurred in the settlement of decommissioning liabilities. For the six months ended June 30, 2011, the change in non-cash working capital was a deficit of $48.9 million (2010 – deficit of $9.7 million) and $6.3 million (2010 - $8.0 million) was incurred in the settlement of decommissioning liabilities.

For the second quarter of 2011, Harvest's financing activities provided $141.6 million of cash from the net borrowings of the credit facility. For the six months ended June 30, 2011, Harvest's financing activities provided $665.7 million of cash, including $505.4 million of capital injection from KNOC and $160.3 million of net borrowings from its credit facility. The capital injection from KNOC was used to fund the acquisition of the Hunt assets. Harvest funded $511.2 million of capital expenditures and net asset acquisition activities for the first six months of 2011 with cash generated from operating activities and financing activities.

Harvest had working capital deficiency of $54.7 million at June 30, 2011, as compared to a $2.1 million deficiency at December 31, 2010. The negative working capital at June 30, 2011 is primarily related to the use of the $40 million deposit paid in 2010 for the Hunt acquisition, capital expenditures during the period, and offset by increased assets arising from the risk management contracts. The Company's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from Harvest's credit facility, as required.

Through a combination of cash available at June 30, 2011, cash from operating activities and available undrawn credit facility, it is anticipated that Harvest will have adequate liquidity to fund future operations, debt repayments and forecasted capital expenditures (excluding major acquisitions). Refer to the "Contractual Obligations and Commitments" section above for Harvest's future commitments and the discussion below on certain significant items.

BlackGold Oil Sands Project

Harvest signed a $311 million engineering, procurement and construction ("EPC") contract in 2010 for phase 1 of our oil sands project, of which $69.7 million (including a $31.1 million deposit), has been paid up to June 30, 2011. Harvest expects to fund the future capital expenditures with capital injections funded by KNOC, future cash flow from operating activities and the undrawn credit facility.

Supply and Offtake Agreement ("SOA")

The SOA provides working capital financing for its inventories of crude oil and substantially all refined products held for sale. Pursuant to the SOA, Harvest estimates that Vitol held inventories of VGO and crude oil feedstock (both delivered and in-transit) valued at approximately $361.0 million at June 30, 2011 and $774.7 million at December 31, 2010, which would have otherwise been assets of Harvest. In April 2011, Vitol provided Harvest a six-month notice to terminate the SOA at the end of October 2011. Harvest has been in discussions to negotiate a new SOA and is currently in the process of finalizing a new agreement.

CAPITAL RESOURCES

The following table summarizes our capital structure as at June 30, 2011 and December 31, 2010 as well as provides the key financial ratios contained in Harvest's revolving credit facility.

		June 30, 2011		December 31, 2010
Debts				
Revolving credit facility[1]	**$**	**174,747**	$	14,000
Senior notes, at principal amount (US$500 million) [2]		**482,250**		497,300
Convertible debentures, at principal amount		**733,973**		733,973
Total Debt	**$**	**1,390,970**	$	1,245,273
Shareholder's Equity				
386,078,649 issued at June 30, 2011	**$**	**3,522,373**	$	-
335,535,047 issued at December 31, 2010		**-**	$	3,016,855
Total Capitalization	**$**	**4,913,343**	$	4,262,128
Financial Ratios[3]				
Secured Debt to Annualized EBITDA [4] [5]		**0.31**		0.06
Total Debt to Annualized EBITDA [4] [6]		**2.21**		2.38
Secured Debt to Total Capitalization[5] [7]		**4%**		1%
Total Debt to Total Capitalization[6] [7]		**32%**		33%

(1) Net of deferred financing costs – $171.9 million (2010 - $11.4 million).
(2) Principal amount converted at the period end exchange rate.
(3) Calculated based on Harvest's credit facility covenant requirements (see note 11 of the June 30, 2011 financial statements).
(4) Annualized Earnings Before Interest, Taxes, Depreciation and Amortization based on twelve month rolling average.
(5) "Secured Debt" includes letter of credit, bank debt and guarantees.
(6) "Total Debt" includes the secured debt, convertible debentures and notes.
(7) "Total Capitalization" includes total debt and shareholder's equity less equity attributed to BlackGold.

Credit Facility

On April 29, 2011, Harvest's revolving credit facility ("the Facility") was extended by two years to April 30, 2015. The minimum rate charged on the Facility was also amended from 200 bps to 175 bps over bankers' acceptance rates as long as Harvest's secured debt to EBITDA ratio remains below or equal to one. The borrowing capacity of the Facility remains at $500 million and the financial covenants calculation as disclosed above remain unchanged.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights our second quarter of 2011 relative to the preceding 5 quarters:

	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
Revenue [(1)]	**$746,066**	$1,218,702	$1,255,403	$951,384	$1,024,565	$569,480
Net income (loss)	**(19,529)**	37,961	(12,332)	(26,083)	(22,796)	(19,952)
Cash from operating activities	**107,588**	146,777	132,121	97,412	121,830	77,808
Total long-term financial debt	**1,384,862**	1,244,825	1,239,024	1,251,658	1,153,972	1,150,321
Total assets	**6,121,547**	6,041,118	5,388,740	5,303,486	4,764,141	4,757,865
Upstream total daily sales volumes (boe/d)	**55,338**	53,331	50,054	47,777	49,597	50,178
Upstream realized price prior to hedges ($/boe)	**$66.73**	$59.19	$56.03	$52.71	$54.41	$60.17
Downstream average daily throughput (bbl/d)	**38,016**	97,438	111,317	96,514	94,833	41,016
Downstream average refining margin ($US/bbl)	**$8.09**	$10.96	$6.13	$3.02	$8.56	$ -

(1) Revenues are comprised of revenues net of royalties from Upstream operations as well as sales of refined products from Downstream operations.

The quarterly revenues and cash from operating activities are impacted by the Upstream sales volume and realized prices and Downstream throughput volume and gross margins. Significant items that impacted Harvest's quarterly revenues include:

- Revenues were the highest in the fourth quarter of 2010, followed by the first quarter of 2011, reflecting higher commodity prices, strong sales volume in the Upstream operations and improved throughput volumes from the Downstream operations. The decrease in revenue in the second quarter of 2011 was due to lower Downstream sales as a result of lower throughput due to a planned shutdown.
- Revenues were the lowest in the first quarter of 2010, primarily due to the shutdown of the refinery units for repairs in the Downstream operations.
- The increasing Upstream sales volumes since the third 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.
- Downstream's refining margin/bbl increased in the fourth quarter of 2010, and then more prominently in the first quarter of 2011, reflecting the improving global refining crack spreads. The decrease in Downstream's refining margin/bbl in the second quarter of 2011 is due to a planned shutdown of the refinery units.

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

Total assets have increased significantly from the second quarter of 2010 to the third quarter of 2010 due to the acquisition of the BlackGold assets in August and certain oil and gas assets in September 2010. The significant increase in total assets in the first quarter of 2011 was due to the Hunt acquisition and Harvest's active winter drilling programs.

OUTLOOK

During the second quarter, we continued to benefit from strong crude oil prices in our Upstream business. Upstream financial performance was favorable as realized liquids prices continue to be better than anticipated. We expect crude oil prices will continue to be subject to volatility as the global economy stabilizes and finds its direction. Natural gas prices were relatively unchanged through the quarter subject to changing supply and weather-driven demand. Refining margins are supported as global demand remains strong.

