Q3 2010

Harvest Operations Corp.

Third Quarter Report

for the three and nine month periods ending September 30, 2010

SELECTED INFORMATION

The table below provides a summary of our financial and operating results for the three and nine months ended September 30, 2010.

	Three Months Ended	Nine Months Ended
FINANCIAL *($000s except where noted)*	**September 30, 2010**	**September 30, 2010**
Revenue, net [1]	**951,735**	**2,546,393**
Cash From Operating Activities	**97,711**	**298,180**
Net Income (Loss)[2]	**(22,079)**	**(43,115)**
Bank debt	**288,700**	**288,700**
$7^{7/8}$% Senior debt	**216,931**	**216,931**
Convertible debentures[3]	**769,920**	**769,920**
Total financial debt[3]	**1,275,551**	**1,275,551**
Total Assets	**5,262,694**	**5,262,694**
UPSTREAM OPERATIONS		
Total daily sales volumes (boe/day)	**47,777**	**49,175**
Operating Netback ($/boe)	**$30.05**	**$32.00**
Capital asset additions (excluding acquisitions)	**90,268**	**256,111**
Property and business acquisitions (dispositions), net	**146,507**	**176,742**
Abandonment and reclamation expenditures	**5,796**	**13,813**
DOWNSTREAM OPERATIONS		
Average daily throughput (bbl/d)	**96,514**	**77,658**
Average Refining Margin (US$/bbl)	**3.02**	**4.67**
Capital asset additions	**21,501**	**38,643**

(1) Revenues are net of royalties.

(2) Net Income (Loss) includes a future income tax recovery of $17.6 million and $37.6 million for the three and nine months ended September 30, 2010 respectively and an unrealized net loss from risk management activities of $1.0 million and a net gain of $1.3 million for the three and nine months ended September 30, 2010

(3) Includes current portion of convertible debentures.

PRESIDENT'S MESSAGE

The third quarter of 2010 was an active one for Harvest Operations Corp., as we reaffirmed our commitment to growth by moving forward with a number of planned projects. This was highlighted by two important acquisitions in our upstream business and a series of financings that continued to strengthen our balance sheet.

During the quarter, we finalized acquisitions of the BlackGold Oil Sands Project as well as several producing properties located in northern Alberta and northeastern British Columbia. Harvest will continue to rely on its strengthened balance sheet and the strong technical capabilities of our management and employees to leverage these new assets.

Cash from operating activities decreased to $97.7 million in the third quarter, a decrease of $24.6 million from the previous quarter largely due to reduced commodity prices for oil, natural gas and refinery margins. As commodity prices continue to strengthen alongside the rebounding world economy, we remain optimistic that our asset base will generate increased cashflow.

Upstream

Harvest's production volumes over the third quarter averaged 47,777 boe/d. While production was somewhat impacted by this summer's wet weather, we were still able to drill 27 gross wells with a success ratio of 96%. Capital investment activity during the quarter totaled $86.7 million (not including $3.6 million spent on the BlackGold project) despite weather induced delays to capital spending. We were particularly active in our southeast Saskatchewan light oil area where we drilled six gross wells and in our southeast Alberta area where we drilled 10 horizontal oil wells at our Murray Lake and Metiskow heavy oil properties. We have also begun to exploit the Cardium opportunity on our significant W5 land base. At Markerville Rimbey, Harvest drilled four Cardium light oil horizontal wells, utilizing staged fracturing completion technology.

As mentioned, this quarter was also highlighted by two acquisitions. Firstly, we were pleased to acquire Korea National Oil Corporation's BlackGold Oilsands Project for $374 million in equity. At year end 2009, reserves for the project were determined by independent evaluators to be 259 mmboe of Proved plus Probable reserves as well as an incremental 30 million barrels of best estimate contingent resource. The BlackGold project will utilize Steam Assisted Gravity Drainage (SAGD) to deliver Phase 1's expected production of 10,000 bpd. Phase 2 is expected to increase production to 30,000 bpd. In conjunction with this transaction, KNOC also provided an additional cash injection of $86 million, which was received in two tranches in August and October.

Secondly, we acquired upstream oil and natural gas assets in northern Alberta and northeastern British Columbia that complement current Harvest assets. These assets, which were purchased from a third party for $146.2 million, have current production of approximately 2,300 boepd. This transaction closed on September 30, 2010.

Downstream

Harvest's downstream refining and marketing business, North Atlantic, reported stable operating results this quarter with throughput increasing from the previous quarter to 96,514 bbl/d.

Refined product production mix for the third quarter was weighted 32% towards distillates, 28% towards gasoline, and 40% towards heavy fuel oil, VGO, and other products. Average refining margins were US $3.02/bbl, which were depressed from the prior period due primarily to the strengthening of sour crude oil prices and the weakening of gasoline margins. While these margins represent a decrease when compared to the same period last year, we remain optimistic that results will improve in the next quarter as Northern Hemispherical winter heating demand for middle distillate products increases and winter specifications allow for increased refinery blending of butane into motor gasoline products.

Corporate

Highlighting this quarter's corporate activities, Harvest and Korea National Oil Corporation (KNOC) are pleased to announce the creation of a Global Technology & Research Centre (GTRC). The GTRC is intended to be an industry-leading research and development organization that will benefit KNOC as well as Harvest. KNOC has agreed to fund the creation and operation of the organization with the injection of $7.1 million of equity (which closed in October 2010) and then through ongoing payments to Harvest for services provided by the GTRC.

In addition to the equity issued for the BlackGold assets, the associated $86 million cash injection as well as the $7 million for establishment of the GTRC, Harvest also moved forward in the third quarter with a refinancing of our long-term debt. A newly issued $500 million of 6 ⅞% senior notes due 2017 was met with significant interest and closed in October, 2010. This allowed us to repay the 7 ⅞% senior notes that were due 2011.

We are encouraged by the attractive results received from our 2010 capital investment program on our oil-weighted upstream asset base. During the fourth quarter, we expect to be active with approximately $235 million of capital projects ($110 million in upstream, $70 million of BlackGold project expenditures, and $55 million in downstream). We expect to announce our 2011 budget later in the fourth quarter. With active investment in the fourth quarter and in 2011, we expect to continue to advance our attractive investment opportunities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of the financial condition and results of operations of Harvest Operations Corp. should be read in conjunction with the unaudited interim consolidated financial statements of Harvest Operations Corp. for the three and nine months ended September 30, 2010 and the MD&A for the three and six months ended June 30, 2010. The information and opinions concerning our future outlook are based on information available at November 5, 2010.

On December 22, 2009, KNOC Canada Ltd. ("KNOC Canada"), a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"), purchased all of the issued and outstanding trust units of Harvest Energy Trust (the "Trust) and applied December 31, 2009 as the deemed acquisition date. The acquisition of all the issued and outstanding trust units of the Trust resulted in a change of control in which KNOC Canada became the sole unitholder of the Trust.

On May 1, 2010, an internal reorganization was completed pursuant to which the Trust was dissolved and the Trust's wholly owned subsidiary and manager of the Trust, Harvest Operations Corp., was amalgamated into KNOC Canada to continue as one corporation under the name Harvest Operations Corp. ("Harvest" or the "Company"). The carrying values of Harvest's assets and liabilities were determined from the existing carrying values of KNOC Canada's assets and liabilities and therefore reflect the fair values established through the purchase.

KNOC Canada was incorporated on October 9, 2009 and did not have any results from operations or cash flows in the period from October 9, 2009 to December 31, 2009 aside from capital injections from Korea National Oil Corporation to finance the purchase of the Trust. As KNOC Canada acquired the Trust on December 22, 2009 the Company's financial statements for the interim period ended September 30, 2010 do not include prior year comparative information. Unaudited pro forma consolidated results of operations have been included in this MD&A to reflect the impact of the acquisition of the Trust, had the acquisition occurred on January 1, 2009.

In this MD&A, reference to "Harvest", "Company", "we", "us" or "our" refers to Harvest Operations Corp. and all of its controlled entities on a consolidated basis. All references are to Canadian dollars unless otherwise indicated. Tabular amounts are in thousands of dollars unless otherwise stated. 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 51-101, we also disclose our reserves on a company interest basis which is not a term defined under National Instrument 51-101. This information may not be comparable to similar measures by other issuers.

NON-GAAP MEASURES

Throughout this MD&A we have referred to certain measures of financial performance that are not specifically defined under Canadian GAAP. Cash G&A and Operating Netbacks are non-GAAP measures used extensively in the Canadian energy sector for comparative purposes. Cash G&A are G&A expenses excluding the effect of our unit based compensation plans, while Operating Netbacks are always reported on a per boe basis, and include gross revenue, royalties, operating expenses, and transportation and marketing expenses. Gross Margin is also a non-GAAP measure and 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. Earnings From Operations and Cash From Operations are also non-GAAP measures and are 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. This information may not be comparable to similar measures by other issuers.

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from our consolidated financial statements for the three and nine months ended September 30, 2010 and the accompanying notes thereto. In the interest of providing our investors and potential investors with information regarding Harvest, including our assessment of our future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks associated with conventional petroleum and natural gas operations; risks associated with refining and marketing operations; the volatility in commodity prices and currency exchange rates; risks associated with realizing the value of acquisitions; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources and such other risks and uncertainties described from time to time in our regulatory reports and filings made with securities regulators.

Forward-looking statements in this MD&A include, but are not limited to, the forward looking statements made in the "Outlook" section as well as statements made throughout with reference to production volumes, refinery throughput volumes, royalty rates, operating costs, commodity prices, administrative costs, price risk management activity, acquisitions and dispositions, capital spending, reserve estimates, distributions, 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", "expects", 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. We assume 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

Consolidated cash flow from operating activities was $97.7 million and $298.2 million for the three and nine months ended September 30, 2010. Third quarter cash flow represents a decrease of $24.6 million from the second quarter of 2010. This decrease is due to a $37.9 million decrease in cash contribution from our Downstream operations offset by a $10.9 million decrease in working capital requirement.

Upstream Operations

The cash contribution from Upstream operations remained relatively unchanged at $122.4 million in the third quarter compared to $122.3 million in the second quarter of 2010. Third quarter 2010 sales volumes were down by 1,820 boe/d compared to the second quarter of 2010, with the main decreases in light/medium oil and natural gas as a result of power outages and third party plant processing constraints arising from turnarounds. Third quarter 2010 operating costs decreased $5.0 million primarily due to the 56% decrease in the average Alberta Power Pool electricity price. Third quarter upstream capital spending of $90.3 million includes the drilling of 27 (net 23.0) wells with a success ratio of 99%. In addition, we acquired a package of petroleum and natural gas assets which included the remaining 40% interest in Red Earth Partnership for total cash consideration of $146.2 million.

Downstream Operations

The negative cash contribution of $9.2 million from the Downstream operations in the third quarter compared to a $28.7 million contribution in the prior quarter reflects the impact of an unplanned shutdown of the hydrogen and isomax units and the resulting shift in our product yields. The average daily throughput for the third quarter increased 1,681 bbls/d over the second quarter to 96,514 bbls/d, but remained below the nameplate capacity of 115,000 bbls/d due to the unplanned shutdown. Operating expenses were $43.2 million in the third quarter of 2010 and were $4.86/bbl of throughput compared to $51.5 million and $5.97/bbl of throughput in the prior quarter. The decrease reflects the impact of lower maintenance and purchased energy costs as well as slightly higher throughput in the third quarter of 2010. Capital expenditures totaled $21.5 million during the third quarter including $12.3 million related to debottlecking projects.

Corporate

In August 2010, Harvest issued 37.4 million shares to KNOC in exchange for KNOC's BlackGold oilsands project assets; subsequent to the acquisition, Harvest issued an additional 4.7 million shares to KNOC for cash consideration of $47 million to fund a portion of the 2010 BlackGold capital expenditures. As at September 30, 2010, our bank borrowings totaled $291.6 million ($288.7 million net of transaction costs) with $208.4 million of undrawn credit facility available. On October 4, 2010, Harvest completed its offering of US$500 million aggregate principal amount of 67/8% senior notes due 2017. Of the US$484.6M net proceeds, $210.2 million was used to redeem the outstanding 77/8% Senior Notes due 2011

UPSTREAM OPERATIONS

Summary of Financial and Operating Results

	Three Months Ended September 30			Nine Months Ended September 30		
(in $000's except where noted)	**2010**	2009 (Pro Forma [2])	Change	**2010**	2009 (Pro Forma [2])	Change
Revenues	**231,694**	226,920	2%	**748,992**	631,955	19%
Royalties	**(33,698)**	(35,794)	(6%)	**(116,655)**	(88,522)	32%
Net revenues	**197,996**	191,126	4%	**632,337**	543,433	16%
Operating	**63,363**	60,330	5%	**195,944**	196,982	(1%)
General and administrative	**9,720**	10,006	(3%)	**33,863**	26,274	29%
Transportation and marketing	**2,485**	4,569	(46%)	**6,760**	11,085	(39%)
Depreciation, depletion and accretion	**112,311**	112,137	(0%)	**333,914**	352,681	(5%)
Earnings (Loss) From Operations[1]	**10,117**	(4,084)	148%	**61,856**	(43,589)	242%
Capital asset additions (excluding acquisitions)	**90,268**	12,455	625%	**256,111**	154,556	66%
Property and business acquisitions (dispositions), net	**146,507**	(766)	19,226%	**176,742**	(61,494)	387%
Abandonment and reclamation expenditures	**5,796**	3,658	58%	**13,813**	8,672	59%
OPERATING						
Daily sales volumes						
Light / medium oil (bbl/d)	**22,886**	22,793	0%	**24,076**	23,775	1%
Heavy oil (bbl/d)	**9,235**	10,066	(8%)	**9,192**	10,520	(13%)
Natural gas liquids (bbl/d)	**2,465**	2,648	(7%)	**2,537**	2,719	(7%)
Natural gas (mcf/d)	**79,147**	89,163	(11%)	**80,222**	92,284	(13%)
Total	**47,777**	50,368	(5%)	**49,175**	52,395	(6%)

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

(2) The 2009 comparative financial statement values are based on the "proforma" financials of Harvest Operations Corp.; see Note 1 to the September 30, 2010 Consolidated Financial Statements.

Commodity Price Environment

	September 30, 2010	
Benchmarks	**Three Months Ended**	**Nine Months Ended**
West Texas Intermediate crude oil (US$/bbl)	76.20	77.65
Edmonton light crude oil ($/bbl)	74.52	76.64
Bow River blend crude oil ($/bbl)	63.97	68.03
AECO natural gas daily ($/mcf)	3.55	4.13
Canadian / U.S. dollar exchange rate	0.962	0.965

The average WTI benchmark price for the third quarter of 2010 decreased marginally by 2% from US $78.03/bbl in the second quarter of 2010. The average Edmonton light crude oil price ("Edmonton Par") decreased marginally by 1% from the prior quarter average of $75.14/bbl. The average Bow River blend crude oil price ("Bow River") decreased by 4% from $66.56/bbl in the second quarter of 2010. The average third quarter 2010 AECO daily natural gas price was 9% lower than the second quarter 2010 average of $3.89/mcf due to decreased demand resulting from increased storage levels and decreased economic activity.

	2010		
Differential Benchmarks	**Q3**	Q2	Q1
Bow River Blend differential to Edmonton Par ($/bbl)	**10.55**	8.58	6.72
Bow River Blend differential as a % of Edmonton Par	**14.2%**	11.0%	8.4%

In the third quarter of 2010, Bow River Blend differential relative to Edmonton Par increased to an average of $10.55/bbl (14.2%) compared to $8.58/bbl (11.0%) in the prior quarter. 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.

Realized Commodity Prices[(1)]

The following table summarizes our average realized price by product for the three and nine months ended September 30, 2010:

	September 30, 2010	
	Three Months Ended	**Nine Months Ended**
Light to medium oil ($/bbl)	67.71	70.30
Heavy oil ($/bbl)	58.52	60.33
Natural gas liquids ($/bbl)	53.85	58.15
Natural gas ($/mcf)	3.74	4.35
Average Realized price ($/boe)	52.71	55.79

(1) Realized commodity prices exclude the impact of price risk management activities.

Our realized price for light to medium oil decreased marginally by 2% in the third quarter of 2010 as compared to $68.78/bbl in the second quarter of 2010, reflecting the 1% decrease in Edmonton Par. Despite the 4% decrease in the average Bow River benchmark price from the second to third quarter of 2010, Harvest's average realized price of heavy oil increased by 4% from $56.51/bbl in the prior quarter to $58.52 in the third quarter of 2010. This is due to increased sales volumes in the month of July when the monthly average for the Bow River benchmark price was the highest of the quarter at $68.08/bbl, resulting in a higher realized price than the second quarter of 2010. The decrease in the average realized price for gas of 10% for the third quarter of 2010 from $4.17/mcf in the second quarter of 2010 is consistent with the decrease in benchmark prices.

