**NEWS RELEASE**

**HIGHPINE OIL & GAS LIMITED ANNOUNCES FIRST QUARTER 2006 FINANCIAL AND OPERATING RESULTS AND UPDATES ITS 2006 PRODUCTION GUIDANCE**

**Calgary, Alberta, May 9, 2006** - **Highpine Oil & Gas Limited (TSX: HPX) ("Highpine" or the "Company")** is pleased to announce financial and operational results for the first quarter of 2006, ended March 31, 2006.

**First Quarter Highlights:**

- Total revenues increased 357% to $64.4 million from $14.1 million in the first quarter of 2005.
- Cash flow from operations increased 354% to $31.5 million from $6.9 million in the same period in 2005. Cash-flow per diluted share increased 103% to $0.65 from $0.32 in 2005.
- Average daily production increased 239% to 11,397 boe/d from 3,365 boe/d in the same period in 2005. Current production is approximately 14,000 boe/d.
- Continued low operating costs reflecting higher volumes through Company owned facilities.
- General and administrative costs were $1.94/boe in the first quarter as compared to $2.79/boe in the same period in 2005.
- Achieved high operating netbacks of $33.55/boe, before hedging activities, which continues to demonstrate the Company's success in targeting high quality oil and gas reserves in Western Canada.
- Significant progress made in obtaining drilling permits in West Pembina. Recent Pembina drilling resulted in 2 (0.75 net) cased potential Nisku producers awaiting completion and testing. Highpine has 4 (3.0 net) Nisku wells licenced for drilling after break-up and continues to work on many additional permits.
- Drilled 28 gross (14.7 net) wells in the first quarter resulting in a 80% success rate in drilled wells. Results include the Pembina Nisku wells discussed above, a potential Nisku producer at Crystal and several successful gas wells in the West Central Alberta Gas Fairway at Joffre, Ante Creek, Goodwin and Ferrier. The Chickadee prospect was a dry hole.
- Completed the merger with White Fire Energy Ltd. ("White Fire") adding complementary assets in the prolific Pembina Nisku play and West Central Alberta Gas Fairway.
- Closed a bought deal equity financing raising gross proceeds of $100.6 million.

**Second Quarter Events:**

- On May 1, 2006 Highpine closed the purchase of selective producing assets in the West Pembina Nisku Fairway for a purchase price of approximately $12.3 million.

- Executed costless collar hedging for 3,500 bbls/d of oil for calendar year 2007. Specifically 1,750 bbls/d is hedged at $US55.00 to $US86.15 per barrel and 1,750 bbls/d is hedged at $US60.00 to $US80.70 per barrel.

**Operations:**

Highpine is pleased to report on operations for the quarter ended March 31, 2006. Production averaged 11,397 boe/d, comprised of 7,950 bbls/d of oil and natural gas liquids and 20.68 mmcf/d of natural gas. Current production in April 2006, has been averaging in the order of 14,000 boe/d. Production in the first quarter was curtailed due to a delayed start-up of a non-operated Violet Grove Oil Battery (16% ownership interest) and facility related production curtailment associated with the Easyford Oil Battery and the Brazeau North Gas Gathering System. Highpine's operated oil battery at Violet Grove has been running satisfactory since its re-start in December 2005.

Nisku reservoir management was a priority for the first quarter. Water injection is occurring in the Nisku "GG" and "HH" pools and pressure responses are starting to be realized. Water injection is set to commence in the prolific Nisku II and VV pools shortly. Good Production Practice (GPP) was granted to the Nisku SS Pool which contains the Company's 100% owned oil discovery at 3-34-48-8 W5M.

**Drilling:**

Highpine participated in the drilling of 28 gross (14.7 net) wells in the first quarter of 2006. Results consisted of 3 gross (1.8 net) oil wells, 19 gross (10.0 net) gas wells, 5 gross (2.6 net) dry holes and 1 gross (0.3 net) other well. Success rate in drilled wells was 80%. At Pembina, 2 gross (0.75 net) wells finished drilling and are awaiting completion and testing. Notable gas wells drilled include successful wells in Joffre, Goodwin, Ante Creek, Karr and Ferrier. At Crystal, 1 gross (0.6 net) potential Nisku well has been cased and is awaiting completion. The Company's Chickadee prospect was a dry hole.

Considerable success has been realized in progressing Highpine's Nisku drilling and well licencing activities in Pembina. Currently, Highpine has 2 gross (2.0 net) operated drilling licences and 2 gross (1.0 net) non-operated drilling licences in hand. These wells are expected to spud starting in the second quarter. Twelve other Nisku well drilling permits are in various stages of the approval process and are anticipated to be licenced and drilled as the year progresses.