Production performance in the second quarter was as expected at 55,338 boe/d for the quarter. For the third quarter of 2011, ongoing interruption of the non-operated Rainbow pipeline continues to affect production in our Hay River and Red Earth

areas. Our capital investment projects and operations in this area have been very successful but production has been reduced 5,000 to 10,000 bpd by the pipeline shut-in. Harvest's third quarter 2011 production is expected to average approximately 55,000 to 60,000 boe/d with the upper end of the range based on timely restoration of pipeline operation. Achieving production guidance of 60,000 boe/d for the year is based on pipeline operation resuming soon.

Remaining capital budgeted for the last half of 2011 is approximately $245 million (excluding BlackGold) or approximately 43% of the total capital budget for 2011. Operationally, our focus continues to be on drilling and developing our oil/liquids weighted opportunities and investment in Enhanced Oil Recovery (EOR) projects. Harvest continues to forecast general and administrative costs at $2.75/boe for the year 2011. Operating costs are estimated at $16.00/boe for 2011.

Performance of our Downstream operation was largely as anticipated in the second quarter. The refinery experienced a full planned shutdown that continued somewhat longer than anticipated through the end of July. Throughput for the third quarter and full year is now anticipated to be approximately 70,000 and 80,000 bbl/d. Full year operating and purchased energy costs are expected to aggregate to approximately $7.00/bbl.The remaining capital budget of $55.6 million will focus on ongoing capital expenditures, projects assigned to the retail marketing assets and progressing the debottlenecking projects.

While we do not speculate on commodity prices or refining margins, we may enter into commodity price risk management contracts from time-to-time to mitigate some portion of our price volatility with the objective of stabilizing our cash flow from operating activities. For the remainder of 2011, we have 16,400 bbl/d WTI hedges under contract with an average price of US$93.45/bbl. In April we also contracted an additional 4,200 bbl/d in WTI hedges with an average price of US$111.37/bbl for 2012.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

On January 1, 2011, Harvest adopted IFRS, with January 1, 2010 as the "transition date". A full description of the new accounting policies is outlined in Note 3 to the unaudited interim consolidated financial statements for the three months ended March 31, 2011. Additionally, transition date information and reconciliations between IFRS and Canadian GAAP for comparative periods in 2010 are described in Note 20 of our June 30, 2011 unaudited interim consolidated financial statements. The adoption of IFRS has not led to any changes in the business

operations, capital strategies or funds flow of the Company. Harvest's nature and type of critical accounting estimates remain unchanged upon transition to IFRS; however some accounting differences exist relating to the recognition and measurement of these estimates. A description of these estimates is outlined in Note 2 to the unaudited interim consolidated financial statements for the three months ended March 31, 2011.

RECENT PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

- Effective January 1, 2013, Harvest will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Harvest is in the process of determining the potential impact on the adoption of this new standard.
- In May 2011, the IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13") which provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 13 on its Consolidated Financial Statements.
- On May 12, 2011 the IASB issued three new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements" and IFRS 12, "Disclosure of Interest in Other Entities". These new standards are effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces the consolidation requirements in SIC-12, "Consolidation – Special Purpose Entities" and a portion of IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 focuses on the rights and obligations of the joint arrangement, rather than its legal form (as is currently the case) and requires a single method

to account for interests in jointly controlled entities (equity method). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet. Harvest is assessing for the potential impact on the adoption of these new standards.

- On June 16, 2011, the IASB issued an amendment to IAS 19, "Employee Benefits", which changes the recognition and measurement of defined benefit pension expense and termination benefits and expands disclosure requirements for all employee benefit plans. The new standard is required to be adopted for periods beginning on or after January 1, 2013. Harvest is currently assessing the impact of the new standard.
- The IASB issued an amendment to IAS 1, "Presentation of Financial Statements" on June 16, 2011, which requires separating items presented in other comprehensive income between those that are recycled to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. Harvest is currently evaluating the impact of the new standard.

OPERATIONAL AND OTHER BUSINESS RISKS

Harvest's operational and other business risks remain unchanged from those discussed in our MD&A for the year ended December 31, 2010 as filed on SEDAR at www.sedar.com, except for the following new development and the addition of certain risks.

On August 2, 2011, Harvest renewed a key collective bargaining agreement that expired on December 31, 2010, in the Downstream operations for an additional four-year term effective January 1, 2011. Successful renewal of the agreement provided Harvest with a stable workforce and certainty in our labor cost outlays for the next four years.

Upstream Operations

- The operation of petroleum and natural gas properties requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.

Downstream Operations

- The refinery utilizes a SOA to facilitate the supply of crude feedstock to the refinery and the offtake of refined products. This agreement has termination rights and replacement arrangements may not be as favorable and may result in an increase in costs.
- The operation of the refinery requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- The demand for skilled labor remains high in Newfoundland and the supply of skilled labor remains limited. There is a risk that we may have difficulty in sourcing skilled labor and the cost of replacement labor would result in increased operating and capital costs.

CHANGES IN REGULATORY ENVIRONMENT

Harvest's regulatory environment remains unchanged from those discussed in our MD&A for the year ended December 31, 2010 as filed on SEDAR at www.sedar.com, except for the addition of the following changes:

Saskatchewan

On June 22, 2011, the government announced its new Upstream Petroleum Industry Associated Gas Conservation Standards, which are designed to reduce emissions from the flaring and venting of associated gas. They establish a specified limit for the amount of natural gas that can be flared and vented from an oil well or associated facility. If that limit is exceeded, the producer is required to conserve and store the associated gas, and then either use or sell it. The standards will come into effect July 1, 2012 for new wells and facilities licensed on or after that date, and July 1, 2015 for existing wells and facilities.

Newfoundland

The Federal Renewable Fuel Regulations were published in the Canada Gazette, April 10, 2010. At that time an exemption was provided for the addition of ethanol to gasoline sold in Newfoundland and Labrador and on June

20, 2011 a further exemption was provided for the requirements for renewable content in diesel fuel and heating distillate oil sold in Newfoundland and Labrador.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with the adoption of IFRS, Harvest established additional internal controls over financial reporting, as necessary, to review and validate the conversion to IFRS and relevant transitional activities including restatement of comparative financial information for 2010 and related disclosures. There were no other significant changes in internal controls over financial reporting for the period ended June 30, 2011 that have materially affected, or are reasonably likely to materially effect our internal controls over financial reporting.

