



First Quarter Report *2012*

For the three month period ended March 31, 2012

FINANCIAL & OPERATING HIGHLIGHTS:

	Three Months Ended March 31	
	2012	2011
FINANCIAL		
Revenues ⁽¹⁾	1,426,140	1,248,924
Cash from operating activities	85,110	146,828
Net income (loss)	(72,081)	37,961
Bank loan	531,619	29,660
Convertible debentures	741,237	744,490
Senior notes	486,611	470,676
Total financial debt ⁽²⁾	1,759,467	1,244,826
Total assets	6,322,250	6,041,118
UPSTREAM OPERATIONS		
Daily sales volumes (boe/d)	60,550	53,331
Average realized price		
Oil and NGLs (\$/bbl) ⁽³⁾	79.32	73.75
Gas (\$/mcf)	2.29	3.83
Operating netback prior to hedging (\$/boe) ⁽²⁾	29.21	33.67
Capital asset additions (excluding acquisitions)	238,592	237,649
Property and business acquisitions (dispositions), net	(1,988)	515,496
Abandonment and reclamation expenditures	6,587	1,967
Net wells drilled	60.4	104.9
Net undeveloped land acquired in business combinations (acres) ⁽⁴⁾	–	223,405
Net undeveloped land additions (acres)	44,931	53,480
DOWNSTREAM OPERATIONS		
Average daily throughput (bbl/d)	100,000	97,438
Average refining margin (US\$/bbl)	4.58	10.96
Capital asset additions	13,263	35,879

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

(2) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in the MD&A for the period ended March 31, 2012.

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

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

MESSAGE TO STAKEHOLDERS:

The first quarter of 2012 was an active period for Harvest drilling 45% of the wells planned for 2012. Our capital spending in the first quarter was concentrated on development opportunities in our oil-weighted asset base, specifically in the Hay River and Red Earth areas.

The oil-weighted nature of our Upstream business provided for strong cash flow performance from our Upstream business. In the Downstream, gross margins were substantially improved compared with the fourth quarter of 2011. There were continued cashflow deficiencies due to higher operating and feedstock costs.

UPSTREAM OPERATIONS

Upstream production volumes in the first quarter of 2012 averaged 60,550 boe/d, a 14% increase over the same period last year, due to production from assets acquired in the first quarter of 2011 and our active drilling program. Year-over-year, Harvest's production mix changed slightly with 41% weighted to light and medium crude, 15% weighted to heavy crude, 9% weighted to natural gas liquids and the remaining 35% weighted to natural gas.

During the first quarter of 2012 Harvest spent \$238.6 million of its \$650 million Upstream capital budget including BlackGold. Of the \$238.6 million, 60% was spent on drilling and completion activities. During the quarter Harvest drilled 69 gross (60.4 net) wells with a 98% success rate. For the quarter, Harvest mainly focused on oil drilling opportunities. In our Hay River area, 27 gross wells (producer and injector wells) were drilled in the Bluesky Formation in the pursuit of medium gravity oil. We were also active in the Red Earth area where we drilled 10 gross stage stimulated horizontal oil wells in the Slave point Formation. Harvest continued to focus on its southeast Saskatchewan 100% working interest wells in the Souris Valley and Tilston Formations. The remainder of Harvest's asset development was focused on existing oil pools along with liquids rich gas wells.

Prior to hedging Harvest realized an operating netback of \$29.21/boe compared to the same period in 2011 of \$33.67/boe and the previous quarter of \$36.57/boe. Operating netback decreased due to lower realized commodity prices of \$58.07/boe prior to hedging, increases in royalties to 16.5% and operating expenses of \$18.14/boe. During the first quarter of 2011 realized commodity prices were \$59.19/boe prior to hedging, royalties were 12.8% and operating expenses were \$17.42/boe.

BlackGold Project

Harvest has allocated 2012 capital spending of \$215 million for the BlackGold oil sands project. The 2012 activities for the BlackGold team will be module assembly, facility construction and an active drilling program of 30 wells (15 SAGD well pairs). First oil production from phase 1 is expected in 2014 and we anticipate ERCB approval in 2012 for an additional 20,000 bbl/d for phase 2 expansion of the project.

The BlackGold project faces similar cost and schedule pressures as other oil sand projects, including shortage of skilled labor, rising costs, and logistics issues surrounding module transportation. As a result of these pressures, Harvest is actively reviewing changes to the EPC contract terms with the contractor and revising methods to execute the project; these changes are expected to result in material increases to the project cost.

DOWNSTREAM OPERATIONS

Throughput at the facility averaged 100,000 bbl/d which was a moderate improvement from 97,438 bbl/d in the first quarter of 2011 and 88,824 bbl/d in the previous quarter.

Harvest's average refining margin of US\$4.58/bbl was lower than US\$10.96/bbl in the first quarter of 2011, but significantly better than margins of US\$(4.14) experienced in the fourth quarter of 2011. The shutdown of inefficient refining capacity by others resulted in margins increasing from very low levels in late 2011.

The Downstream business experienced an operating loss of \$48.9 million during the quarter compared to an operating income of \$36.2 million in the same period of 2011. The year over year decrease is mainly due to increased feedstock and purchased energy costs of US\$118.24/bbl and US\$5.21/bbl respectively, compared to US\$94.95/bbl and US\$3.18/bbl in the same period of the previous year. Quarter over quarter the Downstream business has reduced the operating loss from \$124.8 million in the fourth quarter of 2011 to \$48.9 million in the first quarter due to higher throughout volumes and improved margins from increased refined product prices.

The refinery experienced a significant turnaround and catalyst replacement in the second and third quarter of 2011. As a result the 2012 capital budget requirement of \$84 million for the Downstream operations is significantly less than the \$284 million budget in 2011. Capital spending in the first quarter of 2012 totaled \$13.3 million of which \$3.3 million was allocated to

debottlenecking. With the extent of the turnaround activities that took place in 2011, there is no significant downtime planned for the refinery in 2012.

CORPORATE UPDATE

The Harvest management team and the Harvest Board welcomed Mr. Chang Seok Jeong to the Board of Directors in March 2012. Mr. Jeong is currently Executive Vice President of the America Group at KNOC. We look forward to his contribution to the Harvest Board.

Harvest has consistently maintained a disciplined approach in health, safety and environmental issues and remains committed to operating in a socially responsible manner. We regularly conduct emergency response training, and perform safety and environmental audits of our operating facilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three months ended March 31, 2012 and the audited consolidated financial statements and MD&A for the year ended December 31, 2011. The information and opinions concerning our future outlook are based on information available at May 11, 2012.

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

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

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.

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from our unaudited consolidated financial statements for the three months ended March 31, 2012 and the accompanying notes thereto. In the interest of providing our lenders and potential lenders with information regarding Harvest, including our assessment of our future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

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

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

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

REVIEW OF OVERALL PERFORMANCE

Upstream

- Sales volumes for the three months ended March 31, 2012 increased by 7,219 boe/d compared to the same period in 2011. The increase reflects a full quarter of production from the assets acquired from Hunt Oil Company of Canada, Inc. and Hunt Oil Alberta, Inc. (collectively "Hunt") at the end of February 2011 as well as production increases from Harvest's capital program during the second half of 2011.
- Operating loss was \$19.8 million for the first quarter of 2012 as compared to an operating income of \$23.2 million for the same quarter in 2011. The decrease in operating income is mainly attributable to the higher depreciation, depletion and amortization expense and the impairment taken on certain gas properties due to declining future natural gas prices, partially offset by the higher operating netback after hedging received during the quarter.
- Harvest's operating netback was \$29.21/boe prior to hedging for the first quarter of 2012, a decrease of 13% from the same quarter in 2011, reflecting lower realized prices from natural gas and natural gas liquids ("NGLs") sales and increased royalties, operating and transportation expenses, partially offset by higher oil prices.
- Capital spending of \$238.6 million includes the drilling of 51 gross oil wells, 6 gross gas wells, and 12 gross service wells.

Downstream

- Throughput volume averaged 100,000 bbl/d, an increase of 3% as compared to the first quarter of 2011. The current quarter's throughput rate was slightly below the nameplate capacity of 115,000 bbl/d in response to the declining refining margins during the latter part of the quarter. Refining gross margin averaged \$4.58/bbl in the first quarter of 2012, a decrease of \$6.38/bbl from the same quarter in 2011 reflecting the widening differential between WTI and Brent.
- Operating loss totaled \$48.9 million for the three months ended March 31, 2012 as compared to an operating income of \$36.2 million in the same period in 2011. The decrease in operating income reflects the higher feedstock costs and purchased energy expenses, partially offset by higher refined product sales.
- Capital spending was \$13.3 million for the quarter, of which \$3.3 million was spent on the debottlenecking project.

UPSTREAM OPERATIONS

Summary of Financial and Operating Results

	Three Months Ended March 31	
	2012	2011
FINANCIAL		
Petroleum and natural gas sales ⁽¹⁾	324,151	281,051
Royalties	(53,417)	(35,858)
Revenues	270,734	245,193
Expenses		
Operating	99,975	83,595
Transportation and marketing	5,686	3,003
Realized gains on risk management contracts ⁽²⁾	–	(2,223)
Operating netback after hedging ⁽³⁾	165,073	160,818
General and administrative	12,153	13,522
Depreciation, depletion and amortization	144,482	121,344
Exploration and evaluation	6,736	6,215
Impairment of property, plant and equipment	21,843	–
Unrealized gains on risk management contracts ⁽⁴⁾	(271)	(3,240)
Gains on disposition of property, plant and equipment	(106)	(240)
Operating income (loss) ⁽³⁾	(19,764)	23,217
Capital asset additions (excluding acquisitions)	238,592	237,649
Property and business acquisitions (dispositions), net	(1,988)	515,496
Abandonment and reclamation expenditures	6,587	1,967
OPERATING		
Light / medium oil (bbl/d)	24,936	25,523
Heavy oil (bbl/d)	9,272	9,038
Natural gas liquids (bbl/d)	5,668	3,455
Natural gas (mcf/d)	124,045	91,888
Total (boe/d)	60,550	53,331

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

(2) Realized (gains) losses on risk management contracts include 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.

(4) Unrealized (gains) losses on risk management contracts reflect the change in fair value of the power derivative contracts and the ineffective portion of crude oil hedges.

