

FINANCIAL & OPERATING HIGHLIGHTS:

The table below is a summary of our financial and operating results for the three and nine month periods ended September 30, 2011.

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
FINANCIAL						
Revenues ⁽¹⁾	\$799,945	\$951,385	(16%)	\$2,764,714	\$2,545,430	9%
Cash from operating activities	\$161,499	\$97,412	66%	\$415,862	\$297,049	40%
Net loss	\$(49,204)	\$(26,082)	89%	\$(30,768)	\$(68,831)	(55%)
Bank loan	\$256,463	\$288,700	(11%)	\$256,463	\$288,700	(11%)
Senior notes	510,420	216,931	135%	510,420	216,931	135%
Convertible debentures	742,890	769,920	(4%)	742,890	769,920	(4%)
Total financial debt	\$1,509,773	\$1,275,551	18%	\$1,509,773	\$1,275,551	18%
Total assets	\$6,483,568	\$5,303,486	22%	\$6,483,568	\$5,303,486	22%
UPSTREAM OPERATIONS						
Daily sales volumes (boe/d)	58,548	47,777	23%	55,758	49,175	13%
Average realized price						
Oil and NGLs (\$/bbl) ⁽²⁾	74.49	64.27	16%	77.67	66.88	16%
Gas (\$/mcf)	3.97	3.74	6%	3.98	4.35	(9%)
Operating netback (\$/boe) ⁽²⁾	30.96	30.05	3%	33.79	32.00	6%
Capital asset additions (excluding acquisitions)	\$190,597	\$90,138	111%	\$553,747	\$255,959	116%
Property and business acquisitions (dispositions), net	\$(2,582)	\$146,481	(102%)	\$513,327	\$176,453	191%
Abandonment and reclamation expenditures	\$5,923	\$5,796	2%	\$12,172	\$13,813	(12%)
Net wells drilled	55.6	23.0	142%	174.9	99.7	75%
Net undeveloped land acquired in business combination (acres) ⁽³⁾	-	57,509	(100%)	223,405	57,509	288%
Net undeveloped land additions (acres)	36,760	29,550	24%	144,800	74,710	94%
DOWNSTREAM OPERATIONS						
Average daily throughput (bbl/d)	41,756	96,514	(57%)	58,866	77,658	(24%)
Average refining margin (US\$/bbl)	10.44	3.02	246%	10.26	4.67	120%
Capital asset additions	\$100,132	\$21,501	366%	\$244,752	\$38,643	533%

(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.

PRESIDENT'S MESSAGE:

The third quarter of 2011 was an active quarter for the Company as we continued growth of our upstream production volume and completed a significant turnaround in our refining business.

Our Upstream business is performing well in the current economic environment due to the high liquids weighting in our production. Our Upstream oil and gas production is weighted approximately 70% to crude oil and liquids and 30% to natural gas. Our asset base is predominantly large pools of light/medium and heavy crude oils which have significant opportunity for development. This is complemented by liquids-rich natural gas opportunities that have attractive economics despite low natural gas prices.

Cash from operating activities increased 66% from the third quarter of 2010 to \$161.5 million, which is due to higher production volume, increased Upstream operating netback and improvement to the Downstream gross margin. Capital spending for the quarter totaled \$290.7 million. In the Upstream operations, we spent \$190.6 million, advancing the successful development of our asset base. In the Downstream operations, we spent \$100.1 million on the completion of an extensive turnaround and maintenance project, positioning the refinery for strong performance in future years as well as progressing the attractive debottleneck opportunities.

UPSTREAM

Harvest's production volumes for the quarter were in line with guidance of 55,000-60,000 boe/d. Production averaged 58,548 boe/d and 55,758 boe/d for the three and nine month periods, an increase of 23% and 13% over last year. In aggregate, light and medium oil and natural gas liquids comprise 49% of our production. Our realized prices for light/medium oil for the three and nine months ended September 30, 2011 increased by 19% and 20% over the same periods from 2010 before hedging activities. Natural gas liquids realized pricing increases of 25% and 15% in the three and nine month periods of 2011 to \$67.51/bbl and \$67.10/bbl respectively.

Production volume increased approximately 6% compared to the second quarter of 2011 as the non-operated Rainbow pipeline restarted shipments during the quarter and a number of the weather-related setbacks experienced in the second quarter subsided.

The quarter was very active with completion and tie-in activities from wells drilled in the previous quarters of 2011, which also contributed to the increase in production volumes. During the quarter, Harvest spent \$162.0 million, excluding the BlackGold project, compared to \$86.5 million in the same quarter last year. During the quarter, 61% of capital spending went to drilling and completion activities and an additional 32% went to activities associated with tie-ins and equipping of new wells.

Harvest continued to move forward with our drilling program, resulting in 69 gross wells (55.6 net) drilled in the quarter with a 100% success ratio. We drilled 35 gross wells (26.6 net) in our light oil plays mainly in the Red Earth, Kindersley, and Southeastern Saskatchewan areas. Additionally, 27 gross wells (25.2 net) were drilled in our heavy oil plays mainly in the Lloydminster and Suffield areas, and 7 gross wells (3.8 net) were drilled in liquids rich natural gas plays.

Work continued on the BlackGold oil sands project with \$28.5 million of capital spending during the quarter. In the coming year, the project will have an active drilling program in which 30 wells (15 well pairs) are planned, beginning in the fourth quarter and continuing through 2012. Near-term activities include completion of the detailed engineering work, site preparation and the commencement of major equipment fabrication. While work

continues on Phase 1, Phase 2 of the project which is targeting an increase in capacity to 30,000 bbl/d is now pending ERCB approval. With this opportunity, we have deferred first production to 2014 and are expecting Phase 1 costs, which includes \$70 million of pre-invested facilities such as pipelines, access road, and tank farms for Phase 2, to increase by approximately 10-20%.

DOWNSTREAM

During the quarter, we completed the considerable turnaround and maintenance project at the refinery. This project commenced during the second quarter and was completed in the third quarter. The refinery is now fully operational with normal throughput levels and is well-positioned operationally. The project took longer than anticipated, leading to lower than expected throughput for the quarter. Average daily throughput was 41,756 bbl/d and 58,866 bbl/d for the three and nine month periods of 2011 compared to the same periods in 2010 of 96,514 bbl/d and 77,658 bbl/d respectively. Due to these circumstances, we are now projecting average throughput for the year to be approximately 70,000 bbl/d.

The costs associated with the large scale maintenance activities were more than estimated. Capital spending was \$100.1 million, an increase of \$78.6 million from the same quarter in 2010. The investment in turnaround and catalyst enhancement activities position Harvest for strong and continuous performance; it also eliminates a planned turnaround in 2012 allowing Harvest to take advantage of our improved performance with no scheduled downtime until 2013. Capital also went towards the Debottleneck projects that continue to show attractive rates of return.

Subsequent to the quarter, we announced that a new crude oil supply and refined product offtake agreement was finalized. This agreement improves on terms relative to our previous supplier as we look to improve profitability in the business.

CORPORATE

In August, Harvest appointed Ernst & Young LLP as the new financial auditor for the Company. Harvest is appreciative of the exceptional service provided by the previous auditor, KPMG LLP, over the years and looks forward to working with Ernst & Young.

In September, Harvest welcomed Mr. Robert A. Pearce as Vice President, Corporate Development and Treasurer. Mr. Pearce has an undergraduate degree in Geological Engineering and an MBA in Finance. He is bringing over 25 years of varied technical and business experience in the areas of corporate development, general management, debt and equity finance, strategy and planning to Harvest.

Harvest is 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. As a result, we continue to show better than industry average performance on many measures in our businesses.

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 as we evolve and grow, maintaining our position as a leading oil and gas company.



MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three and nine months ended September 30, 2011, the three months ended March 31, 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 November 10, 2011.

On January 1, 2011, Harvest adopted International Financial Reporting Standards ("IFRS"). Harvest's previously reported consolidated financial statements prepared in accordance with 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.

ADVISORY

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

REVIEW OF OVERALL PERFORMANCE

Upstream

- Sales volumes increased by 10,771 boe/d to 58,548 boe/d from the third quarter of 2010 primarily due to additional production from recently acquired properties, partially offset by production reductions due to the Plains Rainbow Pipeline outage for two months during the quarter. Plains Midstream Canada received final approval from the ERCB to resume operations of the Rainbow Pipeline on August 26, 2011.
- Harvest's operating netback was \$30.96/boe prior to hedging for the third quarter of 2011, an increase of 3% from the same quarter in 2010, reflecting higher realized commodity prices in oil and natural gas liquids partially offset by an increase in operating expense. Operating netback after hedging totaled \$175.6 million (\$32.60/boe) as compared to \$130.9 million (\$29.76/boe) in the same quarter of 2010. The increase in operating netback after hedging is primarily due to higher commodity prices and sales volumes and gains from hedging activities, partially offset by an increase in operating costs.
- Capital spending of \$190.6 million includes the drilling of 69.0 gross (55.6 net) wells with a success rate of 100%. In the third quarter of 2010, capital expenditures of \$90.1 million included drilling of 27.0 gross (23.0 net) wells.

Downstream

- Throughput volume averaged 41,756 bbl/d as compared to 96,514 bbl/d in the same quarter of 2010 due to a planned shutdown of the refinery units that started in May and was substantially completed in mid-August. Refining gross margin averaged \$10.44/bbl in the third quarter of 2011, an increase of \$7.42/bbl from the same quarter in 2010.
- Operating loss totaled \$20.3 million in the third quarter of 2011 as compared to an operating loss of \$30.8 million in the same quarter of 2010. The decrease in operating losses is primarily due to higher refinery margins in 2011.
- Capital spending was \$100.1 million, an increase of \$78.6 million from the same quarter in 2010. During the third quarter of 2011 and 2010, \$15.9 million and \$12.3 million, respectively, were spent on the debottlenecking project. The remaining increase in capital spending is mainly due to the capitalization of plant turnaround costs of \$44.6 million and catalyst replacements of \$6.0 million.
- A new Supply and Offtake Agreement ("SOA") was signed on October 11, 2011 with Macquarie Energy Canada Ltd. to supply feedstocks and purchase certain finished products from the Company effective November 1, 2011. The prior contract with Vitol Refining S.A. ("Vitol") terminated at the end of October 2011.



MANAGEMENT'S DISCUSSION AND ANALYSIS

UPSTREAM OPERATIONS

Summary of Financial and Operating Results

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
FINANCIAL						
Petroleum and natural gas sales ⁽¹⁾	\$318,731	\$231,694	38%	\$923,238	\$748,992	23%
Royalties	(46,996)	(33,698)	39%	(139,415)	(116,655)	20%
Revenues	271,735	197,996	37%	783,823	632,337	24%
Operating expenses	88,121	63,362	39%	254,031	195,944	30%
Transportation and marketing	9,758	2,485	293%	23,886	6,760	253%
Realized loss (gain) on risk management contracts ⁽²⁾	(1,707)	1,277	(234%)	(3,915)	1,090	(459%)
Operating netback after hedging ⁽²⁾⁽³⁾	175,563	130,872	34%	509,821	428,543	19%
General and administrative expenses	14,621	9,720	50%	42,960	33,863	27%
Depreciation, depletion and amortization	137,070	118,320	16%	386,348	352,459	10%
Exploration and evaluation	831	759	9%	11,286	3,288	243%
Loss (gain) on disposition of property, plant and equipment	(65)	407	(116%)	(745)	(612)	22%
	\$23,106	\$1,666	1,287%	\$69,972	\$39,545	77%
Capital asset additions (excluding acquisitions)	\$190,597	\$90,138	111%	\$553,747	\$255,959	116%
Property and business acquisitions (dispositions)	\$(2,582)	\$146,481	(102%)	\$513,327	\$176,453	191%
Abandonment and reclamation expenditures	\$5,923	\$5,796	2%	\$12,172	\$13,813	(12%)
OPERATING						
Light / medium oil (bbl/d)	23,621	22,886	3%	23,805	24,076	(1%)
Heavy oil (bbl/d)	8,825	9,235	(4%)	8,807	9,192	(4%)
Natural gas liquids (bbl/d)	5,392	2,465	119%	4,935	2,537	95%
Natural gas (mcf/d)	124,259	79,147	57%	109,265	80,222	36%
Total (boe/d)	58,548	47,777	23%	55,758	49,175	13%

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

(2) Realized loss (gain) on risk management contracts includes the settlement amounts for power derivative contracts and the ineffective portion of realized crude oil hedges.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Commodity Price Environment

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
West Texas Intermediate crude oil (US\$ per barrel)	89.76	76.20	18%	95.48	77.65	23%
Edmonton light crude oil (\$ per barrel)	91.90	74.52	23%	94.40	76.64	23%
Bow River blend crude oil (\$ per barrel)	72.01	63.97	13%	75.53	68.03	11%
AECO natural gas daily (\$ per mcf)	3.66	3.55	3%	3.76	4.13	(9%)
Canadian / U.S. dollar exchange rate	1.020	0.962	6%	1.023	0.965	6%

Differential Benchmarks

Bow River blend differential to Edmonton Par (\$/bbl)	\$19.89	\$10.55	89%	\$18.87	\$8.62	119%
Bow River blend differential as a % of Edmonton Par	21.6%	14.2%	52%	20.0%	11.2%	79%

The average WTI benchmark price for the three and nine months ended September 30, 2011 was 18% and 23% higher than the same periods in 2010, respectively. The average Edmonton light crude oil price ("Edmonton Par") increased in the third quarter as well as for the nine months ended September 30, 2011 due to the higher WTI prices and improvement of the light sweet differential in the third quarter of 2011, partially offset by the strong Canadian dollar.