Sales Volumes

The average daily sales volumes by product were as follows:

	September 30, 2010			
	Three Months Ended		**Nine Months Ended**	
	Volume	Weighting	Volume	Weighting
Light / medium oil (bbl/d) (1)	22,886	48%	24,076	49%
Heavy oil (bbl/d)	9,235	19%	9,192	19%
Natural gas liquids (bbl/d)	2,465	5%	2,537	5%
Total liquids (bbl/d)	34,586	72%	35,805	73%
Natural gas (mcf/d)	79,147	28%	80,222	27%
Total oil equivalent (boe/d)	47,777	100%	49,175	100%

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

In the third quarter of 2010, Harvest's average daily sales of light/medium oil was 22,886 bbl/d compared to prior quarter of 24,874 bbl/d resulting in a decrease of 1,988 bbl/d mainly due to power outages and shipping restrictions at Hay River. Our heavy oil sales increased to 9,235 bbl/d from 9,090 bbl/d in the prior quarter reflecting additional wells that were brought online at Metiskow in September 2010. Natural gas liquids increased marginally to 2,465 bbl/d compared to prior period of 2,334 bbl/d. Natural gas sales averaged 79,147 mcf/d in the third quarter of 2010 compared to prior quarter of 79,797 mcf/d as a result of numerous third party facility turnarounds partially offset by increases in sales volumes at Chedderville and Crossfield due to lower downtime and tie-in of a new well and recompletion of an existing well at Crossfield that occurred in September 2010.

Revenues

	September 30, 2010	
($000's)	**Three Months Ended**	**Nine Months Ended**
Light / medium oil sales	$ 142,557	$ 462,093
Heavy oil sales	49,719	151,397
Natural gas sales	27,205	95,223
Natural gas liquids sales and other	12,213	40,279
Total sales revenue	231,694	748,992
Royalties	(33,698)	(116,655)
Net Revenues	$ 197,996	$ 632,337

Our revenue is impacted by changes to sales volumes, commodity prices and currency exchange rates. Our total sales revenue for the three months ended September 30, 2010 of $231.7 million is $13.9 million lower than prior quarter total sales revenue of $245.6 million. The 6% decrease is attributable to lower realized commodity prices and sales volumes, partially offset by the weakening of the Canadian dollar against the US dollar.

Royalties

We pay 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 for the third and second quarter of 2010 were $33.7 million and $41.2 million respectively (nine months ended September 30, 2010 - $116.7 million). For the third quarter of 2010, royalties as a percentage of gross revenue were 14.5% as compared to 16.8% in the second quarter of 2010. The decrease in our royalty rate from prior quarter is mainly due to the lower commodity price environment.

Operating Expenses

	September 30, 2010			
	Three Months Ended		Nine Months Ended	
($000's)	Total	Per boe	Total	Per boe
Operating expense				
Power and fuel	$ 11,977	$ 2.72	$ 43,694	$ 3.27
Well servicing	12,815	2.92	37,060	2.76
Repairs and maintenance	11,950	2.72	32,787	2.44
Lease rentals and property tax	7,575	1.72	23,404	1.74
Processing and other fees	3,657	0.83	10,636	0.79
Labour - internal	5,484	1.25	17,222	1.28
Labour - contract	3,903	0.89	11,820	0.88
Chemicals	2,489	0.57	10,346	0.77
Trucking	2,428	0.55	7,111	0.53
Other	1,085	0.25	1,864	0.14
Total operating expenses	$ 63,363	$ 14.42	$ 195,944	14.60
Transportation and marketing expense	$ 2,485	$ 0.57	$ 6,760	$ 0.50

Third quarter 2010 operating costs totaled $63.4 million, a decrease of $4.9 million as compared to prior quarter operating costs of $68.3 million. On a per barrel basis, operating costs have decreased to $14.42/boe in the third quarter of 2010 as compared to $15.14/boe in the second quarter of 2010. The 5% decrease is substantially attributed to lower power and fuel costs due to the decrease in the average Alberta Power Pool electricity price from $80.56/MWh in the second quarter of 2010 to $35.69/MWh for the third quarter of 2010. This resulted in a decrease in power and fuel costs by $6.7 million from the prior quarter

Power and fuel costs, comprised primarily of electric power costs, represented approximately 19% of our total operating costs during the three months ended September 30, 2010. Harvest electricity usage in Alberta is exposed to market prices and to mitigate our exposure to electric power price fluctuations we had electric power price risk management contracts in place. The following table details the electric power costs per boe before and after the impact of our price risk management program.

	September 30, 2010	
($ per boe)	Three Months Ended	Nine Months Ended
Electric power and fuel costs	$ 2.72	$ 3.27
Realized losses on electricity risk management contracts	0.29	0.08
Net electric power and fuel costs	3.01	3.35
Alberta Power Pool electricity price ($ per MWh)	$ 35.69	$ 52.38

Third quarter 2010 transportation and marketing expense increased to $2.5 million ($0.57/boe) as compared to $2.1 million ($0.46/boe) in the second quarter of 2010; this increase is due to the decrease in sales volumes in the third quarter and the transportation credits received from the Alberta Crown in the second quarter. These costs relate primarily to delivery of natural gas to Alberta's natural gas sales hub, the AECO Storage Hub, and our cost of trucking clean crude oil to pipeline receipt points.

Operating Netback

	September 30, 2010	
($ per boe)	**Three Months Ended**	**Nine Months Ended**
Revenues	$ 52.71	$ 55.79
Royalties	(7.67)	(8.69)
Operating expense	(14.42)	(14.60)
Transportation expense	(0.57)	(0.50)
Operating netback [(1)]	$ 30.05	$ 32.00

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

Harvest’s operating netback represents the net amount realized on a per boe basis after deducting directly related costs. In the third quarter of 2010, our operating netback increased by $0.37/boe from $29.68/boe in the prior quarter. The increase is due to lower royalties and lower operating costs, partially offset by a lower average realized price.

General and Administrative (“G&A”) Expense

	September 30, 2010	
($000s except per boe)	**Three Months Ended**	**Nine Months Ended**
Total G&A	$ 9,720	$ 33,863
G&A per boe ($/boe)	2.21	2.52

For the three months ended September 30, 2010, G&A expense decreased 17% to $9.7 million compared to $11.7 million in the second quarter of 2010. The decrease in G&A is primarily due to professional and consulting fees paid in the second quarter, largely in relation to the reorganization that occurred in the second quarter of 2010. In addition, bonuses were paid in June 2010 with no comparable expenditures during the third quarter of 2010. Generally, approximately 80% of our G&A expenses are related to salaries and other employee related costs.

Depletion, Depreciation, Amortization and Accretion Expense (“DDA&A”)

	September 30, 2010	
($000s except per boe)	**Three Months Ended**	**Nine Months Ended**
Depletion and depreciation	$ 97,156	$ 288,211
Depletion of capitalized asset retirement costs	8,886	26,919
Accretion on asset retirement obligation	6,269	18,784
Total depletion, depreciation and accretion	$ 112,311	$ 333,914
Per boe ($/boe)	$ 25.55	$ 24.87

Our overall DDA&A expense for the three months ended September 30, 2010 was $1.9 million higher than DDA&A in the prior quarter of $110.4 million.

Capital Expenditures

	September 30, 2010	
($000's)	Three Months Ended	Nine Months Ended
Conventional oil and gas		
Land and undeveloped lease rentals	$ 6,183	$ 16,849
Geological and geophysical	417	11,846
Drilling and completion	49,060	141,115
Well equipment, pipelines and facilities	26,448	72,177
Capitalized G&A expenses	4,440	10,083
Furniture, leaseholds and office equipment	104	425
Total conventional oil and gas capital expenditures	$ 86,652	$ 252,495
Oilsands		
BlackGold oilsands	3,616	3,616
Total development capital expenditures excluding acquisitions	$ 90,268	$ 256,111

Conventional Oil and Gas

Capital expenditures are up during the third quarter of 2010 as a result of drilling 27 gross wells (23.0 net) compared to drilling 13 gross wells (10.8 net) in the second quarter of 2010. Despite wet conditions in most areas that limited drilling activity, Harvest continued to focus our activities on our oil properties with 6 gross light oil wells drilled in our SE Saskatchewan area ($9.3 million) and 10 oil wells and one gas well drilled in our SE Alberta area ($15.3 million). In our Markerville/Rimbey area, Harvest drilled a total of 6 wells including 4 Cardium horizontal light oil wells and one Ellerslie light oil well for a total capital of $17.3 million.

During the third quarter of 2010 Harvest invested $6.2 million in undeveloped land opportunities in various areas to be used for future exploration and development.

In the first nine months of 2010, Harvest had a 99% success rate for all wells drilled. The following summarizes Harvest's participation in gross and net wells drilled during the three and nine month ending September 30, 2010:

	September 30, 2010			
	Three Months Ended		Nine Months Ended	
Area	Gross[(1)]	Net	Gross[(2)]	Net
Hay River	0.0	0.0	8.0	8.0
SE Alberta	11.0	9.8	18.0	13.4
Rimbey/Markerville	6.0	3.9	15.0	8.5
SE Saskatchewan	6.0	6.0	16.0	15.5
Red Earth	0.0	0.0	18.0	14.7
Suffield	1.0	1.0	6.0	6.0
Lloydminster Heavy Oil	2.0	2.0	25.0	23.0
Crossfield	0.0	0.0	3.0	2.9
Kindersley	0.0	0.0	6.0	4.7
Other Areas	1.0	0.3	5.0	3.0
Total	27.0	23.0	120.0	99.7

(1) Excludes 2 additional wells that we have royalties interest in.
(2) Excludes 6 additional wells that we have royalties interest in.

Oilsands

On August 6, 2010, Harvest closed on the acquisition of the BlackGold Oilsands Project ("BlackGold") from KNOC. As KNOC is the sole shareholder of Harvest, KNOC will be retaining control over BlackGold; therefore, as there was no substantive change in the ownership interest of the BlackGold assets, these assets were recorded at the existing carrying values as previously recorded by KNOC.

BlackGold is located in northeastern Alberta and has existing ERCB approval for a Phase 1 project of 10,000 bpd and an application has been made for a phase 2 project that would increase production to 30,000 bpd. Approval for phase 2 of the project is expected from the ERCB in 2012. The project will utilize steam assisted gravity drainage; a proven technology that uses innovation in horizontal drilling, with first oil expected in early 2013 at an estimated production of 10,000 bpd.

During the third quarter of 2010, we signed an engineering, procurement and construction lump sum contract with a third party to build a central processing facility for BlackGold oilsands for an aggregate of $311 million. A 10% deposit of $31.1 million was paid in the third quarter of 2010, with estimated expenditures of $10.8 million in 2010, $156.4 million in 2011 and $113.2 million in 2012. In the third quarter of 2010 we began site clearing in preparation for the construction of our central processing facility and production pad sites for a total expenditure of $3.6 million. Detailed engineering of the facility commenced in October 2010; procurement, construction and fabrication are expected to commence in 2011.

Asset Retirement Obligation ("ARO")

In connection with property acquisitions and development expenditures, we record the fair value of the ARO as a liability in the same year the expenditures occur. The associated asset retirement costs are capitalized as part of the carrying amount of the assets and are depleted and depreciated over our estimated net proved reserves. Once the initial ARO is measured, it is adjusted at the end of each period to reflect the passage of time as well as changes in the estimated future cash flows of the underlying obligation. Our asset retirement obligation increased by $8.3 million during the third quarter of 2010 as a result of accretion expense of $6.3 million and new liabilities recorded of $7.8 million, offset by $5.8 million of asset retirement liabilities settled.

DOWNSTREAM OPERATIONS

Summary of Financial and Operational Results

	Three Months Ended September 30			Nine Months Ended September 30		
(in $000's except where noted below)	**2010**	2009[5]	Change	**2010**	2009[5]	Change
Revenues	**753,739**	800,729	(6%)	**1,914,056**	1,742,514	10%
Purchased feedstock for processing and products purchased for resale [4]	**711,823**	731,871	(3%)	**1,774,174**	1,436,563	24%
Gross margin[1]	**41,916**	68,858	(39%)	**139,882**	305,951	(54%)
Operating	**25,680**	23,351	10%	**85,717**	74,291	15%
Purchased energy	**23,152**	30,385	(24%)	**65,622**	58,153	13%
Marketing	**1,507**	3,617	(58%)	**4,822**	9,718	(50%)
General and administrative	**441**	490	(10%)	**1,323**	1,365	(3%)
Depreciation and amortization	**21,914**	21,434	2%	**62,538**	68,530	(9%)
Earnings (Loss) From Operations[1]	**(30,778)**	(10,419)	(195%)	**(80,140)**	93,894	(185%)
Capital expenditures	**21,501**	7,945	171%	**38,643**	34,778	11%
Feedstock volume (bbl/day)[2]	**96,514**	102,940	(6%)	**77,658**	86,677	(10%)
Yield (000's barrels)						
Gasoline and related products	**2,469**	3,318	(26%)	**6,302**	8,011	(21%)
Ultra low sulphur diesel and jet fuel	**2,722**	3,942	(31%)	**7,351**	9,266	(21%)
High sulphur fuel oil	**3,421**	2,387	43%	**6,983**	5,940	18%
Total	**8,612**	9,647	(11%)	**20,636**	23,217	(11%)
Average refining gross margin (US$/bbl)[3]	**3.02**	5.37	(44%)	**4.67**	9.77	(52%)

[1] These are non-GAAP measures; please refer to "Non-GAAP Measures" in this MD&A.
[2] Barrels per day are calculated using total barrels of crude oil feedstock and vacuum gas oil.
[3] Average refining gross margin is calculated based on per barrel of feedstock throughput.
[4] Purchased feedstock for processing and products purchased for resale includes inventory write-downs, net of reversals, of ($0.8) million and $2.5 million for the three and nine months ended September 30, 2010, respectively.
[5] The 2009 comparative financial statement values are based on the "pro-forma" financials of the Downstream operations of Harvest Operations Corp.; see Note 1 to the September 30, 2010 Consolidated Financial Statements

Refining Benchmark Prices

The following average benchmark prices and currency exchange rates are the reference points from which we discuss our refinery's financial performance:

	September 30, 2010	
	Three Months Ended	Nine Months Ended
WTI crude oil (US$/bbl)	76.20	77.65
Brent crude oil (US$/bbl)	77.06	77.95
Mars Discount (US$/bbl)	(1.43)	(1.57)
RBOB gasoline (US$/bbl)	84.01	87.75
RBOB gasoline crack spread (US$/bbl)	7.81	10.10
Heating Oil (US$/bbl)	86.43	86.99
Heating Oil crack spread (US$/bbl)	10.23	9.34
High Sulphur Fuel Oil (US$/bbl)	68.39	69.46
High Sulphur Fuel Oil discount	(7.81)	(8.19)
Canadian / U.S. dollar exchange rate	0.962	0.965

The RBOB gasoline crack spread decreased from the prior quarter crack spread of US$13.04/bbl as market prices adjusted to the continuing weak demand for gasoline products. During the same period the Heating oil crack spread remained comparable with the second quarter crack spread while the discount of HSFO improved over the second quarter discount of US$8.78/bbl.

During the three months ended September 30, 2010, the Canadian/U.S. dollar exchange rate remained strong. The strengthening of the Canadian dollar in 2010 has slightly decreased the contribution from our Downstream operations as substantially all of its gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

Summary of Gross Margin

The following table summarizes our Downstream gross margin for the three and nine months ended September 30, 2010 segregated between refining activities and petroleum marketing and other related businesses.

	September 30, 2010					
	Three Months Ended			Nine Months Ended		
(000's of Canadian dollars)	Refining	Marketing	Total	Refining	Marketing	Total
Sales revenue[(1)]	719,879	150,332	753,739	1,822,206	416,768	1,914,056
Cost of feedstock for processing and products for resale[(1)]	691,986	136,309	711,823	1,719,694	379,398	1,774,174
Gross margin[(2)]	27,893	14,023	41,916	102,512	37,370	139,882
Average refining gross margin (US$/bbl)	3.02			4.67		

[(1)] Downstream sales revenue and cost of products for processing and resale are net of intra-segment sales of $116.5 million and $324.9 million for the three and nine months ended September 30, 2010, respectively, reflecting the refined products produced by the refinery and sold by the Marketing Division.
[(2)] This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

For the three months ended September 30, 2010, our refining gross margin decreased 63% to $27.9 million from the prior quarter of $75.9 million. The decrease reflects the impact of an unplanned shutdown of the hydrogen and isomax units for repairs and catalyst change-out resulting in decreased production of high margin distillates and increased production of negative margin HSFO. As well, the third quarter gross margin includes the negative impact of decreased sour crude differentials. The contribution from the marketing operations is fairly consistent from month to month.