**Exploration:**

Highpine's land holdings and seismic data base continued to grow in the first quarter. The Company spent $11.9 million in land and seismic acquisition programs in the quarter, boosting its undeveloped land base to 250,000 net acres which includes 97,000 net acres in West Pembina and 102,000 net acres in the West Central Alberta Gas Fairway. A 165 square mile 3D seismic survey was also completed in Pembina, covering recently acquired undeveloped lands, and is currently in for processing and interpretation. Additional Nisku drilling locations are expected to be developed upon completion of this review.

## Updated 2006 Production Guidance:

As a result of production curtailment in the first quarter of 2006, and anticipation of temporary production shut-ins due to timing of implementing water injection into selective Nisku pools, Highpine is reducing its 2006 production guidance at this time. Although Highpine is not altering its projected 2006 exit rate of producing in excess of 17,000 boe/d, it is reducing its 2006 average to be now estimated in the range of 14,000 to 16,000 boe/d. This reduction in no way reflects any variation of reservoir performance and/or drilling expectations, only production variance due to the factors outlined above.

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

### FINANCIAL AND OPERATING HIGHLIGHTS

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| *($000s, except per share and $/boe amounts)* | | | |
| **Financial** | | | |
| Total revenue(1) | **64,416** | 14,092 | 357 |
| Cash flow from operations | **31,546** | 6,940 | 354 |
| Per share – diluted | **0.65** | 0.32 | 103 |
| Net earnings | **1,291** | 768 | 68 |
| Per share – diluted | **0.03** | 0.04 | (25) |
| Net debt(2) | **46,249** | 78,112 | (41) |
| Total assets | **910,157** | 198,599 | 358 |
| Corporate acquisitions(3) | **89,651** | -- | 100 |
| Capital expenditures(4) | **46,769** | 34,757 | 35 |
| Total shares outstanding *(#)* | **52,772** | 20,708 | 155 |
| Weighted average shares outstanding *(#)* | | | |
| Basic | **47,796** | 20,708 | 131 |
| Diluted | **48,217** | 21,615 | 123 |
| **Operating** | | | |
| Average daily production | | | |
| Crude oil and NGLs *(bbls/d)* | **7,950** | 1,816 | 338 |
| Natural gas *(mcf/d)* | **20,681** | 9,293 | 123 |
| Total *(boe/d)* | **11,397** | 3,365 | 239 |
| Average selling prices(5) | | | |
| Crude oil and NGLs *($/bbl)* | **64.80** | 54.04 | 20 |
| Natural gas *($/mcf)* | **8.29** | 7.34 | 13 |
| Total *($/boe)* | **60.26** | 49.45 | 22 |
| Wells drilled – gross (net) *(#)* | | | |
| Oil | **3 (1.8)** | 2 (0.7) | -- |
| Gas | **19 (10.0)** | 4 (1.6) | -- |
| Abandoned / other | **6 (2.9)** | 3 (1.8) | -- |
| Total | **28 (14.7)** | 9 (4.1) | -- |
| Drilling success rate *(%)* | **80** | 75 | -- |
| Operating netback *($/boe)* | | | |
| Oil and gas sales | **60.26** | 49.45 | 22 |
| Royalties | **(19.49)** | (12.60) | 55 |
| Operating costs | **(6.72)** | (4.61) | 46 |
| Transportation costs | **(0.50)** | (0.73) | (32) |
| Realized hedging gain (loss) | **0.46** | (2.91) | -- |
| Operating netback | **34.01** | 28.60 | 19 |

(1) Total revenue is after realized and unrealized hedging losses and gains.
(2) Net debt includes working capital excluding unrealized financial instruments.
(3) Corporate acquisitions only include the amounts allocated to property, plant and equipment.
(4) Capital expenditures are presented net of proceeds of disposals.
(5) The average selling prices reported are before hedging activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated and based on information at May 9, 2006. 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 March 31, 2006 and 2005 and the audited consolidated financial statements for the years ended December 31, 2005 and 2004 for a complete understanding of the financial position and results of operations of Highpine Oil & Gas Limited ("Highpine" or the "Company").

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, especially those in other industries, 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. Highpine also uses operating netbacks as an indicator of operating performance. Operating netback is calculated on a per boe basis taking the sales price and deducting royalties, operating costs, transportation costs and realized hedging gains and losses.

Where amounts are expressed on a barrel of oil equivalent ("boe") basis, natural gas volumes have been converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet equal to one barrel of oil equivalent unless otherwise indicated. This conversion ratio of 6:1 is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency 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 annual information form, are available on SEDAR at www.sedar.com.