During the three and nine months ended September 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 was partially offset by the stronger Canadian dollar and wider Bow River differential.

Realized Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Light to medium oil prior to hedging (\$/bbl)	80.43	67.71	19%	84.08	70.30	20%
Heavy oil (\$/bbl)	62.84	58.52	7%	66.28	60.33	10%
Natural gas liquids (\$/bbl)	67.51	53.85	25%	67.10	58.15	15%
Natural gas (\$/mcf)	3.97	3.74	6%	3.98	4.35	(9%)
Average realized price prior to hedging (\$/boe) ⁽²⁾	57.85	52.71	10%	61.21	55.79	10%
Light to medium oil after hedging (\$/bbl) ⁽¹⁾	83.71	67.71	24%	82.77	70.30	18%
Average realized price after hedging (\$/boe) ⁽¹⁾	59.17	52.71	12%	60.65	55.79	9%

(1) Inclusive of the effective portion of the realized gain (loss) from crude oil contracts designated as hedges. Foreign exchange swaps 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 nine months ended September 30, 2011 increased by 19% and 20%, respectively, compared to the same periods in 2010. This is

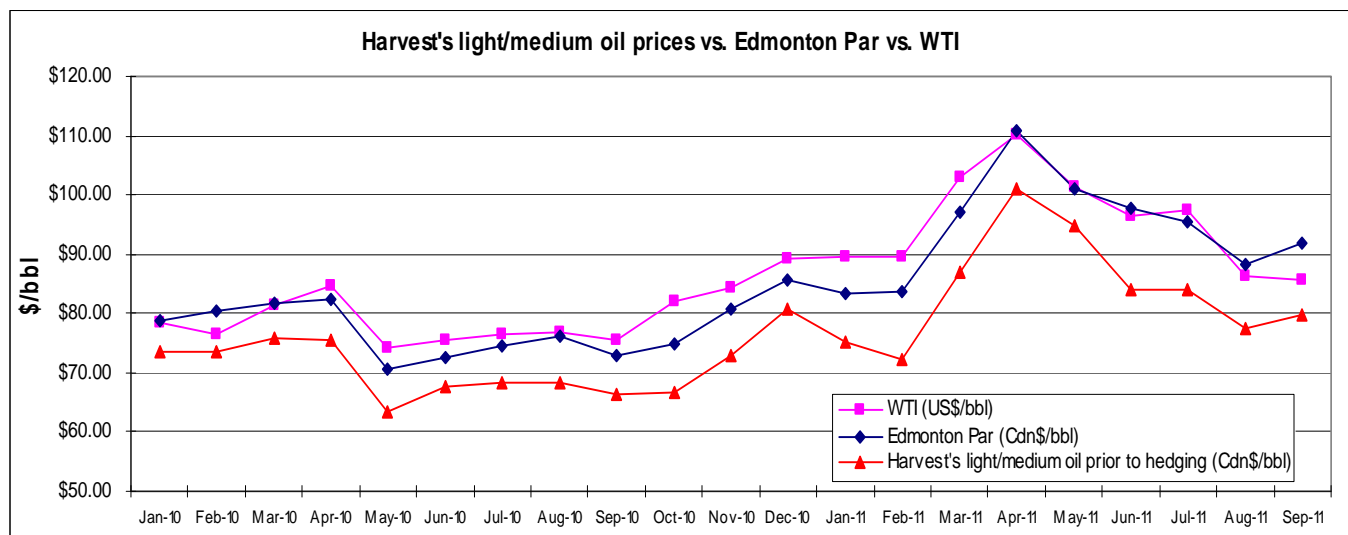
consistent with the upward movement in Edmonton Par prices for the three and nine months ended September 30, 2011.

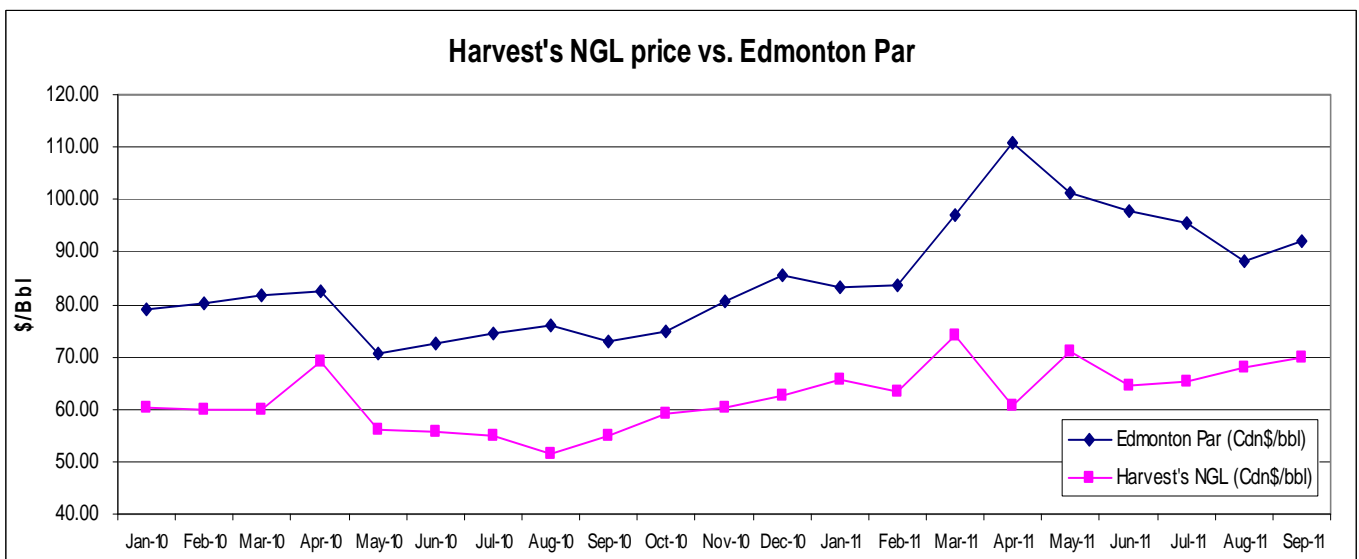
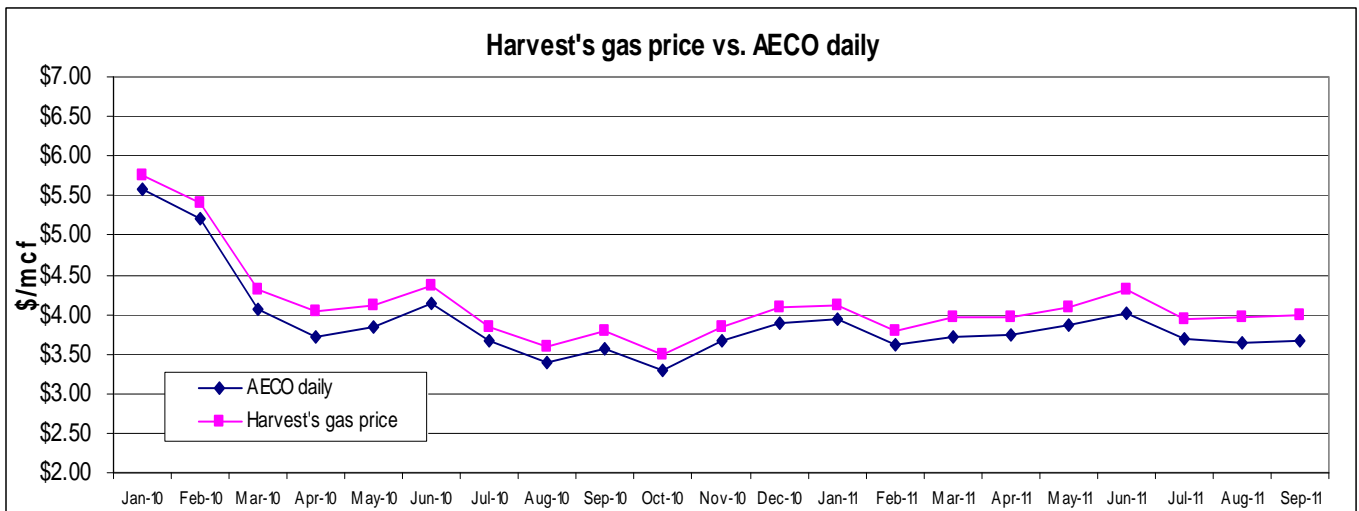
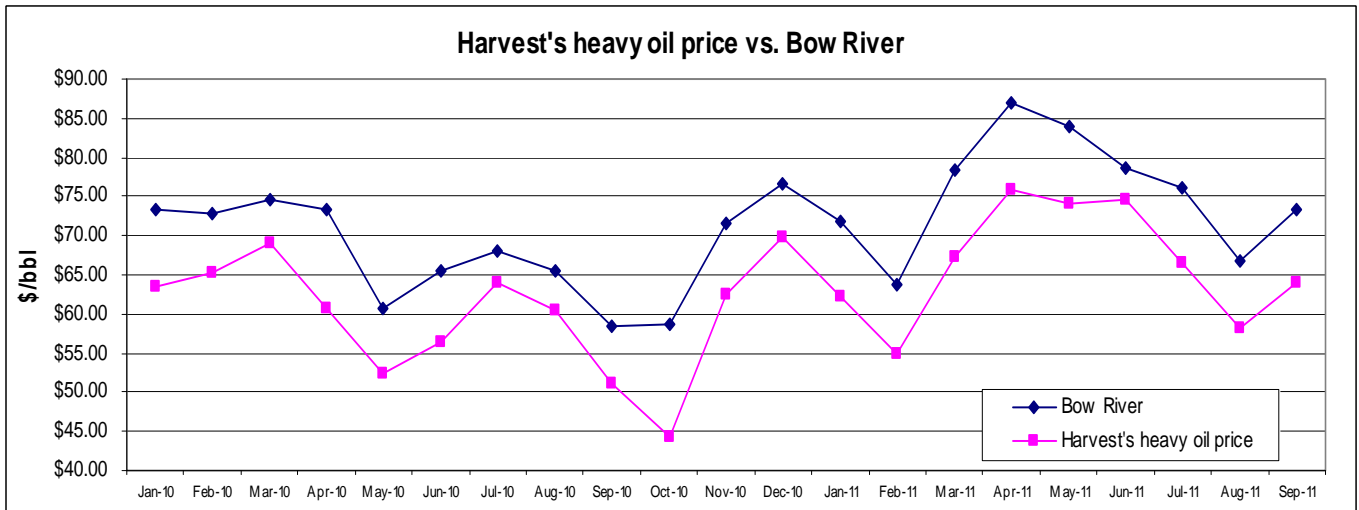
In order to manage commodity price volatility effects on cash flow, Harvest has entered into various crude oil fixed-for-floating swaps. The impact of this hedging activity resulted in an increase of \$3.28/bbl (2010 – \$nil) in Harvest’s realized light to medium oil price to \$83.71/bbl in the third quarter of 2011, and a decrease of \$1.31/bbl (2010 - \$nil) for the nine months ended September 30, 2011. 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 nine months ended September 30, 2011 increased by 7% and 10% respectively, mainly due to the increase in the Bow River prices.

For the three and nine months ended September 30, 2011, our realized prices for natural gas liquids increased by 25% and 15%, respectively, reflecting the increase in natural gas liquids commodity prices.

The realized prices for Harvest’s natural gas production increased by 6% in the third quarter of 2011 and decreased by 9% for the first nine months of 2011 compared to the same periods in 2010, reflecting the movement in AECO benchmark prices.