ADDITIONAL INFORMATION

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(thousands of Canadian dollars)	Notes	**June 30, 2011**	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		**$ 8,766**	$ 18,906
Accounts receivable and other		**218,477**	213,931
Inventories	5	**108,417**	75,517
Prepaid expenses and deposits		**29,445**	73,280
Risk management contracts	17	**2,995**	1,007
		368,100	382,641
Non-current assets			
Long-term deposit		**12,394**	12,394
Risk management contracts	17	**7,991**	-
Investment tax credits and other		**46,065**	44,339
Deferred income tax asset		**-**	1,633
Exploration and evaluation assets	6	**102,480**	59,554
Property, plant and equipment	7	**5,179,574**	4,483,236
Goodwill		**404,943**	404,943
		5,753,447	5,006,099
Total assets		**$ 6,121,547**	$ 5,388,740
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 401,472**	$ 360,487
Current portion of decommissioning liability	8	**21,337**	16,672
Risk management contracts	17	**-**	7,553
		422,809	384,712
Non-current liabilities			
Bank loan	9	**171,914**	11,379
Convertible debentures		**743,701**	745,257
Senior notes		**469,247**	482,389
Decommissioning liabilities	8	**694,722**	646,347
Post-employment benefit obligations		**20,032**	20,365
Deferred credits		**406**	293
Deferred income tax liability		**76,343**	81,143
		2,176,365	1,987,173
Total liabilities		**$ 2,599,174**	$ 2,371,885
Shareholder’s equity			
Shareholder’s capital	10	**3,860,786**	3,355,350
Deficit		**(265,903)**	(284,338)
Accumulated other comprehensive loss	16	**(72,510)**	(54,157)
Total equity	20	**3,522,373**	3,016,855
Total liabilities and shareholder's equity		**$ 6,121,547**	$ 5,388,740

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(thousands of Canadian dollars)	Notes	Three months ended June 30, **2011**	2010	Six months ended June 30, **2011**	2010
Petroleum, natural gas, and refined products sales		**$ 802,627**	$ 1,065,765	**$ 2,057,187**	$ 1,677,001
Royalty expense		**(56,561)**	(41,200)	**(92,419)**	(82,956)
Revenues	12	**746,066**	1,024,565	**1,964,768**	1,594,045
Purchased products for processing and resale		**441,037**	732,643	**1,302,829**	1,064,039
Operating		**128,174**	124,450	**265,708**	232,788
Transportation and marketing		**12,365**	4,432	**17,062**	7,590
General and administrative		**15,258**	12,167	**29,221**	25,025
Depletion, depreciation and amortization		**150,210**	137,985	**290,954**	274,764
Exploration and evaluation	6	**4,243**	2,502	**10,454**	2,528
Gain on disposition of property, plant and equipment		**(440)**	(756)	**(680)**	(1,019)
Finance costs	13	**26,884**	24,023	**54,401**	49,013
Risk management contracts (gains) losses	17	**170**	(3,400)	**(5,293)**	(2,496)
Foreign currency (gains) losses	14	**(1,464)**	2,191	**(11,272)**	8,519
Income (loss) before income tax		**(30,371)**	(11,672)	**11,384**	(66,706)
Income tax expense (reduction)		**(10,842)**	11,124	**(7,051)**	(23,958)
Net income (loss)		**(19,529)**	(22,796)	**18,435**	(42,748)
Other comprehensive income					
Gains on derivatives designated as cash flow hedges, net of tax	16,17	**50,994**	–	**10,588**	–
Gains (loss) on foreign currency translation		**(5,019)**	46,546	**(28,941)**	19,856
Comprehensive income (loss)		**$ 26,446**	$ 23,750	**$ 82**	$ (22,892)

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

CONSOLIDATED STATEMENTS OF CHANGES IN Shareholder’s EQUITY (UNAUDITED)

(thousands of Canadian dollars)	Notes	Shareholder’s Capital	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2010		$ 3,355,350	$ (284,338)	$ (54,157)	$ 3,016,855
Issue of share capital for cash	10	505,436	-	-	505,436
Gains on derivatives designated as cash flow hedges, net of tax	17	-	-	10,588	10,588
Loss on foreign currency translation		-	-	(28,941)	(28,941)
Net income		-	18,435	-	18,435
Balance at June 30, 2011		**$ 3,860,786**	**$ (265,903)**	**$ (72,510)**	**$ 3,522,373**
Balance at January 1, 2010	20	$ 2,422,688	$ (203,175)	$ –	$ 2,219,513
Issue of share capital for cash	10	465,679	–	–	465,679
Gains on foreign currency translation		–	–	19,856	19,856
Net loss	20	–	(42,748)	–	(42,748)
Balance at June 30, 2010		$ 2,888,367	$ (245,923)	$ 19,856	$ 2,662,300

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(thousands of Canadian dollars)	Notes	Six Months Ended June 30, 2011	2010
Cash provided by (used in)			
Operating Activities			
Net income (loss)		**$ 18,435**	$ (42,748)
Items not requiring cash			
Depletion, depreciation and amortization		**290,954**	274,764
Accretion of decommissioning liabilities	8,13	**11,843**	11,456
Unrealized gains on risk management contracts	17	**(3,085)**	(2,309)
Unrealized currency exchange (gains) losses	14	**(11,107)**	3,326
Non-cash interest income and other finance charges		**(231)**	(4,733)
Unsuccessful exploration and evaluation costs	6	**10,239**	2,243
Gains on disposition of property, plant and equipment		**(680)**	(1,019)
Deferred income tax reduction		**(7,024)**	(23,740)
Other non-cash items		**202**	121
Settlement of decommissioning liabilities	8	**(6,249)**	(8,017)
Change in non-cash working capital	15	**(48,933)**	(9,706)
		254,364	199,638
Financing Activities			
Issue of common shares, net of issue costs		**505,436**	465,679
Bank borrowing (repayments), net		**160,261**	(245,717)
Redemptions of senior notes		**-**	(42,262)
Redemptions of convertible debentures		**-**	(156,363)
Change in non-cash working capital	15	**-**	(2,841)
		665,697	18,496
Investing Activities			
Business acquisitions	4	**(512,523)**	–
Additions to property, plant and equipment	7	**(466,200)**	(162,161)
Additions to exploration and evaluation assets	6	**(41,570)**	(20,802)
Property acquisitions, net		**(3,385)**	(29,972)
Change in non-cash working capital	15	**93,496**	(4,761)
		(930,182)	(217,696)
Change in cash and cash equivalents		**(10,121)**	438
Effect of exchange rate changes on cash		**(19)**	4,724
Cash and cash equivalents, beginning of period		**18,906**	–
Cash and cash equivalents, end of period		**$ 8,766**	$ 5,162
Interest paid		**$ 30,456**	$ 28,714
Tax (received) paid, net		**$ (27)**	$ (218)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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 integrated 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 a retail and wholesale petroleum marketing business both located in the Province of Newfoundland and Labrador (“Downstream”).

Harvest is a wholly owned subsidiary of Korea National Oil Corporation (“KNOC”). The Company is incorporated and domiciled in Canada.

These consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 11, 2011.

2. Basis of Presentation

Prior to January 1, 2011, Harvest reported its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants. Effective on January 1, 2011, the Company has commenced reporting under International Financial Reporting Standards (“IFRS”). In these consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” and with International Accounting Standard ("IAS") 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board ("IASB"). As a result, they do not include all the annual disclosures in accordance with IFRS and should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010.

Subject to certain transition elections disclosed in note 20, Harvest has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented as if the policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on the Company's reported financial position, operating results and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the six months ended June 30, 2010 reported under Canadian GAAP. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

(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.

(c) Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined in note 2 to the Company’s Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011.

3. Significant Accounting Policies

These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 3 to the Company’s Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011.

Recent Pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

- Effective January 1, 2013, Harvest will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Harvest is in the process of determining the potential impact on the adoption of this new standard.
- In May 2011, the IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13") which provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 13 on its Consolidated Financial Statements.
- On May 12, 2011 the IASB issued three new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements" and IFRS 12, "Disclosure of Interest in Other Entities". These new standards are effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces the consolidation requirements in SIC-12, "Consolidation – Special Purpose Entities" and a portion of IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 focuses on the rights and obligations of the joint arrangement, rather than its legal form (as is currently the case) and requires a single method to account for interests in jointly controlled entities (equity method). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet. Harvest is assessing for the potential impact on the adoption of these new standards.
- On June 16, 2011, the IASB issued an amendment to IAS 19, "Employee Benefits", which changes the recognition and measurement of defined benefit pension expense and termination benefits and expands disclosure requirements for all employee benefit plans. The new standard is required to be adopted for periods beginning on or after January 1, 2013. Harvest is currently assessing the impact of the new standard.
- The IASB issued an amendment to IAS 1, "Presentation of Financial Statements" on June 16, 2011, which requires separating items presented in other comprehensive income between those that are recycled to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. Harvest is currently evaluating the impact of the new standard.

