



NEWS RELEASE

HIGHPINE OIL & GAS LIMITED THIRD QUARTER 2005 FINANCIAL AND OPERATING RESULTS

Calgary, Alberta, November 10, 2005 - Highpine Oil & Gas Limited (TSX: HPX) ("**Highpine**" or the "**Company**") is pleased to announce its financial and operating results for the three and nine months ended September 30, 2005.

The third quarter marked a turning point in Highpine's development of the Pembina Nisku play. The completion and start up of the Violet Grove battery and the tie-in of Company owned Nisku wells served to be a major factor in the Company achieving its forecast 2005 exit production rate of 12,000 boe/d, which production rate was achieved in October. Our efforts to secure facilities in the Pembina area continued with the acquisition of 15% of the Dominion operated battery.

While start-up modifications of the Violet Grove Battery (and satellite) and pipelines continue, the Company expects to maintain its exit rate production guidance of 11,700 to 13,200 boe/d. Production guidance for 2006 has recently been established in the range of 14,000 to 16,000 boe/d and the capital expenditure budget for 2006, which has been approved by the Company's Board of Directors, is \$140 million.

Highpine continues its focus on the licensing of new drilling locations on 80 prospects in the Pembina area. With the recent addition of personnel dedicated solely to the Pembina area, Highpine is confident that new drilling licenses will be forthcoming.

The Company's successful strategy of expanding its exploration efforts in the West Central natural gas fairway continues to provide exploration success with significant natural gas volumes expected to be tied-in over the next several months. Highpine also spudded a new reef prospect in Sturgeon Lake during the second week of November.

"Highpine has achieved some very important goals in the third quarter and we can now aggressively pursue our strategies for the remainder of 2005. With strong cash flow and a healthy balance sheet, our plans for 2006 continue to focus on Pembina and our natural gas fairway in West Central Alberta," commented Gordon Stollery, President, Chairman and Chief Executive Officer of Highpine.

During the third quarter of 2005, Highpine continued to internally generate growth in cash flow from operations, revenues and production. The financial and operating highlights of the third quarter are as follows.

Third Quarter 2005 Financial Highlights

- Cash flow from operations increased 470% to \$29.8 million from \$5.2 million in the third quarter 2004 with cash flow per diluted share increasing 110% to \$0.65 from \$0.31 in the third quarter of 2004.
- Net earnings increased to \$6.7 million in the third quarter of 2005 from \$0.5 million in 2004, with net earnings per diluted share increasing 400% to \$0.15 per share in the third quarter of 2005.
- Revenues increased 342% to \$52.1 million from \$11.8 million in the third quarter of 2004.
- Reduced general and administrative costs from \$3.64/boe in the second quarter of 2005 to \$2.02/boe in the third quarter of 2005.

Third Quarter 2005 Operating Highlights

- Daily third quarter production increased 188% to average 8,608 boe/d from 2,994 boe/d in the third quarter of 2004 and was 89% higher than the second quarter of 2005.
- Highpine operated Violet Grove oil battery processing Nisku oil and gas from Company owned prolific Pembina wells.
- Acquired an approximate 15% working interest in the Dominion operated Violet Grove battery on October 31, 2005.
- Three natural gas discoveries and one crude oil discovery drilled in the West Central Gas Fairway.
- Good Production Practise (GPP) received for 9-35-48-8 W5M (designated the Pembina Nisku WW Pool) on October 24, 2005.
- Significant progress made on attainment of Pembina/Nisku well drilling licences.
- Operating costs in the third quarter were \$7.00/boe, a decrease of 20% from the second quarter of 2005.
- Sturgeon Lake Leduc/Nisku prospect spudded on November 8, 2005.

| (000s except per share data and per boe amounts) | Three months ended Sept 30 | | | Nine months ended Sept 30 | | |
|--|----------------------------|---------|----------|---------------------------|----------|----------|
| | 2005 | 2004 | % Change | 2005 | 2004 | % Change |
| Financial | | | | | | |
| Total revenue ⁽¹⁾ | 52,075 | 11,787 | 342 | 89,030 | 29,465 | 202 |
| Cash flow from operations | 29,796 | 5,229 | 470 | 46,593 | 13,518 | 245 |
| Per share – diluted | \$0.65 | \$0.31 | 110 | \$1.40 | \$0.85 | 65 |
| Net earnings | 6,683 | 507 | 1,218 | 7,419 | 2,129 | 248 |
| Per share – diluted | \$0.15 | \$0.03 | 400 | \$0.22 | \$0.13 | 69 |
| Net debt ⁽²⁾ | 86,773 | 60,310 | 44 | 86,773 | 60,310 | 44 |
| Total assets | 715,360 | 138,941 | 415 | 715,360 | 138,941 | 415 |
| Corporate acquisitions (net) ⁽³⁾ | - | - | - | 257,314 | 51,151 | 403 |
| Capital expenditures ⁽⁴⁾ | 48,149 | 12,304 | 291 | 102,745 | 37,514 | 174 |
| Total shares outstanding ⁽⁵⁾ | 44,239 | 17,254 | 156 | 44,239 | 17,254 | 156 |
| Weighted average shares outstanding | | | | | | |
| Basic | 44,208 | 16,638 | 166 | 32,071 | 15,652 | 105 |
| Diluted | 45,737 | 16,896 | 171 | 33,271 | 15,836 | 110 |
| Operating | | | | | | |
| Average daily production | | | | | | |
| Crude oil and NGLs (bbl/d) | 5,562 | 1,812 | 207 | 3,345 | 1,471 | 127 |
| Natural gas (mcf/d) | 18,277 | 7,091 | 158 | 13,087 | 6,301 | 108 |
| Total (boe/d) | 8,608 | 2,994 | 188 | 5,526 | 2,521 | 119 |
| Average selling prices ⁽⁶⁾ | | | | | | |
| Crude oil and NGLs (\$/bbl) | 72.89 | 50.32 | 45 | 66.70 | 46.88 | 42 |
| Natural gas (\$/mcf) | 10.07 | 6.41 | 57 | 8.76 | 6.79 | 29 |
| Total (\$/boe) | 68.47 | 45.17 | 52 | 61.12 | 43.87 | 39 |
| Wells drilled – Gross (net) | | | | | | |
| Oil | 1(1.0) | 7(3.0) | - | 6(4.0) | 10(4.4) | - |
| Gas | 8(4.1) | 12(3.0) | - | 13(5.9) | 21(6.1) | - |
| Abandoned / other | 11(8.5) | 10(3.5) | - | 17(12.3) | 16(6.1) | - |
| Total | 20(13.6) | 29(9.5) | - | 36(22.2) | 47(16.6) | - |
| Drilling success rate | 53 | 66 | - | 63 | 76 | - |
| Operating Netback (\$/boe) | | | | | | |
| Oil and gas sales | 68.47 | 45.17 | 52 | 61.12 | 43.87 | 39 |
| Processing and pipeline revenues | 0.73 | 1.33 | (45) | 1.08 | 0.92 | 17 |
| Royalties | (16.40) | (12.24) | 34 | (15.01) | (10.81) | 39 |
| Operating costs | (7.00) | (5.96) | 17 | (7.29) | (6.71) | 9 |
| Transportation costs | (0.90) | (0.48) | 88 | (1.24) | (0.44) | 182 |
| Hedging expense | (3.44) | (3.87) | (11) | (3.18) | (2.21) | 44 |
| Operating Netback | 41.46 | 23.95 | 73 | 35.48 | 24.62 | 44 |