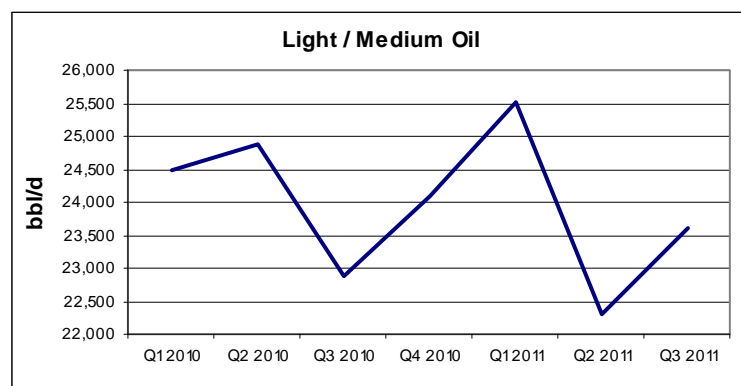
Sales Volumes

	Three Months Ended September 30				
	2011		2010		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d) ⁽¹⁾	23,621	40%	22,886	48%	3%
Heavy oil (bbl/d)	8,825	15%	9,235	19%	(4%)
Natural gas liquids (bbl/d)	5,392	9%	2,465	5%	119%
Total liquids (bbl/d)	37,838	64%	34,586	72%	9%
Natural gas (mcf/d)	124,259	36%	79,147	28%	57%
Total oil equivalent (boe/d)	58,548	100%	47,777	100%	23%

	Nine Months Ended September 30				
	2011		2010		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d) ⁽¹⁾	23,805	43%	24,076	49%	(1%)
Heavy oil (bbl/d)	8,807	16%	9,192	19%	(4%)
Natural gas liquids (bbl/d)	4,935	9%	2,537	5%	95%
Total liquids (bbl/d)	37,547	68%	35,805	73%	5%
Natural gas (mcf/d)	109,265	32%	80,222	27%	36%
Total oil equivalent (boe/d)	55,758	100%	49,175	100%	13%

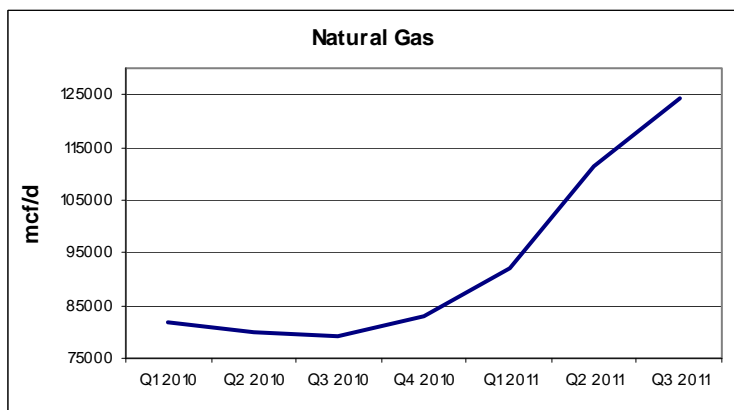
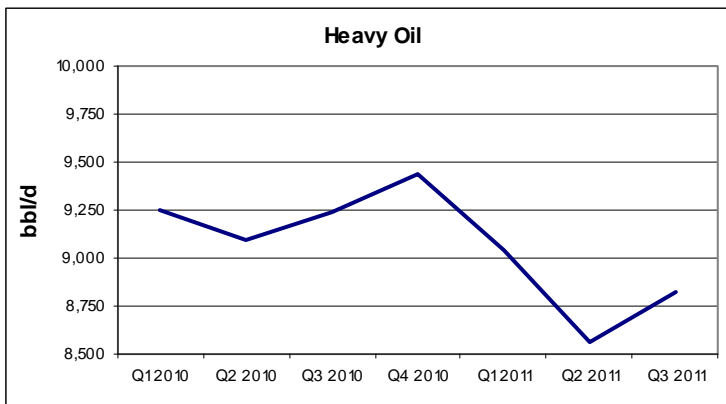
(1) Harvest classifies our oil production, except that produced from Hay River, as light to medium and heavy according to NI 51-101 guidance. The oil produced from Hay River has an average API of 24° (medium grade) and is classified as a light to medium oil; notwithstanding that, it benefits from a heavy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

Total sales volumes were 58,548 boe/d for the third quarter of 2011 and 55,758 boe/d for the first nine months of 2011, an increase of 23% and 13% 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.



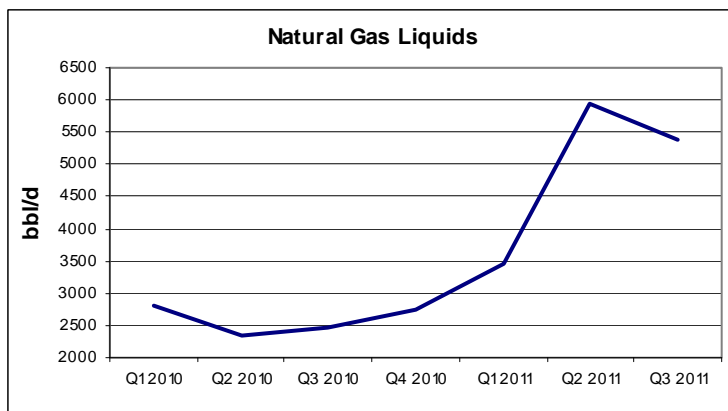
Harvest's light/medium oil sales for the third quarter of 2011 were 23,621 bbl/d, a 735 bbl/d (3%) increase from the same quarter in 2010. Sales volumes increased due to the third quarter 2010 acquisition and the Hunt acquisition in the first quarter of 2011, partially offset by the Plains Rainbow Pipeline outage for two months in the third quarter. Approval to resume operations of the pipeline was received by Plains on August 26, 2011. Harvest's year-to-date 2011 light/medium oil sales volumes were consistent with 2010.

Heavy oil sales decreased by 4% for the three and nine months ended September 30, 2011 compared to the same periods in 2010. The decreases are primarily due to natural declines.



Natural gas sales averaged 124,259 mcf/d during the third quarter of 2011 reflecting a 45,112 mcf/d (57%) increase from the third quarter of 2010. For the nine months ended September 30, 2011 natural gas sales increased by 29,043 mcf/d (36%), compared to 2010. These increases are mainly due to the acquisition of Hunt assets at the end of February 2011.

Natural gas liquids sales for the three and nine months ended September 30, 2011 increased by 119% and 95% respectively, compared to the same periods in 2010. Similar to the increases in natural gas sales volumes, these increases are mainly due to the acquisition of Hunt assets at the end of February 2011.



Revenues

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Light / medium oil sales after hedging ⁽¹⁾	\$181,913	\$142,557	28%	\$537,903	\$462,093	16%
Heavy oil sales	51,025	49,719	3%	159,350	151,397	5%
Natural gas sales	45,333	27,205	67%	118,716	95,223	25%
Natural gas liquids sales	33,492	12,195	175%	90,404	40,148	125%
Other ⁽²⁾	6,968	18	38,611%	16,865	131	12,774%
Petroleum and natural gas sales	318,731	231,694	38%	923,238	748,992	23%
Royalties	(46,996)	(33,698)	39%	(139,415)	(116,655)	20%
Revenues	\$271,735	\$197,996	37%	\$783,823	\$632,337	24%

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

(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices and currency exchange rates. In the third quarter of 2011, total petroleum and natural gas sales increased by \$87.0 million, compared to the third quarter of 2010. The 38% increase is attributable to the increase of 12% in realized prices after hedging activities and 23% in sales volumes combined with the increase in sulphur revenue from the acquisition of Hunt assets at the end of February 2011.

For the first nine months of 2011, total petroleum and natural gas sales increased by \$174.2 million (23%), also reflecting the increase in realized prices after hedging activities, sales volumes and sulphur revenue.

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.

Royalties as a percentage of gross revenue for the three and nine months ended September 30, 2011 were relatively consistent with the same periods in 2010 at 14.7% (2010 – 14.5%) and 15.1% (2010 – 15.6%), respectively.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

	Three Months Ended September 30				
	2011	Per BOE	2010	Per BOE	Per BOE Change
Operating expense					
Power and fuel	\$22,854	\$4.24	\$11,977	\$2.72	\$1.52
Well servicing	10,797	2.00	12,815	2.92	(0.92)
Repairs and maintenance	16,113	2.99	11,950	2.72	0.27
Lease rentals and property tax	9,280	1.72	7,575	1.72	-
Labor - internal	7,551	1.40	5,484	1.25	0.15
Labor - contract	5,085	0.95	3,903	0.89	0.06
Chemicals	3,446	0.65	2,489	0.57	0.08
Trucking	3,512	0.65	2,428	0.55	0.10
Processing and other fees	6,692	1.24	3,657	0.83	0.41
Other	2,791	0.52	1,084	0.25	0.27
Total operating expenses	\$88,121	\$16.36	\$63,362	\$14.42	\$1.94
Transportation and marketing	\$9,758	\$1.81	\$2,485	\$0.57	\$1.24

	Nine Months Ended September 30				
	2011	Per BOE	2010	Per BOE	Per BOE Change
Operating expense					
Power and fuel	\$61,005	\$4.01	\$43,694	\$3.27	\$0.74
Well servicing	43,986	2.89	37,060	2.76	0.13
Repairs and maintenance	42,562	2.80	32,787	2.44	0.36
Lease rentals and property tax	25,025	1.65	23,404	1.74	(0.09)
Labor - internal	21,294	1.40	17,222	1.28	0.12
Labor - contract	14,205	0.93	11,820	0.88	0.05
Chemicals	11,419	0.75	10,346	0.77	(0.02)
Trucking	9,467	0.62	7,111	0.53	0.09
Processing and other fees	12,819	0.84	10,636	0.79	0.05
Other	12,249	0.80	1,864	0.14	0.66
Total operating expenses	\$254,031	\$16.69	\$195,944	\$14.60	\$2.09
Transportation and marketing	\$23,886	\$1.57	\$6,760	\$0.50	\$1.07

Operating costs for the third quarter of 2011 totaled \$88.1 million, an increase of \$24.8 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 power and fuel costs. Operating costs on a per barrel basis have increased to \$16.36/boe as compared to \$14.42/boe in the third quarter of 2010. The 13% increase on a per barrel basis is substantially attributed to higher power and fuel costs.

On a year-to-date basis, operating costs for 2011 totaled \$254.0 million, an increase of \$58.1 million when compared to the same period in 2010. On a per barrel basis, year-to-date operating costs increased by \$2.09/boe (14%) which is mainly attributable to higher power and fuel, well servicing, and repairs and maintenance costs.



MANAGEMENT'S DISCUSSION AND ANALYSIS

(\$ per boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Electric power and fuel costs	\$4.24	\$2.72	\$1.52	\$4.01	\$3.27	\$0.74
Realized (gain) loss on electricity risk management contracts	(0.59)	0.29	(0.88)	(0.38)	0.08	(0.46)
Net electric power and fuel costs	\$3.65	\$3.01	\$0.64	\$3.63	\$3.35	\$0.28
Alberta Power Pool electricity price (\$ per MWh)	\$94.71	\$35.69	\$59.02	\$76.72	\$52.38	\$24.34

Power and fuel costs, comprised primarily of electric power costs, represented approximately 26% of our total operating costs during the third quarter of 2011 (2010 – 19%). The 7% increase from the third quarter of 2010 is primarily attributable to the \$59.02/MWh increase in the average Alberta electric power price to \$94.71/MWh in the third quarter of 2011. The power and fuel costs for the first nine months of 2011 totaled \$61.0 million, an increase of 40% compared to 2010, mainly attributable to the higher average power prices.

Transportation and marketing costs relate primarily to delivery of natural gas to Alberta's natural gas sales hub, the AECO Storage Hub, and the cost of trucking clean crude oil to pipeline receipt points. As a result, the total dollar amount of costs generally fluctuates in relation to our sales volumes. The transportation and marketing expense increased by \$1.24/boe or \$7.3 million in the third quarter of 2011 compared to the third quarter of 2010, and year-to-date 2011 increased by \$1.07/boe or \$17.1 million compared to the same period in 2010. The primary reason for the increases is due Harvest incurring higher oil trucking costs at Hay and Red Earth in response to the outage of the Plains Rainbow Pipeline from the end of April to the end of August 2011.

Operating Netback

(\$ per BOE)	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Petroleum and natural gas sales prior to hedging	\$57.85	\$52.71	10%	\$61.21	\$55.79	10%
Royalties	(8.72)	(7.67)	14%	(9.16)	(8.69)	5%
Operating expense	(16.36)	(14.42)	13%	(16.69)	(14.60)	14%
Transportation expense	(1.81)	(0.57)	218%	(1.57)	(0.50)	214%
Operating netback prior to hedging ⁽¹⁾	30.96	30.05	3%	33.79	32.00	6%
Hedging gain (loss) ⁽²⁾	1.64	(0.29)	666%	(0.30)	(0.08)	(275%)
Operating netback after hedging ⁽¹⁾	\$32.60	\$29.76	10%	\$33.49	\$31.92	5%

(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 third quarter of 2011, operating netback prior to hedging increased by \$0.91/boe or 3% compared to the third quarter of 2010. For year-to-date 2011, operating netback prior to hedging increased by \$1.79/boe, an increase of 6% 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative ("G&A") Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
G&A expense	\$14,621	\$9,720	50%	\$42,960	\$33,863	27%
G&A per boe (\$/boe)	\$2.71	\$2.21	23%	\$2.82	\$2.52	12%

For the third quarter of 2011, G&A expense increased by \$4.9 million (50%) compared to the same quarter in 2010. For the first nine months of 2011, G&A expense increased 27% compared to the same period in 2010. The increase in G&A is primarily due to increased salary expense, partially resulting from the acquisition of assets at the end of September 2010 and February 2011. Approximately 93% 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 September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Depletion, depreciation and amortization	\$137,070	\$118,320	16%	\$386,348	\$352,459	10%
DDA per boe (\$/boe)	\$25.45	\$26.92	(5%)	\$25.38	\$26.25	(3%)

DDA expense for the three and nine months ended September 30, 2011 increased by \$18.8 million and \$33.9 million, respectively, compared to the same periods in 2010, mainly due to higher sales volumes.