Commodity Price Environment

	Three Months Ended March 31		
	2012	2011	Change
West Texas Intermediate ("WTI") crude oil (US\$/bbl)	102.93	94.10	9%
West Texas Intermediate ("WTI") crude oil (\$/bbl)	103.02	92.74	11%
Edmonton light crude oil (\$/bbl)	92.37	88.04	5%
Bow River blend crude oil (\$/bbl)	82.93	71.33	16%
Western Canadian Select ("WCS") crude oil (\$/bbl)	81.61	70.19	16%
AECO natural gas daily (\$/mcf)	2.15	3.76	(43%)
U.S. / Canadian dollar exchange rate	0.999	1.014	(1%)
Differential Benchmarks			
Bow River blend differential to WTI (\$/bbl)	20.09	21.41	(6%)
Bow River blend differential as a % of WTI	19.5%	23.1%	(16%)
WCS differential to WTI (\$/bbl)	21.41	22.55	(5%)
WCS differential as a % of WTI	20.8%	24.3%	(14%)

The average WTI benchmark price in the first quarter of 2012 was 9% higher than the first quarter of 2011. The average Edmonton light crude oil price ("Edmonton Par") also experienced an increase over the first quarter of the prior year, due to the higher WTI prices but partially offset by the widening of the light sweet differential.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil inventories, pipeline capacity to deliver heavy crude to U.S. markets and the seasonal demand for heavy oil. The Bow River blend crude oil price ("Bow River") increased 16% from the first quarter of 2011, which is consistent with the higher WTI price and the narrowing of the Bow River and WCS differential relative to WTI.

Realized Commodity Prices

	Three Months Ended March 31		
	2012	2011	Change
Light to medium oil prior to hedging (\$/bbl)	84.88	78.69	8%
Heavy oil (\$/bbl)	74.24	61.51	21%
Natural gas liquids (\$/bbl)	63.20	69.32	(9%)
Natural gas (\$/mcf)	2.29	3.83	(40%)
Average realized price prior to hedging (\$/boe) ⁽¹⁾	58.07	59.19	(2%)
Light to medium oil after hedging (\$/bbl) ⁽²⁾	86.72	77.37	12%
Average realized price after hedging (\$/boe) ⁽¹⁾⁽²⁾	58.83	58.55	–

(5) Inclusive of sulphur revenue.

(6) Inclusive of the realized gains (losses) from contracts designated as hedges. Contracts that are not designated as hedges are excluded from the realized price.

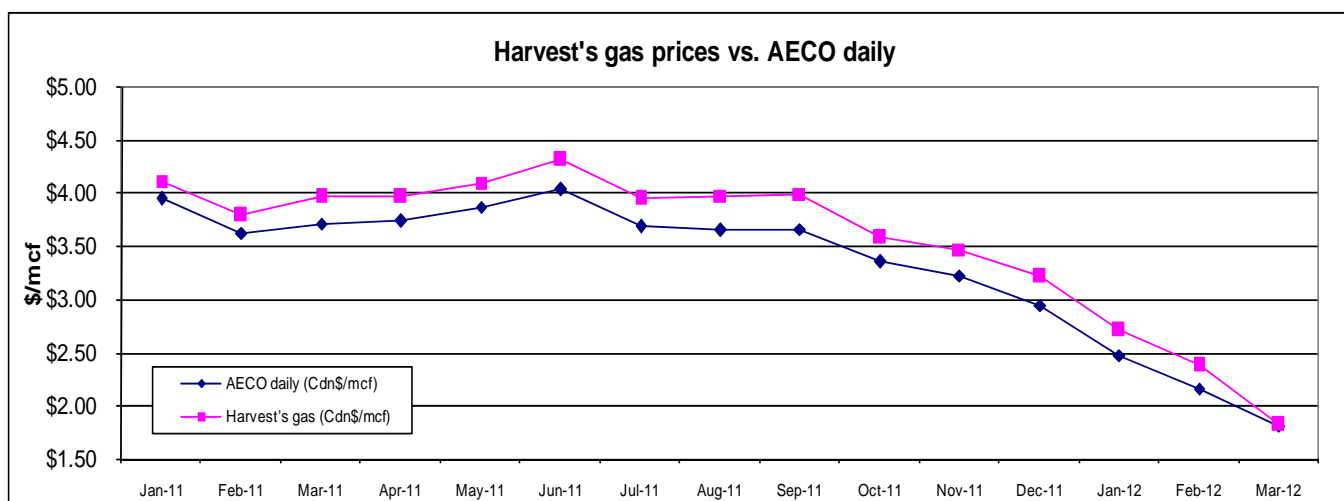
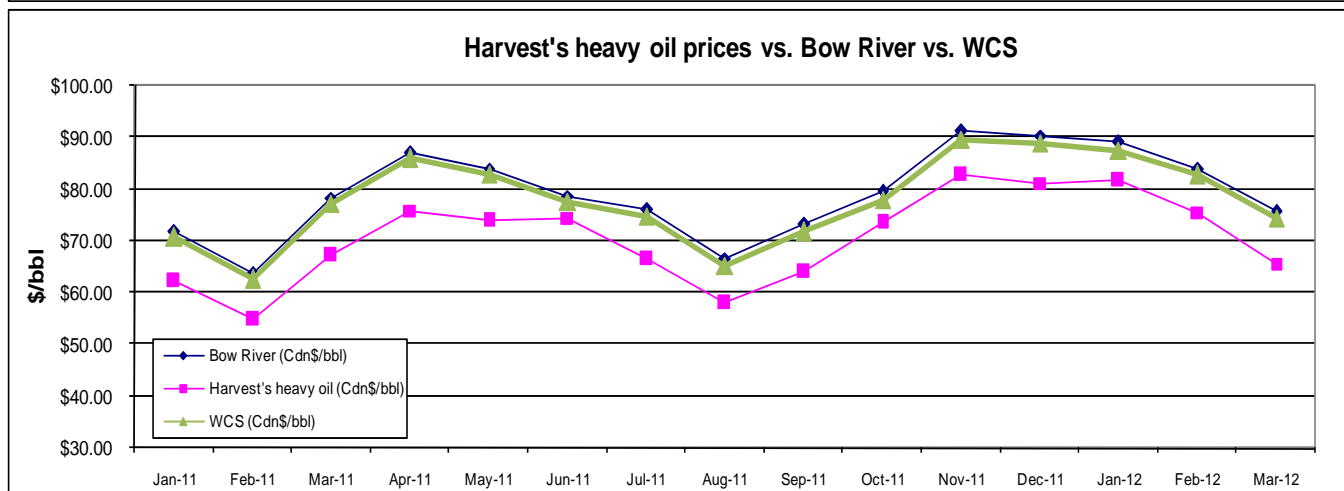
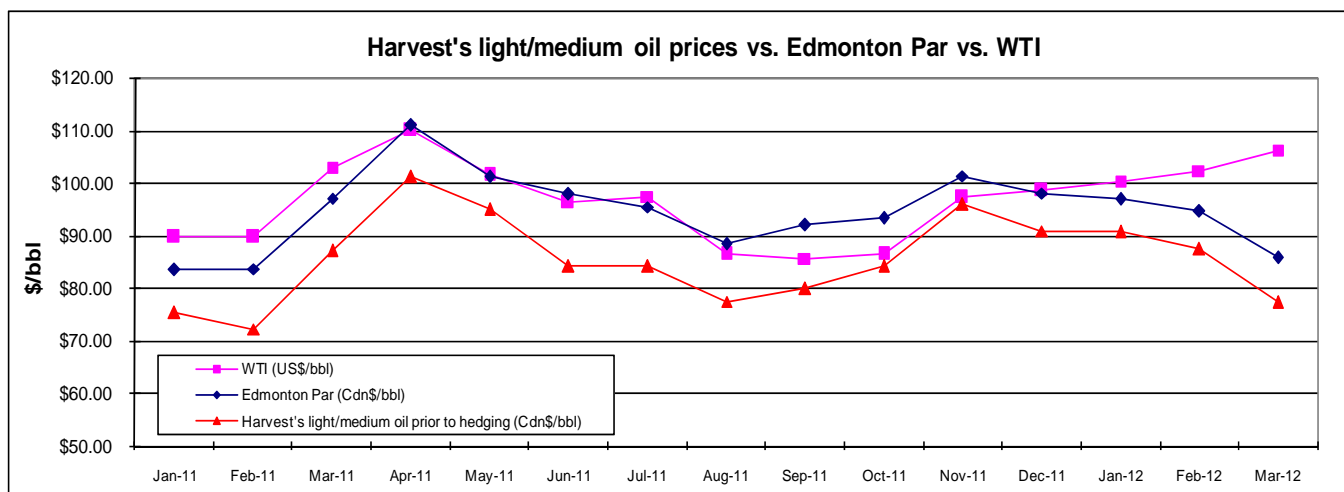
Prior to hedging activities, our realized price for light to medium oil increased by 8% in the first quarter of 2012 as compared to the same period in the prior year. This increase is consistent with the upward movement in Edmonton Par prices during the first three months of 2012.

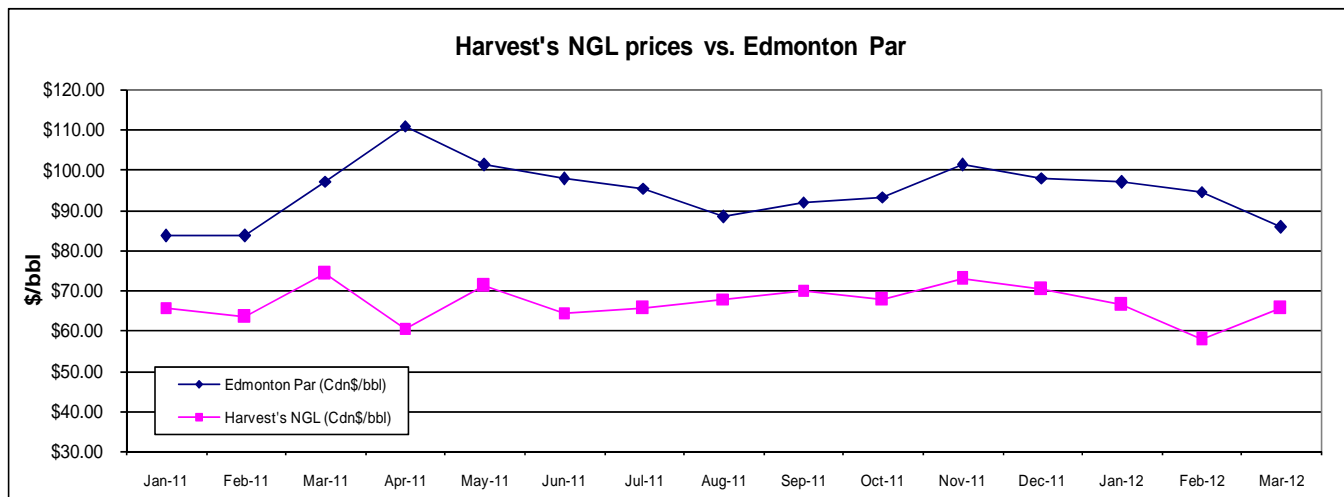
In order to mitigate the risk of fluctuating cash flows due to crude oil price volatility, Harvest has entered into fixed-for-floating swaps. The impact of this hedging activity resulted in an increase of \$1.84/bbl (2011 – decrease of \$1.32/bbl) in Harvest's realized light to medium oil price in the first quarter of 2012. With respect to our cash flow risk management program, see "Cash Flow Risk Management" in this MD&A.

Harvest's realized heavy oil prices for the first quarter of 2012 increased by 21%, mainly due to the increase in the Bow River prices.