Notes:

- (1) Total revenue is after hedging expense and includes processing and pipeline revenues.
- (2) Net debt includes working capital.
- (3) Corporate acquisition only includes the amount allocated to property, plant and equipment.
- (4) Capital expenditures are presented net of proceeds of disposals.
- (5) Total shares outstanding at September 30, 2004 have been restated to give effect to the February 15, 2005 stock dividend.
- (6) The average selling prices reported are before hedging expense.

Operations

Highpine's production rose steadily throughout the third quarter of 2005. Average daily production in the third quarter of 2005 was 8,608 boe/d, comprised of 5,562 bbls/d of oil and natural gas liquids and 18.3 mmcf/d of natural gas. Highpine's production for the months of July, August and September were 7,600 boe/d, 8,300 boe/d and 10,000 boe/d, respectively. In mid-October, production reached the Company's estimated 2005 exit production rate of 11,700 to 13,200 boe/d. However, since that time pipeline modifications have temporarily reduced production volumes. It is anticipated that the resumption of production volumes reached in October will occur in the third week of November. Highpine's production volumes will continue to fluctuate as a result of such factors as expiration of new oil well production periods, implementation of assigned well allowables (currently unrestricted until November 30, 2005), granting of GPP and potential production curtailment in pools that may reach assigned minimum operating reservoir pressures and await water injection facilities. The Company also maintains approximately 3,000 boe/d of shut-in volumes awaiting tie-in and/or production facilities. The shut-in volumes include the Nisku II Pool where Highpine has 25% working interest in wells that are awaiting completion of the construction of a production facility by an industry partner. Our shut-in volumes also include natural gas from several shut-in wells located in the West Central Gas Fairway awaiting tie-in.

On October 31, 2005, Highpine acquired an approximate 15% working interest in the Dominion operated Violet Grove battery. Highpine now has ownership in all strategic facilities along the West Pembina Nisku trend.

Highpine has received GPP on the Nisku WW Pool (9-35-48-8 W5M). In addition, water source and injection facilities have been installed for pressure maintenance in the Nisku GG and HH Pools. Water injection is expected to commence shortly. The Nisku II Pool industry partners are currently in discussions regarding the optimum development and pressure maintenance of the oil pool.

Exploration

Highpine continues to explore and has added significant landholdings in the Pembina/Nisku and West Central Gas Fairway. The Company also has three high impact new prospects in the inventory, one of which is Sturgeon Lake which was spudded on November 8, 2005 and another of which is expected to be spud in the fourth quarter of 2005. Highpine's net undeveloped land base is approximately 198,000 net acres of which 77,500 are in West Pembina and 80,000 are in the West Central Gas Fairway.

Drilling

Highpine participated in the drilling of 20 gross (13.6 net) wells in the third quarter of 2005. Results consist of 8 gross (4.1 net) gas wells, 1 gross (1 net) oil well, 3 gross (2 net) service wells and 8 gross (6.5 net) dry holes with an average success rate of 53% in the fully evaluated wells. These results include natural gas discoveries at Carrot Creek, Goodwin and Windfall and an oil discovery at Goodwin. Several follow-up land acquisitions and drilling locations are anticipated. Highpine expects to drill an additional 15 to 20 gross (11 to 15 net) wells in the Gas Fairway in the fourth quarter, as well as spud a high impact well in Crystal.

In Pembina, Highpine has surveyed, or is in the process of surveying, 40 drilling locations, of which 23 have been assigned release rates by the AEUB. Two consulting companies have been engaged to conduct the area stakeholder meetings. In addition, Highpine's senior management have been actively involved in ongoing discussions with the key Pembina stakeholder's groups. With the Vaquero merger fully integrated, and the Violet Grove battery operational, obtaining drilling licences in Pembina is the Company's highest priority.

2006 Guidance and Capital Expenditure Budget

The Company's 2006 guidance has been established in the range of 14,000 to 16,000 boe/d average production. In order to generate the production growth to achieve this, Highpine's Board of Directors has approved a 2006 Capital Expenditure Budget of \$140 Million.

Updated Corporate Presentation

The Company has posted an updated corporate presentation on its website at www.highpineog.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

This management's discussion and analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Highpine Oil & Gas Limited ("Highpine" or the "Company") for the interim periods presented. This MD&A is dated and based on information at November 10, 2005. This MD&A has been prepared by management and should be read in conjunction with the unaudited interim consolidated financial statements for the period ended September 30, 2005 and the audited consolidated financial statements for the years ended December 31, 2004 and 2003. All comparisons refer to the interim period ended September 30, 2005 versus the interim period ended September 30, 2004, unless otherwise indicated.

This MD&A uses the terms "cash flow from operations" and "cash flow" which are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes that in addition to net earnings, cash flow is a useful supplemental measure as it provides an indication of the results generated by Highpine's principal business activities before the consideration of how these activities are financed or how the results are taxed. Investors are cautioned, however, that this measure should not be construed as an alternative to net earnings determined in accordance with GAAP, as an indication of Highpine's performance. Highpine's method of calculating cash flow may differ from other companies, and accordingly, it may not be comparable to measures used by other companies. Highpine calculates cash flow from operations as "funds from operations" before the change in non-cash working capital related to operating activities.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to a barrel of oil equivalent (boe) at a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe figures may be misleading, particularly if used in isolation.

All references to dollar values refer to Canadian dollars unless otherwise stated.

Additional information relating to Highpine Oil & Gas Limited is available on the Company's website at www.highpineog.com. All previous public filings, including the Company's initial annual information form, are available on SEDAR at www.sedar.com.