4. Acquisitions

a) Hunt acquisition

On February 28, 2011, Harvest acquired certain petroleum and natural gas assets of Hunt Oil Company of Canada, Inc. and Hunt Oil Alberta, Inc. (collectively "Hunt") for total cash consideration of $504.5 million. An additional $25 million payment to Hunt is payable in the event that Canadian natural gas prices exceed certain pre-determined levels over the next 2 years. Hunt also agreed to reimburse Harvest for costs associated with restoring production as well as the lost revenues relating to certain properties between October 1, 2010 and April 3, 2011, when production was resumed. A portion of the reimbursement may be reverted to Hunt if the future revenue earned by Harvest during the six months after April 3, 2011 exceeds the reimbursed amount. These potential adjustments to the purchase price are considered as contingent consideration and are required to be fair valued. Based on forecast gas prices and production the probability of incurring such payments is assessed as low, as such no fair value was assigned. KNOC provided $505.4 million of equity to fund the acquisition.

The acquisition was accounted for as a business combination. The fair values of identifiable assets and liabilities, including interim adjustments as at the date of acquisition were:

Consideration		
Cash	$	504,523
Accrued liabilities		8,000
	$	512,523
Fair value of assumed assets and liabilities		
Evaluation and exploration assets	$	23,967
Property, plant and equipment		527,086
Decommissioning liabilities		(38,030)
Other liabilities		(500)
	$	512,523

The fair values are provisional due to the complexity of the acquisition and the inherently uncertain nature of the oil and gas asset valuation. The final review of the fair value of the purchase price allocation will be completed within 12 months of the acquisition.

From the date of acquisition, the Hunt assets have contributed $31.0 million and $37.9 million to Harvest's earnings before depletion and income tax for the three and six month ended June 30, 2011 respectively. If the acquisition had been completed on the first day of 2011, Harvest's revenues for the three and six months ended June 30, 2011 would have been $19.4 million higher and the earnings before depletion and income tax would have been $7.4 million higher.

b) Petroleum and natural gas assets

On September 30, 2010, Harvest acquired certain petroleum and natural gas assets including the remaining 40% interest in an operating partnership for total cash consideration of $145.1 million. The acquisition was accounted for as a business combination. The provisional fair values of identifiable assets and liabilities as at the date of acquisition were:

Property, plant and equipment	$	167,948
Evaluation and exploration assets		587
Decommissioning liability		(18,358)
Deferred tax liabilities		(5,032)
Total cash consideration	$	145,145

The assets have contributed $6.0 million from the date of acquisition to December 31, 2010 to Harvest's net income. If the acquisition had been completed on the first day of 2010, Harvest revenues for the year would have been $32.6 million higher and the earnings before depletion and income tax would have been $16.6 million higher.

5. Inventories

		June 30, 2011		December 31, 2010
Petroleum products				
Upstream	**$**	**2,046**	$	1,010
Downstream		**102,035**		70,586
		104,081		71,596
Parts and supplies		**4,336**		3,921
Total inventories	**$**	**108,417**	$	75,517

For the three and six months ended June 30, 2011, Harvest recognized inventory impairments, net of reversal, of $3.2 million (2010 – $2.2 million and $3.3 million respectively) in its Downstream operations.

6. Exploration and Evaluation Assets (E&E)

As at January 1, 2010	$	36,034
Additions		46,996
Acquisition		-
Dispositions		(970)
Unsuccessful exploration and evaluation costs		(2,858)
Transfer to property, plant and equipment		(19,648)
As at December 31, 2010		59,554
Additions		41,570
Acquisitions		23,967
Unsuccessful exploration and evaluation costs		(10,239)
Transfer to property, plant and equipment		(12,372)
As at June 30, 2011	**$**	**102,480**

The Company determined certain E&E costs to be unsuccessful and not recoverable. Accordingly, for the three and six months ended June 30, 2011, $4.1 million (2010 – $2.2 million) and $10.2 million (2010 – $2.2 million) of E&E assets were impaired and recognized as E&E expense respectively.

For the three and six months ended June 30, 2011, $0.1 million (2010 – $0.3 million) and $0.2 million (2010 – $0.3 million) of pre-licensing costs were charged directly to E&E expense respectively.

7. Property, Plant and Equipment (PP&E)

	Upstream	Downstream	Total
Cost			
As at January 1, 2010	$ 2,940,877	$ 1,113,742	$ 4,054,619
Additions	356,851	71,297	428,148
Acquisitions	574,941	-	574,941
Change in decommissioning liabilities	71,838	2,407	74,245
Transfers from E&E	19,648	-	19,648
Disposals	-	(49)	(49)
Investment tax credits	-	(42,475)	(42,475)
Exchange adjustment	-	(63,037)	(63,037)
As at December 31, 2010	3,964,155	1,081,885	5,046,040
Additions	321,982	144,620	466,602
Disposals	-	(18,031)	(18,031)
Acquisitions	530,748	-	530,748
Change in decommissioning liabilities	9,353	63	9,416
Transfers from E&E	12,372	-	12,372
Exchange adjustment	-	(33,300)	(33,300)
As at June 30, 2011	**$ 4,838,610**	**$ 1,175,237**	**$ 6,013,847**
Accumulated depletion, depreciation, amortization and impairment losses			
As at January 1, 2010	$ -	$ -	$ -
Depreciation, depletion and amortization	470,642	83,091	553,733
Impairment	13,661	-	13,661
Exchange adjustments	-	(4,590)	(4,590)
As at December 31, 2010	484,303	78,501	562,804
Depreciation, depletion and amortization	249,278	41,676	290,954
Exchange adjustments	-	(1,454)	(1,454)
Disposals	-	(18,031)	(18,031)
As at June 30, 2011	**$ 733,581**	**$ 100,692**	**$ 834,273**
Net Book Value			
As at June 30, 2011	**$ 4,105,029**	**$ 1,074,545**	**$ 5,179,574**
As at December 31, 2010	$ 3,479,852	$ 1,003,384	$ 4,483,236

General and administrative costs of $3.4 million and $5.8 million have been capitalized during the three and six-month periods ended June 30, 2011 (2010 – $2.8 million and $5.0 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 six months ended June 30, 2011 in the amount of $2.0 million and $3.3 million (2010 – $nil), at a weighted average interest of 6.86% and 6.99% respectively (2010 – $nil).

At June 30, 2011 the following costs were excluded from the asset base subject to depreciation, depletion and amortization: Downstream major parts inventory of $6.0 million (December 31, 2010 – $6.8 million); Downstream assets under construction of $209.1 million (December 31, 2010 – $68.8 million); and, BlackGold oil sands assets of $436.6 million (December 31, 2010 – $394.4 million).

8. Decommissioning Liabilities

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning liabilities to be approximately $1.4 billion at June 30, 2011 (December 31, 2010 – $1.2 billion) which will be incurred between 2011 and 2070. A risk-free discount rate of 3.4% (December 31, 2010 – 3.4%) was used to calculate the present value of the decommissioning liabilities.