As a consequence of a fire in early January of 2010, the unplanned shutdown of the refinery units during the first three months of the year had a negative impact on revenues and operations for the nine months ended September 30, 2010.

During the unplanned shutdown of the hydrogen and isomax units during the third quarter, the company sold VGO along with our production of HSFO. The net negative contribution from the sales of HSFO and VGO during the third quarter was US$8.1 million. This has been offset by a positive gross margin impact of US$23.1 million from the sales of gasoline and related products and a positive gross margin impact of US$41.4 million from the sales of distillates.

Refinery Sales Revenue

A comparison of our refinery yield, product pricing and revenue for the three and nine months ended September 30, 2010 is presented below:

	September 30, 2010					
	Three Months Ended			**Nine Months Ended**		
	Refinery Revenues	Volume	Sales Price[1]	Refinery Revenues	Volume	Sales Price[1]
	(000's of Cdn $)	(000s of bbls)	(US$ per bbl/ US$ per US gal)	(000's of Cdn $)	(000s of bbls)	(US$ per bbl/ US$ per US gal)
Gasoline products	241,082	2,829	81.98	601,469	6,801	85.34
Distillates	253,518	2,744	88.88	717,516	7,797	88.80
High sulphur fuel oil	225,279	3,047	71.13	503,221	6,908	70.30
	719,879	8,620	80.34	1,822,206	21,506	81.76
Inventory adjustment		(8)			(870)	
Total production		8,612			20,636	
Yield (as a % of Feedstock) [2]		97%			97%	

[1]Average product sales prices are based on the deliveries at our refinery loading facilities.

[2] After adjusting for changes in inventory held for resale.

The table below details the composition of the refinery yield for the three and nine months ended September 30, 2010:

	September 30, 2010	
	Three Months Ended	**Nine Months Ended**
Gasoline and related products	28%	30%
Distillates	32%	36%
High sulphur fuel oil [1]	40%	34%

[1] Includes 1.2 million bbls of produced VGO

The refinery yield was comprised of 34% gasoline products, 40% distillates and 26% HSFO for the second quarter of 2010. The change in product yields in the third quarter is a consequence of the unplanned shutdown of the hydrogen and isomax units resulting in a decrease in the production of gasoline products and distillates and an increase in the production of HSFO and VGO.

The realized average crack spreads over WTI as compared to the benchmark crack spreads were as follows:

	September 30, 2010			
	Three Months Ended		Nine Months Ended	
(US $ per bbl)	Refinery	Benchmark	Refinery	Benchmark
Gasoline and related products	5.78	7.81	7.69	10.10
Distillates	12.68	10.23	11.15	9.34
High sulphur fuel oil	(5.07)	(7.81)	(7.35)	(8.19)

The average crack spread of our refinery products differs from the benchmark crack spreads as a result of timing of sales under the SOA, transportation costs, location differentials and quality differentials. The lower discount of our HSFO as compared to the benchmark discount is due to the positive impact from the sales of excess VGO during the third quarter of 2010.

For the nine months ended September 30, 2010, the comparison of the refinery crack spreads to the benchmark crack spreads is complicated by the ten week unplanned shutdown in the first quarter.

Refinery Feedstock

A comparison of crude oil and VGO feedstock processed for the three and nine months ended September 30, 2010 is presented below:

	September 30, 2010					
	Three Months Ended			Nine Months Ended		
	Cost of Feedstock	Volume	Cost per Barrel [1]	Cost of Feedstock	Volume	Cost per Barrel [1]
	(000's of Cdn $)	(000s of bbls)	(US$/bbl)	(000's of Cdn $)	(000s of bbls)	(US$/bbl)
Middle Eastern	436,467	5,649	74.33	1,106,059	14,437	73.93
Russian	145,624	1,879	74.56	274,104	3,431	77.09
South American	79,996	1,125	68.41	177,451	2,555	67.02
Crude Oil Feedstock	662,087	8,653	73.61	1,557,614	20,423	73.60
Vacuum Gas Oil	19,082	226	81.23	64,152	777	79.67
	681,169	8,879	73.80	1,621,766	21,200	73.82
Net inventory adjustment [2]	(28,561)			(11,078)		
Additives and blendstocks	40,204			106,518		
Inventory write-down (recovery) [3]	(826)			2,488		
	691,986			1,719,694		

[1] Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.
[2] Inventories are determined using the weighted average cost method.
[3] Inventory write-downs are calculated on a product by product basis using the lower of cost or net realizable value.

Throughput averaged 96,514 bbl/d in the third quarter of 2010 and 77,658 bbl/d for the nine months ended September 30, 2010, reflecting a marginal increase over the average daily throughput for the second quarter of 94,833 bbl/d. Third quarter throughput is less than the nameplate capacity of 115,000 bbl/d as a result of the unplanned shutdown of the hydrogen plant and isomax units.

The cost of our crude oil feedstock in the third quarter was US$2.59/bbl less than WTI and for the nine months ended September 30, 2010 averaged US$4.05/bbl less than WTI. The discount to WTI in the third quarter decreased 57% from US$6.08/bbl in the prior quarter, reflecting the continuation of the decreasing sour crude differentials for 2010.

Operating Expenses

The following summarizes the operating expenses for the refinery and marketing division for the three and nine months ended September 30, 2010:

	September 30, 2010					
	Three Months Ended			Nine Months Ended		
(000's of Canadian dollars)	Refining	Marketing	Total	Refining	Marketing	Total
Operating costs	20,038	5,642	25,680	69,691	16,026	85,717
Purchased energy	23,152	-	23,152	65,622	-	65,622
	43,190	5,642	48,832	135,313	16,026	151,339

During the three and nine months ended September 30, 2010, refining operating costs were $2.26/bbl and $3.29/bbl of throughput respectively. Operating costs per barrel of throughput decreased 20% from $2.84/bbl in the second quarter of 2010 due to lower maintenance costs and slightly higher throughput during the third quarter.

Purchased energy, consisting of low sulphur fuel oil and electricity, is required to provide heat and power to refinery operations. Our purchased energy for the three and nine months ended September 30, 2010 was $2.61/bbl and $3.10/bbl of throughput, respectively. Purchased energy for the second quarter of 2010 was $3.13/bbl of throughput, the 17% decrease in the third quarter is primarily due to a decrease in the purchased volume of low sulphur fuel oil.

Marketing Expense and Other

During the three months ended September 30, 2010, marketing expense comprised $0.2 million of marketing fees (nine months ended September 30, 2010 - $0.5 million) and $1.3 million of TVM charges (nine months ended September 30, 2010 - $4.3 million) both pursuant to the terms of the SOA. Marketing fees and TVM charges decreased marginally from $0.3 million and $2.1 million respectively in second quarter of 2010. As at September 30, 2010, Harvest had commitments totaling approximately $688.7 million in respect of future crude oil feedstock purchases from Vitol.

Capital Expenditures

Capital spending for the three and nine months ended September 30, 2010 totaled $21.5 million and $38.6 million, respectively, relating to various capital improvement projects including $12.3 million and $21.9 million of expenditures, respectively, related to the debottlenecking project.

Depreciation and Amortization Expense

The following summarizes the depreciation and amortization expense for the three and nine months ended September 30, 2010:

	September 30, 2010					
	Three Months Ended			Nine Months Ended		
(000's of Canadian dollars)	Refining	Marketing	Total	Refining	Marketing	Total
Tangible assets	21,028	886	21,914	59,941	2,597	62,538

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

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

Harvest employs an integrated approach to cash flow risk management. The details of our commodity price contracts outstanding at September 30, 2010 are included in the notes to our consolidated financial statements which are also filed on SEDAR at www.sedar.com.

For the three months ended September 30, 2010, Harvest had electricity price swap contracts in place for 25.0 MWh from January to December 2010 at an average price of $59.22 per MWh as well as electricity price swap contracts for 25.0 MWh from January to December 2011 at an average price of $47.61 per MWh. Our electricity price contracts realized losses of $1.3 million and $1.1 million for the three and nine months ended September 30, 2010, respectively.

At September 30, 2010 we also had a short term currency exchange rate contract in place on U.S. $100 million to be settled October 4, 2010 at an average of Canadian $1.03098 per U.S. $1.00.

As at September 30, 2010, the mark-to-market deficiency on our electric power contracts aggregated to $1.0 million, while the mark-to-market value on our currency exchange rate contract was $0.2 million.

Interest Expense

	September 30, 2010	
($000s)	**Three Months Ended**	**Nine Months Ended**
Interest on short term debt		
Bank loan	**$ -**	**$ 1,370**
Convertible debentures	**308**	**401**
Senior notes	**-**	**30**
Total interest on short term debt	**308**	**1,801**
Interest on long term debt		
Bank loan	**1,818**	**3,342**
Convertible debentures	**12,511**	**38,725**
Senior notes	**4,021**	**12,347**
Total interest expense on long term debt	**$ 18,350**	**$ 54,414**
Total interest expense	**$ 18,658**	**$ 56,215**

Total interest expense for the third and second quarter of 2010 including the amortization of related financing costs was $18.7 million and $18.3 million, respectively. This marginal increase is attributed to the increase in interest expense on our bank loan.

Interest expense on our bank loan was $1.8 million for the third quarter of 2010 compared to $1.5 million in the prior quarter. The increase is attributed to the increase in bank debt from $182.4 at June 30, 2010 to $288.7 million at September 30, 2010 as well as an increase in the average interest rate of 2.9% in the third quarter of 2010 compared to 1.95% in the second quarter of 2010.

Interest expense for the third quarter of 2010 on our convertible debentures and senior notes of $12.8 million and $4.0 million respectively remained consistent with prior quarter.

The bank loan, convertible debentures and $7^{7/8}$% senior notes are recorded at amortized cost and as such interest is calculated using the effective interest method. Therefore, total interest includes non-cash interest income of $0.9 million and $5.6 million for the three and nine months ended September 30, 2010 relating to the amortization of the premium on the convertible debentures and $7^{7/8}$% senior notes and the fees incurred on the credit facility.

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 $7^{7/8}$% senior notes as well as any other U.S. dollar cash balances. Realized foreign exchange losses were $0.1 million and $5.3 million

for the three and nine months ended September 30, 2010 respectively, resulting from the settlement of U.S. dollar denominated transactions. At September 30, 2010 the Canadian dollar has strengthened compared to June 30, 2010 resulting in an unrealized foreign exchange gain of $2.1 million and loss of $1.3 million for the three and nine months ended September 30, 2010.

Our downstream operations are considered a self-sustaining operation with a U.S. dollar functional currency. The foreign exchange gains and losses incurred by our downstream operations relate to Canadian dollar transactions converted to U.S. dollars as their functional currency is U.S. dollars. The cumulative translation adjustment recognized in other comprehensive income represents the translation of our Downstream operation's U.S. dollar functional currency financial statements to Canadian dollars using the current rate method. During the three and nine months ended September 30, 2010, net cumulative translation losses were $33.9 million and $13.9 million respectively. Losses resulted due to the strengthening of the Canadian dollar against the U.S. dollar at September 30, 2010 compared to June 30, 2010; reflecting a decrease in the relative value of the net assets in our Downstream operations.

Future Income Tax

As KNOC Canada acquired the Trust on the deemed acquisition date of December 31, 2009, the opening future income tax liability is calculated as part of the purchase price allocation recorded at that date. The opening future income tax liability of $211.2 million represents a tax liability driven by the excess book over tax value of net assets. For nine months ended September 30, 2010, we have recorded a future income tax reduction of $37.6 million to reflect the changes in the temporary differences. At the end of the nine months ended September 30, 2010, Harvest had a net future income tax liability on the balance sheet of $181.3 million comprised of an $82.3 million future income tax liability for the downstream corporate entities and a future income tax liability of $99.0 million for the upstream entities.

Income Tax Assessment

In January 2009 Canada Revenue Agency issued a Notice of Reassessment to Harvest Energy Trust in respect of its 2002 through 2004 taxation years claiming past taxes, interest and penalties totaling $6.2 million. The CRA has adjusted Harvest Energy Trust's taxable income to include their net profits interest royalty income on an accrual basis whereas the tax returns had reported this revenue on a cash basis. A Notice of Objection has been filed with CRA requesting the adjustments to an accrual basis be reversed. The Harvest Energy Trust 2005 tax return has also been prepared on a cash basis for royalty income with no taxes payable and, if reassessed by CRA on a similar basis, there would have been approximately $40 million of taxes owing. The Harvest Energy Trust 2006 tax return has been prepared on an accrual basis including incremental payments required to align the prior year's cash basis of reporting with no taxes payable. Management along with the Company's legal advisors believe the CRA has not properly applied the provisions of the Income Tax Act (Canada) that entitle income from a royalty to be included in taxable income on a cash basis and that the dispute will be resolved with no taxes payable by Harvest Operations Corp. The Trust has filed a Notice of Objection with the CRA and filed a Notice of Appeal with the Tax Court. A trial date has been set for January 2011.

Contractual Obligations and Commitments

We have contractual obligations and commitments entered into in the normal course of operations including the purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, and land lease obligations. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner. As at September 30, 2010, we also have contractual obligations and commitments that are of a less routine nature as disclosed in the following table:

		Maturity			
($000's)	**Total**	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt(1)	**$ 1,265,028**	$ 23,810	$ 322,439	$ 682,200	$ 236,579
Interest on long-term debt(1)	**225,215**	20,302	136,231	61,390	7,292
Operating and premise leases	**30,482**	2,148	14,463	12,425	1,446
Purchase commitments(2)	**318,707**	44,169	274,538	-	-
Asset retirement obligations(3)	**1,262,985**	16,630	22,554	26,858	1,196,943
Transportation (4)	**4,555**	815	3,535	205	-
Pension contributions(5)	**23,564**	1,800	8,448	8,789	4,527
Feedstock commitments	**688,728**	688,728	-	-	-
Total	**$ 3,819,264**	$ 798,402	$ 782,208	$ 791,867	$ 1,446,787

(1) Assumes constant foreign exchange rate.
(2) Relates to drilling commitments, AFE commitments, BlackGold oilsands project commitment and downstream purchase commitments.
(3) Represents the undiscounted obligation by period.
(4) Relates to firm transportation commitment on the Nova pipeline.
(5) Relates to the expected contributions for employee benefit plans.

We have a number of operating leases for moveable field equipment, vehicles and office space and our commitments under those leases are noted in our annual contractual obligations table above. The leases require periodic lease payments and are recorded as either operating costs or G&A. Purchase commitments include Harvest's commitment in the BlackGold oilsands project. Refer to the Upstream capital expenditures section of this MD&A for details of the BlackGold oilsands project.

Off Balance Sheet Arrangement
As of September 30, 2010, we have no off balance sheet arrangements in place.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our capital structure as at September 30, 2010 and December 31, 2009 as well as provides the key financial ratios contained in our revolving credit facility. For a complete description of our revolving credit facility, $7^{7/8\%}$ senior notes and convertible debentures, see Notes 9, 10 and 11, respectively, to our interim consolidated financial statements for the period ended September 30, 2010 filed on SEDAR at www.sedar.com.

(in millions)		September 30, 2010	December 31, 2009
Revolving credit facility[1]	$	**291.6** $	428.0
$7^{7/8}$% senior notes, at principal amount (US$209.6 million) [2]		**215.6**	262.8
Convertible debentures, at principal amount		**757.8**	914.2
Total Debt		**1,265.0**	1,605.0
Shareholder's Equity			
330,953,567 issued at September 30, 2010		**3,244.0**	
242,268,802 issued at December 31, 2009			2,422.7
TOTAL CAPITALIZATION	**$**	**4,509.0** $	4,027.7
FINANCIAL RATIOS[3]			
Secured Debt to Annualized EBITDA [4]		0.6	0.7
Total Debt to Annualized EBITDA [4] [5]		2.6	2.7
Secured Debt to Total Capitalization		**7%**	11%
Senior Debt to Total Capitalization		**29%**	40%

(1) Net of transaction costs – $288.7 million
(2) Principal amount converted at the period end exchange rate.
(3) Calculated based on Harvest's credit facility covenant requirements (see note 9 of the September 30, 2010 financial statements)
(4) Annualized Earnings Before Interest, Taxes, Depreciation and Amortization based on twelve month rolling average.
(5) "Total Debt" includes the convertible debentures in 2010 due to the economic elimination of the conversion feature subsequent to the acquisition of Harvest Energy Trust by KNOC Canada.