### Financial Results

*Acquisition*

On February 21, 2006, Highpine acquired White Fire Energy Ltd. ("White Fire") for consideration of 4.1 million class A common shares ("Common Shares") of the Company with an ascribed value of $95.5 million (the "White Fire Acquisition"). Transaction costs of $0.5 million were also incurred by Highpine. White Fire 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 $89.7 million allocated to property, plant and equipment and $36.0 million to goodwill. The property, plant and equipment allocation includes $25.8 million for unproved lands. A working capital deficiency of $13.8 million and bank debt of $4.5 million were assumed by Highpine. Asset retirement obligations of $1.1 million and future tax liabilities of $10.3 million were also recorded.

*Oil and Gas Revenue*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| *($000s)* | | | |
| Crude oil and NGLs revenue | **46,368** | 8,833 | 425 |
| Natural gas revenue | **15,438** | 6,140 | 151 |
| | **61,806** | 14,973 | 313 |
| Realized hedging gain (loss) | **468** | (881) | -- |
| Unrealized hedging gain | **2,142** | -- | -- |
| Total oil and gas revenue | **64,416** | 14,092 | 357 |

Total oil and gas revenue for the first quarter ended March 31, 2006 totaled $64.4 million compared to $14.1 million recorded a year ago. The 357% improvement in revenue was attributable to increased production combined with increased prices and hedging gains.

*Production*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| **Daily Production** | | | |
| Crude oil and NGLs *(bbls/d)* | **7,950** | 1,816 | 338 |
| Natural gas *(mcf/d)* | **20,681** | 9,293 | 123 |
| Boe/d | **11,397** | 3,365 | 239 |
| Crude oil and NGLs | **70%** | 54% | -- |
| Natural gas | **30%** | 46% | -- |
| | **100%** | 100% | -- |

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| *(boe/d)* | | | |
| **Daily Production by Area** | | | |
| Pembina | **8,486** | 1,451 | 485 |
| West Central Alberta Gas Fairway | **1,933** | 1,089 | 78 |
| Bantry / Retlaw | **495** | 518 | (4) |
| Other | **483** | 307 | 57 |
| Total | **11,397** | 3,365 | 239 |

First quarter production in 2006 rose 239% to 11,397 boe/d compared to the same period in 2005 with significant increases realized at Pembina as a result of bringing on previously shut-in production through Highpine's 80% owned Violet Grove oil battery, including its 100% owned 9-35-48-8 W5M discovery. Production also increased in the West Central Alberta Gas Fairway due primarily to volumes added from the Vaquero acquisition in May 2005.

*Pricing*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| **Selling Prices Before Hedges** | | | |
| Crude oil and NGLs *($/bbl)* | **64.80** | 54.04 | 20 |
| Natural gas *($/mcf)* | **8.29** | 7.34 | 13 |
| Total combined *($/boe)* | **60.26** | 49.45 | 22 |

Realized natural gas prices increased 13% to $8.29/mcf in the first quarter of 2006 compared to the first quarter of 2005 primarily as a result of increases in the average AECO prices.

Realized crude oil and NGL prices increased 20% to $64.80/bbl in the first three months of 2006 versus the first three months of 2005 due to WTI increases that were partially offset by increases in the $US/$CDN exchange rate.

*Commodity Price Risk Management*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Average volumes hedged *(boe/d)* | **3,833** | 700 | 448 |
| % of production hedged | **34%** | 21% | 62 |
| Realized hedging gain (loss) *($000s)* | **468** | (881) | -- |
| Realized hedging gain (loss) *($/boe)* | **0.46** | (2.91) | -- |

The Company realized a natural gas hedging gain of $0.5 million for the three months ended March 31, 2006 versus $nil at March 31, 2005 when the Company incurred an oil hedging loss of $0.9 million.

The following contracts are outstanding for 2006:

| Term | Contract | Volume | Fixed Price |
|---|---|---|---|
| Jan 06 to Dec 06 | Oil Collar | 2,000 bbls/d | US $60.00 to $69.80/bbl |
| Jan 06 to Dec 06 | Oil Collar | 1,000 bbls/d | US $55.00 to $77.25/bbl |
| Jan 06 to Dec 06 | Gas Collar | 5,000 GJs/d | CDN $9.00 to $14.70/GJ |

If the contracts were terminated on March 31, 2006, the Company would have received $0.8 million.