Capital Expenditures

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Drilling and completion	\$98,566	\$49,998	97%	\$291,774	\$144,754	102%
Well equipment, pipelines and facilities	50,998	26,448	93%	149,059	72,178	107%
Geological and geophysical	1,282	417	207%	15,214	11,846	28%
Land and undeveloped lease rentals	7,107	6,027	18%	17,208	16,434	5%
Capitalized G&A expenses	3,070	3,528	(13%)	7,993	6,706	19%
Furniture, leaseholds and office equipment	1,010	104	871%	2,059	425	384%
	162,033	86,522	87%	483,307	252,343	92%
BlackGold oil sands	28,564	3,616	690%	70,440	3,616	1,848%
Total development capital expenditures excluding acquisitions	\$190,597	\$90,138	111%	\$553,747	\$255,959	116%

The third quarter of 2011 was more active for Harvest when compared to the same quarter in 2010. Total capital spending excluding BlackGold oil sands for the three months ended September 30, 2011 was \$162.0 million, an increase of \$75.5 million from the same period in 2010. In particular, capital spending on well equipment, pipelines and facilities increased by 93% as compared to the same quarter in 2010 due to an increase in activities related to the tie-in of wells drilled in the previous quarters, particularly in the Hay, Red Earth, and Heavy Oil areas. In addition, approximately \$2.0 million was invested in building a new trucking terminal in the Hay area. During the third quarter of 2011, Harvest drilled 69 gross (55.6 net) horizontal, vertical, and service wells. Harvest was most active drilling high netback light oil stage frac'd horizontal wells in the Red Earth, Ante Creek, and

Kindersley areas and conventional horizontal wells in the SE Saskatchewan, Cecil and Markerville areas. A combined total of 35 gross (26.6 net) wells were drilled in the noted areas for a total expenditure of approximately \$53.8 million. In the heavy oil areas, Harvest drilled 27 gross (25.2 net) wells in the Lloydminster, Murray Lake, and Suffield areas for a total expenditure of approximately \$18.7 million. The majority of these wells were horizontal wells. In addition, a total of 7 gross (3.8 net) liquids rich natural gas wells were drilled with the most active areas being in the Willesden Green Glauco Hoadley trend. Together with the completion of wells drilled in the previous quarter, a total expenditure of approximately \$26.1 million was incurred. Included in the total of the natural gas wells was a Notikewin stage frac'd horizontal well, which was the first well of this type in Harvest's drilling program. Harvest also drilled the first operated horizontal well in the Falher formation in the Deep Basin area. These wells are expected to be on production in December 2011 and January 2012 respectively. With the new land base acquired in Q1 2011, drilling in the Deep Basin area will increase over the next year as geological prospects are identified and drilling rigs are mobilized.

Capital spending excluding BlackGold oil sands for the nine months ended September 30, 2011 totaled \$483.3 million (2010 - \$252.3 million). For the first nine months in 2011, Harvest drilled a total of 203 gross (174.9 net) wells (2010 - 120 gross and 99.7 net wells). The increase in capital spending compared to 2010 is mainly due to a more active drilling program in the Company's large resource oil pools.

Below is a summary of the wells drilled by Harvest during the three and nine months ended September 30, 2011. For the third quarter of 2011, Harvest's overall success rate was 100% (year-to-date 2011 success rate was 98%).

Area	September 30, 2011			
	Three Months Ended		Nine Months Ended	
	Gross	Net	Gross	Net
Hay River	-	-	38.0	38.0
Red Earth	6.0	5.5	29.0	26.5
Rimbey/Markerville	6.0	4.3	16.0	9.2
Lloydminster Heavy Oil	18.0	16.2	30.0	27.5
Kindersley	8.0	6.5	21.0	19.3
SE Saskatchewan	8.0	8.0	12.0	12.0
Crossfield	-	-	3.0	2.4
Suffield	6.0	6.0	9.0	9.0
Other Areas	17.0	9.1	33.0	19.0
Oil sands	-	-	12.0	12.0
Total	69.0	55.6	203.0	174.9

BlackGold oil sands

The BlackGold oil sands project continued to progress in the third quarter of 2011. For the three months ended September 30, 2011, Harvest invested a total of \$28.6 million (2010 - \$3.6 million) in the BlackGold oil sands project for the construction of the central processing facility and well pads. For the nine months ended September 30, 2011, Harvest incurred \$70.4 million (2010 - \$3.6 million) for the construction of the facility and the drilling of 12.0 wells.

Decommissioning Liabilities

Harvest's decommissioning liabilities increased by \$107.7 million during the first nine months of 2011 as a result of \$38.0 million of liabilities acquired from Hunt, accretion of \$17.4 million, new liabilities of \$9.7 million incurred on new drills, and a revision of estimates of \$54.7 million, partially offset by \$12.2 million of reclamation and abandonment expenditures.



MANAGEMENT'S DISCUSSION AND ANALYSIS

DOWNSTREAM OPERATIONS

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
FINANCIAL						
Refined products sales ⁽¹⁾	528,210	753,389	(30%)	1,980,891	1,913,093	4%
Purchased products for processing and resale ⁽¹⁾	479,428	712,687	(33%)	1,782,256	1,776,726	-
Gross margin ⁽²⁾	48,782	40,702	20%	198,635	136,367	46%
Operating expense	24,077	24,465	(2%)	75,883	82,202	(8%)
Purchased energy expense	19,768	23,152	(15%)	67,760	65,622	3%
Marketing expense	2,295	1,507	52%	5,229	4,822	8%
General and administrative	441	441	-	1,323	1,323	-
Depreciation and amortization	22,532	21,914	3%	64,208	62,538	3%
Operating loss ⁽²⁾	(20,331)	(30,777)	34%	(15,768)	(80,140)	80%
Capital expenditures	100,132	21,501	366%	244,752	38,643	533%
OPERATING						
Feedstock volume (bbl/d) ⁽³⁾	41,756	96,514	(57%)	58,866	77,658	(24%)
Yield (% of throughput volume) ⁽⁴⁾						
Gasoline and related products	31%	28%	11%	32%	30%	7%
Ultra low sulphur diesel and jet fuel	47%	31%	52%	39%	34%	15%
High sulphur fuel oil	21%	38%	(45%)	26%	33%	(21%)
Total	99%	97%	2%	97%	97%	-
Average refining gross margin (US\$/bbl) ⁽⁵⁾	10.44	3.02	246%	10.26	4.67	120%

(1) Refined product sales and purchased products for processing and resale are net of intra-segment sales of \$122.2 million and \$363.0 million for the three and nine months ended September 30, 2011 respectively (2010 - \$116.5 million and \$324.9 million), reflecting the refined products produced by the refinery and sold by the marketing division.

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

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

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

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

Refining Benchmark Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
WTI crude oil (US\$/bbl)	89.76	76.20	18%	95.48	77.65	23%
Brent crude oil (US\$/bbl)	112.29	77.04	46%	111.49	78.10	43%
Mars premium (discount) (US\$/bbl)	19.93	(1.36)	1,565%	12.26	(1.55)	891%
2-1-1 crack spread (US\$/bbl)	33.83	9.02	275%	27.12	9.72	179%
RBOB crack spread (US\$/bbl)	31.96	7.81	309%	25.86	10.10	156%
Heating Oil crack spread (US\$/bbl)	35.70	10.23	249%	28.38	9.34	204%
High Sulphur Fuel Oil premium (discount) (US\$/bbl)	9.58	(7.81)	223%	0.82	(8.19)	110%
Canadian / U.S. dollar exchange rate	1.020	0.962	6%	1.023	0.965	6%

Summary of Gross Margins

	Three Months Ended September 30					
	2011			2010		
	Volumes (000's bbls)		(US\$/bbl) ⁽⁴⁾	Volumes (000's bbls)		(US\$/bbl) ⁽⁴⁾
Refinery						
Sales						
Gasoline products	\$195,153	1,709	\$116.48	\$241,082	2,829	\$81.98
Distillates	242,889	1,967	125.95	253,518	2,744	88.88
High sulphur fuel oil	49,433	488	103.32	225,279	3,047	71.13
Total sales	487,475	4,164	119.41	719,879	8,620	80.34
Feedstock⁽¹⁾						
Middle Eastern	324,134	3,370	98.11	436,467	5,649	74.33
Russian	-	-	-	145,624	1,879	74.56
South American	-	-	-	79,996	1,125	68.41
	324,134	3,370	98.11	662,087	8,653	73.61
Vacuum Gas Oil ("VGO")	50,864	472	109.92	19,082	226	81.23
Total feedstock	374,998	3,842	99.56	681,169	8,879	73.80
Other ⁽²⁾	73,141			10,817		
Total feedstock and other costs	448,139			691,986		
Refinery gross margin⁽³⁾	\$39,336		\$10.44	\$27,893		\$3.02
Marketing						
Sales	\$162,968			\$149,982		
Cost of products sold	153,522			137,173		
Marketing gross margin⁽³⁾	\$9,446			\$12,809		
Total gross margin⁽³⁾	\$48,782			\$40,702		

(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.

(4) Converted using average Canadian/ U.S. dollar exchange rates.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Nine Months Ended September 30

	2011		2010			
	Volumes (000's bbls)	(US\$/bbl) ⁽⁴⁾	Volumes (000's bbls)	(US\$/bbl) ⁽⁴⁾		
Refinery						
Sales						
Gasoline products	\$692,761	6,096	\$116.26	\$601,469	6,801	\$85.34
Distillates	807,465	6,573	125.67	717,516	7,797	88.80
High sulphur fuel oil	358,271	3,969	92.34	503,221	6,908	70.30
Total sales	1,858,497	16,638	114.27	1,822,206	21,506	81.76
Feedstock⁽¹⁾						
Middle Eastern	1,471,532	15,161	99.29	1,106,059	14,437	73.93
Russian	1,311	14	95.80	274,104	3,431	77.09
South American	-	-	-	177,451	2,555	67.02
	1,472,843	15,175	99.29	1,557,614	20,423	73.60
Vacuum Gas Oil ("VGO")	95,547	895	109.21	64,152	777	79.67
Total feedstock	1,568,390	16,070	99.84	1,621,766	21,200	73.82
Other ⁽²⁾	128,884			97,928		
Total feedstock and other costs	1,697,274			1,719,694		
Refinery gross margin⁽³⁾	\$161,223		\$10.26	\$102,512		\$4.67
Marketing						
Sales	\$485,370			\$415,805		
Cost of products sold	447,958			381,950		
Marketing gross margin⁽³⁾	\$37,412			\$33,855		
Total gross margin⁽³⁾	\$198,635			\$136,367		

(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.

(4) Converted using average Canadian/ U.S. dollar exchange rates.

Feedstock throughput averaged 41,756 bbl/d in the third quarter of 2011, a decrease of 57% from 96,514 bbl/d in the third quarter of the prior year, due to the planned shutdown of the refinery units for turnaround work that started in May and was substantially completed mid-August. The daily average throughput rate for the nine months ended September 30, 2011 is 24% lower than the same period in the prior year as a consequence of an extended planned maintenance shutdown in 2011 as compared to the ten-week unplanned shutdown for fire repairs in 2010. As well, following the completion of the turnaround in mid-August, average daily throughput was at a reduced rate as a consequence of the staged unit start-up and the pre-start-up and commissioning of the new heat exchanger.

The increase in the refinery gross margin for the three months ended September 30, 2011, as compared to the third quarter of the prior year, reflects the improved market prices and product crack spreads, partially offset by the negative volume impact from the planned shutdown. For the nine months ended September 30, 2011 refinery gross margins increased 57%, as compared to the prior year, reflecting significantly stronger global refinery margin, partially offset by the increase in sour crude premium on our feedstock costs. The Downstream operations' refining gross margin is impacted by several factors including the configuration of the refinery product yields, timing of sales under the SOA, transportation costs, location differentials, quality differentials and variability in our throughput volume over a given period of time.

Refinery sales decreased by \$232.4 million in the third quarter of 2011 from \$719.9 million in the same quarter of 2010 due to the planned maintenance shutdown of the refinery units. The increase of \$36.3 million for refinery sales for the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, is mainly the result of higher market prices on refined products, partially offset by lower sales volumes.