A reconciliation of the decommissioning liabilities is provided below:

	Upstream	Downstream	Total
Balance at January 1, 2010	$ 559,810	$ 7,676	$ 567,486
Liability incurred on acquisitions	22,393	-	22,393
Liabilities incurred	9,316	-	9,316
Settled during the period	(20,257)	-	(20,257)
Revisions (change in estimate)	58,989	2,407	61,396
Accretion	22,342	343	22,685
Balance at December 31, 2010	652,593	10,426	663,019
Liabilities incurred on acquisition	38,030	-	38,030
Liabilities incurred	6,248	-	6,248
Settled during the period	(6,249)	-	(6,249)
Revisions (change in estimate)	3,105	63	3,168
Accretion	11,659	184	11,843
Balance at June 30, 2011	**$ 705,386**	**$ 10,673**	**$ 716,059**

9. Bank Loan

On April 29, 2011, Harvest extended the term of its credit facility by 2 years to April 30, 2015. The minimum rate charged on the credit facility was also amended from 200 bps to 175 bps over bankers' acceptance rates as long as Harvest's secured debt to EBITDA ratio remains below or equal to one. The borrowing capacity of the credit facility remains at $500 million and the financial covenants remain unchanged.

At June 30, 2011, Harvest had $174.7 million drawn from the $500 million available under the credit facility (December 31, 2010 - $14 million). For the three and six months ended June 30, 2011, interest charges on bank loans aggregated to $0.9 million and $1.3 million (2010 – $1.1 million and $1.7 million respectively), reflecting an effective interest rate of 2.94% and 2.99% (2010 – 1.95% and 1.51% respectively).

10. Shareholder's Capital

(a) Authorized

The authorized capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

(b) Number of Common Shares Issued

Outstanding at January 1, 2010	242,268,802
Issued to KNOC at $10.00 per share to fund debt repayment	46,567,852
Issued to KNOC at $10.00 per share for BlackGold consideration	37,416,913
Issued to KNOC at $10.00 per share for BlackGold project development	4,700,000
Issued to KNOC at $10.00 per share for BlackGold project development	3,868,600
Issued to KNOC at $10.00 per share for KNOC Global Technology and Research Centre	712,880
Outstanding at December 31, 2010	335,535,047
Issued to KNOC @ $10.00 per share for Hunt acquisition	50,543,602
Outstanding at June 30, 2011	**386,078,649**

11. Capital Structure

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

	June 30, 2011	December 31, 2010
Bank debt [1]	**$ 174,747**	$ 14,000
6 7/8% senior notes (US$500 million) [2]	**482,250**	497,300
Principal amount of convertible debentures	**733,973**	733,973
Total debt	**1,390,970**	1,245,273
Shareholder's equity	**3,522,373**	3,016,855
Total capitalization	**$ 4,913,343**	$ 4,262,128

(1) Excludes capitalized financing fees
(2) Face value 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: bank debt to twelve month trailing EBITDA and total debt to total debt plus shareholder's equity. 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 June 30, 2011.

	Covenant	June 30, 2011	December 31, 2010
Secured debt [1] to EBITDA	3.0 to 1.0 or less	**0.31**	0.06
Total debt [2] to EBITDA	3.5 to 1.0 or less	**2.21**	2.38
Secured debt [1] to Capitalization [3]	50% or less	**4%**	1%
Total debt [2] to Capitalization [3]	55% or less	**32%**	33%

(1) Secured debt consists of letters of credit, bank debt and guarantees.
(2) Total debt consists of secured debt and convertible debentures and senior notes.
(3) Capitalization consists of total debt and shareholder's equity less equity for BlackGold.

12. Revenue and other income

	Three month ended June 30		Six month ended June 30	
	2011	2010	**2011**	2010
Crude oil and natural gas sale, net of royalty	**$ 279,497**	$ 204,365	**$ 527,724**	$ 434,340
Refinery products sale	**479,171**	820,200	**1,452,681**	1,159,705
Effective portion of realized crude oil hedges	**(12,602)**	-	**(15,637)**	-
	$ 746,066	$ 1,024,565	**$ 1,964,768**	$ 1,594,045

13. Finance Costs

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Accretion of decommissioning liabilities	**$ 6,047**	$ 5,733	**$ 11,843**	$ 11,456
Interest and other financing charges	**22,824**	18,290	**45,842**	37,557
Less: Capitalized interest	**(1,987)**	-	**(3,284)**	-
	$ 26,884	$ 24,023	**$ 54,401**	$ 49,013

14. Foreign Exchange

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Realized (gains) losses on foreign exchange	**$ 25**	$ 5,574	**$ (165)**	$ 5,193
Unrealized (gains) losses on foreign exchange	**(1,489)**	(3,383)	**(11,107)**	3,326
	$ (1,464)	$ 2,191	**$ (11,272)**	$ 8,519

15. Supplemental Cash Flow Information

	Six months ended June 30	
	2011	2010
Source (use) of cash:		
Trade and other receivables	**$ (4,546)**	$ (14,634)
Deposits and prepaid expenses[1]	**43,835**	2,547
Trade and other payables	**40,985**	(23,855)
Inventory	**(32,900)**	17,478
Net changes in non-cash working capital	**47,374**	(18,464)
Changes relating to operating activities	**(48,933)**	(9,706)
Changes relating to financing activities	**-**	(2,841)
Changes relating to investing activities	**93,496**	(4,761)
Add: Other non-cash changes	**2,811**	(1,156)
	$ 47,374	$ (18,464)

(1) Includes long-term deposit

16. Accumulated Other Comprehensive Loss

	Foreign Currency Translation Adjustment	Gain (Losses) on Designated Cash Flow Hedges, Net of Tax	Actuarial Loss, Net of Tax	Total
Balance at January 1, 2010	$ -	$ -	$ -	$ -
Losses on derivatives designated as cash flow hedges, net of tax	-	(5,020)	-	(5,020)
Actuarial loss	-	-	(3,217)	(3,217)
Losses on foreign currency translation	(45,920)	-	-	(45,920)
Balance at December 31, 2010	(45,920)	(5,020)	(3,217)	(54,157)
Reclassification to net income of losses on cash flow hedges, net of tax	-	11,460	-	11,460
Losses on derivatives as designated cash flow hedges, net of tax	-	(872)	-	(872)
Losses on foreign currency translation	(28,941)	-	-	(28,941)
Balance at June 30, 2011	**$ (74,861)**	**$ 5,568**	**$ (3,217)**	**$ (72,510)**

17. Financial Instruments

(a) *Fair Values*

Financial instruments of Harvest consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan, risk management contracts, convertible debentures and senior notes. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category:

	June 30, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and Receivables				
Accounts receivable	**$ 218,477**	**$ 218,477**	$ 213,931	$ 213,931
Held for Trading				
Cash and cash equivalents	**8,766**	**8,766**	18,906	18,906
Fair value of risk management contracts	**10,986**	**10,986**	1,007	1,007
Total Financial Assets	**$ 238,229**	**$ 238,229**	$ 233,844	$ 233,844
Financial Liabilities				
Held for Trading				
Fair value of risk management contracts	**$ -**	**$ -**	$ 7,553	$ 7,553
Measured at Amortized Cost				
Accounts payable and accrued liabilities	**401,472**	**401,472**	360,487	360,487
Bank loan	**171,914**	**174,747**	11,379	14,000
Senior notes[(1)]	**469,247**	**500,638**	482,389	507,246
Convertible debentures	**743,701**	**758,772**	745,257	758,108
Total Measured at Amortized Costs	**1,786,334**	**1,835,629**	1,599,512	1,639,841
Total Financial Liabilities	**$ 1,786,334**	**$ 1,835,629**	$ 1,607,065	$ 1,647,394

(1) The face value of the senior notes at June 30, 2011 is $482.3 million or US$500 million (December 31, 2010 - $497.3 million).
(2) The face value of the convertible debentures at June 30, 2011 is $734.0 million (December 31, 2010 - $734.0 million).