FINANCIAL RESULTS

Acquisition

On May 31, 2005, Highpine acquired Vaquero Energy Ltd. ("Vaquero") for consideration of 19.5 million class A common shares ("Common Shares") of the Company with an ascribed value of \$350.9 million (the "Vaquero Acquisition"). Transaction costs of \$0.4 million were incurred by Highpine. Vaquero was a public oil and gas exploration and production company active in the Western Canadian sedimentary basin, including the Pembina area of Alberta. The transaction has been accounted for using the purchase method with \$257.3 million allocated to property, plant and equipment and \$200.7 million allocated to goodwill. The property, plant and equipment allocation includes \$78.7 million allocated to undeveloped lands. A working capital deficiency of \$10.8 million and bank debt of \$37.0 million were assumed by Highpine. Asset retirement obligations of \$1.9 million, a mark-to-market liability on outstanding financial contracts of \$0.2 million and future tax liabilities of \$56.7 million were also recorded.

Revenue and Production

Oil and gas revenues for the third quarter of 2005 totalled \$51.5 million representing a 341% increase over the third quarter of 2004 revenues of \$11.7 million. The increase in revenue is attributable to increased production in the Pembina and Retlaw areas, combined with production from the properties acquired pursuant to the Vaquero Acquisition on May 31, 2005. In addition, higher commodity prices were realized in the quarter. Oil and NGL revenue was impacted by a hedging expense of \$2.5 million in the third quarter of 2005 (third quarter of 2004 - \$1.1 million). Natural gas revenue was impacted by an unrealized hedging expense of \$0.2 million (third quarter of 2004 - nil).

Production volumes for the third quarter of 2005 averaged 8,608 boe/d compared to an average rate of 2,994 boe/d in the third quarter of 2004, an increase of 5,614 boe/d or 188%.

Oil and gas revenues for the nine months ended September 30, 2005 totalled \$87.4 million representing a 200% increase over revenues for the nine months ended September 30, 2004 of \$29.1 million. The increase in revenue in 2005 is primarily attributable to nine months of production from the properties acquired on the acquisition of Rubicon Energy Corporation (the "Rubicon Acquisition") in March 2004, increased production in the Pembina and Retlaw areas, production from the properties acquired pursuant to the Vaquero Acquisition as well as higher commodity prices. Oil and NGL revenue was impacted by a hedging expense of \$4.6 million for the nine months ended September 30, 2005 (nine months ended September 30, 2004 - \$1.5 million). Natural gas revenue was impacted by an unrealized hedging expense of \$0.2 million (third quarter of 2004 - nil).

Production volumes for the nine months ended September 30, 2005 averaged 5,526 boe/d compared to an average rate of 2,521 boe/d in the nine months ended September 30, 2004, an increase of 3,005 boe/d or 119%.

| <i>Production</i> | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|--------------------------|---|--------------------|------------------------|--|--------------------|------------------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Production | | | | | | |
| Oil and NGLs (bbls/d) | 5,562 | 1,812 | 207 | 3,345 | 1,471 | 127 |
| Natural gas (mcf/d) | <u>18,277</u> | <u>7,091</u> | 158 | <u>13,087</u> | <u>6,301</u> | 108 |
| Boe/d | <u>8,608</u> | <u>2,994</u> | 188 | <u>5,526</u> | <u>2,521</u> | 119 |

The production mix of oil and NGLs to gas in the third quarter of 2005 was 65% for oil and NGLs and 35% for gas compared to 61% for oil and NGLs and 39% for gas in the third quarter of 2004.

The production mix of oil and NGLs to gas during the nine months ended September 30, 2005 was 61% for oil and NGLs and 39% for gas compared to 58% for oil and NGLs and 42% for gas in 2004.

In the third quarter of 2005, the Company earned \$0.6 million of processing and pipeline revenues up from \$0.1 million in the third quarter of 2004. During the nine months ended September 30, 2005, the Company earned \$1.6 million of processing and pipeline revenues up from \$0.4 million during the nine months ended September 30, 2004. The increase in revenues is primarily attributable to the Joffre gas plant which commenced operations in January of 2005 as well as from facilities in the Pembina area.

Pricing

| <i>Selling Prices before Hedges</i> | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|-------------------------------------|--|--------------|-----------------|---------------------------------------|--------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Crude oil and NGLs (\$/bbl) | 72.89 | 50.32 | 45 | 66.70 | 46.88 | 42 |
| Natural gas (\$/mcf) | 10.07 | 6.41 | 57 | 8.76 | 6.79 | 29 |
| Total (\$/boe) | <u>68.47</u> | <u>45.17</u> | 52 | <u>61.12</u> | <u>43.87</u> | 39 |

Realized crude oil and NGL prices, prior to hedging expenses, increased 45% in the third quarter of 2005 compared to the third quarter of 2004. Realized natural gas prices increased 57% in the third quarter of 2005 compared to the third quarter of 2004.

Realized crude oil and NGL prices, prior to hedging expenses, increased 42% during the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004 and realized natural gas prices increased 29% during the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004.

Commodity Price Risk Management

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|--------------------------------|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Average volumes hedged (boe/d) | 1,900 | 800 | 138 | 1,159 | 468 | 148 |
| % of production hedged | 22 | 27 | (19) | 21 | 19 | 11 |
| Hedging expense (\$000s) | 2,725 | 1,068 | 155 | 4,801 | 1,526 | 215 |
| Hedging expense (per boe) | 3.44 | 3.87 | (11) | 3.18 | 2.21 | 44 |

The Company has in place a 700 bbl/d crude oil swap agreement at a price of Cdn. \$47.20 per barrel for all of 2005. The unrealized loss with respect to the crude oil swap agreement was \$2.5 million at September 30, 2005. The Company also had in place a 700 bbl/d crude oil collar for the period June 1, 2005 to September 30, 2005 with a price range of US \$45.00 per barrel to US \$54.50 per barrel. The crude oil collar was assumed by Highpine on the closing of the Vaquero Acquisition.

The Company has a physical natural gas collar for 3,000 GJ/d with a price range of Cdn. \$5.75 to \$7.45 which expires on October 31, 2005 that was assumed on the closing of the Vaquero Acquisition. The unrealized loss on the physical natural gas collar was \$0.4 million at September 30, 2005.