The cost of our crude oil feedstock in the third quarter of 2011 was at a US\$9.80/bbl premium to the benchmark WTI as compared to a discount of US\$2.40/bbl in the same period of the prior year. Similarly, the cost of crude oil feedstock for the nine months ended September 30, 2011 was at a US\$4.36/bbl premium to the benchmark WTI as compared to a discount of US\$3.83/bbl in 2010. The change from a discount to a premium is a result of the continuing wide spread between WTI and Brent.

Although the Canadian dollar weakened as compared to the US dollar at the end of the third quarter of 2011, it was consistently strong throughout most of the quarter. The strong 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 September 30					
	2011			2010		
	Refining	Marketing	Total	Refining	Marketing	Total
Operating cost	\$19,292	\$4,785	\$24,077	\$20,037	\$4,428	\$24,465
Purchased energy	19,768	-	19,768	23,152	-	23,152
	\$39,060	\$4,785	\$43,845	\$43,189	\$4,428	\$47,617
(\$/bbl of feedstock throughput)						
Operating cost	5.02	-	-	2.25	-	-
Purchased energy	5.15	-	-	2.61	-	-
	10.17	-	-	4.86	-	-



MANAGEMENT'S DISCUSSION AND ANALYSIS

	Nine Months Ended September 30					
	2011			2010		
	Refining	Marketing	Total	Refining	Marketing	Total
Operating cost	\$61,790	\$14,093	\$75,883	\$69,690	\$12,512	\$82,202
Purchased energy	67,760	-	67,760	65,622	-	65,622
	\$129,550	\$14,093	\$143,643	\$135,312	\$12,512	\$147,824
(\$/bbl of feedstock throughput)						
Operating cost	3.84	-	-	3.29	-	-
Purchased energy	4.22	-	-	3.09	-	-
	8.06	-	-	6.38	-	-

During the third quarter of 2011, refining operating costs per barrel of feedstock throughput increased 123% as compared to the same period in the prior year, reflecting the lower throughput volume from the continuation of the planned shutdown of the units for major maintenance work. Likewise, refining operating costs per barrel increased 17% for the nine months ended September 30, 2011 also as a consequence of lower throughput volumes.

Purchased energy, consisting of low sulphur fuel oil ("LSFO") and electricity, is required to provide heat and power to refinery operations. Purchased energy costs in the third quarter of 2011 decreased 15% from the third quarter of 2010 and increased 3% during the nine months ended September 30, 2011. The lower consumption in the third quarter of 2011 is a result of the lower feedstock throughput in 2011. The increase in the per barrel cost of energy is also attributable to the decreased throughput rates in 2011 combined with increased prices.

Capital Expenditures

Capital spending for the three and nine months ended September 30, 2011 totaled \$100.1 million and \$244.8 million, respectively, (2010 - \$21.5 million and \$38.6 million) relating to various capital improvement projects, including \$15.9 million and \$56.2 million, respectively, (2010 - \$12.3 million and \$21.9 million) for the debottlenecking project. The remaining increase in capital spending for the three and nine months ended September 30, 2011 is mainly due to the capitalization of turnaround costs of \$44.6 million and \$98.5 million, respectively, as well as the replacement of catalysts for \$6.0 million and \$35.7 million, respectively.

Depreciation and Amortization Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Refining	\$21,566	\$21,028	\$61,394	\$59,941
Marketing	966	886	2,814	2,597
Total depreciation and amortization	\$22,532	\$21,914	\$64,208	\$62,538

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 September 30, 2011:

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
30 MWh	Electricity price swap	2011	Cdn \$46.87	\$ 2,461
US \$6,300	Foreign exchange swap	Oct 2011	\$1.0225 Cdn/US	163
Total				\$ 2,624

Contracts Designated as Hedges

Contract quantity	Type of Contract	Term	Contract Price	Fair value
8,200 bbls/d	Crude oil price swap	Jan - Dec 2011	US \$91.23/bbl	\$ 9,376
5,000 bbls/d	Crude oil price swap	Feb - Dec 2011	US \$95.82/bbl	7,931
3,200 bbls/d	Crude oil price swap	Mar - Dec 2011	US \$95.87/bbl	5,091
4,200 bbls/d	Crude oil price swap	2012	US \$111.37/bbl	48,995
20,600 bbls/d				\$ 71,393
US \$468/day	Foreign exchange forward	2012	\$1.0236 Cdn/US	(4,812)
Total				\$ 66,581

The following is a summary of Harvest's realized and unrealized gains (losses) from derivative contracts entered into to manage each category of risk:

	Three Months Ended September 30							
	2011				2010			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses risk management contracts	\$ (3,178)	\$ 1,471	\$ -	\$ (1,707)	\$ 1,277	\$ -	\$ -	\$ 1,277
Unrealized (gains) losses on risk management contracts	1,507	(2,470)	(163)	(1,126)	1,230	-	(192)	1,038
Risk management contracts (gains) losses	\$ (1,671)	\$ (999)	\$ (163)	\$ (2,833)	\$ 2,507	\$ -	\$ (192)	\$ 2,315

	Nine Months Ended September 30							
	2011				2010			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses risk management contracts	\$ (5,794)	\$ 1,879	\$ -	\$ (3,915)	\$ 1,073	\$ -	\$ 17	\$ 1,090
Unrealized (gains) losses on risk management contracts	(1,453)	(2,596)	(163)	(4,212)	(1,079)	\$ -	(192)	(1,271)
Risk management contracts (gains) losses	\$ (7,247)	\$ (717)	\$ (163)	\$ (8,127)	\$ (6)	\$ -	\$ (175)	\$ (181)

The Company enters into crude oil and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales. Harvest designates all of its crude oil derivative contracts and certain foreign exchange contracts as cash flow hedges, which are entered into for periods consistent with the forecast petroleum sales. The effective portion of the unrealized gain for the three months and nine months ended September 30, 2011 of \$48.3 million, net of tax of \$16.3 million (2010 – \$nil) and \$47.2 million, net of tax of \$15.9 million (2010 – \$nil) was included in other comprehensive income. The ineffective portion of the unrealized gains for the three and nine months ended September 30, 2011 recognized in net income was \$2.5 million and \$2.6 million respectively. The amount removed from accumulated other comprehensive income during the period and included in petroleum, natural gas, and refined product sales was a gain of \$5.3 million (2010 – \$nil) and a loss of \$6.4 million (2010 – \$nil) (net of tax of 1.8 million and a recovery of \$2.1 million) for the three and nine months ended September 30, 2011 respectively. The Company expects that the \$48.5 million of gains reported in accumulated other comprehensive income will be released to net income within the next fifteen months. The ineffective portion of the realized cash flow hedges recognized in net income for the three and nine months ended September 30, 2011 was \$1.5 million (2010 – \$nil) and \$1.9 million (2010 – \$nil) of losses respectively.

Financing Costs

	Three Months Ended September 30			Nine months ended September 30		
	2011	2010	Change	2011	2010	Change
Bank loan	\$1,979	\$1,537	29%	\$5,026	\$4,244	18%
Convertible Debentures	12,471	12,819	(3%)	37,250	39,126	(5%)
Senior notes	8,913	4,021	122%	26,391	12,376	113%
Amortization of deferred finance charges	130	281	(54%)	667	469	42%
Interest and other financing charges	\$23,493	\$18,658	26%	\$69,334	\$56,215	23%
Capitalized interest	(2,611)	-	100%	(5,894)	-	100%
	20,882	18,658	12%	63,440	56,215	13%
Accretion of decommissioning liabilities	5,819	5,620	4%	17,662	17,076	3%
Total finance costs	\$26,701	\$24,278	10%	\$81,102	\$73,291	11%

Interest and other financing charges for the three and nine months ended September 30, 2011, including the amortization of related financing costs, increased by \$4.8 million (26%) and \$13.1 million (23%), respectively, compared to the same periods in 2010. The increase from prior year is primarily due to the increased amount of senior notes principal outstanding.

Interest expense on Harvest's bank loan for the three and nine months ended September 30, 2011 increased by 29% and 18%, respectively, due to the increase in the amount of loan principal outstanding. The effective interest rate for interest charges on our bank loan for both the three and nine months ended September 30, 2011 was 2.98%, compared to 2.90% and 1.85% for the same periods in 2010.

Interest expense on our senior notes increased 122% and 113% for the three and nine months ended September 30, 2011, respectively, when compared to the same periods in 2010. The increase is due to the higher principal balance of the 6^{7/8}% senior notes issued in the fourth quarter of 2010, as compared to the 7^{7/8}% senior notes outstanding during the first nine months of 2010, which were fully redeemed by the end of 2010.

During the three and nine months ended September 30, 2011, a total of \$2.6 million and \$5.9 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 6^{7/8}% Senior Notes and on any U.S. dollar cash balances. At September 30, 2011, the Canadian dollar had weakened compared to December 31, 2010, resulting in an unrealized foreign exchange loss of \$21.2 million (2010 - \$1.8 million gain) for the third quarter of 2011 and a loss of \$10.1 million (2010 - \$1.5 million loss) for the first nine months of 2011. Harvest recognized a realized foreign exchange gain of \$9.0 million (2010 - \$0.1 million loss) and \$9.2 million (2010 - \$5.3 million loss) for the three and nine months ended September 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 operations' U.S. dollar functional currency financial statements to Canadian dollars using the current rate method. During the three and nine months ended September 30 2011, the weakening of the Canadian dollar relative to the U.S. dollar resulted in a \$79.3 million and \$50.3 million net cumulative translation gain respectively (2010 – \$33.6 million loss and \$13.8 million loss), as the stronger U.S. dollar results in an increase in the relative value of the net assets in our Downstream operations.

Deferred Income Taxes

For the three and nine months ended September 30, 2011, Harvest recorded a deferred income tax expense of \$14.2 million and \$7.1 million respectively. Our deferred income tax liability will fluctuate during each accounting period to reflect changes in the temporary differences between the book value and tax basis of assets as well as legislative tax rate changes. Currently, the principal source of our temporary differences is the net book value of the Company's property, plant and equipment versus the 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 a recurring and consistent nature and impact cash flow in an ongoing manner. As at September 30, 2011, Harvest has the following significant contractual commitments:

	Maturity				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt Repayments ⁽¹⁾	\$ -	\$497,394	\$495,746	\$524,100	\$1,517,240
Debt interest payments ⁽¹⁾	94,516	151,809	108,070	15,764	370,159
Purchase Commitments ⁽²⁾	207,011	64,603	250	-	271,864
Operating Leases	9,116	15,300	3,706	141	28,263
Transportation Agreements ⁽³⁾	9,649	15,033	7,520	294	32,496
Feedstock & other purchase commitments ⁽⁴⁾	996,767	-	-	-	996,767
Employee benefits ⁽⁵⁾	6,700	9,638	7,950	1,006	25,294
Decommissioning liabilities ⁽⁶⁾	20,104	33,975	41,037	1,299,039	1,394,155
Total	\$1,343,863	\$787,752	\$664,279	\$1,840,344	\$4,636,238

(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 refinery crude stock and refined products for resale, including a commitment to purchase \$322.5 million of sour crude from KNOC, a related party, at arm's length terms.

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

(6) Represents the undiscounted obligation by period.

Related Party Transactions

Harvest is a wholly owned subsidiary of the Korea National Oil Corporation ("KNOC"). As at September 30, 2011, North Atlantic committed to the purchase of \$322.5 million of crude feedstock under the SOA that was sourced from KNOC. The cost of these purchases is based on the pricing terms set forth in the SOA and these commitments have been reflected in the "Contractual Obligations and Commitments" section of this MD&A.

Off Balance Sheet Arrangements

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

LIQUIDITY

Cash flow from operating activities for the three and nine months ended September 30, 2011 was \$161.5 million and \$415.9 million, respectively, compared to \$97.4 million and \$297.0 million for the same periods in 2010. For the third quarter of 2011, the change in non-cash working capital was a surplus of \$16.2 million (2010 – surplus of \$11.1 million), and \$5.9 million (2010 - \$5.8 million) was incurred in the settlement of decommissioning liabilities. For the nine months ended September 30, 2011, the change in non-cash working capital from operating activities was a deficit of \$32.8 million (2010 – surplus of \$1.4 million), and \$12.2 million (2010 - \$13.8 million) was incurred in the settlement of decommissioning liabilities.

For the third quarter of 2011, Harvest's financing activities provided \$83.9 million of cash from net borrowings from the credit facility. For the nine months ended September 30, 2011 Harvest's financing activities provided \$749.6 million of cash, including \$505.4 million of capital injection from KNOC to fund the acquisition of the Hunt

assets and \$244.2 million of net borrowings from the credit facility. Harvest funded \$802.2 million of capital expenditures and net asset acquisition activities for the first nine months of 2011 with cash generated from operating activities and financing activities.

Harvest had a working capital deficiency of \$61.2 million at September 30, 2011, as compared to a \$2.1 million deficiency at December 31, 2010. The negative working capital at September 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, partially 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 the credit facility, as required.