Harvest enters into risk management contracts with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs include foreign exchange contracts and financial commodity contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

The fair values of the convertible debentures and the senior notes are based on quoted market prices as at June 30, 2011. The fair value of the bank loan approximates to the carrying value (excluding deferred financing charges) as the bank loan bears floating market rates. The carrying value of the bank loan includes $2.8 million of deferred financing charges at June 30, 2011 (December 31, 2010 - $2.6 million). Due to the short term maturities of accounts receivable and accounts payable and accrued liabilities, their carrying values approximate their fair values.

Harvest's financial assets and liabilities recorded at fair value have been classified according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Harvest's cash and cash equivalents and risk management contracts have been assessed on the fair value hierarchy described above. Cash and cash equivalents are classified as Level 1 and risk management contracts as Level 2. During the three and six months ended June 30, 2011 and 2010, there were no transfers among Levels 1, 2 and 3.

(b) Risk Management Contracts

Harvest uses electricity price swap contracts to manage some of its price risk exposures. These swap contracts are not designated as hedges and are entered into for periods consistent with forecast electricity purchases.

The Company enters into crude oil swap contracts to reduce the volatility of cash flows from some of its forecast sales. The swaps are designated as cash flow hedges and are entered into for periods consistent with the forecast petroleum sales. The effective portion of the unrealized gain for the three months and unrealized loss for the six months ended June 30, 2011 of $41.8 million (2010 – $nil) and $0.9 million (2010 – $nil) respectively (net of tax of $15.2 million and $0.3 million recovery, respectively) was included in other comprehensive income. The ineffective portion of the unrealized gains for the three and six months ended June 30, 2011 recognized in net income were $0.4 million and $0.1 million respectively. The amount removed from accumulated other comprehensive income during the period and included in petroleum, natural gas, and refined product sales was $9.2 million (2010 – $nil) and $11.5 million (2010 – $nil) (net of tax of $3.3 million and $4.2 million) for the three and six months ended June 30, 2011 respectively. The Company expects that the $5.6 million of gains reported in accumulated other comprehensive income will be released to net income within the next eighteen months. The ineffective portion of the realized cash flow hedges recognized in net income for the three and six months ended June 30, 2011 was $0.3 million (2010 – $nil) and $0.4 million (2010 – $nil) of losses respectively.

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

	Three months ended June 30							
	2011				2010			
	Power	**Crude oil**	**Currency**	**Total**	Power	Crude oil	Currency	Total
Realized (gains) losses risk management contracts	**$ (333)**	**$ 349**	**$ -**	**$ 16**	$(1,200)	$ -	$ -	$ (1,200)
Unrealized (gains) losses on risk management contracts	**595**	**(412)**	**$ (29)**	**154**	(2,200)	-	-	(2,200)
Risk management contracts (gains) losses	**$ 262**	**$ (63)**	**$ (29)**	**$ 170**	$(3,400)	$ -	$ -	$ (3,400)

	Six months ended June 30							
	2011				2010			
	Power	**Crude oil**	**Currency**	**Total**	Power	Crude oil	Currency	Total
Realized (gains) losses risk management contracts	**$ (2,616)**	**$ 408**	**$ -**	**$ (2,208)**	$ (204)		$ 17	$ (187)
Unrealized (gains) losses on risk management contracts	**(2,959)**	**(126)**	**-**	**(3,085)**	(2,309)	-	-	(2,309)
Risk management contracts (gains) losses	**$ (5,575)**	**$ 282**	**$ -**	**$ (5,293)**	$(2,513)	$ -	$ 17	$ (2,496)

The following is a summary of Harvest's risk management contracts outstanding at June 30, 2011:

Contracts not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
30 MWh	Electricity price swap contracts	Jan - Dec 2011	Cdn $46.87	$ 3,966

Contracts Designated as Hedges

Contract quantity	Type of Contract	Term	Contract Price	Fair value
8,200 bbls/day	Crude oil price swap contract	Jan - Dec 2011	US $91.23/bbl	$ (8,241)
5,000 bbls/day	Crude oil price swap contract	Feb - Dec 2011	US $95.82/bbl	(952)
3,200 bbls/day	Crude oil price swap contract	Mar - Dec 2011	US $95.87/bbl	(581)
4,200 bbls/day	Crude oil price swap contract	Jan - Dec 2012	US $111.37/bbl	16,794
20,600 bbls/day				$ 7,020

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 June 30					
	Downstream		Upstream		Total	
	2011	2010	**2011**	2010	**2011**	2010
Petroleum, natural gas and refined products sales	**$479,171**	$820,200	**$323,456**	$ 245,565	**$ 802,627**	$1,065,765
Royalty expense	**-**	-	**(56,561)**	(41,200)	**(56,561)**	(41,200)
Revenues	**479,171**	820,200	**266,895**	204,365	**746,066**	1,024,565
Purchased products for resale and processing	**441,037**	732,643	**-**	-	**441,037**	732,643
Operating	**45,859**	56,122	**82,315**	68,328	**128,174**	124,450
Transportation and marketing	**1,239**	2,364	**11,126**	2,068	**12,365**	4,432
General and administrative	**441**	441	**14,817**	11,726	**15,258**	12,167
Depletion, depreciation and amortization	**22,276**	20,179	**127,934**	117,806	**150,210**	137,985
Exploration	**-**	-	**4,243**	2,502	**4,243**	2,502
Gain on dispositions of PP&E	**-**	-	**(440)**	(756)	**(440)**	(756)
Segment income (loss)	**(31,681)**	8,451	**26,900**	2,691	**(4,781)**	11,142
Finance costs	-				**26,884**	24,023
Risk management contracts (gains) losses	-				**170**	(3,400)
Foreign exchange (gains) losses	-				**(1,464)**	2,191
Income (loss) before income tax					**(30,371)**	(11,672)
Future income tax expense (reduction)					**(10,842)**	11,124
Net income (loss)					**$(19,529)**	$ (22,796)

	Three Months Ended June 30					
	Downstream		Upstream		Total	
	2011	2010	**2011**	2010	**2011**	2010
Capital Expenditures						
Business acquisition	**$ -**	$ -	**$ (936)**	$ -	**$ (936)**	$ -
Additions to property, plant and equipment	**108,741**	8,459	**119,243**	41,713	**227,984**	50,172
Additions to exploration and evaluation assets	**-**	-	**6,258**	10,582	**6,258**	10,582
Property acquisitions (dispositions), net	**-**	-	**1,347**	(966)	**1,347**	(966)
Total expenditures	**$108,741**	$ 8,459	**$125,912**	$ 51,329	**$ 234,653**	$ 59,788

(1) Of the total Downstream revenue, two customers represent sales of $223.0 million and $28.8 million for the three months ended June 30, 2011 (2010 - $655.4 million and $0.1 million). No other single customer within either division represents greater than 10% of Harvest's total revenue.
(2) There is no intersegment activity.