The Company has entered into the following contracts for 2006:

| <u>Term</u> | <u>Contract</u> | <u>Volume</u> | <u>Fixed Price</u> | <u>Unrealized Loss (CDN \$000s)</u> |
|------------------|-----------------|---------------|-----------------------|---|
| Jan 06 to Dec 06 | Oil Collar | 2,000 bbls/d | US \$60.00 to \$69.80 | 1,658 |
| Jan 06 to Dec 06 | Oil Collar | 1,000 bbls/d | US \$55.00 to \$77.25 | 574 |
| Jan 06 to Dec 06 | Gas Collar | 5,000 GJs/d | CDN \$9.00 to \$14.70 | 192 |

Royalty Expense

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|---|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Total Royalties, net of ARTC (\$000s) | 12,986 | 3,370 | 285 | 22,643 | 7,466 | 203 |
| As a % of oil and gas sales (after hedging expense) | 25 | 29 | (14) | 26 | 26 | - |

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|---|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| As a % of oil and gas sales (before hedging expense) | 24 | 26 | (8) | 25 | 24 | 4 |
| Per boe | 16.40 | 12.24 | 34 | 15.01 | 10.81 | 39 |

Royalties as a percentage of oil and gas sales before hedging expense averaged 25% for the nine months ended September 30, 2005 compared to 24% for the nine months ended September 30, 2004. Royalty rates as a percentage of revenue have been slightly higher in 2005 due to higher royalty rates on wells in the Pembina area.

Operating Costs

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|-------------------------------|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Operating costs (\$000s) | 5,546 | 1,658 | 234 | 10,998 | 4,544 | 142 |
| Per boe | 7.00 | 5.96 | 17 | 7.29 | 6.71 | 9 |
| Transportation costs (\$000s) | 714 | 163 | 338 | 1,867 | 441 | 323 |
| Per boe | 0.90 | 0.48 | 88 | 1.24 | 0.44 | 182 |

Operating costs were \$5.5 million for the third quarter of 2005 compared to \$1.7 million for the third quarter of 2004. Operating costs increased 17% to \$7.00/boe for the third quarter of 2005 from \$5.96/boe for the third quarter of 2004. Operating costs for the nine months ended September 30, 2005 totalled \$11.0 million compared to \$4.5 million for the nine months ended September 30, 2004. On a per boe basis, operating costs for the nine months ended September 30, 2005 increased 9% to \$7.29/boe from \$6.71/boe. These increases are a result of higher industry related costs, as well as higher operating costs in the Pembina area.

The cost of processing custom third party volumes has been included in transportation costs.

Transportation costs for the first nine months of 2005 were 323% higher than for the third quarter of 2004. The increase in transportation costs was due to higher production volumes in 2005 as well as approximately \$0.4 million of sulphur trucking costs relating to prior years production that are included in 2005.

Operating Netbacks

| <i>Operating Netbacks (per boe)</i> | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|-------------------------------------|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Sales price before hedging | 68.47 | 45.17 | 52 | 61.12 | 43.87 | 39 |
| Processing and pipeline revenues | 0.73 | 1.33 | (45) | 1.08 | 0.92 | 17 |
| Royalties | (16.40) | (12.24) | 34 | (15.01) | (10.81) | 39 |
| Operating costs | (7.00) | (5.96) | 17 | (7.29) | (6.71) | 9 |
| Transportation costs | (0.90) | (0.48) | 88 | (1.24) | (0.44) | 182 |
| Operating netback before hedging | 44.90 | 27.82 | 61 | 38.66 | 26.83 | 44 |
| Hedging expense | (3.44) | (3.87) | (11) | (3.18) | (2.21) | 44 |
| Operating netbacks | 41.46 | 23.95 | 73 | 35.48 | 24.62 | 44 |

Operating netbacks before hedging expense increased 61% from \$27.82/boe for the third quarter of 2004 to \$44.90/boe for the third quarter of 2005 as a result of higher realized prices in 2005 partially offset by higher royalties and operating costs.

General and Administrative Expenses

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|-------------------------|--|-------------|-----------------|---------------------------------------|--------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Gross expenses (\$000s) | 2,043 | 631 | 224 | 4,644 | 1,878 | 147 |
| Capitalized (\$000s) | (438) | (60) | 630 | (687) | (232) | 196 |
| Net expenses (\$000s) | <u>1,605</u> | <u>571</u> | 181 | <u>3,957</u> | <u>1,646</u> | 140 |
| \$/boe | 2.02 | 2.07 | (2) | 2.62 | 2.38 | 10 |
| % capitalized | 21 | 10 | 110 | 15 | 12 | 25 |

General and administrative expenses decreased 2% from \$2.07/boe in the third quarter of 2004 to \$2.02/boe in the third quarter of 2005. For the nine months ended September 30, 2005, general and administrative expenses increased 10% to \$2.62/boe from \$2.38/boe for the nine months ended September 30, 2004. General and administrative expenses increased in 2005 as a result of significant increases in staff necessary to manage the growth of the Company. In the fourth quarter of 2005, general and administrative expenses are expected to average around \$2.00/boe as a result of anticipated volume increases.

Stock Based Compensation

Stock based compensation expense of \$1.1 million was recorded in the third quarter of 2005 compared to \$0.1 million in the third quarter of 2004. The increase in the expense was primarily the result of stock options granted to former Vaquero employees that have remained with Highpine and to new employees hired in the quarter.

Interest and Finance Costs

Interest and finance costs for the third quarter of 2005 were \$1.1 million an increase of 41% from \$0.8 million for the third quarter of 2004. Interest and finance costs for the nine months ended September 30, 2005 were \$2.4 million, an increase of 32% compared to \$1.8 million for the nine months ended September 30, 2004. Interest and finance costs were higher in the third quarter of 2005 due to higher average debt levels in the quarter as a result of capital expenditures incurred. In April 2005, a portion of the proceeds raised from the Company's initial public offering was used to reduce debt.

Depletion, Depreciation and Accretion

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|--|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Depletion, Depreciation and Accretion (\$000s) | 20,550 | 4,448 | 362 | 34,603 | 10,403 | 233 |
| Per boe | 25.94 | 16.15 | 61 | 22.94 | 15.06 | 52 |

Depletion, depreciation and accretion ("DD&A") amounted to \$20.6 million or \$25.94/boe for the third quarter of 2005, compared with \$4.4 million or \$16.15/boe in the third quarter of 2004, a 61% increase on a per boe basis. DD&A for the nine months ended September 30, 2005 was \$34.6 million or \$22.94/boe compared to \$10.4 million for the nine months ended September 30, 2004. The increase is attributable to increased capital expenditures in 2005 as well as the inclusion of Vaquero costs in the calculation of depletion.

Income Taxes

Cash taxes were limited to federal Large Corporation Tax of \$0.4 million in the third quarter of 2005 (2004 - \$43,000) and \$0.6 million for the nine months ended (2004 - \$0.1 million). Large Corporation Tax was higher in 2005 as a result of the completion of the Vaquero Acquisition on May 31, 2005. Although current tax horizons depend on product prices, production levels and the nature, magnitude and timing of capital expenditures, Highpine management currently believes no cash income tax will be payable in 2005 or 2006.