Through a combination of cash available at September 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 any 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 lump-sum engineering, procurement and construction contract in 2010 for phase 1 of our oil sands project, of which \$77.0 million (including a \$31.1 million deposit), has been paid up to September 30, 2011. Together with capital expenditures relating to drilling and completion of 12 observation wells, Harvest has invested \$91.6 million since acquiring the assets in 2010.

The Company is gearing up for an active drilling program during which 30 wells (15 well pairs) are expected to be drilled starting in October 2011 through to the end of 2012. Other near-term activities include completion of the detail engineering work, site preparation and the commencement of major equipment fabrication. While work continues on phase 1, phase 2 of the project, which is targeted to increase production capacity to 30,000 bbl/d, is now pending for ERCB approval. With this opportunity, the Company has deferred first production to 2014 and is expecting phase 1 costs, which include \$70 million of pre-invested facilities such as pipelines, access road, and tank farms, to increase by approximately 10-20%. Harvest plans to fund the future capital expenditures with future cash flow from operating activities and the undrawn credit facility.

Supply and Offtake Agreement ("SOA")

Among other services, the SOA provides working capital financing for Harvest's refinery 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 \$639.4 million at September 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. On October 11, 2011, the Company entered into a new SOA with Macquarie Energy Canada Ltd. ("Macquarie"). The new SOA establishes that, effective November 1, 2011, Macquarie will supply the Company with feedstocks and purchase certain finished products from the Company on favorable terms. The Company will provide storage tanks for the feedstock and finished products and is accountable for services related to the storage and handling of the feedstock and finished products at the refinery, including vessel loading and offloading. The new SOA is an evergreen arrangement with an initial one year term.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL RESOURCES

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

	September 30, 2011	December 31, 2010
Debts		
Bank loan ⁽¹⁾	\$ 259,167	\$ 14,000
Senior notes, at principal amount (US\$500 million) ⁽²⁾	524,100	497,300
Convertible debentures, at principal amount	733,973	733,973
Total Debt	\$ 1,517,240	\$ 1,245,273
Shareholder's Equity		
386,078,649 issued at September 30, 2011	\$ 3,587,718	\$ -
335,535,047 issued at December 31, 2010	-	\$ 3,016,855
Total Capitalization	\$ 5,104,958	\$ 4,262,128
Financial Ratios⁽³⁾		
Secured Debt to Annualized EBITDA ^{(4) (5)}	0.42	0.06
Total Debt to Annualized EBITDA ^{(4) (6)}	2.29	2.38
Secured Debt to Total Capitalization ^{(5) (7)}	6%	1%
Total Debt to Total Capitalization ^{(6) (7)}	33%	33%

(1) The bank loan net of deferred financing costs is \$256.5 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 September 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights our third quarter of 2011 relative to the preceding 6 quarters:

	2011				2010		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues ⁽¹⁾	\$799,945	\$746,066	\$1,218,702	\$1,255,403	\$951,385	\$1,024,565	\$569,480
Net income (loss)	(49,204)	(19,529)	37,961	(12,332)	(26,082)	(22,796)	(19,952)
Cash from operating activities	161,499	107,588	146,777	132,121	97,412	121,830	77,808
Total long-term financial debt	1,509,773	1,384,862	1,244,825	1,239,024	1,251,658	1,153,972	1,150,321
Total assets	6,483,568	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)	58,548	55,338	53,331	50,054	47,777	49,597	50,178
Upstream realized price prior to hedges (\$/boe)	\$57.85	\$66.73	\$59.19	\$56.03	\$52.71	\$54.41	\$60.17
Downstream average daily throughput (bbl/d)	41,756	38,016	97,438	111,317	96,514	94,833	41,016
Downstream average refining margin (\$US/bbl)	\$10.44	\$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 mainly impacted by the Upstream sales volumes, realized prices and operating expenses and Downstream throughput volumes, cost of feedstock and realized prices. Significant items that impacted Harvest's quarterly revenues include:

- Revenues were the highest in the fourth quarter of 2010, followed by the first quarter of 2011, reflecting higher commodity prices, stronger sales volumes in the Upstream operations and improved throughput volumes from the Downstream operations. 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 lower revenue in the second and third quarters of 2011 was due to lower Downstream sales as a result of lower throughput due to a planned shutdown, partially offset by increased Upstream sales from the Hunt assets and higher commodity prices.
- 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 first and third 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 deferred 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 (loss) from period to period. For these reasons, the net income (loss) may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to.

Total assets increased 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 increase in the first quarter of 2011 was due to the Hunt acquisition and Harvest's active winter drilling programs. The third quarter of 2011 increase is reflecting active capital programs, the Downstream exchange adjustment and the current value of risk management contracts.

OUTLOOK

While crude oil prices weakened through the third quarter of 2011, the average realized prices received remained strong. Concerns surrounding the global economic outlook continue to create crude oil price volatility. Although weak natural gas prices continued through the quarter we maintained strong Upstream cash flow due to our oil weighted assets. Refining margins for North Atlantic have remained at healthy levels and look to be improving in the years ahead as less attractive refining capacity that services our markets is being shut-down.

Third quarter average production for our Upstream business was 58,548 boe/d. We are now expecting production in the fourth quarter of about 60,000 boe/d bringing average yearly production to close to our previous guidance. Our 2011 guidance remains unchanged for general and administrative costs and operating costs (inclusive of the impact of our fixed price power hedges) at \$2.75/boe and \$16.00/boe respectively.

The turnaround and maintenance work at our Downstream business was completed in the third quarter and positions the business well for the months and years ahead. However, with the project taking longer than expected, we now expect full year throughput to average about 70,000 bpd. Full year operating and purchased energy costs continue to be expected to aggregate to approximately \$7.00/bbl.

Harvest's revenue is impacted by changes in sales volumes, commodity prices and currency exchange rates. From time-to-time Harvest enters into risk management contracts with various counterparties, principally financial institutions with investment grade credit ratings. During the third quarter Harvest entered into foreign exchange hedges for the calendar year 2012. The average rate forwards are for an average of \$0.5 million dollars per day at an average price of \$1.0236 CAD per \$1USD or \$0.9769 USD per \$1CAD. For the remainder of 2011 we hold 16,400 bbl/d WTI hedges under contract with an average price of US\$93.45/bbl.

Previous capital spending guidance for 2011 was just over \$1.5 billion inclusive of the \$505 million acquisition completed early in 2011 that was financed with an equity injection from KNOC. We now expect to spend slightly less than that amount with reduction in our Upstream business at the Blackgold project exceeding the increase in the Downstream business. We continue to be highly focused on maximizing project returns.

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 September 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.

- 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. At the November 7, 2011 IASB meeting, the IASB tentatively decided that IFRS 9 should be amended to require application for annual periods beginning on or after January 1, 2015, rather than January 1, 2013. Early adoption of the new standard would continue to be permitted. Harvest is in the process of determining the potential impact of 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 of 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 are not. The standard is required to be adopted for periods beginning

on or after July 1, 2012. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

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.

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.
- Fluctuations in demand and supply for refined products could impact the Company's margins.
- Maintenance activities may not improve operational performance or the output of related facilities; risks and uncertainties affecting construction or planned maintenance schedules, including the availability of labour and other impacts of competing projects drawing on the same resources during the same time period; and the potential for disruptions to operations and construction projects.

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 September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

NON-GAAP 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 nine months ended September 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.

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.



INTERM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	September 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		\$ 7,840	\$ 18,906
Accounts receivable and other		210,713	213,931
Inventories	5	128,325	75,517
Prepaid expenses and deposits		31,802	73,280
Risk management contracts	17	58,585	1,007
		437,265	382,641
Non-current assets			
Long-term deposit		8,342	12,394
Risk management contracts	17	10,620	-
Investment tax credits and other		45,806	44,339
Deferred income tax asset		-	1,633
Exploration and evaluation assets	6	93,005	59,554
Property, plant and equipment	7	5,476,174	4,483,236
Other long term asset		7,413	-
Goodwill		404,943	404,943
		6,046,303	5,006,099
Total assets		\$ 6,483,568	\$ 5,388,740
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 478,335	\$ 360,487
Current portion of decommissioning liabilities	8	20,104	16,672
Risk management contracts	17	-	7,553
		498,439	384,712
Non-current liabilities			
Bank loan	9, 17	256,463	11,379
Convertible debentures		742,890	745,257
Senior notes		510,420	482,389
Decommissioning liabilities	8	754,627	646,347
Post-employment benefit obligations		29,418	20,365
Deferred credits		884	293
Deferred income tax liability		102,709	81,143
		2,397,411	1,987,173
Total liabilities		\$ 2,895,850	\$ 2,371,885
Commitments and Contingencies	19		
Shareholder's equity			
Shareholder's capital	10	3,860,786	3,355,350
Deficit		(315,106)	(284,338)
Accumulated other comprehensive income (loss)	16	42,038	(54,157)
Total equity		3,587,718	3,016,855
Total liabilities and shareholder's equity		\$ 6,483,568	\$ 5,388,740

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



INTERM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
Petroleum, natural gas, and refined products sales		\$ 846,941	\$ 985,083	\$ 2,904,129	\$ 2,662,085
Royalty expense		(46,996)	(33,698)	(139,415)	(116,655)
Revenues	12	799,945	951,385	2,764,714	2,545,430
Purchased products for processing and resale		479,428	712,687	1,782,256	1,776,726
Operating		131,966	110,979	397,674	343,768
Transportation and marketing		12,053	3,992	29,115	11,582
General and administrative		15,062	10,161	44,283	35,186
Depletion, depreciation and amortization		159,602	140,234	450,556	414,997
Exploration and evaluation	6	831	759	11,286	3,288
(Gains) losses on disposition of property, plant and equipment		(65)	407	(745)	(612)
Finance costs	13	26,701	24,278	81,102	73,291
Risk management contracts (gains) losses	17	(2,833)	2,315	(8,127)	(181)
Foreign currency (gains) losses	14	12,220	(1,706)	948	6,814
Loss before income tax		(35,020)	(52,721)	(23,634)	(119,429)
Income tax expense (recovery)		14,184	(26,639)	7,134	(50,598)
Net loss		(49,204)	(26,082)	(30,768)	(68,831)
Other comprehensive income (loss)					
Gains on derivatives designated as cash flow hedges, net of tax	16,17	42,930	-	53,518	-
Gains (losses) on foreign currency translation		79,260	(33,633)	50,319	(13,777)
Actuarial Loss, net of tax		(7,642)	-	(7,642)	-
Comprehensive income (loss)		\$ 65,344	\$ (59,715)	\$ 65,427	\$ (82,608)

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



INTERM CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(thousands of Canadian dollars)</i>	Notes	Shareholder's Capital	Deficit	Accumulated Other Comprehensive Income (Loss)	Total 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	-	-	53,518	53,518
Gains on foreign currency translation		-	-	50,319	50,319
Actuarial loss, net of tax		-	-	(7,642)	(7,642)
Net loss		-	(30,768)	-	(30,768)
Balance at September 30, 2011		\$ 3,860,786	\$ (315,106)	\$ 42,038	\$ 3,587,718
Balance at January 1, 2010		\$ 2,422,688	\$ (203,175)	\$ -	\$ 2,219,513
Issue of share capital for cash	10	886,848	-	-	886,848
Losses on foreign currency translation		-	-	(13,777)	(13,777)
Net loss	20	-	(68,831)	-	(68,831)
Balance at September 30, 2010		\$ 3,309,536	\$ (272,006)	\$ (13,777)	\$ 3,023,753

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



INTERM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Nine Months Ended September 30,	
		2011	2010
Cash provided by (used in)			
Operating Activities			
Net loss		\$ (30,768)	\$ (68,831)
Items not requiring cash			
Depletion, depreciation and amortization		450,556	414,997
Accretion of decommissioning liabilities	8,13	17,662	17,076
Unrealized gains on risk management contracts	17	(4,212)	(1,271)
Unrealized losses on foreign exchange	14	10,143	1,515
Non-cash interest income and other finance charges		(491)	(5,593)
Unsuccessful exploration and evaluation costs	6	10,952	2,846
Gains on disposition of property, plant and equipment		(745)	(612)
Deferred income tax expense (recovery)		7,129	(50,380)
Other non-cash items		582	(314)
Settlement of decommissioning liabilities	8	(12,172)	(13,813)
Change in non-cash working capital	15	(32,774)	1,429
		415,862	297,049
Financing Activities			
Issue of common shares, net of issue costs		505,436	512,679
Bank borrowing (repayments), net		244,179	(139,593)
Redemptions of senior notes		-	(42,262)
Redemptions of convertible debentures		-	(156,383)
Change in non-cash working capital	15	-	829
		749,615	175,270
Investing Activities			
Business acquisitions	4	(509,591)	(145,144)
Additions to property, plant and equipment	7	(750,647)	(260,526)
Additions to exploration and evaluation assets	6	(47,851)	(34,076)
Additions to other long term assets		(7,413)	-
Property acquisitions, net		(3,736)	(31,309)
Change in non-cash working capital	15	142,588	(6,709)
		(1,176,650)	(477,764)
Change in cash and cash equivalents		(11,173)	(5,445)
Effect of exchange rate changes on cash		107	5,445
Cash and cash equivalents, beginning of period		18,906	-
Cash and cash equivalents, end of period		\$ 7,840	\$ -
Interest paid		\$ 46,594	\$ 44,397
Tax (received) paid, net		\$ 5	\$ (218)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 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 November 10, 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 interim 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 and the Company's Interim Consolidated Financial Statements for the three months ended March 31, 2011 prepared in accordance with IFRS.