Although NGL benchmark prices have increased from the first quarter of 2011, the realized prices for NGLs decreased by 9% due to a higher percentage of ethane in the NGL product mix. This change is a result of the assets acquired from Hunt.

The average realized price for Harvest's natural gas sales decreased by 40% compared to the first quarter of 2011, reflecting the 43% decrease in the AECO benchmark price.





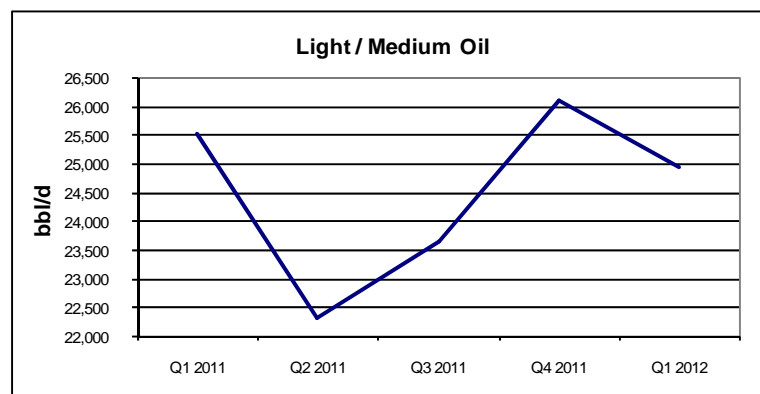
Sales Volumes

Three Months Ended March 31

	2012		2011		
	Volume	Weighting	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d) ⁽¹⁾	24,936	41%	25,523	48%	-2%
Heavy oil (bbl/d)	9,272	15%	9,038	17%	3%
Natural gas liquids (bbl/d)	5,668	9%	3,455	6%	64%
Total liquids (bbl/d)	39,876	65%	38,016	71%	5%
Natural gas (mcf/d)	124,045	35%	91,888	29%	35%
Total oil equivalent (boe/d)	60,550	100%	53,331	100%	14%

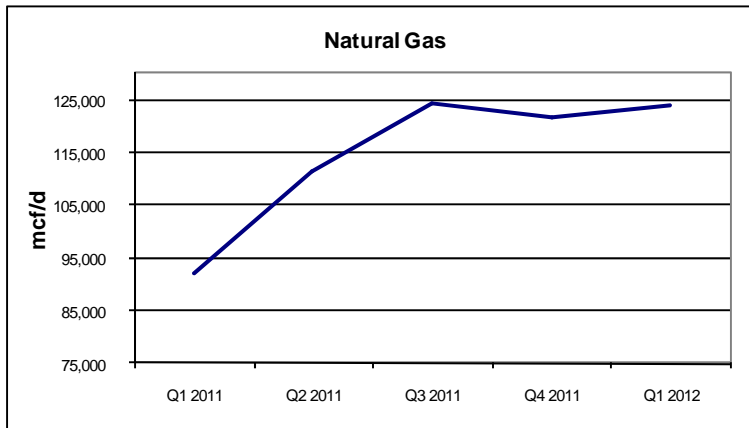
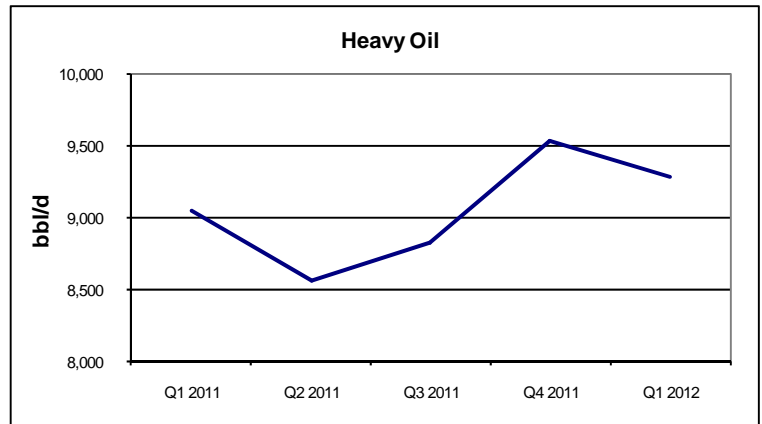
(1) Harvest classifies all oil production, except that produced from Hay River, as light to medium and heavy according to NI 51-101 guidance. The oil produced from Hay River has an average API of 24° (medium grade) and is classified as a light to medium oil; notwithstanding that, it benefits from a heavy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

Harvest's sales volumes increased to 60,550 boe/d in the first quarter of 2012, a 14% increase over the first quarter of 2011. The increase reflects a full quarter of production from the assets acquired from Hunt at the end of February 2011 as well as production increases resulting from Harvest's capital program during the second half of 2011.



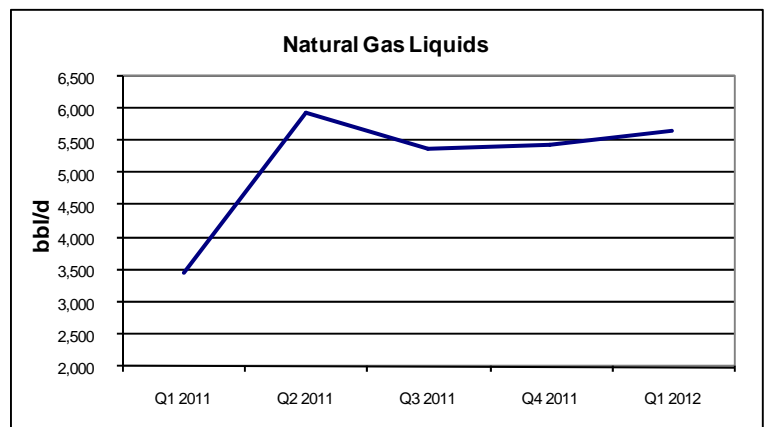
Harvest's average light/medium oil sales were 24,936 bbl/d for the first quarter of 2012, a 2% decrease from the same quarter in 2011. The slight decrease from Q1 2011 reflects natural declines and minor production interruptions during the quarter.

Heavy oil sales for the first quarter of 2012 increased by 3% to an average of 9,272 bbl/d, reflecting production increases from Harvest's 2011 drilling and reactivation programs.



Natural gas sales averaged 124,045 mcf/d in the first quarter of 2012 compared to 91,888 mcf/d in 2011. The increase reflects a full quarter of production from assets acquired from Hunt.

Natural gas liquids sales for the three months ended March 31, 2012 increased by 64%, compared to the same period in 2011. Similar to the increase in natural gas sales, the increase was mainly due to the sales volumes reflecting a full quarter of production from assets acquired from Hunt.



Revenues

	Three Months Ended March 31		
	2012	2011	Change
Light / medium oil sales after hedging ⁽¹⁾	196,774	177,725	11%
Heavy oil sales	62,642	50,032	25%
Natural gas sales	25,877	31,679	(18%)
Natural gas liquids sales	32,596	21,473	52%
Other ⁽²⁾	6,262	142	100%
Petroleum and natural gas sales	324,151	281,051	15%
Royalties	(53,417)	(35,858)	49%
Revenues	270,734	245,193	10%

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

(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 first quarter of 2012, total petroleum and natural gas sales increased by \$43.1 million, mainly due to the 14% increase in sales volumes and the increase in sulphur revenue from the acquired Hunt assets. Sulphur revenue represented \$6.0 million (2011 - \$0.1 million) of the total in other revenues for the three months ended March 31, 2012.

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 averaged 16.5% as compared to 12.8% in the same quarter of 2011. The increase is mainly due to the higher oil prices in the first quarter of 2012 combined with adjustments made to Freehold Mineral Tax estimates in the first quarter of 2011.

Operating and Transportation Expenses

	Three Months Ended March 31				
	2012	\$/boe	2011	\$/boe	\$/boe Change
Power and purchased energy	20,501	3.72	21,551	4.49	(0.77)
Well servicing	18,520	3.36	16,912	3.52	(0.16)
Repairs and maintenance	16,164	2.93	12,871	2.68	0.25
Lease rentals and property tax	9,520	1.73	7,768	1.62	0.11
Labor - internal	9,190	1.67	7,048	1.47	0.20
Labor - contract	5,319	0.97	4,073	0.85	0.12
Chemicals	4,584	0.83	3,826	0.80	0.03
Trucking	4,555	0.83	2,554	0.53	0.30
Processing and other fees	8,693	1.58	1,307	0.27	1.31
Other	2,929	0.52	5,685	1.19	(0.67)
Total operating expenses	99,975	18.14	83,595	17.42	0.72
Transportation and marketing	5,686	1.03	3,003	0.63	0.40

Operating expenses for the first quarter of 2012 totaled \$100.0 million, an increase of \$16.4 million as compared to the same quarter in the prior year. The increase in operating costs is attributable to the acquisition of Hunt assets combined with higher activity levels on well servicing and repairs and maintenance.

Operating expenses on a per barrel basis increased to \$18.14/boe as compared to \$17.42/boe in the first quarter of 2011. The 4% increase on a per barrel basis is substantially attributed to higher activity levels on gas processing and repairs and maintenance.

(\$/boe)	Three Months Ended March 31		
	2012	2011	Change
Power and purchased energy costs	3.72	4.49	(0.77)
Realized gains on electricity risk management contracts	–	(0.47)	0.47
Net power and purchased energy costs	3.72	4.02	(0.30)
Alberta Power Pool electricity price (\$/MWh)	59.76	83.34	(23.58)

Power and purchased energy costs, comprised primarily of electric power costs, represented approximately 21% of our total operating costs during the first quarter of 2012 (2011 – 26%). The 5% decrease in power and purchased energy costs is primarily attributable to the lower average Alberta electricity price of \$59.76/MWh for the quarter (2011 - \$83.34/MWh).

Transportation and marketing expenses relate primarily to delivery of natural gas to Alberta's natural gas sales hub, the AECO Storage Hub, and the cost of trucking clean crude oil to pipeline receipt points. As a result, the total dollar amount of costs generally fluctuates in relation to our sales volumes. Transportation and marketing expenses increased by \$0.40/boe or \$2.7 million in the first quarter of 2012 compared to the same quarter in 2011, primarily due to the acquisition of Hunt assets at the end of February 2011.

Operating Netback⁽¹⁾

(\$/boe)	Three Months Ended March 31		
	2012	2011	\$/boe Change
Petroleum and natural gas sales prior to hedging	58.07	59.19	(1.12)
Royalties	(9.69)	(7.47)	(2.22)
Operating expenses	(18.14)	(17.42)	(0.72)
Transportation expenses	(1.03)	(0.63)	(0.40)
Operating netback prior to hedging ⁽¹⁾	29.21	33.67	(4.46)
Hedging gains (losses) ⁽²⁾	0.76	(0.17)	0.93
Operating netback after hedging ⁽¹⁾	29.97	33.50	(3.53)

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

(2) Hedging gains (losses) include 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 first quarter of 2012, our operating netback prior to hedging decreased by \$4.46/boe or 13% compared to the same quarter in the prior year. The decrease in our operating netback is primarily attributed to lower realized commodity prices prior to hedging and increases in royalties and operating expenses.