On April 11, 2006, the Company entered into the following 2007 contracts:

| Term | Contract | Volume | Fixed Price |
|---|---|---|---|
| Jan 07 to Dec 07 | Oil Collar | 1,750 bbls/d | US $55.00 to $86.15/bbl |
| Jan 07 to Dec 07 | Oil Collar | 1,750 bbls/d | US $60.00 to $80.70/bbl |

*Royalty Expense*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Total royalties, net of ARTC *($000s)* | **19,994** | 3,816 | 424 |
| As a % of oil and gas sales (before hedging) | **32%** | 25% | 28 |
| $/boe | **19.49** | 12.60 | 55 |

Royalties as a percentage of oil and gas sales before hedging averaged 32% for the first quarter of 2006 compared to 25% for the first quarter of 2005. Royalty rates as a percentage of oil and gas sales have been higher in 2006 due to gross overriding royalties on certain Pembina wells along with higher Crown royalty rates on wells in the Pembina area.

*Operating Costs*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Operating costs *($000s)* | **6,895** | 1,396 | 394 |
| $/boe | **6.72** | 4.61 | 46 |

Operating costs on a per boe basis increased 46% in the 2006 three-month period due to higher volumes from Pembina, which has sour oil production that requires more processing as a result of the sour nature of the oil.

*Transportation Costs*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Transportation costs *($000s)* | **518** | 220 | 135 |
| $/boe | **0.50** | 0.73 | (32) |

Transportation costs for the first quarter of 2006 dropped 32% on a per boe basis from the first quarter of 2005 due to higher production volumes and lower sulphur trucking costs in 2006.

*Operating Netbacks*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| *($/boe)* | | | |
| Sales price before hedging | **60.26** | 49.45 | 22 |
| Royalties | **(19.49)** | (12.60) | 55 |
| Operating costs | **(6.72)** | (4.61) | 46 |
| Transportation costs | **(0.50)** | (0.73) | (32) |
| Netback before hedges | **33.55** | 31.51 | 6 |
| Realized hedging gain (loss) | **0.46** | (2.91) | -- |
| Operating netbacks | **34.01** | 28.60 | 19 |

Operating netbacks before realized hedging gains or losses increased 6% to $33.55/boe for the first three months of 2006 compared to $31.51/boe for the first three months of 2005 as a result of higher commodity prices that were partially offset by higher royalties and operating costs.

*General and Administrative Expenses*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Gross expenses *($000s)* | **2,591** | 990 | 162 |
| Capitalized *($000s)* | **(596)** | (144) | 314 |
| Net expenses *($000s)* | **1,995** | 846 | 136 |
| $/boe | **1.94** | 2.79 | (30) |
| % capitalized | **23%** | 15% | 53 |

Net expenses rose 136% from the first quarter of 2005 to the first quarter of 2006 as a result of staff increases necessary to manage the growth of the Company. General and administrative expenses dropped 30% on a per boe basis from $2.79/boe in the first quarter of 2005 to $1.94/boe in the first quarter of 2006 due to increased production volumes.

*Stock-Based Compensation*

Stock-based compensation expense of $1.5 million was recorded in the first three months of 2006 compared to $0.3 million in the first three months of 2005. The increase was primarily the result of stock options that were granted to former Vaquero and White Fire employees that have remained with Highpine.

*Interest and Finance Costs*

Interest and finance costs for the first quarter of 2006 were $1.1 million, a 39% increase over the $0.8 million recorded in the first quarter a year ago. Although March 31, 2006 bank debt was lower than March 31, 2005 bank debt, average year-over-year debt levels were higher resulting in increased interest and finance costs. The Company used the proceeds of its February 22, 2006 equity financing to reduce bank debt.

*Depletion, Depreciation and Accretion*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Depletion, depreciation and accretion *($000s)* | **29,160** | 5,433 | 437 |
| $/boe | **28.43** | 17.94 | 58 |

Depletion, depreciation and accretion totaled $29.2 million or $28.43/boe for the first quarter of 2006 compared to $5.4 million or $17.94/boe a year ago, a 58% increase on a per boe basis. The increase is attributable to significant facility expenditures incurred in 2006 combined with the acquisition costs of Vaquero and White Fire.

*Income Taxes*

Cash taxes of $0.2 million for 2006 (2005 – $0.1 million) relate to the Federal Large Corporation Tax. Large Corporation Tax was higher in the first quarter of 2006 due to a higher capital tax base resulting from the Company’s equity financings and corporate acquisitions. Although current tax horizons depend on product prices, production levels and the nature, magnitude and timing of capital expenditures, Highpine's management currently believes no cash income tax will be payable in 2006.