KNOC Canada's acquisition of Harvest Energy Trust triggered the "change of control" provisions included within the convertible debentures and the $7^{7/8}$% senior notes indentures, as well as within our $1.6 billion extendible revolving credit facility. These change of control provisions resulted in the renewal of our credit facility on May 1, 2010 with a new capacity limit of $500 million and the redemption of $156.4 million principal amount of our convertible debentures and US$40.4 million principal amount or our $7^{7/8}$% senior notes in the first quarter. These redemptions and reduction in our credit facility were funded through the January 2010 issuance of 46,567,852 shares to KNOC at $10.00 per share for total consideration of $465.7 million.

In August 2010, Harvest issued 37.4 million shares to KNOC at a stated value of $10.00 per share in exchange for the BlackGold oilsands project assets; later in the month an additional 4.7 million shares were issued to KNOC at $10.00 per share for total cash consideration of $47.0 million to provide funding for BlackGold capital expenditures. On October 25, 2010, an additional 3.87 million shares were issued to KNOC at $10.00 per share for total consideration of $38.7 million for further funding of BlackGold 2010 capital expenditures. In addition, on October 4, 2010, 0.7 million shares were issued to KNOC at $10.00 per share for total consideration of $7.1 million to provide funding for the initial set up and operation of the KNOC Global Technology and Research Centre that will be owned and operated by Harvest.

On October 4, 2010, Harvest completed an offering of US$500 million principal amount of unsecured $6^{7/8}$% senior notes for net cash proceeds of US$484.6 million which includes an initial purchaser discount of US$3.4 million and estimated offering expenses of US$12 million. These notes are unsecured, require semi-annual payments of interest on April 1 and October 1 each year, mature on October 1, 2017 and are guaranteed by all of Harvest's existing and future restricted subsidiaries that guarantee our credit facility and future restricted subsidiary that guarantees certain debt. The notes have not been registered under the US Securities Act of 1933 or the securities law of any other jurisdiction. Harvest has agreed to file an exchange offer registration statement or a shelf registration pursuant to a registration rights agreement within 45 days after the due date of our 20-F for the year ended December 31, 2011 and will use all efforts to cause the registration statement to become effective within 105 days after the filing date. Additional interest on the notes may become payable if this obligation under the registration rights agreement is not fulfilled.

Prior to maturity, redemptions are permitted in whole or in part, at any time at a redemption price equal to 100% of the principal amount redeemed, plus a make whole redemption premium and any unpaid interest to the redemption date. Harvest may also redeem all of the notes at any time in the event that certain changes affecting Canadian withholding taxes occur.

The covenants of the senior notes will, among other things, restrict the sale of assets, restrict the Harvest's ability to enter into certain types of transactions with affiliates and restrict Harvest's ability to pay dividends or make other restricted payments should the consolidated leverage ratio be greater than 2.5x. It also restricts the incurrence of additional indebtedness if such issuance would result in an interest coverage ratio as defined of less than 2.0 to 1. Notwithstanding the interest coverage ratio limitation, the incurrence of additional indebtedness under the credit facilities may be limited to the greater of $1.0 billion and 15% of total assets.

The $6^{7/8}$% senior notes are rated by both Standard and Poor's Ratings Services ("S&P") and Moody's Investors Service ('Moody's") who has rated the notes as "BB-" and "Ba1", respectively. Of the net proceeds, US$210.2 million was used to redeem the outstanding principal amount of the existing $7^{7/8}$% senior notes and pay the consent payment described below.

On September 17, 2010 Harvest issued an Offer To Purchase And Consent Solicitation Statement (the "Offer") to purchase any and all of the outstanding $7^{7/8}$% senior notes and solicit consent for amendments of the related indenture. Harvest offered US$983.50 for each US$1,000 principal amount of notes tendered; in addition, for consent to the amendments of the indenture a payment of US$20.00 was offered for each US$1,000 principal amount of notes tendered by September 30, 2010. Tenders received subsequent to September 30, 2010 but prior to the expiration of the Offer on October 15, 2010 did not constitute consent and therefore would not receive the Consent Payment. On October 4, 2010, all conditions of the tender offer were met and Harvest accepted the offer and redeemed US$178.3 million of the US$209.6 million principal amount outstanding for total consideration of $179.0 million. Harvest also called the remaining notes for redemption at par under the terms of the amended indenture; the remaining $31.3 million principal amount was redeemed on October 19, 2010.

The supply and offtake agreement with Vitol (the "SOA") provides Harvest with financial support for its crude oil purchase commitments as well as working capital financing for its inventories of crude oil and substantially all refined products held for sale. Pursuant to the SOA, we estimate that Vitol held inventories of VGO and crude oil feedstock (both delivered and in-transit) valued at approximately $688.7 million at September 30, 2010 (as compared to $582.1 million at December 31, 2009), which would have otherwise been assets of Harvest.

Our ability to adequately fund maintenance, development and acquisition activities as well as meet working capital commitments through cash flow from operating activities, issuances of incremental debt, available undrawn credit facility capacity ($208.4 million at September 30, 2010), the working capital provided by the SOA and capital injections from KNOC remains unchanged from the prior quarter; it is anticipated that we will have enough liquidity to fund future operations and forecasted capital expenditures. In addition, economic and industry factors are substantially unchanged from the prior quarter as the global economic recovery has somewhat stabilized.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights our third quarter of 2010 relative to the preceding quarter:

	2010		
($000's)	**Q3**	Q2	Q1
Revenue, net of royalties	**$ 951,735**	$ 1,024,896	$ 569,762
Net income (loss)	**(22,079)**	18,203	(39,240)
Cash from operating activities	**97,711**	122,335	78,134
Total long term debt	**1,275,551**	1,177,945	$ 1,174,375
Total assets	**5,262,694**	4,758,472	$ 4,765,580

Revenues are comprised of revenues net of royalties from our Upstream operations as well as sales of refined products from our Downstream operations. Third quarter Downstream revenues were $753.7 million compared to $820.5 million in the second quarter of 2010. The decrease in Downstream revenues is due to the impact of the unplanned shutdown of the hydrogen and isomax units for repairs and catalyst change-out in the third quarter of 2010. Upstream revenues in the third Quarter of 2010 were $231.7 million compared to $245.6 million in the second quarter due to lower commodity prices for oil and natural gas and various third party turnarounds.

Net income reflects both cash and non-cash items. Changes in non-cash items, including future income tax, DDA&A expense, unrealized foreign exchange gains and losses and unrealized gains on risk management contracts impact net income from period to period. For these reasons, our net income (loss) may not necessarily reflect the same trends as net revenues or cash from operating activities, nor is it expected to. The net loss of $22.1 million in the third quarter compared to net income of $18.2 million in the second quarter of 2010 is due to the decrease in revenues from our Downstream operations for the reasons as discussed above.

Cash from operating activities is closely aligned with the trend in commodity prices for our Upstream operations, reflects the cyclical nature of the Downstream segment, and is significantly impacted by changes in working capital. During the third quarter of 2010 cash from Upstream operating activities was lower than the second quarter due to lower commodity prices and lower sales volumes. The majority of the decrease in cash from operating activities from the second to the third quarter of 2010 resulted from the decrease in Downstream cash from operations as a result of the unplanned shutdown in the third quarter.

Total assets have increased from the second quarter of 2010 due to the acquisition of BlackGold oilsands assets and upstream assets from a third party.

OUTLOOK

During the third quarter, Harvest continued to advance its strategy of building an asset-rich, growth oriented, integrated oil and gas company with a strong balance sheet. The acquisition of the BlackGold oilsands project, the acquisition of additional western Canadian upstream assets from a third party, and the recent equity issuances provide important steps in that direction. Harvest has assembled an enviable asset base with significant growth opportunity that it is looking to complement with additional assets in the years ahead. A strong balance sheet, solid and increasing technical capability, and support for growth from KNOC position Harvest well.

For the upstream business, we now anticipate that our upstream production will average approximately 37,000 bbls/d of liquids and 83,000 mcf/d of natural gas in the fourth quarter of 2010. Full year operating costs are now expected to be approximately $14.60/boe. Although we don't expect to announce our 2011 budget until later in the quarter, we are anticipating an active winter drilling season focused on attractive opportunities in our oil-weighted asset base. To facilitate that investment, we have increased our capital investment in 2010 by $70 million.

In our upstream business, we will continue to evaluate opportunities to acquire producing oil and/or natural gas properties as well as offer selected properties for divestment to increase or maintain our productive capabilities.

In our downstream business, we currently anticipate spending approximately $90 million on capital projects in 2011, including discretionary Debottleneck Projects. With the deferral of major turnarounds to next year, we now anticipate there will only be approximately $5 million of turnaround or catalyst expenditures in 2010 in preparation for a May 2011 shutdown. Despite the significant reductions in expenditures for capital investment, we expect full year throughput to average 87,000 bbls/d of feedstock with operating costs and purchased energy costs aggregating to approximately $6.50/bbl.

Currently the economic environment is mixed for Harvest with strong crude oil and natural gas liquids prices offsetting weak natural gas prices and refining margins. We anticipate that we will continue to see a volatile commodity price environment in 2010 and 2011. With an oil-weighted upstream business and assuming that crude oil prices remain strong, Harvest should reflect strong cash flow as refining margins and natural gas prices recover over time.

Overall, we expect that based on current commodity price expectations, our 2010 cash from operating activities and capital injections from KNOC will be sufficient to fund our planned capital expenditures and continue to reduce bank debt.

CRITICAL ACCOUNTING ESTIMATES

There are a number of critical estimates underlying the accounting policies applied when preparing the consolidated financial statements due to timing differences between when certain activities are settled and when these activities are recognized for accounting purposes. Changes in these estimates could have a material impact on our reported results. These estimates are described in detail in our MD&A for the quarter ended June 30, 2010 as filed on SEDAR at www.sedar.com. There have been no significant changes to any of our critical accounting estimates in our consolidated financial statements for the three months ended September 30, 2010 from those described in our June 30, 2010 MD&A.

RECENT CANADIAN ACCOUNTING AND RELATED PRONOUNCEMENTS

In December 2008, the CICA issued section 1582, Business Combinations, replacing Section 1581 of the same name. The new Section will be effective on January 1, 2011 with prospective application and early adoption allowed. Under the new guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, while the current standard requires capitalization as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings each period until settled. While under the current standard only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Harvest is currently assessing the impact of this standard on our financial position and future results.

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") announced that Canadian public reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") commencing January 1, 2011, including comparatives for 2010 and an opening balance sheet at January 1, 2010 showing the changes from Canadian GAAP to IFRS.

We have established an IFRS Conversion Plan and have staffed a project team with regular reporting to our senior management team and to the Audit Committee of the Board of Directors to ensure we meet the IFRS transition requirements for 2011. The IFRS project team has developed an IFRS Transition Plan that consists of four key phases:

IFRS Conversion Project Phase

Phase 1 – Diagnostic Phase

- Assessment of key differences between Canadian GAAP and IFRS, planning, assessment, implementation and training.

Phase 2 – Planning Phase

- Development of a project plan that includes assignment of roles and responsibilities, timeline and budget.

Phase 3 – Assessment Phase

- Detailed comparison of the IFRS and Canadian standards to identify all applicable differences, IFRS 1 First Time Adoption to IFRS exemptions and exemptions and expected changes to the relative IFRS standards.
- Impact assessment on accounting policies; information technology and data systems; business processes and data requirements; internal control over financial reporting, disclosure controls and procedures; financial reporting expertise and business activities that may be influenced such as debt covenants, capital requirements and compensation arrangements.

Phase 4 – Implementation Phase

- Preparing transitional opening IFRS financial statements; implementing accounting policy changes; implementing and test data, process, system and control changes; training

IFRS Project Status

The diagnostic and planning phases of the project have been completed and Harvest has completed the detailed analysis of the differences for most elements of our financial statements and is currently working with representatives from various operational areas in the Company to finalize the selection of accounting policies and assess the impact of the differences on the data requirements, business processes, financial systems and internal controls. Harvest has commenced training of key employees through this process as well. Korea is on the same IFRS conversion schedule as Canada and as a result the IFRS accounting policies that were initially selected were reassessed to align with KNOC's accounting policy choices.

Harvest has commenced preparation of the IFRS opening balance sheet and has identified adjustments to Property, Plant and Equipment, Exploration and Evaluation Expenditures, Asset Retirement Obligations and an offsetting adjustment to retained earnings. The KNOC acquisition of Harvest has minimized the IFRS transitional adjustments required due to the fair values assigned to the Company's assets and liabilities from the KNOC purchase price allocation.

In September 2010, management presented a draft opening balance sheet, draft first quarter and second quarter 2010 statements of income and balance sheets prepared under IFRS as well as key accounting policy choices to the audit committee for their review and are currently being reviewed and approved by KNOC. The audit committee has approved Harvest's IFRS accounting policy selections that have been presented by management and the IFRS accounting policy selections are now being reviewed by KNOC to ensure alignment with KNOC's IFRS accounting policies.

Potential Impacts of IFRS Adoption

Significant differences that have been identified between Canadian GAAP and IFRS that will impact Harvest are: accounting for capital assets including exploration costs, depletion and depreciation, impairment testing, asset retirement obligations, employee benefits as well as an increased level of disclosure requirements. These differences have been identified based on the current IFRS standards issued and expected to be in effect on the date of transition. Current IFRS standards may be modified, and as a result, the impact may be different than Harvest's current expectations; as such, Harvest cannot guarantee that the following information will not change as the date of transition approaches. Harvest will continue to communicate information in relation to its conversion process as it becomes available.

First Time Adoption of IFRS

IFRS 1, "First Time Adoption of International Financial Reporting Standards" ("IFRS 1") prescribes requirements for preparing IFRS-compliant financial statements in the first reporting period after the changeover date. IFRS 1 requires retrospective application of IFRS as if they were always in effect. IFRS 1 also provides entities adopting IFRS for the first time with a number of mandatory exceptions and optional exemptions from retrospective application of IFRS to ease the transition to IFRS in the transition year. Management is assessing the exemptions available under IFRS 1 and will implement those determined to be most appropriate for Harvest. At present, Harvest believes it will apply the IFRS 1 exemptions associated with business combinations and arrangements containing a lease.

Property, Plant and Equipment ("PP&E")

IFRS requires costs recognized as PP&E to be allocated to the significant parts of the asset and to depreciate each significant component separately which is different from Harvest's current depreciation and depletion calculations under Canadian GAAP. The adoption of IFRS will increase the number of components to be amortized separately for both the upstream and downstream segments and will have an impact on the amount of depreciation/depletion expense recognized.

For the upstream assets, the net book value of PP&E excluding Exploration and Evaluation expenditures as at December 31, 2009 will be the opening cost of the upstream PP&E balance at January 1, 2010. This amount will be allocated, based on reserve value, to depletable units which consolidate into cash generating units for impairment purposes. IFRS provides the option to calculate depletion using a reserve base of proved reserves or both proved plus probable reserves, as compared to the Canadian GAAP method of calculating depletion using proved reserves only. In aligning with KNOC's IFRS accounting policies, Harvest plans to determine its depletion expense using proved developed reserves as its depletion base.

Exploration and Evaluation Expenditures ("E&E")

Oil and gas companies are required to account for exploration and evaluation expenditures in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources". This standard addresses the recognition, measurement, presentation and disclosure requirements for costs incurred in the exploration phase. IFRS requires the identification and presentation of exploration and evaluation ("E&E") expenditures to be separated from those expenditures incurred on developed and producing properties. E&E expenditures are transferred to PP&E when technical feasibility and commercial viability has been proved. An impairment test is required to be performed on E&E expenditures when they are transferred to PP&E. Harvest will re-classify all E&E expenditures that are currently included in the PP&E balance and will consist of the book value of E&E land costs, and related drilling costs and seismic costs. E&E assets will not be depleted and will be assessed for impairment when indicators suggest the possibility of impairment.

Impairment of Assets

Under IFRS, impairment of PP&E will be calculated at a more granular level than what is currently required under Canadian GAAP as impairment will be calculated at the cash generating unit ("CGU") level. In addition, IAS 36 "Impairment of Assets" uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Under IAS 36 impairment losses previously recognized may be reversed where circumstances change. Impairment tests are required to be performed on initial transition to IFRS and as at January 1, 2010, no impairment was identified.

Asset Retirement Obligation ("ARO")

Under IFRS, the decommissioning liability is required to be remeasured at each reporting date using the current liability specific discount rate requiring retroactive adjustment to the estimated liability, whereas under Canadian GAAP, ARO adjustments are made on a prospective basis. Harvest has made a preliminary decision to risk adjust the cash flows and apply the risk free interest rate to measure the obligation. Under Canadian GAAP, Harvest uses a credit-adjusted interest rate. A lower discount rate will increase the decommissioning obligation.