	Six Months Ended June 30					
	Downstream		Upstream		Total	
	2011	2010	**2011**	2010	**2011**	2010
Petroleum, natural gas and refined products sales	**$1,452,681**	$1,159,705	**$604,506**	$517,296	**$2,057,187**	$1,677,001
Royalty expense	**-**	-	**(92,419)**	(82,956)	**(92,419)**	(82,956)
Revenue	**1,452,681**	1,159,705	**512,087**	434,340	**1,964,768**	1,594,045
Purchased products for resale and processing	**1,302,829**	1,064,039	**-**	-	**1,302,829**	1,064,039
Operating	**99,798**	100,207	**165,910**	132,581	**265,708**	232,788
Transportation and marketing	**2,933**	3,315	**14,129**	4,275	**17,062**	7,590
General and administrative	**882**	882	**28,339**	24,143	**29,221**	25,025
Depletion, depreciation and amortization	**41,676**	40,624	**249,278**	234,140	**290,954**	274,764
Exploration	**-**	-	**10,454**	2,528	**10,454**	2,528
Gain on dispositions of PP&E	**-**	-	**(680)**	(1,019)	**(680)**	(1,019)
Segment income (loss)	**4,463**	(49,362)	**44,657**	37,692	**49,220**	(11,670)
Finance costs					**54,401**	49,013
Risk management contracts (gains) losses					**(5,293)**	(2,496)
Foreign exchange (gains) losses					**(11,272)**	8,519
Income (loss) before income tax					**11,384**	(66,706)
Future income tax expense (reduction)					**(7,051)**	(23,958)
Net income (loss)					**$ 18,435**	$ (42,748)
Capital Expenditures						
Business acquisition	**$ -**	$ -	**$512,523**	$ -	**$ 512,523**	$ -
Additions to property, plant and equipment	**144,620**	17,142	**321,580**	145,019	**466,200**	162,161
Additions to exploration and evaluation assets	**-**	-	**41,570**	20,802	**41,570**	20,802
Property acquisitions (dispositions), net	**-**	-	**3,385**	29,972	**3,385**	29,972
Total expenditures	**$ 144,620**	$ 17,142	**$879,058**	$195,793	**$1,023,678**	$ 212,935

(1) Of the total Downstream revenue, two customers represent sales of $856.0 million and $130.4 million for the six months ended June 30, 2011 (2010 - $826.8 million and $41.6 million). No other single customer within either division represents greater than 10% of Harvest's total revenue.
(2) There is no intersegment activity.

	June 30, 2011			December 31, 2010		
	Downstream	**Upstream**	**Total**	Downstream	Upstream	Total
Total Assets	**$ 1,307,520**	**$ 4,814,027**	**$ 6,121,547**	$1,211,367	$4,177,373	$5,388,740
Property, plant and equipment	**$ 1,074,545**	**$ 4,105,029**	**$ 5,179,574**	$1,003,384	$3,479,852	$4,483,236
Evaluation and exploration	**$ -**	**$ 102,480**	**$ 102,480**	$ -	$ 59,554	$ 59,554
Goodwill	**$ -**	**$ 404,943**	**$ 404,943**	$ -	$ 404,943	$ 404,943

19. Commitments and Contingencies

The following is a summary of Harvest's contractual obligations and commitments as at June 30, 2011:

	Maturity				
	1 year	**2-3 years**	**4-5 years**	**After 5 years**	**Total**
Debt Repayments[1]	$ -	$ 497,394	$ 410,579	$ 482,250	$ 1,390,223
Debt interest payments[1]	90,061	149,377	69,493	58,021	366,952
Purchase Commitments[2]	224,539	67,386	-	-	291,925
Operating Leases	8,180	14,325	4,867	282	27,654
Transportation Agreements[3]	9,557	13,240	4,530	2,090	29,417
Feedstock & other purchase commitments[4]	431,337	-	-	-	431,337
Employee benefits[5]	5,483	9,272	7,917	2,013	24,685
Decommissioning liabilities[6]	21,338	34,227	40,446	1,294,935	1,390,946
Total	$ 790,495	$ 785,221	$ 537,832	$ 1,839,591	$ 3,953,139

(1) Assumes constant foreign exchange rate.
(2) Relates to drilling commitments, AFE commitments, BlackGold oil sands project commitment and Downstream capital commitments.
(3) Relates to firm transportation commitment.
(4) Includes commitments to purchase refinery crude stock and refined products for resale.
(5) Relates to the expected contributions to employee benefit plans.
(6) Represents the undiscounted obligation by period.

20. First Time Adoption of IFRS

IFRS 1 "First-time Adoption of International Financial Reporting Standards" establishes the transitional requirements for the preparation of financial statements upon first time adoption of IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply these retrospectively to the opening balance sheet, the comparative period and the reporting period. The standard allows certain optional exceptions from full retrospective application and other elections on transition, which the Company has applied as follows:

Business Combinations Exemption

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2010 transition date ("Transition Date").

Deemed Cost Election for Oil and Gas Assets

Under Canadian GAAP, the Company accounted for its oil and gas properties in one cost centre using full cost accounting. The Company elected to apply the exemption in IFRS 1 available to full cost oil and gas entities to its Upstream PP&E and measure its oil and gas properties at the Transition Date on the following basis:

- E&E assets at the amount determined under Canadian GAAP; and
- the remainder allocated to the underlying PP&E assets on a pro rata basis using proved and probable reserve values discounted at 10 percent at the Transition Date.

Fair Value as Deemed Cost Exemption

The Company elected to use the fair value as deemed cost exemption on its Downstream PP&E at the Transition Date.

Lease Exemption

The Company has elected to carry forward assessments made under Canadian GAAP for arrangements containing leases. The assessment of arrangements containing leases results in the same outcome under IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

Decommissioning Liabilities

Harvest has applied the deemed cost election for oil and gas assets under IFRS 1 and as such decommissioning liabilities at the Transition Date have been measured in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”. The Company recognized directly in retained earnings any difference between the remeasured amount and the carrying amount of those liabilities at the Transition Date.

For the Downstream decommissioning liabilities, Harvest applied the exemption from full retrospective application of IAS 37 under IFRS 1. As such, the Company measured the decommissioning liabilities at the Transition Date, and recognized the corresponding charge in retained earnings.

Reconciliations of Canadian GAAP to IFRS

This is the first year that the Company has presented financial statements under IFRS; as such, the following reconciliations between Canadian GAAP and IFRS are included to provide an understanding of the material adjustments to the financial statements. The transition from Canadian GAAP to IFRS had no material effect upon previously reported cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods for shareholder’s equity, net income, and comprehensive income.