General and Administrative ("G&A") Expenses

	Three Months Ended March 31	
	2012	2011
G&A	12,153	13,522
G&A (\$/boe)	2.21	2.82

For the three months ended March 31, 2012, G&A expenses decreased by \$1.4 million compared to the same period in 2011. The decrease was mainly due to the reversal of a \$4.3 million provision for potential renunciation shortfall on a series of flow-through shares that was no longer required, partially offset by the increase in salary expense. G&A expenses are mainly comprised of salaries and other employee related costs. Harvest does not have a stock option program, however there is a long-term cash incentive program.

Depletion, Depreciation and Amortization ("DDA") Expenses

	Three Months Ended March 31	
	2012	2011
DD&A	144,482	121,344
DD&A per boe (\$/boe)	26.22	25.28

DD&A expenses for the three months ended March 31, 2012 were \$23.1 million (19%) higher compared to the same period in the prior year, mainly due to higher sales volumes.

Impairment

In the first quarter of 2012, Harvest recorded a pre-tax impairment charge of \$21.8 million against the South Alberta Gas cash generating unit, as a result of the declining forecasted natural gas prices during the quarter. The fair value was determined based on the total proved plus probable reserves estimated by our independent reserves evaluators using the April 1, 2012 commodity price forecast discounted at a pre-tax discount rate of 10%.

Capital Asset Additions

	Three Months Ended March 31	
	2012	2011
Drilling and completion	124,679	137,599
Well equipment, pipelines and facilities	62,429	57,689
Geological and geophysical	6,723	10,800
Land and undeveloped lease rentals	8,923	5,690
Corporate	248	646
Other	4,225	2,450
Total additions before BlackGold	207,227	214,874
BlackGold oil sands ("BlackGold")		
Drilling and completion	18,904	4,910
Well equipment, pipelines and facilities	8,904	17,130
Geological and geophysical	714	107
Land and undeveloped lease rentals	72	–
Other	2,771	628
Total BlackGold additions	31,365	22,775
Total additions excluding acquisitions	238,592	237,649

Below is a summary of the wells drilled by Harvest and the related drilling and completion expenditures in the first quarter of 2012. Harvest's overall success rate was 98%.

Area	Three Months Ended March 31, 2012		
	Gross	Net	
Hay River	27.0	27.0	\$ 37,162
Red Earth	10.0	9.3	38,065
Rimbey/Markerville/West Central	4.0	2.5	11,072
SE Saskatchewan	7.0	7.0	7,896
Deep Basin	3.0	2.3	16,909
Other areas	13.0	7.3	13,575
Total before BlackGold	64.0	55.4	\$124,679
BlackGold oil sands	5.0	5.0	18,904
Total	69.0	60.4	\$143,583

During the first quarter of 2012, Harvest drilled 69 gross (60.4 net) wells (2011 – 115 gross; 104.9 net). Capital asset additions, excluding BlackGold for the quarter totaled \$207.2 million (2011 – \$214.9 million), of which \$124.7 million was spent on drilling and completion and \$39.5 million was spent on equipping and tie-in of wells. The higher drilling and completion costs per well in the first quarter of 2012 compared to 2011 is mainly due to Harvest drilling more horizontal wells into deeper zones during 2012. In addition, Harvest spent \$22.8 million during the first quarter of 2012 to complete wells that were drilled in the fourth quarter of 2011.

For the quarter, Harvest mainly focused on oil drilling opportunities with only 6 gross gas wells being drilled. In Hay River, Harvest continued with the drilling program that began in November 2011 where 17 producer and 10 injector wells were drilled in the Bluesky formation. Harvest began bringing this new production on from Hay River in March 2012 and will be ramping up production through April 2012. In Red Earth, Harvest drilled 10 gross stage stimulated horizontal oil wells in the Slave Point formation. These wells were tied into existing infrastructure or were set-up as single well batteries from which Harvest began trucking production into Harvest operated facilities. In Southeast Saskatchewan, Harvest continued with drilling its 100% working interest horizontal wells, where 7 wells were drilled into the Souris Valley and Tilston formations. Harvest also drilled 3 gross stage stimulated horizontal liquids rich gas wells in the Deep Basin area. These wells were completed and tied into third party infrastructure during the quarter. The remainder of Harvest's capital program during the quarter was focused on developing our existing oil pools.

BlackGold oil sands

Harvest began drilling the first pad of horizontal steam assisted gravity drainage ("SAGD") producer wells. During the first quarter of 2012, Harvest drilled 5 gross wells and invested a total of \$8.9 million on infrastructure and construction of the central processing facility.

Decommissioning and Environmental Remediation Liabilities

Harvest's Upstream decommissioning and environmental remediation liabilities at March 31, 2012 were \$676.0 million (2011 - \$672.7 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The increase of \$3.2 million during the first three months of 2012 was a result of new liabilities of \$4.8 million incurred on new drills and environmental remediation plus accretion of \$5.0 million, partially offset by \$6.6 million of remediation, abandonment and reclamation expenditures. The total of our decommissioning and environmental remediation liabilities are based on management's best estimate of costs to remediate, abandon and reclaim our wells, pipelines and facilities. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments due for each of the next five years and thereafter in respect of our decommissioning and environmental remediation liabilities.

DOWNSTREAM OPERATIONS

	Three Months Ended March 31	
	2012	2011
FINANCIAL		
Refined products sales ⁽¹⁾	1,155,406	1,003,731
Purchased feedstock for processing and resale ⁽¹⁾	1,101,716	892,013
Gross margin⁽²⁾	53,690	111,718
Expenses		
Operating	27,133	26,083
Power and purchased energy	47,348	27,856
Marketing	1,365	1,694
General and administrative	150	441
Depreciation and amortization	26,570	19,400
Operating income (loss) ⁽²⁾	(48,876)	36,244
Capital expenditures	13,263	35,879
OPERATING		
Feedstock volume (bbl/d) ⁽³⁾	100,000	97,438
Yield (% of throughput volume) ⁽⁴⁾		
Gasoline and related products	31%	32%
Ultra low sulphur diesel and jet fuel	43%	35%
High sulphur fuel oil	24%	29%
Total	98%	96%
Average refining gross margin (US\$/bbl) ⁽⁵⁾	4.58	10.96

(1) Refined product sales and purchased products for processing and resale are net of intra-division sales of \$148.8 million for the three months ended March 31, 2012 (2011 - \$116.4 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 March 31		
	2012	2011	Change
WTI crude oil (US\$/bbl)	102.93	94.10	9%
Brent crude oil (US\$/bbl)	118.28	105.01	13%
Harvest's feedstock costs (US\$/bbl)	118.24	94.95	25%
Brent – WTI differential (US\$/bbl)	15.35	10.91	41%
Crack spread to Brent crude oil			
RBOB (US\$/bbl)	9.80	6.87	43%
Heating Oil (US\$/bbl)	14.27	13.04	9%
High Sulphur Fuel Oil discount (US\$/bbl)	(9.92)	(16.42)	(40%)
U.S. / Canadian dollar exchange rate	0.999	1.014	(1%)

Summary of Gross Margins

	Three Months Ended March 31					
	2012			2011		
	Volumes (000's bbls)	(US\$/bbl)		Volumes (000's bbls)	(US\$/ bbl)	
Refinery						
Sales						
Gasoline products	350,101	2,819	124.07	345,883	3,194	109.81
Distillates	537,661	3,996	134.42	395,340	3,261	122.93
High sulphur fuel oil	239,244	2,274	105.10	221,310	2,577	87.08
Total sales	1,127,006	9,089	123.87	962,533	9,032	108.06
Feedstock⁽¹⁾						
Middle Eastern	935,854	7,946	117.66	809,752	8,648	94.95
Russian	–	–	–	1,311	14	94.95
South America	58,621	473	123.81	–	–	–
	994,475	8,419	118.00	811,063	8,662	94.95
Vacuum Gas Oil ("VGO")	82,601	681	121.17	10,050	107	95.24
Total feedstock	1,077,076	9,100	118.24	821,113	8,769	94.95
Other ⁽²⁾	8,215			46,617		
Total feedstock and other costs	1,085,291			867,730		
Refinery gross margin⁽³⁾	41,715		4.58	94,803		10.96
Marketing						
Sales	177,152			157,583		
Cost of products sold	165,177			140,668		
Marketing gross margin⁽³⁾	11,975			16,915		
Total gross margin⁽³⁾	53,690			111,718		

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

(2) Includes inventory adjustments and additives and blendstocks.

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

Feedstock throughput averaged 100,000 bbl/d in the first quarter of 2012, a moderate increase of 3% from 97,438 bbl/d average feedstock throughput in the first quarter of the prior year. The lower crude oil throughput in 2012 as compared to 2011 has been offset by the higher consumption of purchased VGO. The lower consumption of purchased VGO in 2011 resulted from the temporary outage of the isomax and hydrogen units due to a steam leak in the hydrogen plant. Current year throughput rates are less than the nameplate capacity of 115,000 bbl/d reflecting the strategic decision to reduce rates in the latter part of the quarter in response to declining refining margins.

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 throughput volume over a given period of time. Product pricing under the SOA is based primarily on New York Harbour reference prices whereas feedstock costs are determined by crude oil reference prices and feedstock crude quality.

Our refinery sales increased by \$164.5 million in the first quarter of 2012 from \$962.5 million in the same quarter of 2011, mainly due to increased product prices. The cost of our crude oil feedstock in the first quarter of 2012 was US\$0.04/bbl discount to the Brent crude oil benchmark as compared to a discount of US\$10.06/bbl in the same period of the prior year. Our feedstock costs in 2012 continue to reflect the high cost of crude oil commitments from the fourth quarter of 2011 with such crude oil feedstocks processed early in the first quarter of 2012. The increased feedstock costs have resulted in the 56% decrease in gross margin for the three months ended March 31, 2012 as compared to 2011.

The gross margin from the marketing operations is comprised of the margin from both the retail and wholesale distribution of gasoline and home heating fuels as well as the revenues from marine services including tugboat revenues, and for 2011, the inclusion of the US\$5.0 million settlement from the business interruption claim relating to the fire in the first quarter of 2010.

During the three months ended March 31, 2012, the Canadian dollar weakened as compared to the U.S. dollar. The weakening of the Canadian dollar in 2012 has had a positive impact to 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 March 31					
	2012			2011		
	Refining	Marketing	Total	Refining	Marketing	Total
Operating cost	21,858	5,275	27,133	21,577	4,506	26,083
Power and purchased energy	47,348	–	47,348	27,856	–	27,856
	69,206	5,275	74,481	49,433	4,506	53,939
(\$/bbl of feedstock throughput)						
Operating cost	2.40	–	–	2.46	–	–
Power and purchased energy	5.21	–	–	3.18	–	–
	7.61	–	–	5.64	–	–

During the three months ended March 31, 2012, refining operating costs were comparable to the same period in the prior year with a modest increase of 1%.