*Cash Flow and Net Earnings*

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| Cash flow from operations *($000s)* | **31,546** | 6,940 | 354 |
| Per diluted share *($)* | **0.65** | 0.32 | 103 |
| Net earnings *($000s)* | **1,291** | 768 | 68 |
| Per diluted share *($)* | **0.03** | 0.04 | (25) |

Cash flow from operations increased 354% to $31.5 million for the three months ended March 31, 2006 compared to $6.9 million in the prior year as a result of stronger commodity prices and significantly higher production volumes. Net earnings rose 68% to $1.3 million in the first quarter of 2006 from $0.8 million a year ago. Year-over-year earnings per diluted share decreased 25% as a result of higher depletion, depreciation and accretion expense.

*Liquidity and Capital Resources*

At March 31, 2006, the Company had a revolving term credit facility of $130 million and a demand operating credit facility of $20 million. At March 31, 2006, Highpine had drawn $34.3 million against the facilities representing 23% of available credit facilities, providing excess credit capacity of $115.7 million. At March 31, 2006, Highpine had a working capital deficiency of $11.9 million and net debt of $46.2 million. The ratio of March 31, 2006 net debt to annualized first quarter 2006 cash flow was 0.37 times. Net debt decreased significantly from December 31, 2005 to March 31, 2006 as a result of applying $96.3 million of net proceeds from the February 22, 2006 issuance of 4.3 million Common Shares at a price of $23.40 per share against outstanding bank debt.

| As at | **March 31, 2006** | December 31, 2005 | % Change |
|---|---|---|---|
| *($000s)* | | | |
| **Capitalization** | | | |
| Bank debt | **34,356** | 104,707 | (67) |
| Working capital deficiency | **11,893** | 4,892 | 143 |
| Net debt | **46,249** | 109,599 | (58) |
| Shares outstanding | **52,772** | 44,250 | 19 |
| Market price at end of period *($)* | **23.25** | 20.70 | 12 |
| Market capitalization | **1,226,949** | 915,975 | 34 |
| Total capitalization | **1,273,198** | 1,025,574 | 24 |
| Net debt as a % of total capitalization | **4%** | 11% | (64) |
| Annualized cash flow | **126,184** | 74,550 | 69 |
| Net debt to cash flow | **0.37** | 1.47 | (75) |

Highpine's remaining 2006 capital budget will be funded from available bank debt and cash flow from operations.

At May 9, 2006, Highpine's bank debt was approximately $55 million.

*Capital Expenditures*

Capital expenditures, excluding corporate acquisitions and net of property dispositions, were $46.8 million for the quarter ended March 31, 2006 compared to $34.8 million in 2005. Highpine drilled 28 gross wells (14.7 net) during the quarter at a cost of $25.4 million. An additional $8.5 million was incurred equipping and tieing-in wells. Highpine acquired lands at Pembina and in the West Central Alberta Gas Fairway at Crown land sales at a cost of $9.0 million. Highpine also incurred $3.0 million of seismic expenditures primarily in the Pembina region.

| Three Months Ended March 31, | **2006** | 2005 | % Change |
|---|---|---|---|
| *($000s)* | | | |
| Land | **8,952** | 14,301 | (37) |
| Seismic | **2,974** | 1,785 | 67 |
| Drilling and completions | **25,426** | 9,132 | 178 |
| Facilities and equipment | **8,478** | 9,344 | (9) |
| Property acquisitions and disposition (net) | **210** | -- | 100 |
| Capitalized general and administrative | **596** | 144 | 314 |
| Office and other | **133** | 51 | 161 |
| Total | **46,769** | 34,757 | 35 |

*Shareholders' Equity*

On February 21, 2006, the Company issued 4.1 million Common Shares to acquire all of the issued and outstanding shares of White Fire. The Common Shares had an ascribed value of $95.5 million.

On February 22, 2006, the Company issued 4.3 million Common Shares at a price of $23.40 per share for gross proceeds totaling $100.6 million. Costs associated with the issuance of the Common Shares totaled $4.3 million resulting in net proceeds of $96.3 million.

*Outstanding Common Shares*

As at May 9, 2006, the Company had 52.8 million Common Shares outstanding and had granted options to employees to acquire a further 4.7 million Common Shares.

## 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 2 to the December 31, 2005 consolidated financial statements. A summary of Highpine's critical accounting estimates can be found in the Company's Management's Discussion and Analysis for the year ended December 31, 2005.

## Business Risks and Uncertainties

Highpine is exposed to numerous risks and uncertainties associated with the exploration for and development, production and acquisition of crude oil, natural gas and NGLs. Primary risks include:

- Uncertainty associated with obtaining drilling licenses;
- Finding and producing reserves economically;
- Marketing reserves at acceptable prices; and
- Operating with minimal environmental impact.