Employee Benefits

Under IFRS and Canadian GAAP, actuarial gains and losses arising from defined benefit plans can be recognized into earnings through various appropriate methods, however, Canadian GAAP does not permit actuarial gains and losses to be recognized directly in equity whereas IAS 19

"Employee Benefits" provides an additional accounting policy option to recognize actuarial gains and losses directly in other comprehensive income in the period in which they occur.

Deferred Income Taxes

Due to the recent withdrawal of the exposure draft on IAS 12 "Income Taxes" in November 2009, Harvest is currently evaluating the differences between the current version of IAS 12 and the relevant Canadian GAAP standards.

Internal controls over financial reporting ("ICFR") and disclosure

As the IFRS accounting policies are finalized, an assessment will be made to determine changes required for ICFR. This will be an ongoing process throughout 2010 to ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements. Harvest has established internal controls associated with the IFRS transition which include approvals at various stages of the project and the involvement of its auditors and other external advisors.

Throughout the transition process, Harvest will be assessing stakeholders' information requirements and will ensure that adequate and timely information is provided so all stakeholders are informed of the transition progress.

IT systems

The conversion to IFRS will have an impact on the company's IT system requirements. Harvest is currently completing its IT systems impact assessment and it is expected that modifications will include the requirement to track PP&E costs and E&E costs separately as well as the tracking of costs at a more granular level of detail for IFRS reporting. It is expected that current accounting systems and processes will accommodate the modifications required for IFRS reporting.

OPERATIONAL AND OTHER BUSINESS RISKS

For a detailed discussion of our operational and other business risks, please refer to our MD&A for the quarter ended June 30, 2010 as filed on SEDAR at www.sedar.com.

CHANGES IN REGULATORY ENVIRONMENT

For a detailed discussion of the most recent changes to our regulatory environment, please refer to our MD&A for the quarter ended June 30, 2010 as filed on SEDAR at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

For a detailed discussion of our internal control over financial reporting, please refer to our MD&A for the quarter ended June 30, 2010 as filed on SEDAR at www.sedar.com. During the three and nine months ended September 30, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ADDITIONAL INFORMATION

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

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(thousands of Canadian dollars)	**September 30, 2010**	December 31, 2009
Assets		
Current assets		
Accounts receivable and other	**$ 174,123**	$ 180,839
Prepaid expenses and deposits	**26,216**	15,551
Inventories *[Note 5]*	**99,487**	86,819
Fair value of risk management contracts *[Note 16]*	**192**	-
	300,018	283,209
Deposits	**12,574**	-
Property, plant and equipment *[Note 6]*	**4,545,159**	4,090,653
Goodwill *[Note 1]*	**404,943**	404,943
	$ 5,262,694	$ 4,778,805
Liabilities and Shareholder's Equity		
Current liabilities		
Bank loan *[Note 9]*	**$ -**	$ 428,017
Accounts payable and accrued liabilities *[Note 7]*	**248,041**	216,563
Current portion of convertible debentures *[Note 11]*	**23,892**	182,806
Current portion of $7^{7/8}$% senior notes *[Note 10]*	**-**	42,921
Fair value deficiency of risk management contracts *[Note 16]*	**973**	2,052
	272,906	872,359
Bank loan *[Note 9]*	**288,700**	-
$7^{7/8}$% senior notes *[Note 10]*	**216,931**	222,456
Convertible debentures *[Note 11]*	**746,028**	748,261
Asset retirement obligation *[Note 7& 8]*	**295,333**	284,042
Employee future benefits *[Note 15]*	**17,205**	17,453
Deferred credit	**315**	358
Future income tax *[Note 14]*	**181,267**	211,188
	2,018,685	2,356,117
Shareholder's equity		
Shareholder's capital *[Note 12]*	**3,309,536**	2,422,688
Deficit	**(51,582)**	-
Accumulated other comprehensive income	**(13,945)**	-
	3,244,009	2,422,688
	$ 5,262,694	$ 4,778,805

Commitments and contingencies *[Note 18]*
Subsequent events *[Note 19]*
See accompanying notes to these consolidated financial statements.

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

(thousands of Canadian dollars)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenue		
Petroleum, natural gas, and refined product sales	$ 985,433	$ 2,663,048
Royalty expense	(33,698)	(116,655)
	951,735	2,546,393
Expenses		
Purchased products for processing and resale	711,823	1,774,174
Operating	112,195	347,283
Transportation and marketing	3,992	11,582
General and administrative	10,161	35,186
Realized losses on risk management contracts *[Note 16]*	1,277	1,090
Unrealized losses (gains) on risk management contracts *[Note 16]*	1,038	(1,271)
Interest and other financing charges on short term debt, net	308	1,801
Interest and other financing charges on long term debt	18,350	54,414
Depletion, depreciation, amortization and accretion	134,225	396,452
Currency exchange (gain) loss	(1,974)	6,645
Large corporations tax (recovery) and other taxes	-	(218)
Future income tax (reduction)	(17,581)	(37,630)
	973,814	2,589,508
Net loss for the period	(22,079)	(43,115)
Other comprehensive income		
Cumulative translation adjustment	(33,901)	(13,945)
Comprehensive loss for the period	$ (55,980)	$ (57,060)

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGE IN SHAREHOLDER'S EQUITY
(UNAUDITED)
As at September 30, 2010
(thousands of Canadian dollars)

	Shareholder's Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income
At December 31, 2009	**$ 2,422,688**	**$ -**	**$ -**
Issued for cash			
January 29, 2010	465,679	-	-
August 20, 2010	47,000	-	-
BlackGold acquisition *[Note 4]*	374,169	(8,467)	-
Currency translation adjustment	-	-	(13,945)
Net loss	-	(43,115)	-
At September 30, 2010	**$ 3,309,536**	**$ (51,582)**	**$ (13,945)**

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(thousands of Canadian dollars)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Cash provided by (used in)		
Operating Activities		
Net loss for the period	$ (22,079)	$ (43,115)
Items not requiring cash		
Depletion, depreciation, amortization and accretion	134,225	396,452
Unrealized currency exchange (gain) loss	(2,078)	1,347
Non-cash interest expense and amortization of finance charg	(860)	(5,593)
Unrealized gains (losses) on risk management contracts *[No*	1,038	(1,271)
Future income tax (reduction)	(17,581)	(37,630)
Employee benefit obligation	(378)	(247)
Other non-cash items	(57)	(67)
Settlement of asset retirement obligations *[Note 8]*	(5,796)	(13,813)
Change in non-cash working capital	11,277	2,117
	97,711	298,180
Financing Activities		
Issue of common shares, net of issue costs	47,000	512,679
Bank repayments, net	106,124	(139,593)
Redemptions of senior notes	-	(42,262)
Redemptions of convertible debentures	(20)	(156,383)
Change in non-cash working capital	3,670	829
	156,774	175,270
Investing Activities		
Additions to property, plant and equipment	(111,769)	(294,754)
Business acquisition *[Note 4]*	(23,400)	(23,400)
Property acquisitions, net *[Note 4]*	(123,107)	(153,342)
Construction advance *[Note 18h]*	(31,141)	(31,141)
Change in non-cash working capital	29,050	23,743
	(260,367)	(478,894)
Change in cash and cash equivalents	$ (5,882)	$ (5,444)
Effect of exchange rate changes on cash	720	5,444
Cash and cash equivalents, beginning of period	5,162	-
Cash and cash equivalents, end of period	$ -	$ -
Interest paid	$ 15,684	$44,397
Large corporation tax and other tax (received) paid, net	$ -	$(218)

See accompanying notes to these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period ended September 30, 2010
(tabular amounts in thousands of Canadian dollars)

1. Nature of Operations and Structure of the Company

(a) Nature of Operations

Harvest Operations Corp. is an integrated energy company with petroleum and natural gas operations focused on the operation and further development of assets in western Canada including the BlackGold oilsands asset ("upstream operations") and a medium gravity sour crude hydrocracking refinery and a retail and wholesale petroleum marketing business both located in the Province of Newfoundland and Labrador ("downstream operations").

(b) Structure of the Company

On December 22, 2009, KNOC Canada Ltd. ("KNOC Canada"), a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"), acquired all of the issued and outstanding trust units of Harvest Energy Trust (the "Trust) for $10.00 per unit. The acquisition of all the issued and outstanding trust units of the Trust resulted in a change of control in which KNOC Canada became the sole equity owner of the Trust.

The aggregate consideration for the acquisition of the Trust consists of the following:

Consideration for the acquisition:		Amount
Cash paid to Trust unitholders	$	1,822,688
Repayment of debt		600,000
	$	2,422,688

This acquisition was accounted for using the purchase method whereby the assets acquired and the liabilities assumed are recorded at fair value with the excess of the consideration over the fair value of the identifiable net assets allocated to goodwill. The following summarizes the allocation of the consideration to the fair value of the Trust's assets and liabilities:

		Amount
Property, plant and equipment	$	4,090,653
Inventories		86,819
Goodwill		404,943
Net working capital (deficiency)		(20,531)
Total debt		(1,624,461)
Asset retirement obligations		(284,042)
Future income tax liability		(211,188)
Funding deficiency of pension and other benefit plans		(17,453)
Fair value of risk management contract		(2,052)
	$	2,422,688

On May 1, 2010, an internal reorganization was completed pursuant to which the Trust was dissolved and the Trust's wholly owned subsidiary and manager of the Trust, Harvest Operations Corp., was amalgamated with KNOC Canada to continue as one corporation under the name Harvest Operations Corp ("Harvest" or the "Company"). The recorded amounts of Harvest's assets and liabilities were determined from the existing carrying values of KNOC Canada's assets and liabilities.

KNOC Canada was incorporated on October 9, 2009 and did not have any results from operations or cash flows in the period from October 9, 2009 to the acquisition date of December 22, 2009 aside from capital injections from Korea National Oil Corporation to finance the purchase of the Trust. As KNOC Canada acquired the Trust on the acquisition date of December 22, 2009, there is no comparative consolidated statement of income (loss) and comprehensive income (loss), statement of changes in shareholder's equity, or statement of cash flows for the period ended September 30, 2009.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of the Trust and the subsequent reorganization occurred on January 1, 2009:

	Three Months Ended September 30, 2009			
(thousands of Canadian dollars)	Harvest Energy Trust	Pro Forma Adjustments	Notes	Pro Forma Harvest Operations Corp.
Revenue				
Petroleum, natural gas, and refined product sales	$ 1,027,648			$ 1,027,648
Royalty expense	(35,794)			(35,794)
	991,854			991,854
Expenses				
Purchased products for processing and resale	731,872	-		731,872
Operating	113,198	867	(f)	114,065
Transportation and marketing	8,186	-		8,186
General and administrative	10,496	-		10,496
Realized gains on risk management contract	(8,046)	-		(8,046)
Unrealized net losses on risk management contract	2,075	-		2,075
Interest and other financing charges on short term debt, net	3,394	(3,431)	(b)(c)	(37)
Interest and other financing charges on long term debt	25,506	(6,801)	(b)(c)	18,705
Depletion, depreciation, amortization and accretion	127,301	6,270	(a)	133,571
Goodwill impairment	677,612	(677,612)	(e)	-
Currency exchange gains	2,450	-		2,450
Large corporations tax (recovery) and other taxes	(530)	-		(530)
Future income tax (reduction)	12,037	(18,648)	(g)	(6,611)
	1,705,551	(699,355)		1,006,196
Net loss for the period	(713,697)			(14,342)
Other comprehensive income				
Cumulative translation adjustment	(86,881)	14,422	(h)	(72,459)
Comprehensive loss for the period	$ (800,578)	$ 14,422		$ (86,801)

(thousands of Canadian dollars)	Harvest Energy Trust	Pro Forma Adjustments	Notes	Pro Forma Harvest Operations Corp.
	Nine Months Ended September 30, 2009			
Revenue				
Petroleum, natural gas, and refined product sales	$ 2,374,468			$ 2,374,468
Royalty expense	(88,522)			(88,522)
	2,285,946			2,285,946
Expenses				
Purchased products for processing and resale	1,436,564	-		1,436,564
Operating	376,045	(46,621)	(f)	329,424
Transportation and marketing	20,803	-		20,803
General and administrative	27,639	-		27,639
KNOC acquisition costs	-	18,393	(d)	18,393
Realized gains on risk management contract	(53,018)	-		(53,018)
Unrealized net losses on risk management contract	27,265	-		27,265
Interest and other financing charges on short term debt, net	5,929	(5,966)	(b)(c)	(37)
Interest and other financing charges on long term debt	85,082	(25,909)	(b)(c)	59,173
Depletion, depreciation, amortization and accretion	403,192	18,018	(a)	421,210
Goodwill impairment	884,077	(884,077)	(e)	-
Currency exchange gains	(6,442)	-		(6,442)
Large corporations tax (recovery) and other tax	(546)	-		(546)
Future income tax (reduction)	1,968	3,574	(g)	5,542
	3,208,558	(922,588)		2,285,970
Net income (loss) for the period	(922,612)			(24)
Other comprehensive income				
Cumulative translation adjustment	(157,985)	15,639	(h)	(142,346)
Comprehensive loss for the period	$ (1,080,597)	$ 15,639		$ (142,370)

The following are summaries of the significant pro forma adjustments:

a) Additional depletion, depreciation, amortization and accretion based on the fair value adjustments to property, plant, and equipment.
b) Adjustment of the interest and other financing charges to reflect the estimated carrying cost of the debt assumed on acquisition.
c) The terms of the credit facility were amended on December 22, 2009 and again on April 30, 2010. Pro forma adjustments were made to adjust interest expense to apply the revised terms from the beginning of January 1, 2009.
d) Adjustment to reflect acquisition related costs that were incurred in the fourth quarter 2009 as if they occurred in the first quarter 2009.
e) Reversal of goodwill impairment expense recorded by the Trust.
f) Operating expense was adjusted to reflect KNOC Canada's capitalization policy on turnaround and catalyst costs.
g) Taxes have also been adjusted for the effect of the items discussed.
h) Cumulative translation adjustment has been adjusted for the effect of the above items.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(a) Consolidation

These consolidated financial statements include the accounts of Harvest and its subsidiaries. All inter-entity transactions and balances have been eliminated upon consolidation.

(b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Specifically, amounts recorded for depletion, depreciation, amortization and accretion expense, asset retirement obligations, fair value of risk management contracts, employee future benefits, income taxes and amounts used in the impairment tests for goodwill, inventory and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future refined product prices, future interest and currency exchange rates and future costs required to develop those reserves as well as other fair value assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

(c) Revenue Recognition

Revenues associated with the sale of crude petroleum, natural gas, natural gas liquids and refined products are recognized when title passes to customers and payment has either been received or collection is reasonably certain. Concurrent with the recognition of revenue from the sale of refined products and included in purchased products for resale and processing are associated transportation charges. Revenues for retail services are recorded when the services are provided.

The sales price of residential home heating fuels and automotive gasoline and diesel within the Province of Newfoundland and Labrador is subject to regulation under the Petroleum Products Act. The Petroleum Products Pricing Commissioner sets the maximum wholesale and retail prices that a wholesaler and a retailer may charge and sets the maximum mark-up between the wholesale price to the retailer and the retail price to the consumer. Prices are set biweekly using a price adjustment formula based on an allowable premium with an interruption formula. The full effect of rate regulation is reflected in the product sales revenue as recorded by Harvest.

(d) Inventories

Inventories are carried at the lower of cost or net realizable value. The costs of inventory are determined using the weighted average cost method. The valuation of inventory is reviewed at the end of each month. The costs of parts and supplies inventories are determined under the average cost method.

(e) Joint Interest and Partnership Accounting

The subsidiaries of Harvest conduct substantially all of their petroleum and natural gas production activities through joint interests and through partnerships. The consolidated financial statements reflect only Harvest's proportionate interest in such activities.

(f) Property, Plant, and Equipment

Upstream Operations

Harvest follows the full cost method of accounting for its petroleum and natural gas activities. All costs of acquiring petroleum and natural gas properties, whether productive or unproductive, related development costs, and overhead charges directly related to these activities, are capitalized and accumulated in one cost centre. Major capital maintenance projects are capitalized but general maintenance and repair costs that do not extend or enhance the recoverable reserves are charged against income.

Proceeds from the sale of petroleum and natural gas properties are applied against capital costs. Gains and losses are not recognized on the disposition of petroleum and natural gas properties unless that disposition would alter the rate of depletion and depreciation by 20% or more.

Provision for depletion and depreciation of petroleum and natural gas assets is calculated using the unit-of-production method, based on proved reserves net of royalties as evaluated by independent petroleum engineers. The cost basis used for the depletion and depreciation provision is the capitalized costs of petroleum and natural gas assets including undeveloped property plus the estimated future development costs of proved undeveloped reserves. Reserves are converted to equivalent units on the basis of six thousand cubic feet of natural gas to one barrel of petroleum, reflecting the approximate relative energy content.