Power and purchased energy, consisting of low sulphur fuel oil ("LSFO") and electricity, is required to provide heat and power to refinery operations. Power and purchased energy expenses in the first quarter of 2012 increased 70% over the first quarter of 2011 due to a volume variance of \$9.2 million combined with a price variance of \$10.2 million. The additional LSFO was purchased to supplement internally produced butane that normally would have been used to heat the refinery units but instead was blended with winter RBOB gasoline for sale under the SOA.

Capital Asset Additions

Capital spending for the three months ended March 31, 2012 totaled \$13.3 million (2011 - \$35.9 million) relating to various capital improvement projects including \$3.3 million (2011 - \$14.6 million) for the debottlenecking project.

Depreciation and Amortization Expense

	Three Months Ended March 31	
	2012	2011
Refining	25,609	18,479
Marketing	961	921
Total depreciation and amortization	26,570	19,400

The process units are amortized over an average useful life of 20 to 30 years and turnaround costs are amortized over 2 to 4 years.

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

The Company enters into crude oil and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales. 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 following is a summary of Harvest's risk management contracts outstanding at March 31, 2012:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair Value
4,200 bbls/day	Crude oil price swap	Apr – Dec 2012	US \$111.37/bbl	\$ 10,578
US \$468/day	Foreign exchange swap	Apr – Dec 2012	\$1.0236 Cdn/US	67
				\$ 10,645

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

	Three Months Ended March 31					
	2012			2011		
Contracts not designated as hedges	Power	Currency	Total	Power	Currency	Total
Realized gains	–	–	–	(2,282)	–	(2,282)
Unrealized (gains) losses	–	(66)	(66)	(3,554)	29	(3,525)
(Gains) losses recognized in net income	–	(66)	(66)	(5,836)	29	(5,807)
Contracts designated as hedges			Crude Oil			Crude Oil
Realized (gains) losses						
Reclassified from other comprehensive income (“OCI”) to revenues, net of tax			(3,126)			2,224
Ineffective portion recognized in net income			–			59
			(3,126)			2,283
Unrealized (gains) losses						
Recognized in OCI, net of tax			4,195			42,631
Ineffective portion recognized in net income			(205)			285
			3,990			42,916
Net losses recognized in OCI			7,321			40,407
Net (gains) losses recognized in revenues			(3,126)			2,224
Net gains recognized in net income outside of revenues			(271)			(5,463)

Financing Costs

	Three Months Ended March 31	
	2012	2011
Bank loan	3,463	1,633
Convertible debentures	12,332	12,327
Senior notes	9,025	8,776
Amortization of deferred finance charges	255	281
Interest and other financing charges	25,075	23,017
Capitalized interest	(2,892)	(1,296)
	22,183	21,721
Accretion of decommissioning liabilities	5,153	5,796
Total finance costs	27,336	27,517

Interest and other financing charges, including the amortization of related financing costs, increased by \$2.1 million (9%) compared to the three months ended March 31, 2011, mainly due to the increased interest expense on Harvest's bank loan as a result of the increased amount of loan principal outstanding. During the quarter, interest charges on our bank loan reflected an effective interest rate of 2.84% (2011 – 3.06%).

Currency Exchange

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on our U.S. dollar denominated 6% Senior Notes and on any U.S. dollar denominated monetary assets or liabilities. At March 31, 2012, the Canadian dollar relative to the U.S. dollar strengthened compared to December 31, 2011, resulting in an unrealized foreign exchange gain of \$2.8 million (2011 - \$9.6 million gain) for the three months ended March 31, 2012. Harvest recognized a realized foreign exchange loss of \$1.6 million for the three months ended March 31, 2012 (2011 - \$0.2 million gain) as a result of the settlement of U.S. dollar denominated transactions.

The cumulative translation adjustment recognized in other comprehensive income results from the translation of the Downstream operation's U.S. dollar functional currency financial statements to Canadian dollars. During the first quarter of 2012, Downstream recognized a net cumulative translation loss of \$16.1 million (2011 - \$23.9 million loss), which resulted from the strengthening of the Canadian dollar relative to the U.S. dollar at March 31, 2012 compared to December 31, 2011. As Downstream's functional currency is U.S. dollars, the weakening of the U.S. dollar would result in losses from decommissioning liabilities, pension obligations, accounts payable and other balances that are denominated in Canadian dollars, which partially offset the unrealized gains recognized on the senior notes and Upstream U.S. dollar denominated monetary items.

Deferred Income Taxes

For the three months ended March 31, 2012, Harvest recorded a deferred income tax recovery of \$22.7 million (2011 – expense of \$3.8 million). 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 and the unclaimed tax pools.

LIQUIDITY

For the three months ended March 31, 2012, cash flow from operating activities was \$85.1 million (2011 - \$146.8 million) including \$7.7 million (2011 - \$32.8 million) used in reducing non-cash working capital and \$6.6 million (2011 - \$2.0 million) used in the settlement of decommissioning and environmental remediation liabilities. At March 31, 2012, Harvest's financing activities provided \$175.8 million (2011 - \$524.1 million) of cash from net borrowings from the credit facility. Harvest funded \$249.9 million (2011 - \$275.6 million) of capital expenditures and net asset acquisition activity during the first quarter of 2012 with cash generated from operating activities and financing activities.

Harvest had a working capital deficiency of \$258.7 million at March 31, 2012, as compared to a \$265.6 million deficiency at December 31, 2011. The slight improvement in our working capital deficiency at March 31, 2012 compared to December 31, 2011 was primarily due to the decrease in accrued liabilities relating to capital expenditures during the period. The Company's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from Harvest's credit facility, as required.

Through a combination of cash available at March 31, 2012, cash from operating activities and the available undrawn amount from the credit facility, it is anticipated that Harvest will have adequate liquidity to fund future operations, debt repayments and forecasted capital expenditures (excluding major acquisitions). Refer to the "Contractual Obligations and Commitments" section above for Harvest's future commitments and the discussion below on certain significant items.

BlackGold Oil Sands Project

Harvest signed an engineering, procurement and construction ("EPC") contract in 2010 for phase 1 of the BlackGold project, of which \$98.2 million (including a \$31.1 million deposit) has been paid to the end of March 31, 2012. Together with capital expenditures relating to drilling and completion of 17 wells, Harvest has invested \$153.7 million since acquiring the assets in 2010. For 2012, \$215 million of the capital expenditure program is allocated to the continued development of BlackGold. Harvest plans to fund the capital expenditures with cash flows from operating activities and the undrawn amount from the credit facility.

The Company is engaging in an active drilling program under which the drilling of 30 wells (15 well pairs) is expected to be completed by the end of 2012. Five wells were drilled during the first quarter of 2012. Engineering of the project is now 70% complete and the site has been cleared and graded. Other near-term activities include completion of the detailed engineering work, site preparation and the commencement of major equipment fabrication. Phase 2 of the project, which is targeted to increase production capacity to 30,000 bbl/d, is in the regulatory approval process and approval is anticipated in 2012.

The BlackGold project faces similar cost and schedule pressures as other oil sand projects, including shortage of skilled labor, rising costs, and logistics issues surrounding module transportation; phase 1 production is now expected to start in 2014. As a result of these pressures, Harvest is actively reviewing changes to the EPC contract terms with the contractor and revising methods to execute the project; these changes are expected to result in material increases to the project cost.

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 March 31, 2012, Harvest has the following significant contractual commitments:

	Maturity				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt repayments ⁽¹⁾	\$ 106,796	\$ 390,598	\$ 771,254	\$ 498,750	\$1,767,398
Debt interest payments ⁽¹⁾	106,158	145,976	75,646	19,288	347,068
Purchase commitments ⁽²⁾	222,988	42,144	-	-	265,132
Operating leases	12,100	19,713	7,224	2,358	41,395
Transportation agreements ⁽³⁾	8,803	12,808	4,186	237	26,034
Feedstock & other purchase commitments ⁽⁴⁾	940,304	-	-	-	940,304
Employee benefits ⁽⁵⁾	4,102	7,433	5,178	2,877	19,590
Decommissioning liabilities ⁽⁶⁾	16,687	53,884	34,343	1,349,810	1,454,724
Total	\$1,417,938	\$ 672,556	\$ 897,831	\$1,873,320	\$4,861,645

(1) Assumes constant period end 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 under the supply and offtake agreement.

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

(6) Represents the undiscounted obligation by period.

Off Balance Sheet Arrangements

As of March 31, 2012, there were no off balance sheet arrangements in place.

CAPITAL RESOURCES

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

	March 31, 2012	December 31, 2011
Debts		
Bank loan ⁽¹⁾	\$ 534,675	\$ 358,885
Convertible debentures, at principal amount	733,973	733,973
Senior notes, at principal amount (US\$500 million) ⁽²⁾	498,750	508,500
	1,767,398	1,601,358
Shareholder's Equity		
386,078,649 common shares issued ⁽³⁾	3,355,333	3,453,644
	\$5,122,731	\$5,055,002
Financial Ratios^{(4) (5)}		
Secured Debt to Annualized EBITDA ⁽⁶⁾	1.18	0.73
Total Debt to Annualized EBITDA ⁽⁷⁾	3.48	2.72
Secured Debt to Total Capitalization ^{(6) (8)}	13%	10%
Total Debt to Total Capitalization ^{(7) (8)}	39%	36%

(1) The bank loan net of deferred financing costs is \$531.6 million (2011 - \$355.6 million).

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

(3) As at May 11, 2012, the number of common shares issued is 386,078,649.

(4) Calculated based on Harvest's credit facility covenant requirements (see note 11 of the March 31, 2012 financial statements).

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

(6) Secured debt includes bank loan of \$531.6 million (2011 - \$355.6 million), letters of credit of \$8.7 million (2011 - \$8.7 million), and guarantees of \$90.3 million (2011- \$92.1 million) at March 31, 2012.

(7) Total debt includes the secured debt, convertible debentures of \$741.2 million (2011 - \$742.1 million) and senior notes of \$486.6 million (2011 - \$495.7 million) at March 31, 2012.

(8) Total capitalization includes total debt and shareholder's equity less equity attributed to BlackGold of \$458.9 million at March 31, 2012 (2011 - \$459.9 million).