Future income tax expense for the third quarter of 2005 is less than the expected statutory rate due to recognizing the benefit of future tax rate reductions in the current quarter.

Cash Flow and Net Earnings

| | <u>Three months ended September 30</u> | | | <u>Nine months ended September 30</u> | | |
|---|--|-------------|-----------------|---------------------------------------|-------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Funds from operations (\$000s) | 29,796 | 5,229 | 470 | 46,593 | 13,518 | 245 |
| Funds from operations per share – diluted | 0.65 | 0.31 | 110 | 1.40 | 0.85 | 65 |
| Net earnings (\$000s) | 6,683 | 507 | 1,218 | 7,419 | 2,129 | 248 |
| Net earnings per share - diluted | 0.15 | 0.03 | 400 | 0.22 | 0.13 | 69 |

Funds from operations increased 470% to \$29.8 million in the third quarter of 2005 compared to \$5.2 million in the third quarter of 2004. Funds from operations increased 245% to \$46.6 million for the nine months ended September 30, 2005 from \$13.5 million for the nine months ended September 30, 2004. Funds from operations per share increased 110% for the quarter and increased 65% for the nine months ended September 30, 2005. The increase of funds from operations per share in the third quarter is attributable to higher commodity prices and significantly higher production.

Liquidity and Capital Resources

The Company completed its initial public offering on April 5, 2005 by issuing 4.0 million Common Shares at \$18.00 per share for gross proceeds of \$72.0 million.

The Company has a revolving term credit facility of \$105 million and a demand operating credit facility of \$20 million. At September 30, 2005, Highpine had a working capital surplus of \$2.9 million and net debt of \$86.8 million. The amount drawn under the Company's credit facilities was \$90.0 million or 72%, providing excess credit capacity of \$35.0 million.

Highpine's 2005 capital budget of approximately \$130 million will be funded from cash flow from operations, bank debt and a portion of the \$67 million of net proceeds generated from the initial public offering on April 5, 2005.

| <u>(\$000s)</u> | <u>September 30, 2005</u> | <u>December 31, 2004</u> |
|--------------------------------------|---------------------------|--------------------------|
| Bank debt | 89,668 | 34,822 |
| Working capital (surplus) deficiency | (2,895) | 14,815 |
| Net debt | <u>86,773</u> | <u>49,637</u> |

At November 10, 2005, Highpine's bank debt was approximately \$100 million.

Capital Expenditures

Capital expenditures, excluding corporate acquisitions and net of property dispositions, were \$102.7 million for the nine months ended September 30, 2005 compared to \$37.5 million for the nine months ended September 30, 2004. The increases reflect Highpine's drilling programs at Pembina and Joffre, the construction of the Violet Grove and Joffre facilities as well as costs relating to seismic and land.

The following table sets out Highpine's net capital expenditures for the nine month periods indicated.

| | Nine months ended | | % Change |
|---|---------------------------|---------------------------|----------|
| | (\$000s) | | |
| | <u>September 30, 2005</u> | <u>September 30, 2004</u> | |
| Land | 34,032 | 2,857 | 1,091 |
| Seismic | 5,969 | 4,279 | 39 |
| Drilling and completions | 35,304 | 23,739 | 49 |
| Facilities and equipment | 27,843 | 11,127 | 150 |
| Property acquisitions and disposition (net) | (482) | (4,565) | (89) |
| Other | 79 | 77 | 3 |
| Total | <u>102,745</u> | <u>37,514</u> | 174 |

Contractual Obligations

The Company has entered into a new operating lease for office space for the period December 1, 2005 to November 30, 2012. Annual rental obligations are \$1.2 million. The existing operating lease which was to expire on June 30, 2009 will be terminated at the end of 2005 at no cost to the Company.

Shareholders' Equity

During the third quarter of 2005, the Company issued 36,250 Common Shares upon the exercise of options for proceeds of \$0.1 million.

During the second quarter of 2005, the Company issued 4.0 million Common Shares at a price of \$18.00 per share for gross proceeds totalling \$72.0 million pursuant to its initial public offering. Costs associated with the issuance of the Common Shares were \$4.8 million including the underwriters' fee of \$3.7 million. On April 5, 2005, the issued and outstanding Common Shares were listed and posted for trading on the Toronto Stock Exchange under the symbol "HPX".

The Company also issued 19.5 million Common Shares to acquire all the outstanding shares of Vaquero Energy Ltd. on May 31, 2005.

As at November 10, 2005, the Company had 44.2 million Common Shares outstanding and 3.8 million shares issuable upon the exercise of options.

| Quarterly Financial Results (\$000s except per share data) | 2005 | | | 2004 | | | |
|---|---------|---------|---------|---------|---------|---------|---------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Total revenues ⁽¹⁾ | 52,075 | 22,320 | 14,635 | 12,584 | 11,787 | 11,359 | 6,320 |
| Net earnings (loss) | 6,683 | (32) | 768 | 1,047 | 507 | 1,371 | 252 |
| Net earnings (loss) per share – basic | 0.15 | (0.00) | 0.04 | 0.05 | 0.03 | 0.09 | 0.02 |
| Net earnings (loss) per share – diluted | 0.15 | (0.00) | 0.04 | 0.05 | 0.03 | 0.09 | 0.02 |
| Funds from operations | 29,796 | 9,858 | 6,940 | 6,254 | 5,229 | 5,493 | 2,797 |
| Funds from operations per share - basic | 0.67 | 0.31 | 0.32 | 0.31 | 0.31 | 0.36 | 0.18 |
| Funds from operations per share – diluted | 0.65 | 0.31 | 0.32 | 0.31 | 0.31 | 0.36 | 0.18 |
| Property and corporate acquisitions | - | 257,314 | - | - | - | - | 51,151 |
| Capital expenditures ⁽²⁾ | 48,149 | 19,839 | 34,757 | 23,620 | 12,304 | 16,711 | 8,498 |
| Total assets | 715,360 | 677,834 | 198,599 | 163,388 | 138,941 | 129,187 | 117,641 |

Notes:

(1) Total revenues are after hedging expense and include processing and pipeline revenues.

(2) Capital expenditures are net of property dispositions.

CHANGES IN ACCOUNTING POLICIES IN THE CURRENT PERIOD

Variable Interest Entities

Effective January 1, 2005, the Company adopted the new CICA accounting guideline 15 ("AcG-15"), "Consolidation of Variable Interest Entities". This standard requires that certain entities be consolidated by the primary beneficiary. There is no impact on the Company's financial statements as a result of adopting this guideline.