Reconciliation of Shareholder’s Equity

	Note	June 30, 2010
Shareholder’s equity under Canadian GAAP		$ 2,887,287
Decommissioning liabilities	a	(271,099)
Exploration and evaluation expenses	b	
Impairment of exploration and evaluation expenses		(2,243)
Pre-licensing costs		(286)
Depletion, depreciation and amortization	c	(25,052)
Dispositions	d	1,019
Future income taxes	e	72,774
Cumulative translation adjustments	f	(100)
Shareholders’ equity under IFRS		$ 2,662,300

Reconciliation of Net Income

	Note	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Net loss under Canadian GAAP		$ (1,911)(1)	$ (21,036)
Decommissioning liabilities	a	527	1,060
Exploration and evaluation expenses	b		
Unsuccessful exploration and evaluation costs		(2,243)	(2,243)
Pre-licensing costs		(259)	(286)
Depletion, depreciation and amortization	c	(13,685)	(25,053)
Dispositions	d	756	1,019
Future income taxes	e	(6,338)	3,691
Foreign currency translation	f	357	100
Total differences		(20,885)	(21,712)
Net loss under IFRS		$ (22,796)	$ (42,748)

(1) *This amount has been adjusted from the previously reported amount to reflect the effect of the KNOC acquisition and the subsequent internal reorganization.*

Reconciliation of Other Comprehensive Income

	Note	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Other comprehensive income under Canadian GAAP		$ 46,903	$ 19,957
Cumulative translation adjustments	f	(357)	(100)
Other comprehensive income under IFRS		46,546	19,856
Net loss under IFRS		(22,796)	(42,748)
Comprehensive income (loss) under IFRS		$ 23,750	$ (22,892)

Reconciliation of Cash from Operating, Investing and Financing Activities

	Note	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Cash flows from operating activities as reported under Canadian GAAP		$ 122,335	$ 200,469
Exploration and evaluation expenses	b	(259)	(286)
Cash flows from operating activities as reported under IFRS		$ 122,076	$ 200,183
Cash flows used in investing activities as reported under Canadian GAAP		$ (112,657)	$ (218,527)
Exploration and evaluation expenses	b	259	286
Cash flows used in investing activities as reported under IFRS		$ (112,398)	$ (218,241)

There was no difference between Canadian GAAP and IFRS related to cash flows from financing activities.

(a) Decommissioning liabilities

The Company elected to apply the IFRS 1 exemption relating to decommissioning liabilities and re-measured decommissioning liabilities as at January 1, 2010 using the relevant risk-free rate. The exemption resulted in an increase of $272.3 million in decommissioning liabilities and a corresponding increase to deficit. This increase is mainly attributable to the change from using the credit-adjusted risk-free rate to the risk-free rate of 4% for determining the Upstream decommissioning liabilities, resulting in an adjustment of $264.6 million. The recognition standards are different between Canadian GAAP and IFRS, which resulted in the recognition of the Downstream decommissioning liabilities of $7.7 million under IFRS on January 1, 2010.

Under IFRS, the discount rate is adjusted each reporting period to reflect the current market risk-free rate. As at June 30, 2010, PP&E and the decommissioning liabilities were $32.2 million higher under IFRS.

As the opening decommissioning liabilities and the discount rates are different under IFRS, the accretion expense decreased by $0.6 million and $1.1 million for the three and six months ended June 30, 2010 respectively. There was minimal impact to the accretion due to the reduction of decommissioning liabilities resulted from the dispositions discussed under item (d).

(b) Exploration and evaluation expenses

Unsuccessful exploration and evaluation costs

Under IFRS, Harvest capitalized costs relating to exploration and evaluation activities until a project is determined to be successful or otherwise. If a project is deemed to be technically feasible and commercially viable, the costs are tested for impairment and then transferred to property, plant and equipment. If a project is deemed to be unsuccessful, the associated costs are charged to the income statement in the period as unsuccessful exploration and acquisition costs. During the three and six months ended June 30, 2010, the Company recognized $2.2 million of losses on certain unsuccessful E&E projects.

Pre-licensing cost

Under IFRS, costs incurred prior to obtaining the legal right to explore must be expensed while under Canadian GAAP these costs were capitalized in the PP&E under one full-cost centre. For the three and six months ended June 30, 2010, $0.3 million of pre-licensing costs were expensed under IFRS. The accounting policy difference has resulted in a decrease in cash from operating activities and an increase in cash from investing activities by the same amounts for the three and six months ended June 30, 2010.

(c) Depletion, depreciation and amortization

Under IFRS, Harvest aggregates its PP&E into major components for depletion, depreciation and amortization. For the Upstream PP&E, costs accumulated within each component are depleted using the unit-of-production method based on estimated proved developed reserves, whereas under Canadian GAAP, estimated proved reserves were used. The carrying value of the PP&E under IFRS differed from that under Canadian GAAP as a result of changes in the accounting of decommissioning liabilities and dispositions of PP&E as discussed in items (a) and (d).

Among these changes, the componentization of PP&E and the use of proved developed reserves for depletion primarily attributed to the recognition of additional $13.7 million and $25.1 million of depletion, depreciation and amortization expense for the three and six months ended June 30, 2010 respectively.

(d) Dispositions

Under Canadian GAAP, proceeds on the dispositions of oil and gas properties were credited to the full cost pool and no gain or loss was recognized unless the effect of the sale would have changed the DD&A rate by 20% or more. Under IFRS, all gains and losses are recognized on oil and gas property divestitures and calculated as the difference between net proceeds and the carrying value of the net assets disposed. Accordingly, Harvest recognized a gain on PP&E disposal of $0.7 million and $1.0 million for the three and six months ended June 30, 2010 respectively under IFRS.

(e) Future income taxes (FIT)

IAS 12 requires recognizing of the FIT that arises on the difference between historical and current exchange rates on the translation of non-monetary assets, whereas Canadian GAAP did not. This difference, however, does not impact the FIT balance on January 1, 2010 as the cumulative translation adjustments balance was $nil as a result of the KNOC acquisition. For the three and six months ended June 30, 2010 the FIT expense increased by $10.2 million and by $2.8 million respectively.

As a result of the increase in the net book value of the decommissioning liabilities on January 1, 2010, deferred taxes have been adjusted. This resulted in a corresponding increase in retained earnings of $69.1 million on January 1, 2010.

Future income tax expense decreased by $3.8 million and $6.5 million for the three and six months ended June 30, 2010, resulting from the increase in decommissioning liabilities and PP&E.

(f) Foreign currency translation

Harvest's Downstream functional currency is U.S. dollars. As a result of the addition of the Downstream decommissioning liabilities in accordance with IAS 37, a currency exchange loss resulted from the revaluation of the liabilities at the end of each reporting period. For the three and six months ended June 30, 2010 the amount of foreign exchange gain recognized was $0.4 million and $0.1 million respectively which increased net loss and decreased other comprehensive income.

Reclassifications

E&E and PP&E

Under Canadian GAAP, the Company had accounted for such costs under the full-cost method where these costs were included in PP&E. IFRS requires E&E costs to be segregated from PP&E.

At June 30, 2010 and December 31, 2010, $20.8 million and $47.0 million, respectively, were reclassified. Note 6 discloses a reconciliation of E&E assets from the Transition Date to June 30, 2011.

Accretion of decommissioning liabilities

Accretion expense under Canadian GAAP has been re-classified from depreciation, depletion, amortization and accretion expense to finance costs under IFRS. The amount that was reclassified was $5.7 million and $11.5 million for the three and six months ended June 30, 2010.

Downstream loyalty program

Under Canadian GAAP, the Company had accounted for loyalty program costs by recording an expense. Under IFRS, the fair value of the consideration received or receivable in respect of the initial sale should be allocated between the award credits. As such, the Company has allocated the fair value of the consideration received from the sales to the award credits. This resulted in reclassifying $0.3 million and $0.6 million of petroleum, natural gas, and refined product sales to Downstream operating expenses for the three and six months ended June 30, 2010 respectively.