SUMMARY OF QUARTERLY RESULTS

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

	2012		2011		2010			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Revenues	1,426,140	1,462,535	837,381	782,030	1,248,924	1,301,348	1,001,203	1,067,341
Net income (loss)	(72,081)	(73,885)	(49,204)	(19,529)	37,961	(12,333)	(26,082)	(22,796)
Cash from operating activities	85,110	144,625	161,499	107,588	146,828	142,134	97,412	121,830
Total long-term financial debt	1,652,424	1,486,170	1,509,773	1,384,862	1,244,825	1,239,024	1,251,658	1,153,972
Total assets	6,322,250	6,284,370	6,483,568	6,121,547	6,041,118	5,388,740	5,303,486	4,764,141
OPERATIONS								
Upstream								
Daily sales volumes (boe/d)	60,550	61,324	58,548	55,338	53,331	50,054	47,777	49,597
Realized price prior to hedges (\$/boe)	58.07	64.61	57.85	66.73	59.19	56.03	52.71	54.41
Downstream								
Average daily throughput (bbl/d)	100,000	88,824	41,756	38,016	97,438	111,317	96,514	94,833
Average refining margin (loss) (\$US/bbl)	4.58	(4.14)	10.44	8.09	10.96	6.13	3.02	8.56

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 2011, followed by the first quarter of 2012, reflecting higher commodity prices and stronger sales volumes in the Upstream operations.
- The lower revenue in the second and third quarters of 2011 was due to lower Downstream sales as a result of lower throughput due to a planned shutdown, partially offset by increased Upstream sales from the assets acquired in the first quarter 2011 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. Daily sales volumes decreased in the first quarter of 2012 compared to the fourth quarter of 2011 mainly due to natural declines and minor production interruptions.
- Downstream's refining margin/bbl increased in the first and third quarter of 2011, reflecting the improving global refining crack spreads during these periods. The decrease in the second quarter of 2011 is due to a planned shutdown of the refinery units. In the fourth quarter of 2011, Downstream realized a loss reflecting the high cost of crude oil feedstock and decreasing gasoline prices.

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

The increasing total assets since the second quarter of 2010 up to the third quarter of 2011 was due to the acquisition of the BlackGold assets in August 2010 and certain oil and gas assets in September 2010 and February 2011 in addition to capital additions from Harvest's capital program.

OUTLOOK

The diversity and integration provided by being active in both the Upstream and Downstream parts of the business provides the long-term sustainability that optimizes our ability to create value.

Upstream

During the first quarter of 2012, Harvest's Upstream operations (excluding BlackGold) spent \$207 million of the \$435 million 2012 capital budget. Harvest drilled 69 (60.4 net) wells and intends to drill an additional 86 wells during the remainder of 2012. The majority of the capital spending and drilling activity takes place within the first few months of the year as we have a very active winter drilling program.

Harvest will continue to concentrate activity on our oil weighted assets which include large pools of light/medium and heavy crude oils that have significant opportunity for development through drilling or optimization. These are complemented by our liquids-rich natural gas opportunities with attractive economics, despite low natural gas prices. Production during the first quarter of 60,550 boe/d exceeded expectations. We maintain production guidance of 60,000 boe/d for 2012, weighted approximately 30-35% percent natural gas and 65-70% percent crude oil and NGLs.

There have been no changes to the previously reported royalty and general and administrative costs guidance. We anticipate royalties to be approximately 16% of revenue and general and administrative costs to average \$2.80/boe in 2012. Based on the actual operating costs incurred in the first quarter of 2012, guidance to operating costs has been revised to average approximately \$16.50/boe in 2012.

Harvest has allocated 2012 capital spending of \$215 million for the Blackgold oil sands project, of which \$31.4 million has been spent in the first quarter of 2012. The 2012 activities for the BlackGold team will be module assembly, facility construction and an active drilling program of 30 wells (15 SAGD well pairs). First oil production from phase 1 is expected in 2014 and we anticipate ERCB approval in 2012 for an additional 20,000 bbl/d for phase 2 expansion of the project.

Downstream

Harvest's Downstream operations has revised the 2012 capital budget from \$120 million to \$84 million as a result of deferring certain discretionary projects from 2012 to later years. Of the revised budget, approximately 25% is earmarked for a crude tank and engineering on projects involving low cost and simple debottlenecking of existing process units. Approximately 50% of the budget will be used for mandatory maintenance projects with the remainder on smaller value-add projects.

Throughput in the first quarter of 2012 was 100,000 bbl/d. Throughput volume is expected to average 100,000 to 106,000 bbl/d in 2012, with operating costs and purchased energy costs aggregating to approximately \$8.00/bbl.

Corporate

In October of this year, the 6.40% convertible unsecured subordinated debentures (TSX: HTE.DB.D) will mature. The principal amount outstanding at the end of the first quarter is \$106.8 million. The debentures may be redeemed at the Company's option in whole or in part prior to maturity at 100% of the face value. On redemption, Harvest will repay the indebtedness through a combination of cash on hand, draws on the credit facility, debt issuance and capital injection.

Harvest mitigates commodity price risk through closely monitoring the various commodity markets and establishing commodity price risk management programs, as deemed necessary, to provide stability to its cash flows. Harvest's cash flow risk management strategies are financially integrated, reflecting that the commodity price risk of its Upstream cash flows from producing crude oil is partially financially offset partially by its requirement to purchase crude oil feedstock for the Downstream even though the crude oil produced by the Upstream does not physically flow to the Refinery in Newfoundland.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

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

RECENT PRONOUNCEMENTS

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

OPERATIONAL AND OTHER BUSINESS RISKS

Harvest's operational and other business risks remain unchanged from those discussed in our annual MD&A for the year ended December 31, 2011 as filed on SEDAR at www.sedar.com.

CHANGES IN REGULATORY ENVIRONMENT

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

During the interim period ended March 31, 2012, there were no significant changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

NON-GAAP MEASURES

Throughout this MD&A, the Company has referred to certain measures of financial performance that are not specifically defined under IFRS, hereinafter referred to as "GAAP", such as "operating netbacks", "operating netback prior to/after hedging", "operating income (loss)", "gross margin (loss)", "total debt", "total financial debt", "total capitalization", "EBITDA", "secured debt to annualized EBITDA", "total debt to annualized EBITDA", "secured debt to total capitalization", and "total debt to total capitalization".

"Operating netbacks" are reported on a per boe basis and used extensively in the Canadian energy sector for comparative purposes. "Operating netbacks" include revenues, operating expenses, transportation and marketing expenses, and realized gains or losses on risk management contracts. "Gross margin (loss)" is commonly used in the refining industry to reflect the net funds received from the sale of refined products after considering the cost to purchase the feedstock and is calculated by deducting purchased products for resale and processing from total revenue. "Operating income (loss)" 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 financial debt", "total capitalization", and "EBITDA" are used to assist management in assessing liquidity and the Company's ability to meet financial obligations. "Secured debt to annualized EBITDA", "total debt to annualized EBITDA", "secured debt to total capitalization" and "total debt to total capitalization" are terms defined in Harvest's credit facility agreement for the purpose of calculation of our financial covenants. The non-GAAP measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other issuers. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for EBITDA which is shown below.

Reconciliation of EBITDA

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

<i>Twelve months rolling:</i>	March 31, 2012	December 31, 2011
Net loss	(214,699)	(104,657)
DD&A	657,007	626,698
Unrealized gains on risk management contracts	2,222	(746)
Unrealized gains on foreign exchange	9,408	2,555
Unsuccessful exploration and evaluation costs	15,824	17,757
Impairment of PP&E	21,843	–
Gains on disposition of PP&E	(7,749)	(7,883)
Income tax recovery	(56,320)	(29,827)
Other non-cash items	(328)	4,795
Finance costs	108,946	109,127
EBITDA⁽¹⁾	536,154	617,819

(1) As stipulated by the credit facility agreement, annualized EBITDA is a twelve month rolling EBITDA which also includes net income impact from acquisition or disposition as if the transaction had been effected at the beginning of the period and excludes earnings attributable to the BlackGold assets and non-restricted subsidiaries. As such, the March 31, 2012 annualized EBITDA is \$1.4 million (2011 – \$5.0 million higher) lower than the EBITDA.

ADDITIONAL INFORMATION

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	As At	
		March 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	17	\$ 7,396	\$ 6,607
Accounts receivable and other	17	180,697	212,252
Inventories	5	105,430	60,952
Prepaid expenses		18,070	18,526
Risk management contracts	17	10,645	20,162
		322,238	318,499
Non-current assets			
Long-term deposit		24,359	24,925
Investment tax credits and other		53,742	53,994
Deferred income tax asset		1,766	–
Exploration and evaluation assets	6	93,201	74,517
Property, plant and equipment	7	5,415,046	5,400,387
Other long-term asset		6,955	7,105
Goodwill		404,943	404,943
		6,000,012	5,965,871
Total assets		\$ 6,322,250	\$ 6,284,370
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	17	\$ 457,237	\$ 464,148
Current portion of convertible debentures	17	107,043	107,146
Current portion of decommissioning liabilities	8	16,687	12,782
		580,967	584,076
Non-current liabilities			
Bank loan	9, 17	531,619	355,575
Convertible debentures	17	634,194	634,921
Senior notes	17	486,611	495,674
Decommissioning and environmental remediation liabilities	8	673,964	674,522
Post-employment benefit obligations		28,011	25,958
Deferred credits and other		757	5,093
Deferred income tax liability		30,794	54,907
		2,385,950	2,246,650
Total liabilities		\$ 2,966,917	\$ 2,830,726
Shareholder's equity			
Shareholder's capital	10	3,860,786	3,860,786
Deficit		(461,076)	(388,995)
Accumulated other comprehensive loss	16	(44,377)	(18,147)
Total shareholder's equity		3,355,333	3,453,644
Total liabilities and shareholder's equity		\$ 6,322,250	\$ 6,284,370

Commitments [Note 19]

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended March 31	
		2012	2011
Petroleum, natural gas, and refined products sales		\$ 1,479,557	\$ 1,284,782
Royalties		(53,417)	(35,858)
Revenues	12	1,426,140	1,248,924
Expenses			
Purchased products for processing and resale		1,101,716	892,013
Operating		174,456	137,534
Transportation and marketing		7,051	4,697
General and administrative		12,303	13,963
Depletion, depreciation and amortization		171,052	140,744
Exploration and evaluation	6	6,736	6,215
Gains on disposition of property, plant and equipment		(106)	(240)
Finance costs	13	27,336	27,517
Risk management contracts gains	17	(271)	(5,463)
Foreign exchange gains	14	(1,194)	(9,808)
Impairment on property, plant and equipment	7	21,843	–
Income (loss) before income tax		(94,782)	41,752
Income tax expense (recovery)		(22,701)	3,791
Net income (loss)		(72,081)	37,961
Other comprehensive loss			
Losses on designated cash flow hedges, net of tax	16,17	(7,321)	(40,407)
Losses on foreign currency translation	16	(16,068)	(23,921)
Actuarial loss, net of tax	16	(2,841)	–
Comprehensive loss		\$ (98,311)	\$ (26,367)

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

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

<i>(thousands of Canadian dollars)</i>	Notes	Shareholder's Capital	Deficit	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
Balance at December 31, 2011		\$ 3,860,786	\$ (388,995)	\$ (18,147)	\$ 3,453,644
Losses on derivatives designated as cash flow hedges, net of tax	16	–	–	(7,321)	(7,321)
Losses on foreign currency translation	16	–	–	(16,068)	(16,068)
Actuarial loss, net of tax	16	–	–	(2,841)	(2,841)
Net loss		–	(72,081)	–	(72,081)
Balance at March 31, 2012		\$ 3,860,786	\$ (461,076)	\$ (44,377)	\$ 3,355,333
Balance at December 31, 2010		\$ 3,355,350	\$ (284,338)	\$ (54,157)	\$ 3,016,855
Issue of share capital for cash		505,436	–	–	505,436
Losses on derivatives designated as cash flow hedges, net of tax		–	–	(40,407)	(40,407)
Losses on foreign currency translation		–	–	(23,921)	(23,921)
Net income		–	37,961	–	37,961
Balance at March 31, 2011		\$ 3,860,786	\$ (246,377)	\$ (118,485)	\$ 3,495,924