Future Accounting Change

Financial Instruments

The CICA has issued a new accounting standard, CICA Accounting Standard Handbook section 3855, "Financial Instruments Recognition and Measurement." This standard prescribes how and at what amount financial assets, financial liabilities and non-financial derivatives are to be recognized on the balance sheet. The standard prescribes fair value in some cases while cost-based measures are prescribed in other cases. It also specifies how financial instrument gains and losses are to be presented. The new standard is effective for fiscal years beginning on or after October 1, 2006. The Company has not assessed the impact of this standard on its financial statements.

Critical Accounting Estimates

The preparation of the Company's financial statements requires management to adopt accounting policies that involve the use of significant estimates and assumptions. These estimates and assumptions are developed based on the best available information and are believed by management to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. A summary of the significant accounting policies used by Highpine can be found in Note 1 to the December 31, 2004 consolidated financial statements. A summary of the Company's critical

accounting estimates can be found in management's discussion and analysis for the year ended December 31, 2004.

Business Risks and Uncertainties

Highpine is exposed to numerous risks and uncertainties associated with the exploration for and development and acquisition of crude oil, natural gas and NGLs. Primary risks include the uncertainty associated with exploration drilling, changes in production practices, product pricing, industry competition and government regulation.

Drilling activities are subject to numerous technical risks and uncertainties. Highpine attempts to minimize exploration risk by utilizing trained professional staff and conducting extensive geological and geophysical analysis prior to drilling wells.

Highpine utilizes sound marketing practices in an attempt to partially offset the cyclical nature of commodity prices which are subject to external influences beyond Highpine's control. Fluctuations in commodity prices and foreign exchange rates may significantly impact Highpine's revenue.

The oil and natural gas industry is extremely competitive and Highpine must compete with numerous larger, well-established organizations in all phases of the exploration business.

Highpine monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Highpine maintains a level of liability, property and business interruption insurance which is believed to be adequate for Highpine's size and activities. Highpine is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

Special Note Regarding Forward-Looking Statements

Certain statements in this MD&A are forward-looking statements subject to substantial known and unknown risks and uncertainties, most of which are beyond Highpine's control. These risks may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations, including adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; the results of exploration and development drilling and related activities; imprecision in reserve estimates; the production and growth potential of the Company's various assets; fluctuations in foreign exchange or interest rates; stock market volatility; risks associated with hedging activities; and obtaining required approvals from regulatory authorities.

Accordingly, there is no assurance that the expectations conveyed by the forward-looking statements will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

Consolidated Balance Sheets
(Thousands)

| | September 30, 2005 (unaudited) | December 31, 2004 (audited) |
|---|-----------------------------------|--------------------------------|
| Assets | | |
| Current assets: | | |
| Accounts receivable | \$ 36,531 | \$ 13,366 |
| Prepaid expenses and deposits | 1,702 | 659 |
| | <u>38,233</u> | <u>14,025</u> |
| Property, plant and equipment (note 3) | 461,377 | 134,282 |
| Long-term investment, at cost | 1,000 | 1,000 |
| Goodwill | 214,750 | 14,081 |
| | <u>\$ 715,360</u> | <u>\$ 163,388</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 35,338 | \$ 28,840 |
| Financial instruments (note 7) | 192 | - |
| Bank indebtedness (note 5) | 89,668 | 34,822 |
| | <u>125,198</u> | <u>63,662</u> |
| Future income taxes | 79,849 | 20,419 |
| Asset retirement obligations (note 4) | 5,516 | 1,974 |
| Shareholders' equity: | | |
| Share capital (note 6) | 479,413 | 52,830 |
| Contributed surplus (note 6) | 2,339 | 511 |
| Retained earnings | 23,045 | 23,992 |
| | <u>504,797</u> | <u>77,333</u> |
| Contingency (note 8) | | |
| | <u>\$ 715,360</u> | <u>\$ 163,388</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings and Retained Earnings
(Unaudited; Thousands except per share amounts)

| | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
| Revenues: | | | | |
| Oil and gas revenues | 51,495 | 11,676 | 87,405 | 29,083 |
| Royalties, net of Alberta royalty tax credits | (12,986) | (3,370) | (22,643) | (7,466) |
| | 38,509 | 8,306 | 64,762 | 21,617 |
| Processing and pipeline revenues | 580 | 111 | 1,625 | 382 |
| Interest and other income | 1 | 309 | 6 | 342 |
| | 39,090 | 8,726 | 66,393 | 22,341 |
| Expenses: | | | | |
| Operating costs | 5,546 | 1,658 | 10,998 | 4,544 |
| Transportation costs | 714 | 163 | 1,867 | 441 |
| General and administrative | 1,605 | 571 | 3,957 | 1,646 |
| Depletion, depreciation and accretion | 20,550 | 4,448 | 34,603 | 10,403 |
| Interest and finance costs | 1,080 | 768 | 2,439 | 1,848 |
| Stock based compensation (note 6) | 1,080 | 130 | 1,852 | 231 |
| | 30,575 | 7,738 | 55,716 | 19,113 |
| Earnings before taxes | 8,515 | 988 | 10,677 | 3,228 |
| Taxes: | | | | |
| Current | 419 | 43 | 550 | 112 |
| Future | 1,413 | 438 | 2,708 | 987 |
| | 1,832 | 481 | 3,258 | 1,099 |
| Net earnings | 6,683 | 507 | 7,419 | 2,129 |
| Retained earnings, beginning of period | 16,362 | 22,438 | 23,992 | 20,816 |
| Stock dividend and adjustment (note 6) | - | - | (8,366) | - |
| Retained earnings, end of period | 23,045 | 22,945 | 23,045 | 22,945 |
| Net earnings per share (note 6) | | | | |
| Basic | \$0.15 | \$0.03 | \$0.23 | \$0.14 |
| Diluted | \$0.15 | \$0.03 | \$0.22 | \$0.13 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Unaudited; Thousands)

| | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
| Cash provided by (used in): | | | | |
| Operating Activities: | | | | |
| Net earnings | 6,683 | 507 | 7,419 | 2,129 |
| Items not involving cash: | | | | |
| Depletion, depreciation and accretion | 20,550 | 4,448 | 34,603 | 10,403 |
| Future income taxes | 1,413 | 438 | 2,708 | 987 |
| Gain on sale of investment | - | (294) | - | (294) |
| Stock based compensation | 1,080 | 130 | 1,852 | 231 |
| Unrealized financial instruments | 70 | - | 11 | - |
| Shares issued for services performed | - | - | - | 62 |
| Funds from operations | 29,796 | 5,229 | 46,593 | 13,518 |
| Change in non-cash working capital relating to operations | (14,940) | (6,444) | (29,505) | (2,909) |
| | 14,856 | (1,215) | 17,088 | 10,609 |
| Financing Activities: | | | | |
| Common shares issued for cash, net of share issue costs | (2) | 10,691 | 67,189 | 10,691 |
| Proceeds on exercise of stock options | 104 | - | 104 | - |
| Increase (decrease) in bank indebtedness | 23,821 | (7,817) | 17,818 | 43,335 |
| | 23,923 | 2,874 | 85,111 | 54,026 |
| Investing Activities: | | | | |
| Property, plant and equipment additions | (48,631) | (15,700) | (103,227) | (42,079) |
| Debenture receivable repayment | - | - | - | 3,737 |
| Purchase (sale) of investments | - | 1,278 | - | (466) |
| Proceeds on the disposition of property, plant and equipment | 482 | 3,396 | 482 | 4,565 |
| Net cash paid on business combination | - | - | (429) | (42,089) |
| Change in non-cash working capital relating to investing activities | 9,370 | 9,367 | 975 | 11,159 |
| | (38,779) | (1,659) | (102,199) | (65,173) |
| Decrease in cash and cash equivalents | - | - | - | (538) |
| Cash and cash equivalents, beginning of period | - | - | - | 538 |
| Cash and cash equivalents, end of period | - | - | - | - |
| Cash interest paid | 982 | 615 | 1,946 | 1,289 |
| Cash taxes paid | 60 | (15) | 356 | 60 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
(Unaudited; Tabular amounts in thousands except per share amounts)

Three and nine months ended September 30, 2005 and 2004

1. Significant accounting policies:

The interim consolidated financial statements of Highpine Oil & Gas Limited (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles and follow the same accounting policies as the most recent audited annual consolidated financial statements. Certain disclosures normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended December 31, 2004.

2. Acquisition of Vaquero Energy Ltd.:

On May 31, 2005, Highpine acquired Vaquero Energy Ltd. ("Vaquero") for consideration of 19.5 million class A common shares with an ascribed value of \$350.9 million. Vaquero was a public oil and gas exploration and production company active in the Western Canadian sedimentary basin. The transaction has been accounted for using the purchase method with the allocation of the purchase price as follows:

| Net assets acquired and liabilities assumed | |
|--|------------|
| Property, plant and equipment | \$ 257,314 |
| Goodwill | 200,669 |
| Working capital (deficiency) | (10,821) |
| Bank debt | (37,028) |
| Asset retirement obligations | (1,903) |
| Financial instruments | (181) |
| Future income taxes | (56,725) |
| | \$ 351,325 |
| Consideration | |
| Acquisition costs | \$ 429 |
| Class A common shares issued | 350,896 |
| | \$ 351,325 |

3. Property, plant and equipment:

At September 30, 2005, approximately \$117.7 million (December 31, 2004 - \$13.0 million) of unproved properties were excluded from the depletion calculation. Future development costs of \$15.5 million (December 31, 2004 - \$9.5 million) were included in the depletion calculation. During the nine months ended September 30, 2005, general and administrative expenses of \$0.7 million (September 30, 2004 - \$0.2 million) were capitalized.

4. Asset retirement obligations:

At September 30, 2005, the estimated total undiscounted cash flows required to settle asset retirement obligations were \$9.3 million. Expenditures to settle asset retirement obligations will be incurred between 2005 and 2025. Estimated cash flows have been discounted using an annual credit adjusted risk-free interest rate of 8.0 percent per annum and have been inflated using an inflation rate of 2.0 percent per annum.

Changes to asset retirement obligations were as follows:

| | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
|---|---|---------------------------------|
| Asset retirement obligations, beginning of period | \$ 1,974 | \$ 378 |
| Liabilities acquired | 1,903 | 950 |
| Liabilities incurred | 1,422 | 1,144 |
| Liabilities disposed of | - | (600) |
| Accretion expense | 217 | 102 |
| Asset retirement obligations, end of period | \$ 5,516 | \$ 1,974 |

5. Bank indebtedness:

At September 30, 2005, the Company had available a \$105 million revolving term credit facility and a \$20 million demand operating credit facility with Canadian financial institutions. The revolving term credit facility revolves until May 31, 2006 unless it is extended for a 364-day period. The revolving term credit facility bears interest within a range of the lenders' prime rate to prime plus 0.25% depending on the Company's ratio of consolidated debt to net income before interest, taxes, depletion, depreciation, accretion and compensation expense. The demand operating facility bears interest at the lenders' prime rate. The facilities are secured by a general security agreement and a first floating charge over all of the Company's assets.

6. Share capital:

| | Nine months ended September 30, 2005 | | Year ended December 31, 2004 | |
|--|---|-------------------|---------------------------------|------------------|
| | Number | Amount | Number | Amount |
| Class A common shares: | | | | |
| Balance, beginning of period | 15,208 | \$ 24,247 | 13,195 | \$ 13,455 |
| Issued to acquire Vaquero Energy Ltd. | 19,494 | 350,896 | - | - |
| Issued for cash | 4,000 | 72,000 | 1,200 | 6,000 |
| Shares issued for services performed | - | - | 13 | 62 |
| Conversion of Class B shares | 1,271 | 1 | - | - |
| Flow-through shares issued | - | - | 800 | 4,800 |
| Flow-through shares renounced | - | (1,613) | - | - |
| Special warrants exercised | 3,300 | 28,582 | - | - |
| Stock dividend and adjustment | 930 | 8,366 | - | - |
| Stock option exercises | 36 | 104 | - | - |
| Contributed surplus transferred on exercise of options | - | 24 | - | - |
| Share issue costs less tax effect (2005 – \$1,617; 2004 - \$38) | - | (3,194) | - | (70) |
| Balance, end of period | 44,239 | \$ 479,413 | 15,208 | \$ 24,247 |
| Class B common shares: | | | | |
| Balance, beginning of period | 1,271 | 1 | 1,271 | 1 |
| Conversion of Class B shares | (1,271) | (1) | - | - |
| Balance, end of period | - | \$ - | 1,271 | \$ 1 |
| Special Warrants: | | | | |
| Balance, beginning of period | 3,300 | 28,582 | - | - |
| Issued for cash | - | - | 3,300 | 29,700 |
| Exercised | (3,300) | (28,582) | - | - |
| Share issue costs less tax effect (2004 - \$602) | - | - | - | (1,118) |
| Balance, end of period | - | \$ - | 3,300 | \$ 28,582 |
| Total | | \$ 479,413 | | \$ 52,830 |

6. Share capital (continued):

On February 3, 2005, the Company filed Articles of Amendment to amend the provisions of the series 1 class B shares and as such, the series 1 class B shares were automatically converted into class A common shares on February 4, 2005. On February 15, 2005, the Company declared a stock dividend in the amount of \$7.0 million which resulted in 0.047 of a class A common share being issued for each issued and outstanding class A common share. In accordance with the terms of the issued and outstanding special warrants of the Company the stock dividend resulted in an additional 0.2 million class A common shares being issuable upon exercise of the outstanding special warrants.