Highpine strives to minimize and manage these risks in a number of ways, including:

- Employing qualified professional and technical staff;
- Communicating openly with members of the public regarding its activities;
- Concentrating in a limited number of areas;
- Utilizing the latest technology for finding and developing reserves;
- Constructing quality, environmentally sensitive, safe production facilities;
- Maximizing operational control of drilling and producing operations; and
- Minimizing commodity price risk through strategic hedging.

**Summary of Quarterly Results**

| | **2006** | | 2005 | | | | 2004 | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| *($000s, except per share amounts)* | | | | | | | | |
| **Financial** | | | | | | | | |
| Total revenue[1] | **64,416** | 54,229 | 51,495 | 21,817 | 14,092 | 11,941 | 11,676 | 11,133 |
| Net earnings (loss) | **1,291** | 4,855 | 6,683 | (32) | 768 | 1,046 | 507 | 1,371 |
| Per share – basic | **0.03** | 0.11 | 0.15 | (0.00) | 0.04 | 0.05 | 0.03 | 0.09 |
| Per share – diluted | **0.03** | 0.11 | 0.15 | (0.00) | 0.04 | 0.05 | 0.03 | 0.09 |
| Cash flow from operations | **31,546** | 27,957 | 29,796 | 9,856 | 6,940 | 6,254 | 5,229 | 5,493 |
| Per share – basic | **0.66** | 0.63 | 0.67 | 0.31 | 0.34 | 0.31 | 0.31 | 0.36 |
| Per share – diluted | **0.65** | 0.62 | 0.65 | 0.31 | 0.32 | 0.31 | 0.31 | 0.36 |
| Corporate acquisitions | **89,651** | -- | -- | 257,314 | -- | -- | -- | -- |
| Capital expenditures[2] | **46,769** | 50,861 | 48,149 | 19,839 | 34,757 | 23,619 | 12,305 | 16,711 |
| Total assets | **910,157** | 753,690 | 715,360 | 677,834 | 198,599 | 163,388 | 138,941 | 129,187 |
| **Operating** | | | | | | | | |
| Average daily production | | | | | | | | |
| Oil and NGLs *(bbls/d)* | **7,950** | 5,881 | 5,562 | 2,617 | 1,816 | 1,897 | 1,812 | 1,628 |
| Gas *(mcf/d)* | **20,681** | 16,006 | 18,277 | 11,593 | 9,293 | 6,784 | 7,091 | 6,759 |
| Total *(boe/d)* | **11,397** | 8,549 | 8,608 | 4,549 | 3,365 | 3,027 | 2,994 | 2,754 |

(1) Total revenue is after realized and unrealized hedging losses and gains.
(2) Capital expenditures are net of property dispositions.

Highpine's revenue has increased through the previous eight quarters primarily as a result of production from the properties acquired on the acquisitions of Vaquero in May 2005 and White Fire in February 2006 as well as the Company's drilling programs.

## CONSOLIDATED BALANCE SHEETS

| As at | **March 31, 2006** | December 31, 2005 |
|---|---|---|
| *($000s) (unaudited)* | | |
| Assets | | |
| Current assets | | |
| Accounts receivable | **51,655** | 40,716 |
| Prepaid expenses and deposits | **1,526** | 1,795 |
| Financial instruments *(note 7)* | **2,905** | 763 |
| | **56,086** | 43,274 |
| Property, plant and equipment *(note 3)* | **601,040** | 493,330 |
| Long-term investment, at cost | **1,150** | 1,000 |
| Deferred charges | **--** | 251 |
| Goodwill *(note 2)* | **251,881** | 215,835 |
| | **910,157** | 753,690 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **65,074** | 47,403 |
| Bank indebtedness *(note 5)* | **34,356** | 104,707 |
| | **99,430** | 152,110 |
| Future income taxes | **94,712** | 84,167 |
| Asset retirement obligations *(note 4)* | **7,493** | 5,898 |
| Deferred lease inducements | **471** | 492 |
| Shareholders' equity | | |
| Share capital *(note 6)* | **673,885** | 479,496 |
| Contributed surplus *(note 6)* | **4,975** | 3,627 |
| Retained earnings | **29,191** | 27,900 |
| | **708,051** | 511,023 |
| | **910,157** | 753,690 |