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Three Months Ended March 31	
		2012	2011
Cash provided by (used in)			
Operating Activities			
Net income (loss)		\$ (72,081)	\$ 37,961
Items not requiring cash			
Depletion, depreciation and amortization		171,052	140,744
Accretion of decommissioning and environmental remediation liabilities	8, 13	5,153	5,796
Unrealized gains on risk management contracts	17	(271)	(3,240)
Unrealized gains on foreign exchange	14	(2,765)	(9,617)
Non-cash interest income		(132)	(67)
Unsuccessful exploration and evaluation costs	6	4,158	6,091
Impairment on property, plant and equipment	7	21,843	–
Gains on disposition of property, plant and equipment		(106)	(240)
Deferred income tax expense (recovery)		(22,701)	3,807
Other non-cash items		(4,752)	370
Settlement of decommissioning and environmental remediation liabilities	8	(6,587)	(1,967)
Change in non-cash working capital	15	(7,701)	(32,810)
		85,110	146,828
Financing Activities			
Issue of common shares, net of issue costs	10	–	505,436
Bank borrowing (repayments), net		175,789	18,636
		175,789	524,072
Investing Activities			
Business acquisitions	4	–	(513,458)
Additions to property, plant and equipment	7	(224,022)	(238,216)
Additions to exploration and evaluation assets	6	(27,833)	(35,312)
Property dispositions (acquisitions), net		1,988	(2,038)
Change in non-cash working capital	15	(10,243)	105,113
		(260,110)	(683,911)
Change in cash and cash equivalents		789	(13,011)
Cash and cash equivalents, beginning of period		6,607	18,906
Cash and cash equivalents, end of period		\$ 7,396	\$ 5,895
Interest paid		\$ 10,128	\$ 8,297
Income tax (received) paid, net		\$ –	\$ (16)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2012 and 2011
(Tabular amounts in thousands of Canadian dollars)

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. (“Harvest” or the “Company”) is an 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 retail and wholesale petroleum marketing business both located in the Province of Newfoundland and Labrador (“Downstream”). Harvest’s Downstream business operates under its wholly owned subsidiary, North Atlantic Refining Limited (“North Atlantic”).

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 11, 2012.

Harvest’s principal place of business is located at 2100, 330 – 5th Avenue SW, Calgary, Alberta, Canada T2P 0L4.

2. Basis of Presentation

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

(a) Basis of Measurement

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

(b) Functional and Presentation Currency

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

3. Significant Accounting Policies

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

4. Acquisitions

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 \$511.0 million. The acquisition was accounted for as a business combination. 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 2012. This potential payable is considered contingent consideration and is required to be fair valued. Based on forecast gas prices, the probability of incurring this payment was assessed as low; as such no fair value was assigned on the allocation of consideration transferred. The Company’s assessment of this contingent liability remained the same at March 31, 2012 whereby no provision was recorded.

From the date of acquisition, the Hunt assets have contributed \$10.5 million of revenue and \$6.9 million to Harvest’s earnings before depletion and income tax for the three months ended March 31, 2011. If the acquisition had been completed on the first day of 2011, Harvest’s revenues for the three months ended March 31, 2011 would have been \$14.6 million higher and the earnings before depletion and income tax would have been \$7.4 million higher.

5. Inventories

	March 31, 2012	December 31, 2011
Petroleum products		
Upstream – pipeline fill	\$ 1,680	\$ 1,325
Downstream	100,561	56,298
Total petroleum product inventory	102,241	57,623
Parts and supplies	3,189	3,329
	\$ 105,430	\$ 60,952

6. Exploration and Evaluation Assets (E&E)

As at December 31, 2010	\$ 59,554
Additions	50,883
Acquisition	18,627
Dispositions	(717)
Unsuccessful exploration & evaluation costs	(17,757)
Transfer to property, plant & equipment	(36,073)
As at December 31, 2011	\$ 74,517
Additions	27,833
Unsuccessful exploration and evaluation costs	(4,158)
Transfer to property, plant and equipment	(4,991)
As at March 31, 2012	\$ 93,201

The Company determined certain E&E costs to be unsuccessful and not recoverable and were expensed as follows:

	Three months ended March 31	
	2012	2011
Pre-licensing costs	\$ 2,578	\$ 124
Unsuccessful E&E costs	4,158	6,091
E&E expense	\$ 6,736	\$ 6,215

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

	Upstream	Downstream	Total
Cost:			
As at December 31, 2010	\$ 3,964,155	\$ 1,081,885	\$ 5,046,040
Additions	682,497	284,244	966,741
Acquisitions	533,963	-	533,963
Change in decommissioning liabilities	(18,245)	3,767	(14,478)
Transfers from E&E	36,073	-	36,073
Exchange adjustment	-	36,928	36,928
Disposals	(882)	(18,031)	(18,913)
Investment tax credits	-	(10,187)	(10,187)
As at December 31, 2011	\$ 5,197,561	\$ 1,378,606	\$ 6,576,167
Additions	210,759	13,263	224,022
Disposals	(1,882)	-	(1,882)
Change in decommissioning liabilities	3,713	-	3,713
Transfers from E&E	4,991	-	4,991
Exchange adjustment	-	(26,521)	(26,521)
As at March 31, 2012	\$ 5,415,142	\$ 1,365,348	\$ 6,780,490
Accumulated depletion, depreciation, amortization and impairment losses:			
As at December 31, 2010	\$ 484,302	\$ 78,502	\$ 562,804
Depreciation, depletion and amortization	535,384	91,006	626,390
Disposals	-	(18,031)	(18,031)
Exchange adjustment	-	4,617	4,617
As at December 31, 2011	1,019,686	156,094	1,175,780
Depreciation, depletion and amortization	144,333	26,570	170,903
Impairment	21,843	-	21,843
Exchange adjustment	-	(3,082)	(3,082)
As at March 31, 2012	\$ 1,185,862	\$ 179,582	\$ 1,365,444
Net Book Value			
As at March 31, 2012	\$ 4,229,280	\$ 1,185,766	\$ 5,415,046
As at December 31, 2011	\$ 4,177,875	\$ 1,222,512	\$ 5,400,387

General and administrative costs of \$6.0 million have been capitalized during the three month period ended March 31, 2012 (2011 – \$4.4 million). Borrowing costs relating to the development of BlackGold assets and the Downstream debottlenecking project have been capitalized within PP&E during the three months ended March 31, 2012 in the amount of \$2.9 million (2011 – \$1.3 million), at a weighted average interest rate of 5.76% (2011 – 7.12%).

At March 31, 2012, the following costs were excluded from the asset base subject to depreciation, depletion and amortization: Downstream major parts inventory of \$7.4 million (2011– \$7.5 million); Downstream assets under construction of \$107.5 million (2011 – \$102.5 million); and BlackGold oil sands assets of \$528.9 million (2011 – \$497.2 million).

During the three months ended March 31, 2012, Harvest recorded an impairment of \$21.8 million (before tax) to its Upstream PP&E relating to certain gas properties in the South Alberta cash generating unit to reflect lower forecasted gas prices, which resulted in lower estimated future cash flows. The recoverable amount was based on the assets'

value-in-use, estimated using the net present value of the future cash flows. A pre-tax discount rate of 10% and the following forward gas prices were used in the impairment calculation:

Year	AECO Gas (\$Cdn/Mmbtu) ⁽¹⁾	Year	AECO Gas (\$Cdn/Mmbtu) ⁽¹⁾
2012 (9 months)	2.65	2020	6.35
2013	3.60	2021	6.50
2014	4.20	2022	6.65
2015	4.75	2023	6.75
2016	5.15	2024	6.90
2017	5.70	2025	7.05
2018	6.00	2026	7.20
2019	6.20	Thereafter ⁽¹⁾	+2%/year

(1) Source: McDaniel & Associates Consultants Ltd, effective April 1, 2012.

(2) Percentage change represents the change in each year after 2026 to the end of the reserve

8. Decommissioning & Environmental Remediation Liabilities

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately \$1.5 billion at March 31, 2012 (2011 - \$1.4 billion), which will be incurred between 2012 and 2072. A risk-free discount rate of 3.0% (2011 - 3.0%) and inflation rate of 1.7% (2011 - 1.7%) were used to calculate the fair value of the decommissioning and environmental remediation liabilities. The following is a reconciliation of the decommissioning liabilities:

	Upstream	Downstream	Total
Decommissioning liabilities at December 31, 2010	\$ 651,048	\$ 10,426	\$ 661,474
Liabilities assumed on acquisitions	36,403	-	36,403
Liabilities incurred	28,382	-	28,382
Settled during the period	(22,110)	-	(22,110)
Revisions (change in estimate)	(46,627)	3,767	(42,860)
Disposals	(708)	-	(708)
Accretion	23,099	400	23,499
Decommissioning liabilities at December 31, 2011	\$ 669,487	\$ 14,593	\$ 684,080
Environmental remediation at December 31, 2011	3,224	-	3,224
Balance at December 31, 2011	\$ 672,711	\$ 14,593	\$ 687,304
Decommissioning liabilities at December 31, 2011	\$ 669,487	\$ 14,593	\$ 684,080
Liabilities incurred	3,713	-	3,713
Settled during the period	(6,256)	-	(6,256)
Accretion	5,021	108	5,129
Decommissioning liabilities at March 31, 2012	\$ 671,965	\$ 14,701	\$ 686,666
Environmental remediation at March 31, 2012	3,985	-	3,985
Balance at March 31, 2012	\$ 675,950	\$ 14,701	\$ 690,651
Current portion	\$ 16,687	\$ -	\$ 16,687
Non-current portion	659,263	14,701	673,964
Balance at March 31, 2012	\$ 675,950	\$ 14,701	\$ 690,651

9. Bank Loan

At March 31, 2012, Harvest had \$534.7 million drawn from the \$800 million available under the credit facility (2011 - \$358.9 million). The carrying value of the bank loan includes \$3.1 million of deferred financial charges at March 31, 2012 (2011 - \$3.3 million). For the three months ended March 31, 2012, interest charges on bank loans aggregated to \$3.4 million (2011 - \$0.4 million), reflecting an effective interest rate of 2.84% (2011 - 3.06%).

10. Shareholder's Capital

(a) Authorized

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

(b) Number of Common Shares Issued

Outstanding at December 31, 2010	335,535,047
Issued to KNOC at \$10.00 per share for Hunt acquisition	50,543,602
Outstanding at December 31, 2011 and March 31, 2012	386,078,649

11. Capital Structure

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

	March 31, 2012	December 31, 2011
Bank loan ⁽¹⁾	\$ 534,675	\$ 358,885
Senior notes (US\$500 million) ⁽²⁾	498,750	508,500
Principal amount of convertible debentures	733,973	733,973
	\$ 1,767,398	\$ 1,601,358
Shareholder's equity	3,355,333	3,453,644
	\$ 5,122,731	\$ 5,055,002

(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. 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 March 31, 2012.