Harvest places a limit on the aggregate carrying amount of property, plant and equipment associated with petroleum and natural gas activities which may be amortized to depletion and depreciation in future periods. Impairment is recognized when the carrying amount of the petroleum and natural gas assets exceeds the sum of the undiscounted future cash flows expected from the proved reserves.

To recognize impairment, Harvest would then measure the amount of impairment by comparing the carrying amounts of the petroleum and natural gas assets to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves using the risk-free discount rate. Any excess carrying amount above the net present value of Harvest's future cash flows would be a permanent impairment and reflected as a charge to net income for the period.

Present value of cash flows are calculated based on future price estimates, adjusted for Harvest's contractual arrangements related to pricing and quality differentials.

The cost of unproved properties is excluded from the impairment test calculation described above and subject to a separate impairment test. An impairment of unproved properties is recognized when the cost base exceeds the fair value determined by a reference to market prices, historical experience or a third party independent evaluation.

Downstream Operations
Property, plant and equipment related to the refining assets are recorded at cost. Depreciation of recorded cost less salvage value is provided on a straight-line basis over the estimated useful life of the assets as set out below. Any gains or losses on disposal of individual assets are recognized in the year of disposal.

Asset	Period
Refining and production plant:	
Processing equipment	5 – 35 years
Structures	15 – 20 years
Catalysts	2 – 8 years
Tugs	25 years
Vehicles	2 – 7 years
Office and computer equipment	3 – 5 years

General maintenance and repair costs, including major maintenance activities, are expensed as incurred. Major replacements and capital maintenance projects such as turnaround costs are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Property, plant and equipment related to refining assets are tested for recovery whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Property, plant and equipment related to refining assets are not recoverable if their carrying amounts exceed the sum of the undiscounted cash flows expected to result from their use and eventual disposition. If property, plant and equipment related to refining assets are not recoverable, an impairment loss is recognized in an amount by which their carrying amount exceeds their fair value, with fair value determined based on discounted estimated net cash flows.

(g) Capitalized interest
Interest on major development projects are capitalized until the project is complete using the weighted-average interest rate on all of Harvest's borrowings. Capitalized interest cannot exceed the actual interest incurred.

(h) Goodwill
Goodwill is recognized when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is carried at cost less impairment and is not amortized. The carrying amount of goodwill is assessed for impairment annually at year-end or more frequently if events occur that could result in an impairment. The goodwill impairment test is a two step test. In the first step, the carrying amount of the assets and liabilities, including goodwill, is compared to the fair value of the reporting unit. The fair value of a reporting unit is determined by calculating the present value of the expected future cash flows from the reporting unit. If the fair value is less than the carrying amount of the reporting unit, a potential impairment of goodwill may exist requiring the second test to be performed. Impairment is measured by allocating the fair value of the reporting unit, as determined in the first test, over the fair value of the identifiable assets and liabilities. The excess of the fair value of the reporting unit over the fair value of the identifiable assets and liabilities represents the fair value of goodwill. The excess of the book value of goodwill over this implied fair value is then recognized as an impairment and charged to income in the period in which it occurs.

(i) Asset Retirement Obligations
Harvest recognizes the fair value of any asset retirement obligations as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and normal use of the assets. Harvest uses a credit-adjusted risk free discount rate to estimate this fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using the method described under "Property, Plant and Equipment". Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each subsequent period to reflect the passage of time and changes in the timing and amount of estimated future cash flows

underlying the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(j) Income Taxes

Harvest follows the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

(k) Employee Future Benefits

Harvest's Downstream operations maintains a defined benefit plan and provides certain post-retirement health care benefits, which cover the majority of its employees and their surviving spouses.

(i) Defined Contribution Plan

Under the defined contribution plan, Harvest's annual contribution of each participating employee's pensionable earnings is as follows:

Employee category	**June 30, 2010**	December 31, 2009
Permanent	**5.0%**	5.0%
Part-time	**2.5%**	2.5%

The cost associated with the defined contribution plan is expensed as incurred.

(ii) Defined Benefit Plans

The cost of providing the defined benefits and other post-retirement benefits is actuarially determined based upon an independent actuarial valuation using management's best estimates of discount rates, rate of return on plan assets, rate of compensation increase, retirement ages of employees, and expected health care costs. The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on credited service. Funding of the defined benefit pension plans complies with Canadian federal and provincial regulations, and requires contributions to the plans be made based on independent actuarial valuation. Pension plan assets are measured at fair values with the difference between the fair value of the plan assets and the total employee benefit obligation recorded on the balance sheet. For the purpose of calculating the expected return on assets, the fair value of the plan assets is used.

The defined benefit plans provide benefits based on length of service and the best five years of the last ten years' average earnings. There is no recognition or amortization of actuarial gains or losses less than 10% of the greater of
the accrued benefit obligations and the fair value of plan assets for the defined benefit pension plans. Actuarial gains and losses over 10% are amortized over the average remaining service period of the plan participants. Actuarial gains or losses related to the other post-retirements benefits are recognized in income immediately. Past service costs are amortized on a straight-line basis over the expected average remaining service life of plan participants.

(l) Currency Translation

Monetary assets and liabilities denominated in a currency other than Canadian dollars are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses denominated in a foreign currency are translated at the monthly average rate of exchange. Translation gains and losses are included in income in the period in which they arise.

Harvest's investment in its downstream operations, which is considered a self-sustaining operation with a U.S. dollar denominated functional currency, is translated using the current rate method. Gains and losses resulting from this translation are recorded in the cumulative translation adjustment in accumulated other comprehensive income.

(m) Financial Instruments

Harvest classifies cash and price risk management contracts as held-for-trading and measures these instruments at fair value each reporting period. The remainders of Harvest's financial instruments are measured at amortized cost.

Transaction costs relating to financial instruments classified as held for trading are expensed in net income in the period that they are incurred. Harvest has elected to add all other transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability to the amount of the financial asset or liability that is recorded on initial recognition.

3. New Accounting Policies

Future Accounting Changes

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA Handbook Section 1582 ''Business Combinations'' is effective for business combinations with an acquisition date after January 1, 2011. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Adopting the standard is expected to have a material effect on the way the Company accounts for future business combinations. Entities adopting Section 1582 will also be required to adopt CICA Handbook Sections 1601 ''Consolidated Financial Statements'' and 1602 ''Non-Controlling Interests''. These standards will require non-controlling interests to be presented as part of Shareholder's Equity on the balance sheet. In addition, the income statement of the controlling parent will include 100 per cent of the subsidiary's results and present the allocation between the controlling and non-controlling interests. These standards will be effective January 1, 2011, with early adoption permitted; Harvest has not elected to early adopt these standards. The changes resulting from adopting Section 1582 will be applied prospectively and the changes from adopting Sections 1601 and 1602 will be applied retrospectively.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("ASB") announced that Canadian public reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") commencing January 1, 2011 which will require comparative IFRS information for the 2010 year end. Harvest will begin reporting under IFRS as of January 1, 2011, but given the current stage of the Company's IFRS project the full impact of adopting IFRS on Harvest's financial position and future results can not be determined.

4. Acquisitions

(a) Petroleum and natural gas assets

On September 30, 2010, Harvest acquired a package of petroleum and natural gas assets which included the remaining 40% interest in Red Earth Partnership for total cash consideration of $146.2 million. As a result of the acquisition, $161.3 million was added to property, plant and equipment, $7.4 million to asset retirement obligations and $7.7 million to future income tax liability.

The results of operations of this acquisition will be included in the consolidated financial statements as of the acquisition date. The total production from this acquisition is approximately 2,300 boe/day.

(b) BlackGold oil sands project

On August 6, 2010, Harvest closed on the acquisition of the BlackGold oil sands project ("BlackGold") from KNOC for $374 million, representing the fair value of the oil and gas assets acquired as determined by an independent valuation; the acquisition was financed with the issuance of shares to KNOC. As KNOC is the sole shareholder of Harvest, they will be retaining control over BlackGold; given there is no substantive change in the ownership interest of the BlackGold assets, these assets have been recorded at the existing carrying values as previously recorded by KNOC.

The following amounts were added to Harvest's balance sheet at August 6, 2010:

	Amount ($000's)
Current assets	500
Property, plant and equipment	365,212
Long-term liabilities	(10)
Common shares	(374,169)
Deficit	8,467

KNOC has injected sufficient capital into Harvest to cover the project development for the remainder of 2010. The first transaction closed in the quarter with the issuance of 4.7 million shares at a price of $10.00 per share for total cash consideration of $47 million; on October 25, 2010 Harvest issued an additional 3.87 million shares for $38.7 million.

5. Inventories

	September 30, 2010	December 31, 2009
Petroleum products		
Upstream – pipeline fill	$ 1,204	$ 1,183
Downstream	93,755	81,240
	94,959	82,423
Parts and supplies	4,528	4,396
Total inventories	$ 99,487	$ 86,819

For the three and nine month periods ended September 30, 2010, Harvest recognized reversals of inventory impairments of $0.8 million and inventory impairments of $2.5 million respectively in its downstream operations. Such write-down and recoveries amounts are included as costs in “Purchased products for processing and resale” in the consolidated statements of income (loss).

6. Property, Plant and Equipment

	September 30, 2010			December 31, 2009		
	Upstream	Downstream	Total	Upstream	Downstream	Total
Cost	$ 3,805,848	$ 1,127,172	$ 4,933,020	$ 2,976,911	$ 1,113,742	$ 4,090,653
Accumulated depletion and depreciation	(327,520)	(60,341)	(387,861)	-	-	-
Net book value	$ 3,478,328	$ 1,066,831	$ 4,545,159	$ 2,976,911	$ 1,113,742	$ 4,090,653

General and administrative costs of $5.5 million and $10.5 million have been capitalized during the three and nine month periods ended September 30, 2010.

All costs, except those associated with major spare parts inventory, assets under construction and major development projects, are subject to depletion and depreciation at September 30, 2010 including future development costs of $386.7 million. At September 30, 2010, the following costs were excluded from the asset base subject to depreciation, depletion and amortization: Downstream major parts inventory of $6.6 million, Downstream assets under construction of $60.1 million and Upstream BlackGold oil sands project assets of $367.9 million.

7. Accounts Payable and Accrued Liabilities

	September 30, 2010	December 31, 2009
Trade accounts payable	$ 78,243	$ 71,309
Accrued interest	17,359	16,530
Other accrued liabilities	136,802	117,538
Current portion of asset retirement obligation	15,637	11,186
Total	$ 248,041	$ 216,563

8. Asset Retirement Obligation

Harvest’s asset retirement obligations result from its net ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities and the estimated costs and timing to reclaim and abandon them. Harvest estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $1,262 million which will be incurred between 2010 and 2060. A credit-adjusted risk-free discount rate of 8% - 10% and inflation rate of approximately 2% were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	September 30, 2010	December 31, 2009
Balance, beginning of year	$ **295,228**	$ 277,318
Incurred on business acquisition of a private corporation	**-**	1,411
Liabilities incurred	**1,077**	1,351
Revision of estimates	**-**	7,219
Net liabilities acquired (settled) through acquisition (disposition)	**9,694**	(2,538)
Liabilities settled	**(13,813)**	(14,270)
Accretion expense	**18,784**	24,737
Balance, end of year[(1)]	$ **310,970**	$ 295,228

[(1)] Current portion of the asset retirement obligation is included in accounts payable and accrued liabilities *[Note 7]*

Harvest has undiscounted asset retirement obligations of approximately $14.9 million relating to the refining and marketing assets. The fair value of this obligation cannot be reasonably determined because the assets currently have an indeterminate life.

9. Bank Loan

At the time of the purchase of the Trust by KNOC Canada on December 22, 2009, the Trust had renegotiated a temporary credit facility of $600 million with the maturity date of April 30, 2010. On April 30, 2010, Harvest entered into an amended and extended credit facility maturing April 30, 2013 and the facility was reduced from $600 million to $500 million. Harvest continues to pay a floating interest rate, which is determined by a grid based on the Company's secured debt (excluding 7 7/8% senior notes and convertible debentures) to earnings before interest, taxes, depletion, amortization and other non-cash items ("EBITDA"). The minimum rate charged in the grid is 200 bps over bankers' acceptance rates as long as Harvest's secured debt to EBITDA ratio remains below or equal to one.

The credit facility is secured by first floating charge over all of the assets of Harvest's operating subsidiaries plus a first mortgage security interest on the downstream operation's refinery assets. The most restrictive covenants of Harvest's credit facility include an aggregate limitation of $25 million on financial assistance and/or capital contributions to parties other than those included in the first floating charge, a limitation to carrying on business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to shareholders in certain circumstances such as an event of default. The credit facility requires standby fees on undrawn amounts and interest on amounts borrowed at varying rates depending on Harvest's ratio of secured debt (excluding the $7^{7/8}$% senior notes and convertible debentures) to its EBITDA. In addition to the availability under this facility being limited by the Borrowing Base Covenant of the $7^{7/8}$% senior notes described in Note 10, availability is subject to the following quarterly financial covenants:

	Covenant	As at September 30, 2010
Secured debt to EBITDA	3.0 to 1.0 or less	0.6
Total debt to EBITDA	3.5 to 1.0 or less	2.6
Secured debt to Capitalization	50% or less	7%
Total debt to Capitalization	55% or less	29%

Harvest's bank debt is recorded net of transaction costs; at September 30, 2010, $291.6 million was drawn from the $500 million available under the credit facility ($428.0 million drawn from the $600 million available at December 31, 2009).
For the three and nine months ended September 30, 2010, cash interest charges on bank loans aggregated to $1.1 million and $2.8 million, reflecting an average interest rate of 2.9% and 1.85%.

10. $7^{7/8}$% senior notes

On October 14, 2004, Harvest Operations Corp., a wholly owned subsidiary of the former Trust, issued US$250 million of $7^{7/8}$% senior notes for cash proceeds of $311,951,000. The $7^{7/8}$% senior notes are unsecured, require interest payments semi-annually on April 15 and October 15 each year, mature on October 15, 2011 and are unconditionally guaranteed by Harvest and all of its wholly-owned subsidiaries. Prior to maturity, redemptions are permitted as follows:

- After October 15, 2009 at 101.969% of the principal amount
- After October 15, 2010 at 100% of the principal amount

The $7^{7/8}$% senior notes indenture contains a change of control provision that required Harvest Operations Corp. to commence an offer to repurchase the $7^{7/8}$% senior notes at a price of 101% of the principal amount plus accrued interest within 30 days of a change of control event, as defined in the indenture. On December 22, 2009, concurrent with the acquisition of 100% of the Trust by KNOC Canada, the change of control provision was triggered and on January 20, 2010 Harvest Operations Corp. made an offer, which expired on February 16, 2010, to purchase 100 $7^{7/8}$% senior notes for cash consideration of 101% of the principal amount thereof plus the accrued and unpaid. As a result of the offering, US$40.4 million principal amount was redeemed.

There are also covenants restricting, among other things, the sale of assets and the incurrence of additional indebtedness if such issuance would result in an interest coverage ratio, as defined, of less than 2.5 to 1. Notwithstanding the interest coverage ratio limitation, the incurrence of additional indebtedness under the credit facilities may be limited by the borrowing base covenant and certain other specific circumstances. The borrowing base covenant restricts Harvest's incurrence of secured indebtedness to an amount less than 65% of the present value of the future net revenues from its proven petroleum and natural gas reserves discounted at an annual rate of 10%. In addition, the covenants of the senior notes restrict the amount of dividends Harvest can pay to shareholders; no dividends have been paid during the nine months period ended September 30, 2010.

On September 17, 2010 Harvest issued an Offer To Purchase And Consent Solicitation Statement (the "Offer") to purchase any and all of the outstanding 77/8% senior notes and solicit consent for amendments of the related indenture. Harvest offered US$983.50 for each US$1,000 principal amount of notes tendered; in addition, for consent to the amendments of the indenture a payment of US$20.00 was offered for each US$1,000 principal amount of notes tendered by September 30, 2010. On October 4, 2010, all conditions of the tender offer were met and Harvest accepted the offer and redeemed US$178.3 million of the US$209.6 million principal amount outstanding for total consideration of $179.0 million. Harvest also called the remaining notes for redemption at par under the terms of the amended indenture; the remaining $31.3 million principal amount was redeemed on October 19, 2010.

11. Convertible debentures

Harvest has five series of convertible unsecured subordinated debentures outstanding (the "convertible debentures"). Interest on the debentures is payable semi-annually in arrears in equal installments on dates prescribed by each series.