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 three and nine months ended September 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.

- 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. At the November 7, 2011 IASB meeting, the IASB tentatively decided that IFRS 9 should be amended to require application for annual periods beginning on or after January 1, 2015, rather than January 1, 2013. Early adoption of the new standard would continue to be permitted. Harvest is in the process of determining the potential impact of 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 of 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

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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 are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The adoption of this standard should not have a material impact on the Company’s consolidated financial statements.

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 \$510.6 million. KNOC provided \$505.4 million of equity to fund the acquisition. An additional \$25 million is payable to Hunt in the event that Canadian natural gas prices exceed certain pre-determined levels in 2011 and 2012. This potential payable is considered a contingent consideration and is required to be fair valued. Based on forecast gas prices, the probability of incurring this payment is assessed as low; as such no fair value was assigned on the purchase price allocation.

Hunt reimbursed Harvest for costs associated with restoring production as well as the lost revenues net of operating costs relating to certain properties between October 1, 2010 and April 3, 2011, when production was resumed. A portion of the reimbursement might be reverted to Hunt if the future net revenue earned by Harvest during the six months after April 3, 2011 exceeded the reimbursed amount. Subsequent to September 30, 2011, it was agreed upon that no refund of the reimbursement was necessary.

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:

Evaluation and exploration assets	\$	23,967
Property, plant and equipment		525,116
Decommissioning liabilities		(38,030)
Other liabilities		(500)
Cash consideration	\$	510,553

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 \$31.3 million and \$69.0 million to Harvest’s earnings before depletion and income tax for the three and nine month periods ended September 30, 2011 respectively. If the acquisition had been completed on the first day of 2011, Harvest’s revenues for the nine months ended September 30, 2011 would have been \$19.4 million higher and the earnings before depletion and income tax would have been \$7.4 million higher.



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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 \$144.2 million. The acquisition was accounted for as a business combination. The fair values of identifiable assets and liabilities as at the date of acquisition were:

Property, plant and equipment	\$	166,966
Evaluation and exploration assets		587
Decommissioning liability		(18,358)
Deferred tax liabilities		(5,032)
Total cash consideration	\$	144,163

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

	September 30, 2011	December 31, 2010
Petroleum products		
Upstream	\$ 3,793	\$ 1,010
Downstream	120,340	70,586
	124,133	71,596
Parts and supplies	4,192	3,921
Total inventories	\$ 128,325	\$ 75,517

For the three and nine months ended September 30, 2011, Harvest recognized inventory impairments, net of reversals, of \$4.8 million and \$8.0 million respectively (2010 – \$2.6 million and \$9.5 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		47,851
Acquisitions		23,967
Unsuccessful exploration and evaluation costs		(10,952)
Transfer to property, plant and equipment		(27,415)
As at September 30, 2011	\$	93,005

The Company determined certain E&E costs to be unsuccessful and not recoverable. Accordingly, for the three and nine months ended September 30, 2011, \$0.7 million (2010 – \$0.6 million) and \$11.0 million (2010 – \$2.9 million) of E&E assets were impaired and recognized as E&E expense, respectively.

For the three and nine months ended September 30, 2011, \$0.1 million (2010 – \$0.2 million) and \$0.3 million (2010 – \$0.4 million) of pre-licensing costs were charged directly to E&E expense respectively.



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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	506,295	244,752	751,047
Disposals	-	(18,031)	(18,031)
Acquisitions	527,917	-	527,917
Change in decommissioning liabilities	64,424	3,768	68,192
Transfers from E&E	27,415	-	27,415
Exchange adjustment	-	77,668	77,668
As at September 30, 2011	\$ 5,090,206	\$ 1,390,042	\$ 6,480,248
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 adjustment	-	(4,590)	(4,590)
As at December 31, 2010	484,303	78,501	562,804
Depreciation, depletion and amortization	386,348	64,208	450,556
Exchange adjustment	-	8,745	8,745
Disposals	-	(18,031)	(18,031)
As at September 30, 2011	\$ 870,651	\$ 133,423	\$ 1,004,074
Net Book Value			
As at September 30, 2011	\$ 4,219,555	\$ 1,256,619	\$ 5,476,174
As at December 31, 2010	\$ 3,479,852	\$ 1,003,384	\$ 4,483,236

General and administrative costs of \$3.8 million and \$9.6 million have been capitalized during the three and nine-month periods ended September 30, 2011 (2010 – \$5.5 million and \$10.5 million respectively). Borrowing costs relating to the development of BlackGold assets and the Downstream debottlenecking project have been capitalized within PP&E during the three and nine months ended September 30, 2011 in the amount of \$2.6 million and \$5.9 million (2010 – \$nil), at a weighted average interest of 6.36% and 6.76% respectively (2010 – \$nil).

At September 30, 2011 the following costs were excluded from the asset base subject to depreciation, depletion and amortization: Downstream major parts inventory of \$6.9 million (December 31, 2010 – \$6.8 million); Downstream assets under construction of \$85.7 million (December 31, 2010 – \$68.8 million); and, BlackGold oil sands assets of \$465.2 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 September 30, 2011 (December 31, 2010 – \$1.2 billion) which will be incurred between 2011 and 2070. A risk-free discount rate of 3.0% (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	9,690	-	9,690
Settled during the period	(12,172)	-	(12,172)
Revisions (change in estimate)	54,734	3,768	58,502
Accretion	17,371	291	17,662
Balance at September 30, 2011	\$ 760,246	\$ 14,485	\$ 774,731
Current portion of decommissioning liabilities	\$ 20,104	\$ -	\$ 20,104
Non-current portion of decommissioning liabilities	740,142	14,485	754,627
Balance at September 30, 2011	\$ 760,246	\$ 14,485	\$ 774,731

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 September 30, 2011, Harvest had \$259.2 million drawn from the \$500 million available under the credit facility (December 31, 2010 - \$14 million). For the three and nine months ended September 30, 2011, interest charges on bank loans aggregated to \$1.7 million and \$3.0 million (2010 – \$1.1 million and \$2.8 million respectively), reflecting an effective interest rate of 2.98% (2010 – 2.90% and 1.85% 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.



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(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 September 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.

	September 30, 2011	December 31, 2010
Bank loan ⁽¹⁾	\$ 259,167	\$ 14,000
6 ⁷ / ₈ % senior notes (US\$500 million) ⁽²⁾	524,100	497,300
Principal amount of convertible debentures	733,973	733,973
Total debt	1,517,240	1,245,273
Shareholder's equity	3,587,718	3,016,855
Total capitalization	\$ 5,104,958	\$ 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 loan 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 September 30, 2011.

	Covenant	September 30, 2011	December 31, 2010
Secured debt ⁽¹⁾ to EBITDA	3.0 to 1.0 or less	0.42	0.06
Total debt ⁽²⁾ to EBITDA	3.5 to 1.0 or less	2.29	2.38
Secured debt ⁽¹⁾ to Capitalization ⁽³⁾	50% or less	6%	1%
Total debt ⁽²⁾ to Capitalization ⁽³⁾	55% or less	33%	33%

(1) Secured debt consists of letters of credit, bank loan 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 months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Crude oil and natural gas sale, net of royalty	\$ 264,607	\$ 197,996	\$ 792,331	\$ 632,337
Refinery products sale	528,210	753,389	1,980,891	1,913,093
Effective portion of realized crude oil hedges	7,128	-	(8,508)	-
	\$ 799,945	\$ 951,385	\$ 2,764,714	\$ 2,545,430



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13. Finance Costs

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
	Accretion of decommissioning liabilities	\$ 5,819	\$ 5,620	\$ 17,662
Interest and other financing charges	23,493	18,658	69,334	56,215
Less: Capitalized interest	(2,611)	-	(5,894)	-
	\$ 26,701	\$ 24,278	\$ 81,102	\$ 73,291

14. Foreign Exchange

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
	Realized (gains) losses on foreign exchange	\$ (9,029)	\$ 104	\$ (9,195)
Unrealized (gains) losses on foreign exchange	21,249	(1,810)	10,143	1,515
	\$ 12,220	\$ (1,706)	\$ 948	\$ 6,814

15. Supplemental Cash Flow Information

	Nine months ended September 30	
	2011	2010
Source (use) of cash:		
Accounts receivable and other	\$ 3,218	\$ 6,029
Prepaid expenses and deposits ⁽¹⁾	45,530	(23,239)
Accounts payable and accrued liabilities	117,848	27,026
Inventories	(52,808)	(12,668)
Net changes in non-cash working capital	113,788	(2,852)
Changes relating to operating activities	(32,774)	1,429
Changes relating to financing activities	-	829
Changes relating to investing activities	142,588	(6,709)
Add: Other non-cash changes	3,974	1,599
	\$ 113,788	\$ (2,852)

(1) Includes long-term deposit



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16. Accumulated Other Comprehensive Income (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, net of tax	-	-	(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	-	6,364	-	6,364
Gain on derivatives as designated cash flow hedges, net of tax	-	47,154	-	47,154
Actuarial loss, net of tax	-	-	(7,642)	(7,642)
Gains on foreign currency translation	50,319	-	-	50,319
Balance at September 30, 2011	\$ 4,399	\$ 48,498	\$ (10,859)	\$ 42,038

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:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and receivables				
Accounts receivable and other	\$ 210,713	\$ 210,713	\$ 213,931	\$ 213,931
Held for trading				
Cash and cash equivalents	7,840	7,840	18,906	18,906
Fair value of risk management contracts	69,205	69,205	1,007	1,007
Total financial assets	\$ 287,758	\$ 287,758	\$ 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	478,335	478,335	360,487	360,487
Bank loan	256,463	259,167	11,379	14,000
Senior notes	510,420	530,981	482,389	507,246
Convertible debentures	742,890	746,175	745,257	758,108
Total measured at amortized costs	1,988,108	2,014,658	1,599,512	1,639,841
Total financial liabilities	\$ 1,988,108	\$ 2,014,658	\$ 1,607,065	\$ 1,647,394

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 September 30, 2011. The fair value of the bank loan approximates the carrying value (excluding deferred financing charges) as the bank loan bears floating market rates. The carrying value of the bank loan includes \$2.7 million of deferred financing charges at September 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 nine months ended September 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 and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales. Harvest designates all of its crude oil derivative contracts and certain foreign exchange contracts as cash flow hedges, which are entered into for periods consistent with the forecast petroleum sales. The effective portion of the unrealized gain for the three months and nine months ended September 30, 2011 of \$48.3 million, net of tax of \$16.3 million (2010 - \$nil) and \$47.2 million, net of tax of \$15.9 million (2010 - \$nil) was included in other comprehensive income. The ineffective portion of the unrealized gains for the three and nine months ended September 30, 2011 recognized in net income was \$2.5 million and \$2.6 million respectively. The amount removed from accumulated other comprehensive income during the period and included in petroleum, natural gas, and refined product sales was a gain of \$5.3 million (2010 - \$nil) and a loss of \$6.4 million (2010 - \$nil) (net of tax of 1.8 million and a recovery of \$2.1 million) for the three and nine months ended September 30, 2011 respectively. The Company expects that the \$48.5 million of gains reported in accumulated other comprehensive income will be released to net income within the next fifteen months. The ineffective portion of the realized cash flow hedges recognized in net income for the three and nine months ended September 30, 2011 was \$1.5 million (2010 - \$nil) and \$1.9 million (2010 - \$nil) of losses respectively.