	Covenant	March 31, 2012	December 31, 2011
Secured debt ⁽¹⁾ to Annualized EBITDA	3.0 to 1.0 or less	1.18	0.73
Total debt ⁽²⁾ to Annualized EBITDA	3.5 to 1.0 or less	3.48	2.72
Secured debt ⁽¹⁾ to Capitalization ⁽³⁾	50% or less	13%	10%
Total debt ⁽²⁾ to Capitalization ⁽³⁾	55% or less	39%	36%

(1) Secured debt consists of letters of credit of \$8.7 million (2011 - \$8.7 million), bank loan of \$531.6 million (2011 - \$355.6 million) and guarantees of \$90.3 million (2011 - \$92.1 million) at March 31, 2012.

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

(3) Capitalization consists of total debt and shareholder's equity less equity for BlackGold of \$458.9 million at March 31, 2012 (2011 - \$459.9 million).

12. Revenue and Other Income

	Three months ended March 31	
	2012	2011
Crude oil and natural gas sales, net of royalty	\$ 266,554	\$ 248,228
Refinery products sales	1,155,406	1,003,731
Effective portion of realized crude oil hedges	4,180	(3,035)
	\$ 1,426,140	\$ 1,248,924

13. Finance Costs

	Three months ended March 31	
	2012	2011
Interest and other finance charges	\$ 25,075	\$ 23,017
Accretion of decommissioning and environmental remediation liabilities	5,153	5,796
Less: capitalized interest	(2,892)	(1,296)
	\$ 27,336	\$ 27,517

14. Foreign Exchange

	Three months ended March 31	
	2012	2011
Realized (gains) losses on foreign exchange	\$ 1,571	\$ (191)
Unrealized gains on foreign exchange	(2,765)	(9,617)
	\$ (1,194)	\$ (9,808)

15. Supplemental Cash Flow Information

	Three months ended March 31	
	2012	2011
Source (use) of cash:		
Accounts receivable and other	\$ 31,555	\$ (13,457)
Prepaid expenses and long-term deposit	1,022	40,146
Inventories	(44,478)	(24,484)
Accounts payable and accrued liabilities	(6,911)	72,542
Net changes in non-cash working capital	\$ (18,812)	\$ 74,747
Changes relating to operating activities	(7,701)	(32,810)
Changes relating to financing activities	-	-
Changes relating to investing activities	(10,243)	105,113
Add: Non-cash changes	(868)	2,444
	\$ (18,812)	\$ 74,747

16. Accumulated Other Comprehensive Income (Loss)

	Foreign Currency Translation Adjustment	Designated Cash Flow Hedges, Net of Tax	Actuarial Loss, Net of Tax	Total
Balance at December 31, 2010	\$ (45,920)	\$ (5,020)	\$ (3,217)	\$ (54,157)
Reclassification to net income of losses on cash flow hedges	-	7,050	-	7,050
Gains on derivatives designated as cash flow hedges	-	12,371	-	12,371
Actuarial loss	-	-	(4,891)	(4,891)
Gains on foreign currency translation	21,480	-	-	21,480
Balance at December 31, 2011	\$ (24,440)	\$ 14,401	\$ (8,108)	\$ (18,147)
Reclassification to net income of gains on cash flow hedges	-	(3,126)	-	(3,126)
Losses on derivatives designated as cash flow hedges	-	(4,195)	-	(4,195)
Actuarial loss	-	-	(2,841)	(2,841)
Losses on foreign currency translation	(16,068)	-	-	(16,068)
Balance at March 31, 2012	\$ (40,508)	\$ 7,080	\$ (10,949)	\$ (44,377)

The effective portion of the after tax unrealized loss on derivatives designated as cash flow hedges of \$4.2 million (pre-tax loss of \$5.6 million) was included in other comprehensive loss for the three months ended March 31, 2012 (2011 – after tax and pre-tax losses of \$42.6 million and \$58.2 million respectively). The amount removed from accumulated other comprehensive loss and included in petroleum, natural gas, and refined product sales was an after tax gain of \$3.1 million (pre-tax gain of \$4.2 million) for the three months ended March 31, 2012 (2011 – after tax and pre-tax losses of \$2.2 million and \$3.0 million respectively). The Company expects that \$7.1 million of gains reported in accumulated other comprehensive loss will be released to net income within the next 9 months.

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:

	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
<u>Loans and Receivables</u>				
Accounts receivable and other	\$ 180,697	\$ 180,697	\$ 212,252	\$ 212,252
<u>Held for Trading</u>				
Cash and cash equivalents	7,396	7,396	6,607	6,607
Risk management contracts	10,645	10,645	20,162	20,162
Total Financial Assets	\$ 198,738	\$ 198,738	\$ 239,021	\$ 239,021
Financial Liabilities				
<u>Measured at Amortized Cost</u>				
Accounts payable and accrued liabilities	457,237	457,237	464,148	464,148
Bank loan	531,619	534,675	355,575	358,885
Senior notes	486,611	531,483	495,674	523,119
Convertible debentures	741,237	755,935	742,067	752,345
Total Financial Liabilities	\$ 2,216,704	\$ 2,279,330	\$ 2,057,464	\$ 2,098,497

(b) Risk Management Contracts

Harvest uses electricity price swap contracts to manage some of its price risk exposure. These swap contracts are not designated as hedges and are entered into for periods consistent with forecast electricity purchases. Harvest did not have any electricity price swap contracts during the three months ended March 31, 2012.

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. The effective portion of the unrealized gains and losses is included in other comprehensive income. The effective portion of the realized gains and losses is removed from accumulated other comprehensive income and included in petroleum, natural gas, and refined product sales (see note 16). The ineffective portion of the unrealized and realized gains and losses recognized in the consolidated income statement from these cash flow hedges is shown below for crude oil, together with the realized and unrealized (gains) losses on power and currency risk management contracts:

	Three months ended March 31							
	2012				2011			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized (gains) losses	\$ -	\$ -	\$ -	\$ -	\$(2,282)	\$ 59	\$ -	\$(2,223)
Unrealized (gains) losses	-	(205)	(66)	(271)	(3,554)	285	29	(3,240)
	\$ -	\$(205)	\$ (66)	\$ (271)	\$(5,836)	\$ 344	\$ 29	\$(5,463)

The following is a summary of Harvest's risk management contracts outstanding at March 31, 2012:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair Value
4,200 bbls/day	Crude oil price swap	Apr – Dec 2012	US \$111.37/bbl	\$ 10,578
US \$468/day	Foreign exchange swap	Apr – Dec 2012	\$1.0236 Cdn/US	67
				\$ 10,645

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 March 31					
	Downstream		Upstream		Total	
	2012	2011	2012	2011	2012	2011
Petroleum, natural gas and refined products sales	\$1,155,406	\$1,003,731	\$324,151	\$281,051	\$1,479,557	\$1,284,782
Royalties	-	-	(53,417)	(35,858)	(53,417)	(35,858)
Revenues	\$1,155,406	\$1,003,731	\$270,734	\$245,193	\$1,426,140	\$1,248,924
Expenses						
Purchased products for resale and processing	1,101,716	892,013	-	-	1,101,716	892,013
Operating	74,481	53,939	99,975	83,595	174,456	137,534
Transportation and marketing	1,365	1,694	5,686	3,003	7,051	4,697
General and administrative	150	441	12,153	13,522	12,303	13,963
Exploration and evaluation	-	-	6,736	6,215	6,736	6,215
Depletion, depreciation and amortization	26,570	19,400	144,482	121,344	171,052	140,744
Gains on disposition of PP&E	-	-	(106)	(240)	(106)	(240)
Risk management contracts gains	-	-	(271)	(5,463)	(271)	(5,463)
Impairment on PP&E	-	-	21,843	-	21,843	-
	\$ (48,876)	\$ 36,244	\$ (19,764)	\$ 23,217	\$ (68,640)	\$ 59,461
Finance costs					27,336	27,517
Foreign exchange gains					(1,194)	(9,808)
Income (Loss) before income tax					\$ (94,782)	\$ 41,752
Income tax (recovery) loss					(22,701)	3,791
Net income (loss)					\$ (72,081)	\$ 37,961

(1) Of the total Downstream revenue, one customer represents sales of \$978.8 million for the three months ended March 31, 2012 (2011 – two customers with sales of \$663.2 million and \$101.6 million). No other single customer within either segment represents greater than 10% of Harvest's total revenue.

(2) There is no intersegment activity.

	Three months ended March 31					
	Downstream		Upstream		Total	
	2012	2011	2012	2011	2012	2011
Capital Expenditures						
Business acquisition	\$ -	\$ -	\$ -	\$ 513,458	\$ -	\$ 513,458
Additions to PP&E	13,263	35,879	210,759	202,337	224,022	238,216
Additions to E&E	-	-	27,833	35,312	27,833	35,312
Property acquisitions (dispositions), net	-	-	(1,988)	2,038	(1,988)	2,038
Total expenditures	\$ 13,263	\$ 35,879	\$ 236,604	\$ 753,145	\$ 249,867	\$ 789,024

	Total Assets	PP&E	E&E	Other Long-Term Assets	Goodwill
March 31, 2012					
Downstream	\$ 1,400,470	\$ 1,185,766	\$ -	\$ -	\$ -
Upstream	4,921,780	4,229,280	93,201	6,955	404,943
Total	\$ 6,322,250	\$ 5,415,046	\$ 93,201	\$ 6,955	\$ 404,943
December 31, 2011					
Downstream	\$ 1,408,112	\$ 1,222,512	\$ -	\$ -	\$ -
Upstream	4,876,258	4,177,875	74,517	7,105	404,943
Total	\$ 6,284,370	\$ 5,400,387	\$ 74,517	\$ 7,105	\$ 404,943

19. Commitments

The following is a summary of Harvest's contractual obligations and commitments as at March 31, 2012:

	Maturity				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt repayments ⁽¹⁾	\$ 106,796	\$ 390,598	\$ 771,254	\$ 498,750	\$ 1,767,398
Debt interest payments ⁽¹⁾	106,158	145,976	75,646	19,288	347,068
Purchase commitments ⁽²⁾	222,988	42,144	-	-	265,132
Operating leases	12,100	19,713	7,224	2,358	41,395
Transportation agreements ⁽³⁾	8,803	12,808	4,186	237	26,034
Feedstock & other purchase commitments ⁽⁴⁾	940,304	-	-	-	940,304
Employee benefits ⁽⁵⁾	4,102	7,433	5,178	2,877	19,590
Decommissioning liabilities ⁽⁶⁾	16,687	53,884	34,343	1,349,810	1,454,724
Total	\$ 1,417,938	\$ 672,556	\$ 897,831	\$ 1,873,320	\$ 4,861,645

(1) Assumes constant period end 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 re-sale under the supply and offtake agreement.

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

(6) Represents the undiscounted obligation by period.