As a result of the Trust's acquisition, the debentures are no longer convertible into units but investors would receive $10.00 for each unit notionally received based on each series conversion rate. Because every series of debentures carry a conversion price that exceeds $10.00 per unit, it is assumed that no investor would exercise their conversion option.
The debentures may be redeemed by Harvest at its option in whole or in part prior to their respective redemption dates. The redemption price for the first redemption period is at a price equal to $1,050 per debenture and at $1,025 per debenture during the second redemption period. Any redemption will include accrued and unpaid interest at such time.

The following is a summary of the five series of convertible debentures:

Series	Conversion price / share	Maturity	First redemption period	Second redemption period
6.5% Debentures Due 2010	$ 31.00	Dec. 31, 2010	Jan. 1/09-Dec. 31/09	Jan. 1/10-Dec. 30/10
6.40% Debentures Due 2012[(1)]	$ 46.00	Oct. 31, 2012	Nov. 1/08-Oct. 31/09	Nov. 1/09-Oct. 31/10
7.25% Debentures Due 2013[(1)]	$ 32.20	Sept. 30, 2013	Oct. 1/09-Sept. 30/10	Oct. 1/10-Sept. 30/11
7.25% Debentures Due 2014[(1)]	$ 27.25	Feb. 28, 2014	Mar. 1/10-Feb. 28/11	Mar. 1/11-Feb. 29/12
7.5% Debentures Due 2015[(1)]	$ 27.40	May 31, 2015	Jun. 1/11-May 31/12	Jun. 1/12-May 31/13

(1) These series of convertible debentures may also be redeemed by Harvest at a price of $1,000 per debenture after the second redemption period until maturity.

The following table summarizes the face value, carrying amount and fair value of the Convertible Debentures:

	September 30, 2010			December 31, 2009		
	Face Value	**Carrying Amount**	**Fair Value**	Face Value	Carrying Amount	Fair Value
6.5% Debentures Due 2010	**23,810**	**23,892**	**24,072**	37,062	37,562	37,562
6.40% Debentures Due 2012	**106,796**	**107,640**	**108,184**	174,626	176,460	176,460
7.25% Debentures Due 2013	**330,548**	**335,156**	**339,638**	379,256	385,703	385,703
7.25% Debentures Due 2014	**60,050**	**60,908**	**62,092**	73,222	74,467	74,467
7.5% Debentures Due 2015	**236,579**	**242,324**	**246,752**	250,000	256,875	256,875
	$ 757,783	**$ 769,920**	**$ 780,738**	$ 914,166	$ 931,067	$ 931,067

The "change of control" provision included within the convertible debentures' indentures required Harvest to make an offer to purchase 100% of the outstanding convertible debentures for cash consideration of 101% of the principal amount thereof plus accrued and unpaid interest. Harvest made these offers on January 20, 2010 and by March 4th all of the offers had expired. The following redemptions were made:

- 6.5% Debentures due 2010 – $13.3 million principal amount tendered leaving a principal balance of $23.8 million outstanding
- 6.4% Debenture due 2012 – $67.8 million principal amount tendered leaving a principal balance of $106.8 million outstanding
- 7.25% Debentures due 2013 – $48.7 million principal amount tendered leaving a principal balance of $330.5 million outstanding
- 7.25% Debentures due 2014 – $13.2 million principal amount tendered leaving a principal balance of $60.1 million outstanding
- 7.5% Debentures due 2015 – $13.4 million principal amount tendered leaving a principal balance of $236.6 million outstanding

12. 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 October 8, 2009	-
Common share issue to KNOC on incorporation at $1 per share	1
Common shares issued to KNOC at $10.00 per share to fund Trust acquisition	242,268,801
Outstanding at December 31, 2009	242,268,802
Common shares issued to KNOC at $10.00 per share to fund debt repayment	46,567,852
Common shares issued to KNOC at $10.00 per share for BlackGold consideration *[Note 4]*	37,416,913
Common shares issued to KNOC at $10.00 per share to fund BlackGold project development	4,700,000
Outstanding at September 30, 2010	330,953,567

13. Capital Structure

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

	September 30, 2010	December 31, 2009
Bank debt	**$ 291,602**	$ 428,017
$7^{7/8}$% senior notes (US$209.6 million) [1]	**215,643**	262,750
Principal amount of convertible debentures	**757,783**	914,166
Total Debt	**1,265,028**	1,604,933
Shareholder's equity	**3,244,009**	2,422,688
Total capitalization	**$ 4,509,037**	$ 4,027,621

[6] 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 non-GAAP financial ratios: bank debt to twelve month trailing EBITDA; secured debt to net present value of the Company's proved petroleum and natural gas reverses discounted at 10%; and total debt to total debt plus

shareholder's equity. These ratios are also included in the externally imposed capital requirements per the Company's credit facility, senior notes and convertible debentures; Harvest was in compliance with all debt covenants at September 30, 2010.

14. Income Taxes

The future income tax ("FIT") provision reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities of the legal entities of Harvest and their corresponding income tax bases as at that date. Changes in the temporary differences are reflected in FIT expense (recovery).

As KNOC Canada acquired the Trust, the opening FIT liability is calculated as part of the purchase price allocation recorded at that date. The opening FIT liability of $211.2 million represents a tax liability based on the excess book over tax value of net assets and the related tax impact is calculated at corporate tax rates applicable to the relevant province.

At the end of the nine months ended September 30 2010, Harvest had a net FIT liability of $181.3 million comprised of a $82.3 million FIT liability for the Downstream corporate entities and $99.0 million FIT liability for the Upstream entities.

FIT liability (asset)	
Opening FIT Liability, January 1, 2010 (from PPA)	211,188
Ending FIT Liability, September 30, 2010	181,267
	29,921
Consists of:	
FIT recovery for period ended September 30, 2010	(37,630)
FIT liability associated with partnership acquisition	7,709
Total	(29,921)

The provision for future income taxes varies from the amount that would be computed by applying the relevant Canadian income tax rates to reported income before taxes as follows:

		For the nine months ended September 30, 2010
Income (loss) before taxes	$	(80,963)
Combined Canadian Federal and Provincial statutory income tax rate		28.25%
Computed income tax expense (recovery) at statutory rates		(22,872)
Increased expense (recovery) resulting from the following:		
Difference between current and expected tax rates		(11,312)
Non-taxable portion of capital (gain) loss		(955)
Non-deductible expenses		(2,491)
FIT expense (recovery)	$	(37,630)

The components of the FIT liability /(asset) are as follows:

		September 30, 2010		December 31, 2009
Net book value of petroleum and natural gas assets in excess of tax pools	$	556,226	$	559,063
Asset retirement obligation		(79,880)		(75,784)
Net unrealized gains related to risk management contracts and currency exchange positions – current		(1,064)		(3,248)
Net unrealized losses related to risk management contracts and currency exchange positions – long-term		7,681		6,681
Non-capital loss carry forwards for tax purposes		(298,230)		(274,067)
Deferral of taxable income in partnership		-		681
Future employee retirement costs		(3,570)		(2,094)
Working capital and other items		104		(44)
FIT liability (asset), net	$	181,267	$	211,188

The expiry dates on the consolidated non-capital losses are as follows:

Year of Expiry		
2013	$	**9,768**
2014		**40,411**
2023		**366**
2024		**902**
2025		**97,444**
2026		**40,698**
2027		**457,336**
2028		**353,884**
2029		**289,987**
Consolidated non-capital losses	$	**1,290,796**

15. Employee Future Benefit Plans

The measurement of the accrued benefit obligation and annual expense for the defined benefit plans requires actuarial calculations and several assumptions. These assumptions are as follows:

	September 30, 2010		**December 31, 2009**	
	Pension Plans	**Other Benefit Plans**	Pension Plans	Other Benefit Plans
Discount rate	**5.5%**	**5.5%**	5.5%	5.5%
Expected long-term rate of return on plan assets	**7.0%**	**-**	7.0%	-
Rate of compensation increase	**3.5%**	**-**	3.5%	-
Employee contribution of pensionable income	**6.0%**	**-**	6.0%	-
Annual rate of increase in covered health care benefits	**-**	**8%**	-	9%
Expected average remaining service lifetime (years)	**12.0**	**10.3**	12.2	10.5

The assets of the defined benefit plan are invested and maintain the following asset mix:

	Percentage of Plan Assets	
Asset Category	**September 30, 2010**	December 31, 2009
Bonds/fixed income securities	**31%**	31%
Equity securities	**69%**	69%

Total cash payments for employee future benefits, consisting of cash contributed by Harvest to the pension plans and other benefit plans was $2.4 million for the period ended September 30, 2010; expected remaining contributions in 2010 are $1.7 million for the pension plans and $0.1 million for the other benefit plan.

The expected long-term rates of return are estimated based on many factors, including the expected forecast for inflation, risk premiums for each class of asset, and current and future financial market conditions.

The defined benefit pension plans were subject to an actuarial valuation on December 31, 2009, and the next valuation report will be as at December 31, 2010. The post-retirement health care benefits plan was last subject to an actuarial valuation on December 31, 2009.

	September 30, 2010	
	Pension Plans	Other Benefit Plans
Employee benefit obligation, beginning of year	$ 56,476	$ 7,047
Current service costs	1,641	218
Interest	2,450	298
Actuarial (gains)/losses	1,170	102
Benefits paid	(1,250)	(287)
Employee benefit obligation, end of year	60,487	7,378
Fair value of plan assets, beginning of year	46,070	-
Actual return (loss) on plan assets	2,472	-
Employer contributions	2,198	185
Employee contributions	1,170	102
Benefits paid	(1,250)	(287)
Fair value of plan assets, end of year	50,660	-
Funded status and carrying amount	$ (9,827)	$ (7,378)

	September 30, 2010	December 31, 2009
Summary:		
Pension plans	$ 9,827	$ 10,406
Other benefit plans	7,378	7,047
	$ 17,205	$ 17,453

Estimated pension and other benefit payments to plan participants which reflect expected future service, expected to be paid from 2010 to 2019, are as follows:

	Pension Plans	Other Benefit Plans
2010	$ 417	$ 96
2011	1,926	543
2012	2,145	655
2013	2,419	786
2014	2,887	943
2015 to 2019	21,663	7,303
Total	$ 31,457	$ 10,326

The table below shows the components of the net benefit plan expense:

	September 30, 2010			
	Three Months Ended		Nine Months Ended	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Current service cost	$ 547	$ 72	$ 1,641	$ 218
Interest costs	817	100	2,450	298
Expected return on assets	(824)	-	(2,472)	-
Amortization of net actuarial gains	-	-	-	-
Net benefit plan expense	$ 540	$ 172	$ 1,619	$ 516

A 1% change in the expected health care cost trend rate would have the following annual impacts as at September 30, 2010:

	1% Increase	1% Decrease
Impact on post-retirement benefit expense	$ 1	$ (2)
Impact on projected benefit obligation	16	(25)

16. Financial Instruments and risk management contracts

Financial instruments of Harvest consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, bank loan, risk management contracts, convertible debentures and the $7^{7/8}$% senior notes. The carrying value and fair value of these financial instruments at September 30, 2010 is disclosed below by financial instrument category, as well as any related gains or losses and interest income or expense for the nine months ended September 30, 2010:

	Carrying Value	Fair Value	Gains/ (Losses)	Interest Income/ (Expense)	Other Income/ (Expense)
Loans and Receivables					
Accounts receivable	$ 174,123	$ 174,123	$-	$ 81 [(2)]	$ -
Liabilities Held for Trading					
Net fair value of risk management contracts	781	781	181 [(3)]	-	-
Other Liabilities					
Accounts payable	248,041	248,041	-	-	-
Bank loan	288,700	291,602	-	(4,712)[(4)]	-
$7^{7/8}$% Senior Notes	216,931 [(1)]	216,586	-	(12,377)[(4)]	-
Convertible Debentures	$ 769,920	$ 780,738	$-	$(39,126)[(4)]	$ -

(1) The face value of the $7^{7/8}$% Senior Notes at September 30, 2010 is $215.6 million (U.S. $209.6 million).
(2) Included in petroleum, natural gas, and refined product sales in the statement of income and comprehensive income.
(3) Included realized and unrealized gains on risk management contracts in the statement of income and comprehensive income.
(4) Included in interest and other financing charges on short term/long term debt in the statement of income and comprehensive income. The non-cash interest expense/income relating to the accretion of premiums, discounts or transaction costs that are netted against these liabilities is included in non-cash interest in the statement of cash flows.

(a) Fair Values

Due to the short term nature of accounts receivable, deposits, accounts payable, their carrying values approximate their fair values. The risk management contracts are recorded on the balance sheet at their fair value; accordingly, there is no difference between fair value and carrying value. The bank loan, 77/8% senior notes and convertible debentures are recorded at amortized cost; the fair value of the bank loan is the amount drawn at the balance sheet date and the fair values of the convertible debentures and the 77/8% senior notes are based on quoted market prices as at the balance sheet date.

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

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Harvest's cash and risk management contracts have been assessed on the fair value hierarchy described above; cash is classified as Level 1 and risk management contracts as Level 2.

(b) Risk Management Contracts

At September 30, 2010, the fair value deficiency reflected on the balance sheet for all the risk management contracts outstanding at that date was approximately $0.8 million (December 31, 2009 – fair value deficiency of $2.1 million).

The following is a summary of Harvest's risk management contracts outstanding, along with their fair value at June 30, 2010:

Electricity Price Risk Management				
Quantity	**Type of Contract**	**Term**	**Average Price**	**Fair value**
25 MWh	Electricity price swap contracts	Jan. 10 – Dec. 10	Cdn $59.22	**$ (664)**
25 MWh	Electricity price swap contracts	Jan. 11 – Dec. 11	Cdn $47.61	**$ (309)**
Total				**$ (973)**

Foreign Exchange Risk Management				
Quantity	**Type of Contract**	**Term**	**Price**	**Fair value**
US$100,000,000	Forward	October 4, 2010	$1.03098	**$ 192**

For the three and nine months ended September 30, 2010, the total unrealized gain or loss recognized in the consolidated statement of income and comprehensive income on the change in fair value of risk management contracts was $1.0 million loss and $1.3 million gain. The realized gains and losses on all risk management contracts are included in the period in which they are incurred.

(c) Risk Exposure

Harvest is exposed to market risks resulting from fluctuations in commodity prices, currency exchange rates and interest rates in the normal course of operations. Harvest is also exposed, to a lesser extent, to credit risk on accounts receivable and counterparties to price risk management contracts and to liquidity risk relating to the Company's debt.

(i.) Credit Risk

Upstream Accounts Receivable

Accounts receivable in Harvest's upstream operations are due from crude oil and natural gas purchasers as well as joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad customer base, which includes a significant number of companies engaged in joint operations with Harvest. Harvest periodically assesses the financial strength of its crude oil and natural gas purchasers and will adjust its marketing plan to mitigate credit risks. This assessment involves a review of external credit ratings; however, if external ratings are not available, Harvest requests a guarantee from the parent company that does have a credit rating. If this is not possible, Harvest performs an internal credit review based on the purchaser's past financial performance. The credit risk associated with joint venture partners is mitigated by reviewing the credit history of partners and requiring some partners to provide cash prior to incurring significant capital costs on their behalf. Additionally, most agreements have a provision enabling Harvest to use the proceeds from the sale of production that would otherwise be taken in kind by the partner to offset amounts owing from the partner that is in default. Generally, the only instances of impairment are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Risk Management Contract Counterparties

Harvest is exposed to credit risk from the counterparties to its risk management contracts. This risk is managed by diversifying Harvest's risk management portfolio among a number of counterparties limited to lenders in its syndicated credit facilities; Harvest has no history of losses with these counterparties.

Downstream Accounts Receivable

The supply and offtake agreement exposes Harvest to the credit risk of Vitol Refining S.A. ("Vitol") as all feedstock purchases and the majority of product sales are made with Vitol. Pursuant to the agreement, Vitol is required to maintain a minimum B+ credit rating as assessed by Standard and Poor's Rating Services. If the credit rating falls below this line, additional security is required to be supplied to Harvest. This credit risk is also mitigated by the amounts owing to Vitol for feedstock purchases that are offset against amounts receivable from Vitol for product sales with the balance being net settled. Harvest is in a net payable position with Vitol at September 30, 2010 accordingly the outstanding balance is included in current trade accounts payable in the liability liquidity table.

Harvest's maximum exposure to credit risk relating to the above classes of financial assets at September 30, 2010 is the carrying value of accounts receivable. The table below provides an analysis of Harvest's current financial assets and the age of its past due but not impaired financial assets by type of credit risk.

	Current AR	Overdue AR			
		≤ 30 days	> 30 days, ≤ 60 days	> 60 days, ≤ 90 days	> 90 days
Upstream Accounts Receivable	$ 94,823	$ 1,165	$ 426	$ 115	$ 10,091[1]
Downstream Accounts Receivable	62,945	3,659	399	150	350
Total	**$ 157,768**	**$ 4,824**	**$ 825**	**$ 265**	**$ 10,441**

[1] Includes a $3.7 million allowance for doubtful accounts.