On March 31, 2005, 3.5 million class A common shares of the Company were issued upon the exercise of the special warrants.

On April 5, 2005, 4.0 million class A common shares of the Company were issued pursuant to the Company's initial public offering.

On May 31, 2005, 19.5 million class A common shares of the Company were issued as consideration to acquire the outstanding shares of Vaquero.

Per share amounts:

| Weighted average number of Common shares outstanding | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
| Basic | 44,208 | 16,638 | 32,071 | 15,652 |
| Dilutive effect of options | 1,529 | 258 | 1,200 | 185 |
| Diluted | 45,737 | 16,896 | 33,271 | 15,837 |

Weighted average common shares outstanding have been retroactively restated to give effect to the February 15, 2005 stock dividend.

Stock options:

The Company has a stock option plan pursuant to which options to purchase class A common shares of the Company may be granted to directors, officers, employees and consultants. The outstanding stock options of the Company are exercisable for a period of six years and vest over a period of four years.

6. Share capital (continued):

A summary of changes is as follows:

| | Nine months ended September 30, 2005 | | Year ended December 31, 2004 | |
|---|--|--|--|--|
| | Class A Common shares issuable upon exercise of options | Weighted Average exercise price | Class A Common shares issuable upon exercise of options | Weighted Average exercise price |
| Balance, beginning of period | 1,542 | \$5.26 | 530 | \$2.84 |
| Granted | 2,221 | \$18.81 | 1,012 | \$6.53 |
| Exercised | (36) | \$3.02 | - | - |
| Cancelled | (19) | \$5.67 | - | - |
| Adjustment as a result of stock dividend | 73 | - | - | - |
| Balance, end of period | 3,781 | \$13.14 | 1,542 | \$5.26 |
| Exercisable, end of period | 415 | \$3.38 | 175 | \$2.78 |

The fair value of stock options granted is estimated using the Black-Scholes option pricing model. The following assumptions were used for the 2005 grants:

| | Nine months ended September 30, 2005 |
|---|---|
| Dividend yield | - |
| Expected volatility | 45% |
| Risk free rate of return | 4.5% |
| Expected option life | 4 years |
| Weighted average fair market value per option | \$7.40 |

Contributed surplus:

| | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
|---|---|---------------------------------|
| Balance, beginning of period | \$ 511 | \$ 114 |
| Compensation expense, net of recovery | 1,852 | 397 |
| Transferred to share capital on exercise of options | (24) | - |
| Balance, end of period | \$ 2,339 | \$ 511 |

7. Commodity price risk management:

The Company uses a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices. The Company considers all of these transactions to be effective economic hedges, however, these transactions may not qualify as effective hedges for accounting purposes. The following commodity price risk management agreements were in place at September 30, 2005:

Financial WTI crude oil contracts

| Term | Contract | Volume (bbls/d) | Fixed Price/bbl | Unrealized Loss (CDN) |
|------------------|----------|-----------------|-----------------------|-----------------------|
| Jan 05 to Dec 05 | Swap | 700 | CDN \$47.20 | 2,544 |
| Jan 06 to Dec 06 | Collar | 2,000 | US \$60.00 to \$69.80 | 1,658 |
| Jan 06 to Dec 06 | Collar | 1,000 | US \$55.00 to \$77.25 | 574 |

Financial AECO natural gas contract

| Term | Contract | Volume (GJs/d) | Fixed Price/GJ | Unrealized Loss (CDN) |
|------------------|----------|----------------|-----------------------|-----------------------|
| Jan 06 to Dec 06 | Collar | 5,000 | CDN \$9.00 to \$14.70 | 192 |

Physical AECO natural gas contract

| Term | Contract | Volume (GJs/d) | Fixed Price/GJ | Unrealized Loss (CDN) |
|------------------|----------|----------------|----------------------|-----------------------|
| Apr 05 to Oct 05 | Collar | 3,000 | CDN \$5.75 to \$7.45 | 361 |

The financial AECO natural gas contract has not been designated as an effective accounting hedge. Accordingly, the financial AECO natural gas contract has been accounted for as a liability in the consolidated balance sheet based on its fair value.

8. Contingency:

On December 14, 2004, the Company was granted a license from the Alberta Energy and Utilities Board (the "AEUB") relating to the expansion of an existing facility. On December 15, 2004, a notice of objection was filed with the AEUB by a corporation which is a joint lease owner where the facility is being constructed. To date, the AEUB has not ruled on the merits of the notice of objection. Although management of the Company is of the view that the objection submitted by the corporation is without merit and will continue to defend the interests of the Company in the facility, it is possible that the AEUB may render a decision in this matter which would have an adverse effect on the Company and its processing capabilities in an area which is significant to the Company.

About Highpine Oil & Gas Limited

Highpine is a Calgary-based oil and natural gas company engaged in exploration for and the acquisition, development and production of natural gas and crude oil in western Canada. Highpine's current exploration and development efforts are focused in the West Pembina and Windfall/Chip Lake/Joffre areas of Central Alberta. The Company's class A common shares trade on the Toronto Stock Exchange under the symbol "HPX".

Reader Advisory

Boes may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion factor is an industry accepted norm and is not based on either energy content or current prices.

Statements in this press release contain forward-looking information including expectations of future production. Readers are cautioned that assumptions used in the preparation of such information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. These risks include, but are not limited to; the risks associated with the oil and gas industry, commodity prices and exchange rate changes. Industry related risks include, but are not limited to; operational risks in exploration, development and production, delays or changes in plans, risks associated with the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of production, costs and expenses. The risks outlined above should not be construed as exhaustive. The reader is cautioned not to place undue reliance on this forward-looking information. The Company undertakes no obligation to update or revise any forward-looking statements except as required by applicable securities laws.

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*The Toronto Stock Exchange has neither approved nor disapproved
the information contained herein.*