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The following is a summary of Harvest's realized and unrealized gain (losses) from derivative contracts entered into to manage each category of risk:

	Three months ended September 30							
	2011				2010			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses risk management contracts	\$ (3,178)	\$ 1,471	\$ -	\$ (1,707)	\$ 1,277	\$ -	\$ -	\$ 1,277
Unrealized (gains) losses on risk management contracts	1,507	(2,470)	(163)	(1,126)	1,230	-	(192)	1,038
Risk management contracts (gains) losses	\$ (1,671)	\$ (999)	\$ (163)	\$ (2,833)	\$ 2,507	\$ -	\$ (192)	\$ 2,315

	Nine months ended September 30							
	2011				2010			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses risk management contracts	\$ (5,794)	\$ 1,879	\$ -	\$ (3,915)	\$ 1,073	\$ -	\$ 17	\$ 1,090
Unrealized gains on risk management contracts	(1,453)	(2,596)	(163)	(4,212)	(1,079)	-	(192)	(1,271)
Risk management contracts gains	\$ (7,247)	\$ (717)	\$ (163)	\$ (8,127)	\$ (6)	\$ -	\$ (175)	\$ (181)

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

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
30 MWh	Electricity price swap	2011	Cdn \$46.87	\$ 2,461
US \$6,300	Foreign exchange swap	Oct 2011	\$1.0225 Cdn/US	163
			Total	\$ 2,624

Contracts Designated as Hedges

Contract quantity	Type of Contract	Term	Contract Price	Fair value
8,200 bbls/day	Crude oil price swap	Jan - Dec 2011	US \$91.23/bbl	\$ 9,376
5,000 bbls/day	Crude oil price swap	Feb - Dec 2011	US \$95.82/bbl	7,931
3,200 bbls/day	Crude oil price swap	Mar - Dec 2011	US \$95.87/bbl	5,091
4,200 bbls/day	Crude oil price swap	2012	US \$111.37/bbl	48,995
20,600 bbls/day				\$ 71,393
US \$468/day	Foreign exchange forward	2012	\$1.0236 Cdn/US	(4,812)
			Total	\$ 66,581



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18. Segment Information

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

	Three months ended September 30					
	Downstream		Upstream		Total	
	2011	2010	2011	2010	2011	2010
Petroleum, natural gas and refined products sales	\$528,210	\$753,389	\$318,731	\$ 231,694	\$ 846,941	\$985,083
Royalty expense	-	-	(46,996)	(33,698)	(46,996)	(33,698)
Revenues	528,210	753,389	271,735	197,996	799,945	951,385
Purchased products for resale and processing	479,428	712,687	-	-	479,428	712,687
Operating	43,845	47,617	88,121	63,362	131,966	110,979
Transportation and marketing	2,295	1,507	9,758	2,485	12,053	3,992
General and administrative	441	441	14,621	9,720	15,062	10,161
Depletion, depreciation and amortization	22,532	21,914	137,070	118,320	159,602	140,234
Exploration	-	-	831	759	831	759
Gain on dispositions of PP&E	-	-	(65)	407	(65)	407
Segment income (loss)	(20,331)	(30,777)	21,399	2,943	1,068	(27,834)
Finance costs	-	-	-	-	26,701	24,278
Risk management contracts (gains) losses	-	-	-	-	(2,833)	2,315
Foreign exchange (gains) losses	-	-	-	-	12,220	(1,706)
Loss before income tax	-	-	-	-	(35,020)	(52,721)
Deferred income tax expense (recovery)	-	-	-	-	14,184	(26,639)
Net loss	-	-	-	-	\$(49,204)	\$ (26,082)

Capital Expenditures

Business acquisition	\$ -	\$ -	\$ (2,932)	\$ 145,144	\$ (2,932)	\$ 145,144
Additions to property, plant and equipment	100,132	21,501	184,316	76,864	284,448	98,365
Additions to exploration and evaluation assets	-	-	6,281	13,274	6,281	13,274
Property acquisitions, net	-	-	350	1,337	350	1,337
Total expenditures	\$100,132	\$ 21,501	\$188,015	\$236,619	\$ 288,147	\$ 258,120

(1) Of the total Downstream revenue, two customers represent sales of \$320.6 million and \$30.9 million for the three months ended September 30, 2011 (2010 - \$496.9 million and \$91.4 million). No other single customer within either division represents greater than 10% of Harvest's total revenue.

(2) There is no intersegment activity.



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	Nine months ended September 30					
	Downstream		Upstream		Total	
	2011	2010	2011	2010	2011	2010
Petroleum, natural gas and refined products sales	\$1,980,891	\$1,913,093	\$923,238	\$748,992	\$2,904,129	\$2,662,085
Royalty expense	-	-	(139,415)	(116,655)	(139,415)	(116,655)
Revenue	1,980,891	1,913,093	783,823	632,337	2,764,714	2,545,430
Purchased products for resale and processing	1,782,256	1,776,726	-	-	1,782,256	1,776,726
Operating	143,643	147,824	254,031	195,944	397,674	343,768
Transportation and marketing	5,229	4,822	23,886	6,760	29,115	11,582
General and administrative	1,323	1,323	42,960	33,863	44,283	35,186
Depletion, depreciation and amortization	64,208	62,538	386,348	352,459	450,556	414,997
Exploration	-	-	11,286	3,288	11,286	3,288
Gain on dispositions of PP&E	-	-	(745)	(612)	(745)	(612)
Segment income (loss)	(15,768)	(80,140)	66,057	40,635	50,289	(39,505)
Finance costs					81,102	73,291
Risk management contracts gains					(8,127)	(181)
Foreign exchange losses					948	6,814
Loss before income tax					(23,634)	(119,429)
Deferred income tax expense (recovery)					7,134	(50,598)
Net loss					\$ (30,768)	\$ (68,831)
Capital Expenditures						
Business acquisition	\$ -	\$ -	\$509,591	\$145,144	\$ 509,591	\$ 145,144
Additions to property, plant and equipment	244,752	38,643	505,895	221,883	750,647	260,526
Additions to exploration and evaluation assets	-	-	47,851	34,076	47,851	34,076
Property acquisitions, net	-	-	3,736	31,309	3,736	31,309
Total expenditures	\$ 244,752	\$ 38,643	\$1,067,073	\$432,412	\$1,311,825	\$ 471,055

(1) Of the total Downstream revenue, two customers represent sales of \$1.2 billion and \$161.3 million for the nine months ended September 30, 2011 (2010 - \$1.3 billion and \$133.1 million). No other single customer within either division represents greater than 10% of Harvest's total revenue.

(2) There is no intersegment activity.

	September 30, 2011			December 31, 2010		
	Downstream	Upstream	Total	Downstream	Upstream	Total
Total Assets	\$ 1,499,982	\$ 4,983,586	\$ 6,483,568	\$1,211,367	\$4,177,373	\$5,388,740
Property, plant and equipment	\$ 1,256,619	\$ 4,219,555	\$ 5,476,174	\$1,003,384	\$3,479,852	\$4,483,236
Evaluation and exploration	\$ -	\$ 93,005	\$ 93,005	\$ -	\$ 59,554	\$ 59,554
Goodwill	\$ -	\$ 404,943	\$ 404,943	\$ -	\$ 404,943	\$ 404,943

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19. Commitments and Contingencies

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

	Maturity				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt Repayments ⁽¹⁾	\$ -	\$ 497,394	\$ 495,746	\$ 524,100	\$ 1,517,240
Debt interest payments ⁽¹⁾	94,516	151,809	108,070	15,764	370,159
Purchase Commitments ⁽²⁾	207,011	64,603	250	-	271,864
Operating Leases	9,116	15,300	3,706	141	28,263
Transportation Agreements ⁽³⁾	9,649	15,033	7,520	294	32,496
Feedstock & other purchase commitments ⁽⁴⁾	996,767	-	-	-	996,767
Employee benefits ⁽⁵⁾	6,700	9,638	7,950	1,006	25,294
Decommissioning liabilities ⁽⁶⁾	20,104	33,975	41,037	1,299,039	1,394,155
Total	\$ 1,343,863	\$ 787,752	\$ 664,279	\$ 1,840,344	\$ 4,636,238

(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 commitments.

(4) Includes commitments to purchase refinery crude stock and refined products for resale, including a commitment to purchase \$322.5 million of sour crude from KNOC, a related party, at arm's length terms.

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

(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,

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“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 loss, and comprehensive loss.

Reconciliation of Shareholder’s Equity

	Note	September 30, 2010
Shareholder’s equity under Canadian GAAP		\$ 3,244,009
Decommissioning liabilities	a	(270,718)
Exploration and evaluation expenses	b	
Impairment of exploration and evaluation expenses		(2,846)
Pre-licensing costs		(442)
Depletion, depreciation and amortization	c	(37,329)
Dispositions	d	206
Acquisitions	e	
BlackGold asset transfer		8,466
Gain on acquisition		406
Deferred income taxes	f	81,832
Cumulative translation adjustments	g	169
Shareholders’ equity under IFRS		\$ 3,023,753

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Reconciliation of Net Income

	Note	For the three months ended September 30, 2010	For the nine months ended September 30, 2010
Net loss under Canadian GAAP		\$ (22,079)	\$ (43,115)
Decommissioning liabilities	a	649	1,709
Exploration and evaluation expenses	b		
Unsuccessful exploration and evaluation costs		(603)	(2,846)
Pre-licensing costs		(156)	(442)
Depletion, depreciation and amortization	c	(12,277)	(37,329)
Dispositions	d	(812)	206
Acquisitions	e		
Gain on acquisition		406	406
Deferred income taxes	f	9,058	12,749
Foreign currency translation	g	(268)	(169)
Total differences		(4,003)	(25,716)
Net loss under IFRS		\$ (26,082)	\$ (68,831)

Reconciliation of Other Comprehensive Income

	Note	For the three months ended September 30, 2010	For the nine months ended September 30, 2010
Other comprehensive loss under Canadian GAAP		\$ (33,901)	\$ (13,946)
Cumulative translation adjustments	g	268	169
Other comprehensive loss under IFRS		(33,633)	(13,777)
Net loss under IFRS		(26,082)	(68,831)
Comprehensive loss under IFRS		\$ (59,715)	\$ (82,608)

Reconciliation of Cash from Operating, Investing and Financing Activities

	Note	For the three months ended September 30, 2010	For the nine months ended September 30, 2010
Cash flows from operating activities as reported under Canadian GAAP		\$ 97,568	\$ 297,491
Exploration and evaluation expenses	b	(156)	(442)
Cash flows from operating activities as reported under IFRS		\$ 97,412	\$ 297,049
Cash flows used in investing activities as reported under Canadian GAAP		\$ (260,224)	\$ (478,206)
Exploration and evaluation expenses	b	156	442
Cash flows used in investing activities as reported under IFRS		\$ (260,068)	\$ (477,764)

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 September 30, 2010, PP&E and the decommissioning liabilities were \$63.7 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 \$1.7 million for the three and nine months ended September 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 capitalizes 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 nine months ended September 30, 2010, the Company recognized \$0.6 million and \$2.8 million of losses respectively 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 nine months ended September 30, 2010, \$0.2 million and \$0.4 million respectively 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 nine months ended September 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 an additional \$12.3 million and \$37.3 million of depletion, depreciation and amortization expense for the three and nine months ended September 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 loss on PP&E disposal of \$0.8 million and \$0.2 million gain for the three and nine months ended September 30, 2010 respectively under IFRS.

(e) Acquisition

BlackGold asset transfer

Under IFRS, the transfer of BlackGold oil sand assets from KNOC in August 2010 is measured at fair value of the assets and liabilities. Under Canadian GAAP, the assets and liabilities were transferred at the carrying value. The difference in the accounting treatment results in a reversal of an \$8.5 million loss that was previously recognized in retained earnings and an increase of \$8.5 million in PP&E.

Gain on acquisition

On August 6, 2010, Harvest entered into an agreement with Enerplus to purchase the remaining 40% of the Redearth Partnership ("Partnership") as well as additional petroleum and natural gas rights, tangible assets, seismic data and other miscellaneous interests and associated production. Under IFRS, the acquirer is required to re-measure its previously held equity interest in the acquiree (the Partnership) at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss; as such a gain of \$0.4 million was recognized in the income statement relating to the 60% previous held interest in the Partnership for the three and nine months ended September 30, 2010. Canadian GAAP did not require such re-measurement.

(f) Deferred income taxes (DIT)

IAS 12 requires recognizing of the DIT 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 DIT balance on January 1, 2010 as the cumulative translation adjustments balance was nil as a result of the KNOC acquisition. For the three and nine months ended September 30, 2010 the DIT expense decreased by \$7.3 million and by \$4.4 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.

Deferred income tax expense decreased by \$1.8 million and \$8.3 million for the three and nine months ended September 30, 2010, resulting from the increase in decommissioning liabilities and PP&E.

(g) 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 nine months ended September 30, 2010 the amount of foreign exchange loss recognized was \$0.3 million and \$0.2 million respectively which increased net loss and decreased other comprehensive loss.

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 September 30, 2010 and December 31, 2010, \$34.1 million and \$47.0 million, respectively, were reclassified. Note 6 discloses a reconciliation of E&E assets from the Transition Date to September 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 \$5.6 million and \$17.1 million for the three and nine months ended September 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 \$0.4 million and \$1.0 million of

petroleum, natural gas, and refined product sales to Downstream operating expenses for the three and nine months ended September 30, 2010 respectively.

21. Subsequent Event

On October 11, 2011, Harvest entered into a crude oil supply and refined product offtake agreement ("SOA") with Macquarie Energy Canada Ltd. ("Macquarie"). The SOA establishes that, effective November 1, 2011, Macquarie will supply the Company with feedstocks and purchase certain finished products from the Company. The Company will provide storage tanks for the feedstock and finished products and is accountable for services related to the storage and handling of the feedstock and finished products at the refinery, including vessel loading and offloading. The new SOA is an evergreen arrangement with an initial one-year term.