(ii.) Liquidity Risk

Harvest is exposed to liquidity risk due to the Company's borrowings under its credit facilities, convertible debentures and $7^{7/8}$% Senior Notes. This risk is mitigated by managing the maturity dates on the Company's obligations, complying with covenants and managing the Company's cash flow by entering into price risk management contracts. Additionally, when Harvest enters into price risk management contracts it selects counterparties that are also lenders in its syndicated credit facility thereby using the security provided in the credit agreement eliminating the requirement for margin calls and the pledging of collateral.

The following table provides an analysis of Harvest's financial liability maturities based on the remaining terms of its liabilities as at September 30, 2010 and includes the related interest charges:

	≤1 year	>1 year ≤3 years	>4 years ≤5 years	>5 years	Total
Trade accounts payable and accrued liabilities	$ 215,045	$ -	$ -	$ -	**$ 215,045**
Settlement of risk management contract	781	-	-	-	**781**
Bank loan and interest	2,299	18,243	294,600	-	**315,142**
Convertible debentures and interest	37,533	211,432	448,989	243,871	**941,825**
$7^{7/8}$% senior notes and interest	4,280	228,996	-	-	**233,276**
Pension contributions	1,800	8,448	8,789	4,527	**23,564**
Asset retirement obligations	16,630	22,554	26,858	1,196,943	**1,262,985**
Total	**$ 278,368**	**$ 489,673**	**$ 779,236**	**$1,445,341**	**$2,992,618**

(iii.) Market Risks and Sensitivity Analysis

Harvest is exposed to three types of market risks: interest rate risk, currency exchange rate risk and commodity price risk.

Harvest has performed sensitivity analysis on the three types of market risks identified, assuming that the volatility of the risks over the next quarter will be similar to that experienced in the past year. Harvest has determined that a reasonably possible price or rate variance over the next reporting period for a given risk variable can be estimated by calculating two standard deviations for each three month period in the last year for the relevant daily price/rate settings and using an average of the standard deviation as a reasonable estimate of the expected variance. This variance is then applied to the relevant period end rate or price to determine a reasonable percentage increase and decrease in the risk variable which can then be applied to the outstanding risk exposure at period end. Using six months of data, Harvest factors in the seasonality of the business and the price volatility therein.

Interest rate risk

Harvest is exposed to interest rate risk on its bank borrowings as interest rates are determined in relation to floating market rates plus an incremental charge based on the Company's secured debt to EBITDA. Harvest's convertible debentures and $7^{7/8}$% senior notes have fixed interest rates and therefore do not have any additional interest rate risk. Harvest manages its interest rate risk by targeting appropriate levels of debt relative to its expected cash flow from operations.

If the interest rate applicable to Harvest's bank borrowings at September 30, 2010 increased or decreased by 55 basis points (0.55%) with all other variables held constant, after-tax net income for the nine months period would change by $1.2 million.

Currency exchange rate risk

Harvest is exposed to the risk of changes in the U.S. dollar exchange rate on its U.S. dollar denominated revenues as well as Canadian dollar revenues that are based on a U.S. dollar commodity price. In addition, Harvest's $7^{7/8}$% senior notes are denominated in U.S. dollars (U.S.$209.6 million) and interest on these notes is payable semi-annually in U.S. dollars and accordingly the principal and any interest payable at the balance sheet date are also subject to currency exchange rate risk. Harvest is also exposed to currency exchange rate risk on its net investment in its downstream operations which is a self sustaining subsidiary that uses a U.S. dollar functional currency. Harvest manages these exchange rate risks by occasionally entering into fixed rate currency exchange contracts on future U.S. dollar payments and U.S. dollar sales receipts.

At September 30, 2010, if the U.S. dollar strengthened or weakened by 8% relative to the Canadian dollar, the impact on net income and other comprehensive income due to the translation of monetary financial instruments would be as follows:

		Impact on Net Income
U.S. Dollar Exchange Rate - 8% increase	$	(17,943)
U.S. Dollar Exchange Rate - 8% decrease	$	17,943

Harvest's downstream operations operates with a U.S. dollar functional currency which gives rise to currency exchange rate risk on the Company's Canadian dollar denominated monetary assets and liabilities, such as Canadian dollar bank accounts and accounts receivable and payable, as follows:

		Impact on Net Income
Canadian Dollar Exchange Rate - 8% increase	$	(7,779)
Canadian Dollar Exchange Rate - 8% decrease	$	7,779

Commodity Price Risk

Harvest uses price risk management contracts to manage a portion of its power costs. These contracts are recorded on the balance sheet at their fair value as of the balance sheet date, with changes from the prior period's fair value reported in net income for the period. These fair values are generally determined as the difference between the stated fixed price of the contract and an expected future power price. Variances in expected future prices expose Harvest to commodity price risk as changes will result in a gain or loss that Harvest will realize on settlement of these contracts. This risk is mitigated by continuously monitoring the effectiveness of these contracts. Harvest uses power hedge contracts as an effective method of reducing its cash power expense.

If the following changes in expected forward prices were applied to the fair value of risk management contracts in place at September 30, 2010, net income would be impacted as follows:

		Impact on Net Income
Forward price of power – 70% increase	$	8,891
Forward price of power - 46% decrease	$	(5,868)

17. 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 Month Ended September 30, 2010			Nine Month Ended September 30, 2010		
	Downstream	Upstream	Total	Downstream	Upstream	Total
Revenue[2]	$ 753,739	$231,694	$985,433	$1,914,056	$ 748,992	$2,663,048
Royalties	-	(33,698)	(33,698)	-	(116,655)	(116,655)
Less:						
Purchased products for resale and processing	711,823	-	711,823	1,774,174	-	1,774,174
Operating	48,832	63,363	112,195	151,339	195,944	347,283
Transportation and marketing	1,507	2,485	3,992	4,822	6,760	11,582
General and administrative	441	9,720	10,161	1,323	33,863	35,186
Depletion, depreciation, amortization and accretion	21,914	112,311	134,225	62,538	333,914	396,452
	$ (30,778)	$ 10,117	$ (20,661)	$ (80,140)	$ 61,856	$ (18,284)
Realized (losses) gains on risk management contracts			(1,277)			(1,090)
Unrealized net (losses) gains on risk management contracts			(1,038)			1,271
Interest and other financing charges on short term debt, net			(308)			(1,801)
Interest and other financing charges on long term debt			(18,350)			(54,414)
Currency exchange gain (loss)			1,974			(6,645)
Large corporations tax recovery (expense) and other tax			-			218
Future income tax reduction			17,581			37,630
Net Income (loss)			$ (22,079)			$ (43,115)
Total Assets[3]	$1,235,264	$4,027,430	$5,262,694	$1,235,264	$4,027,430	$5,262,694
Capital Expenditures						
Development and other activity	$ 21,501	$ 90,268	$ 111,769	$ 38,643	$ 256,111	$ 294,754
Business acquisitions		23,400	23,400		23,400	23,400
Property acquisitions (dispositions), net	-	123,107	123,107	-	153,342	153,342
Total expenditures	$ 21,501	$ 236,775	$ 258,276	$ 38,643	$ 432,853	$ 471,496
Property, plant and equipment						
Cost	$1,127,172	$3,805,848	$4,933,020	$1,127,172	$3,805,848	$4,933,020
Accumulated depletion, depreciation, and amortization	(60,341)	(327,520)	(387,861)	(60,341)	(327,520)	(387,861)
Net book value	$1,066,831	$3,478,328	$4,545,159	$1,066,831	$3,478,328	$4,545,159
Goodwill						
Beginning of period	$ -	$ 404,943	$ 404,943	$ -	$ 404,943	$ 404,943
Addition (reduction) to goodwill	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-
End of period	$ -	$ 404,943	$ 404,943	$ -	$ 404,943	$ 404,943

(1) Accounting policies for segments are the same as those described in Note 2 above.

(2) Of the total downstream revenue, two customers represent sales of $496.9 million and $91.4 million for the three months ended September 30, 2010; and $1,323.8 million and $133.1 million for the nine months ended September 30, 2010. No other single customer within either division represents greater than 10% of Harvest's total revenue.

(3) Total assets on a consolidated basis include $0.2 million relating to the fair value of risk management contracts and nil relating to future income tax.

45) There is no intersegment activity.

18. Commitments and Contingencies

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

The following are the significant commitments and contingencies at September 30, 2010:

(a) The downstream operations have a supply and offtake agreement with Vitol for a primary term to October 31, 2011 after which the agreement will revert to an evergreen arrangement. This agreement continues to provide that the ownership of substantially all crude oil feedstock and refined product inventory at the refinery be retained by Vitol and that Vitol will be granted the right and obligation to provide crude oil feedstock for delivery to the refinery, as well as the right and obligation to purchase substantially all refined products produced by the refinery. At September 30, 2010, the downstream operations had commitments totaling approximately $688.7 million in respect of future crude oil feedstock purchases and related transportation from Vitol.

(b) North Atlantic Refinery Ltd. ("North Atlantic"), a wholly-owned subsidiary of Harvest, has an agreement with Newsul Enterprises Inc. ("Newsul") whereby North Atlantic has committed to provide Newsul with its inventory and production of sulphur to 2018.

Newsul has named North Atlantic in a claim in the amount of US$2.7 million and has requested the services of an arbitration board to make a determination on the claim. The claim is for additional costs and lost revenues related to alleged contaminated sulphur delivered by North Atlantic. An accrual of $0.5 million has been established based on North Atlantic's estimate of their liability, but since the eventual outcome of the arbitration hearing is undeterminable, there exists an exposure to loss in excess of the amount accrued.

(c) The downstream operations have an environmental agreement with the Province of Newfoundland and Labrador, Canada, committing to programs that reduce the environmental impact of the refinery over time. Initiatives include a schedule of activities to be undertaken with regard to improvements in areas such as emissions, waste water treatment, terrestrial effects, and other matters. In accordance with the agreement, certain projects have been completed and others have been scheduled. Costs relating to certain activities scheduled to be undertaken over the next two years are estimated to be approximately $1.6 million; costs cannot yet be estimated for the remaining projects.

(d) North Atlantic has been named a defendant in The State of New Hampshire versus Amerada Hess Corp. et al, one of more than 100 methyl tertiary butyl ether ("MTBE") U.S. product liability litigation cases that have been consolidated for pre-trial purposes in this matter. The plaintiffs seek relief for alleged contamination of ground water from the various defendants' use of the gasoline additive MTBE. Although the plaintiffs have not made a particular monetary demand, they are asserting collective and joint liability against all defendants. All consolidated lawsuits are at a preliminary stage and, accordingly, it is too early in the legal process to reach any conclusion regarding the ability of the State of New Hampshire to properly assert jurisdiction over the Company in the lawsuit or to reach any conclusions regarding the substance of the plaintiffs' claims. Accordingly, the evaluation of the risk of liability to the Company is not determinable at this time and no amounts are accrued in the consolidated financial statements in respect of this matter. The Company is indemnified by Vitol Group B.V. in respect of this contingent liability.

(e) Suncor Energy, a former owner of the North Atlantic refinery in the downstream operations, holds certain contractual rights in relation to production at the refinery, namely:

i. a right to share, subject to a maximum limit, in the profits of the sale of any refined product, refined at the refinery, sold in Canada, exclusive of the province of Newfoundland and Labrador;

ii. a right of first refusal to any refinery and/or terminaling capacity in excess of the Company's requirements;

iii. a right to participate in any venture to produce petrochemicals at the refinery; and

iv. the rights in paragraphs (i) and (ii) above continue to 2012, while the rights in paragraph (iii) continue until amended by the parties.

(f) On January 7, 2010 the downstream operations experienced a fire at the refinery in the conversion section of the operating units. As a result, the refinery was shut-down for assessment and repairs for approximately ten weeks. Harvest will be submitting an insurance claim to the Company's insurers relating to the business interruption loss. As Harvest is currently in the process of preparing and estimating the claim, no estimate of the net proceeds can be provided at this time.

(g) In January 2009 Canada Revenue Agency issued a Notice of Reassessment to Harvest Energy Trust in respect of its 2002 through 2004 taxation years claiming past taxes, interest and penalties totaling $6.2 million. The CRA has adjusted Harvest Energy Trust's taxable income to include their net profits interest royalty income on an accrual basis whereas the tax returns had reported this revenue on a cash basis. A Notice of Objection has been filed with CRA requesting the adjustments to an accrual basis be reversed. The Harvest Energy Trust 2005 tax return has also been prepared on a cash basis for royalty income with no taxes payable and, if reassessed by CRA on a similar basis, there would have been approximately $40 million of taxes owing. The Harvest Energy Trust 2006 tax return has been prepared on an accrual basis including incremental payments required to align the prior year's cash basis of reporting with no taxes payable. Management along with the Company's legal advisors believe the CRA has not properly applied the provisions of the Income Tax Act (Canada) that entitle income from a royalty to be included in taxable income on a cash basis and that the dispute will be resolved with no taxes payable by Harvest Energy Trust The Trust has filed a Notice of Objection with the CRA and filed a Notice of Appeal with the Tax Court. A trial date has been set for January 2011.

(h) In August 2010 Harvest entered into two contracts in relation to the engineering, procurement and construction (EPC) of the production and processing facilities required for its BlackGold oil sands project. An engineering and procurement contract was signed with GS Engineering & Construction Corp. ("GSE") a Korean firm, for certain engineering, procurement, fabrication and transportation services. A separate construction and commissioning contract was signed with GSE&C Construction Canada Ltd. ("GSC"), a Canadian incorporated subsidiary of GSE, in respect of work to be performed in Canada. The contracts are priced on a lump sum basis at a total cost of $311 million. Together, GSE and GSC will perform all works and services, including commissioning and start-up of the relevant facilities, in order to hand them over to Harvest on a turn-key basis. GSC will provide operational support for a limited duration after hand-over. Completion of the facilities for the purpose of such hand-over is scheduled to take place in the fourth quarter of 2012. Harvest has paid a deposit of $31.1 million as of September 30, 2010. The remaining balance of the contract is included in the contractual obligation and commitment table below.

The following is a summary of Harvest's contractual obligations and commitments as at June 30, 2010:

	Payments Due by Period						
	2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Debt repayments	23,810	215,643	106,796	622,150	60,050	236,579	1,265,028
Debt interest payments[(1)]	20,302	75,371	60,860	42,955	18,435	7,292	225,215
Capital commitments[(2)]	44,169	161,371	113,167	-	-	-	318,707
Operating leases[(3)]	2,148	7,415	7,048	6,294	6,131	1,446	30,482
Pension contributions[(4)]	1,800	4,182	4,266	4,351	4,438	4,527	23,564
Transportation agreements[(6)]	815	2,606	929	205	-	-	4,555
Feedstock commitments[(7)]	688,728	-	-	-	-	-	688,728
Contractual obligations	781,772	466,588	293,066	675,955	89,054	249,844	2,556,279

(1) Interest determined on bank loan balance and rate effective at year end and by using the year end U.S. dollar exchange rate for the Senior Notes.
(2) Relating to drilling contracts, AFE commitments, equipment rental contracts and environmental capital projects.
(3) Relating to building and automobile leases.
(4) Relating to expected contributions for employee benefit plans [see Note 15].
(5) Relating to oil and natural gas pipeline transportation agreements.
(6) Relating to crude oil feedstock purchases and related transportation costs [see Note 18(a) above].

19. Subsequent Events

Between Oct 1, 2010 and November 5, 2010, an additional $320.8 million was committed to the purchase of feedstock inventory under the Supply and Offtake Agreement held with Vitol Refining S.A. [see table in Note 18].

On October 4, 2010, Harvest completed an offering of US$500 million principal amount of unsecured $6^{7/8}$% senior notes due 2017 for net cash proceeds of US$484.6 million. On the same day, the conditions of the Offer To Purchase And Consent Solicitation Statement for the $7^{7/8}$% senior notes were met; as a result, Harvest accepted the tender offer and redeemed US$178.3 million of the US$209.6 million principal amount outstanding for total consideration of US$179.0 million. In addition,

Harvest issued a call notice to redeem all of the outstanding $7^{7/8}$% senior notes under the terms of the amended indenture; the remaining US$31.3 million principal amount was redeemed on October 19, 2010 (see Note 10 for redemption details).

On October 25, 2010, an additional 3.87 million shares were issued to KNOC at $10.00 per share for total consideration of $38.7 million for further funding of BlackGold 2010 capital expenditures.

On October 4, 2010, Harvest issued 0.7 million shares to KNOC at $10.00 per share for total consideration of $7.1 million to provide funding for the initial set up and operation of the KNOC Global Technology and Research Centre that will be owned and operated by Harvest.