*See accompanying notes to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

| For the Three Months Ended March 31, | **2006** | 2005 |
|---|---|---|
| *($000s, except per share amounts) (unaudited)* | | |
| Revenues | | |
| Oil and gas revenues | **61,806** | 14,973 |
| Royalties, net of Alberta Royalty Tax Credits | **(19,994)** | (3,816) |
| Financial instruments | | |
| Realized gains (losses) | **468** | (881) |
| Unrealized gains | **2,142** | -- |
| | **44,422** | 10,276 |
| Interest and other income | **18** | -- |
| | **44,440** | 10,276 |
| Expenses | | |
| Operating costs | **6,895** | 1,396 |
| Transportation costs | **518** | 220 |
| General and administrative | **1,995** | 846 |
| Depletion, depreciation and accretion | **29,160** | 5,433 |
| Interest and finance costs | **1,143** | 824 |
| Stock-based compensation *(note 6)* | **1,520** | 278 |
| | **41,231** | 8,997 |
| Earnings before taxes | **3,209** | 1,279 |
| Taxes | | |
| Current | **180** | 50 |
| Future | **1,738** | 461 |
| | **1,918** | 511 |
| Net earnings | **1,291** | 768 |
| Retained earnings, beginning of period | **27,900** | 23,992 |
| Stock dividend and adjustment | **--** | (8,366) |
| Retained earnings, end of period | **29,191** | 16,394 |
| Net earnings per share *(note 6)* | | |
| Basic | **0.03** | 0.04 |
| Diluted | **0.03** | 0.04 |

*See accompanying notes to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the Three Months Ended March 31, | **2006** | 2005 |
|---|---|---|
| *($000s) (unaudited)* | | |
| Cash provided by (used in): | | |
| Operating Activities | | |
| Net earnings | **1,291** | 768 |
| Items not involving cash: | | |
| Depletion, depreciation and accretion | **29,160** | 5,433 |
| Future income taxes | **1,738** | 461 |
| Stock-based compensation | **1,520** | 278 |
| Unrealized gains on financial instruments | **(2,142)** | -- |
| Amortization of deferred lease inducements | **(21)** | -- |
| Funds from operations | **31,546** | 6,940 |
| Change in non-cash operating working capital | **(16,121)** | (5,857) |
| | **15,425** | 1,083 |
| Financing Activities | | |
| Common shares issued for cash, net of share issue costs | **96,281** | 1 |
| Proceeds on exercise of stock options | **998** | -- |
| (Decrease) increase in bank indebtedness | **(74,821)** | 29,145 |
| Deferred charges | **--** | (658) |
| | **22,458** | 28,488 |
| Investing Activities | | |
| Property, plant and equipment additions | **(46,769)** | (34,757) |
| Purchase of investments | **(150)** | -- |
| Net cash paid on business combination *(note 2)* | **(527)** | -- |
| Deferred charges | **251** | -- |
| Change in non-cash investing working capital | **9,312** | 5,186 |
| | **(37,883)** | (29,571) |
| Change in cash and cash equivalents | **--** | -- |
| Cash and cash equivalents, beginning of period | **--** | -- |
| Cash and cash equivalents, end of period | **--** | -- |
| Cash interest paid | **748** | 407 |
| Cash taxes paid | **280** | 216 |

*See accompanying notes to the consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2006 and 2005

### 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, 2005.

### 2. Acquisition of White Fire Energy Ltd.

On February 21, 2006, Highpine acquired White Fire Energy Ltd. ("White Fire") for consideration of 4.1 million class A common shares with an ascribed value of $95.5 million. White Fire 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:

| *($000s)* | |
|---|---|
| **Net assets acquired and liabilities assumed** | |
| Property, plant and equipment (including unproved properties totaling $25,800) | 89,651 |
| Goodwill | 36,046 |
| Working capital (deficiency) | (13,810) |
| Bank debt | (4,470) |
| Asset retirement obligations | (1,145) |
| Future income taxes | (10,265) |
| | 96,007 |
| **Consideration** | |
| Acquisition costs | 527 |
| Class A common shares issued | 95,480 |
| | 96,007 |

The above amounts are estimates made by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and balances are finalized.

### 3. Property, Plant and Equipment

At March 31, 2006, approximately $141.1 million (December 31, 2005 – $112.4 million) of unproved property costs were excluded from the depletion calculation. Future development costs of $15.7 million (December 31, 2004 – $13.3 million) were included in the depletion calculation. During the three months ended March 31, 2006, general and administrative expenses of $0.6 million (March 31, 2005 – $0.1 million) were capitalized.

## 4. Asset Retirement Obligations

At March 31, 2006, the estimated total undiscounted cash flows required to settle asset retirement obligations were $12.4 million. Expenditures to settle asset retirement obligations will be incurred between 2006 and 2026. Estimated cash flows have been discounted using an annual credit adjusted risk-free interest rate of 8.0% per annum and have been inflated using an inflation rate of 2.0% per annum.

Changes to asset retirement obligations were as follows:

| | **Three Months Ended March 31, 2006** | Year Ended December 31, 2005 |
|---|---|---|
| *($000s)* | | |
| Asset retirement obligations, beginning of period | **5,898** | 1,974 |
| Liabilities acquired | **1,145** | 1,903 |
| Liabilities incurred | **332** | 1,694 |
| Liabilities disposed of | **--** | -- |
| Accretion expense | **118** | 327 |
| Asset retirement obligations, end of period | **7,493** | 5,898 |

## 5. Bank Indebtedness

At March 31, 2006, the Company had available a $130 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 lender's 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 lender's 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

| Three Months Ended March 31, 2006 | Shares | Amount |
|---|---|---|
| *(000s)* | *(#)* | *($)* |
| Class A common shares | | |
| Balance, beginning of period | 44,250 | 479,496 |
| Issued to acquire White Fire Energy Ltd. | **4,089** | **95,480** |
| Issued for cash | **4,300** | **100,620** |
| Stock options exercised | **133** | **998** |
| Contributed surplus transferred on exercise of stock options | **--** | **172** |
| Share issue costs less tax effect of $1,458 | **--** | **(2,881)** |
| Balance, end of period | **52,772** | **673,885** |

## 6. Share Capital (continued)

### Per Share Amounts

| Three Months Ended March 31, | **2006** | 2005 |
|---|---|---|
| *(#000s)* | | |
| Weighted average number of common shares outstanding | | |
| Basic | **47,796** | 20,708 |
| Dilutive effect of stock options | **421** | 907 |
| Diluted | **48,217** | 21,615 |

### 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.

A summary of changes is as follows:

| | **Three Months Ended March 31, 2006** | | Year Ended December 31, 2005 | |
|---|---|---|---|---|
| | **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 |
| | *(#000s)* | *($)* | *(#000s)* | *($)* |
| Balance, beginning of period | **3,652** | **13.06** | 1,542 | 5.26 |
| Granted | **1,116** | **21.69** | 2,308 | 18.96 |
| Exercised | **(133)** | **(7.82)** | (47) | (3.89) |
| Cancelled | **--** | **--** | (224) | (17.00) |
| Stock dividend adjustment | **--** | **--** | 73 | -- |
| Balance, end of period | **4,635** | **15.51** | 3,652 | 13.06 |
| Exercisable, end of period | **635** | **4.60** | 556 | 4.33 |

The fair value of stock options granted is estimated using the Black-Scholes option pricing model. The following assumptions were used for the 2006 grants:

| | |
|---|---|
| Expected volatility | 29% |
| Risk-free rate of return | 5.25% |
| Expected option life | 4 years |
| Weighted average fair market value per option | $7.70 |

The Company does not anticipate paying any dividends during the expected life of the options.

## 6. Share Capital (continued)

### Contributed Surplus

| | **Three Months Ended March 31, 2006** | Year Ended December 31, 2005 |
|---|---|---|
| *($000s)* | | |
| Balance, beginning of period | **3,627** | 511 |
| Compensation expense, net of recovery | **1,520** | 3,151 |
| Transferred to share capital on exercise of stock options | **(172)** | (35) |
| Balance, end of period | **4,975** | 3,627 |

## 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 have been entered into:

### Financial WTI Crude Oil Contracts

| Term | Contract | Volume | Fixed Price | Unrealized Gain (Loss) As at March 31, 2006 |
|---|---|---|---|---|
| | | *(bbls/d)* | *($/bbl)* | *(CDN $000s)* |
| Jan 06 to Dec 06 | Collar | 2,000 | US $60.00 to $69.80 | (1,702) |
| Jan 06 to Dec 06 | Collar | 1,000 | US $55.00 to $77.25 | (366) |
| Jan 07 to Dec 07 | Collar | 1,750 | US $55.00 to $86.15 | -- |
| Jan 07 to Dec 07 | Collar | 1,750 | US $60.00 to $80.70 | -- |

### Financial AECO Natural Gas Contract

| Term | Contract | Volume | Fixed Price | Unrealized Gain (Loss) As at March 31, 2006 |
|---|---|---|---|---|
| | | *(GJs/d)* | *($/GJ)* | *(CDN $000s)* |
| Jan 06 to Dec 06 | Collar | 5,000 | CDN $9.00 to $14.70 | 2,905 |

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 an asset in the consolidated balance sheet based on its fair value.

**Reader Advisory**

Statements in this press release contain forward-looking information including expectations of future production and components of cash flow and earnings. 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.

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 Nisku and West Central Alberta Gas Fairway both located in Central Alberta. The Company's class A common shares trade on the Toronto Stock Exchange under the symbol "HPX".

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