



## NEWS RELEASE

### HIGHPINE OIL & GAS LIMITED ANNOUNCES SECOND QUARTER 2007 FINANCIAL AND OPERATIONAL RESULTS

Calgary, Alberta, August 9, 2007 - Highpine Oil & Gas Limited (TSX: HPX) ("**Highpine**" or the "**Company**") announces its financial and operational results for the second quarter ended June 30, 2007 and provides an operational update:

#### FINANCIAL AND OPERATING RESULTS

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<i>(\$000s, except per share and share numbers)</i>						
<b>Financial</b>						
Total revenue <sup>(1)</sup>	<b>103,769</b>	62,765	65	<b>189,680</b>	127,181	49
Cash from operations <sup>(2)</sup>	<b>46,869</b>	34,750	35	<b>91,499</b>	66,296	38
Per share – diluted	<b>0.68</b>	0.65	5	<b>1.35</b>	1.29	5
Net earnings (loss)	<b>1,060</b>	10,594	(90)	<b>(5,346)</b>	11,885	-
Per share – diluted	<b>0.02</b>	0.20	(90)	<b>(0.08)</b>	0.23	-
Net debt <sup>(3)</sup>	<b>178,170</b>	58,057	207	<b>178,170</b>	58,057	207
Total assets	<b>1,415,081</b>	920,941	54	<b>1,415,081</b>	920,941	54
Corporate acquisitions <sup>(4)</sup>	-	-	-	-	89,651	(100)
Capital expenditures <sup>(5)</sup>	<b>24,670</b>	46,590	(47)	<b>100,492</b>	93,359	8
Total shares outstanding (#)	<b>67,744</b>	52,796	28	<b>67,744</b>	52,796	28
Weighted average shares outstanding (#)						
Basic	<b>67,688</b>	52,788	28	<b>67,673</b>	50,306	35
Diluted	<b>68,489</b>	53,741	27	<b>67,673</b>	51,285	32
<b>Operating</b>						
Average daily production						
Crude oil and NGLs ( <i>bbls/d</i> )	<b>11,025</b>	6,940	59	<b>10,888</b>	7,442	46
Natural gas ( <i>mcf/d</i> )	<b>41,449</b>	25,562	62	<b>40,604</b>	23,135	76
Total ( <i>boe/d</i> )	<b>17,933</b>	11,201	60	<b>17,655</b>	11,298	56
Average selling prices <sup>(6)</sup>						
Crude oil and NGLs ( <i>\$/bbl</i> )	<b>66.57</b>	73.23	(9)	<b>65.01</b>	68.76	(5)
Natural gas ( <i>\$/mcf</i> )	<b>8.19</b>	6.62	24	<b>8.21</b>	7.36	12
Total ( <i>\$/boe</i> )	<b>59.86</b>	60.48	(1)	<b>58.97</b>	60.37	(2)
Wells drilled – gross (net) (#)						
Oil	<b>1(0.8)</b>	1(1.0)	-	<b>3(2.2)</b>	4(2.8)	-
Natural Gas	<b>- ( - )</b>	2(0.9)	-	<b>9(5.9)</b>	22(11.0)	-
Abandoned / other	<b>1(0.2)</b>	3(1.7)	-	<b>6(4.4)</b>	9(4.6)	-
Total	<b>2(1.0)</b>	6(3.6)	-	<b>18(12.5)</b>	35(18.4)	-
Drilling success rate (%)	<b>75</b>	67	-	<b>79</b>	78	-

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<b>Operating netback (\$/boe)</b>						
Oil and natural gas sales	<b>59.86</b>	60.48	(1)	<b>58.97</b>	60.37	(2)
Royalties	<b>(16.77)</b>	(17.61)	(5)	<b>(16.92)</b>	(18.56)	(9)
Operating costs	<b>(10.16)</b>	(7.21)	41	<b>(9.69)</b>	(6.96)	39
Transportation costs	<b>(1.10)</b>	(0.78)	41	<b>(1.06)</b>	(0.64)	66
Realized hedging gain	<b>0.61</b>	1.81	(66)	<b>0.87</b>	1.13	(23)
<b>Operating netback</b>	<b>32.44</b>	36.69	(12)	<b>32.17</b>	35.34	(9)

## Notes:

- (1) Total revenue includes realized and unrealized hedging losses and gains.
- (2) Cash from operations is calculated as cash flow from operating activities before the change in non-cash working capital and abandonment expenditures.
- (3) Net debt includes working capital excluding unrealized financial instruments.
- (4) Corporate acquisitions only include the amounts allocated to property, plant and equipment.
- (5) Capital expenditures include property acquisitions and are presented net of proceeds of disposals.
- (6) The average selling prices reported are before hedging activities.

## SECOND QUARTER HIGHLIGHTS

- Second quarter production averaged 17,933 boe/d consisting of 11,025 bbls/d of oil and NGL's and 41.45 mmcf/d of gas, compared to 11,201 boe/d in the second quarter of 2006, an increase of 60 percent.
- Production per diluted share in the second quarter was up 26 percent compared to the same period in 2006.
- Total revenue before hedging increased 58 percent to \$97.7 million from \$61.6 million in the second quarter of 2006.
- Cash from operations increased 35 percent to \$46.9 million from \$34.8 million in the second quarter of 2006. Cash flow per diluted share was \$0.68. Earnings were \$1.1 million (\$0.02 per diluted share).
- Capital expenditures during the quarter were \$24.7 million compared to \$46.6 million during the same period in 2006.
- Highpine obtained four (4) critical sour Nisku well licences in the Pembina area during the second quarter. Currently, 19 Nisku well licence applications are awaiting approval at the Energy Utilities Board ("EUB").
- During the second quarter, 2 wells were drilled resulting in 1 (0.8 net) oil well and 1 (0.2 net) dry hole. During the first half of 2007, 18 (12.5 net) wells were drilled resulting in 3 (2.2 net) oil wells 9 (5.9 net) gas wells 2 (1.7 net) service wells and 4 (2.7 net) dry holes.
- The Company has a drilling inventory of over 325 net locations in Pembina and West Central Alberta. At our current pace of 45 to 65 net wells per year, this equates to over five years of drilling inventory.
- Highpine ended the second quarter with total debt (including working capital deficiency) of \$178.2 million on a credit facility of \$250 million.

## OPERATIONS UPDATE

During the second quarter, production averaged 17,933 boe/d, despite the shut-in of our prolific 9-35-48-8 W5M well in the "WW" Pool from April 7, 2007 through the balance of the quarter. Water injection recommenced into the "WW" Pool June 23, 2007 with the reservoir pressure exceeding MOP (Minimum Operating Pressure) by mid July and production recommencing July 23, 2007 at over 2,000 boe/d. Also our 3-34-48-8 W5M "SS" well is scheduled to resume normal production in the range of 300 boe/d by late August, after installation of an ESP (electric submersible pump). This well had also been shut-in for the second quarter.

Spring breakup normally occurs in the second quarter, reducing drilling and other field activities and this year was no exception. We participated in just two wells in the quarter; one oil well and one dry hole.

In the third quarter to-date, 2 (1.0 net) Rock Creek wells have been drilled and cased and are scheduled for completion this month. However, three (3) drilling rigs are currently active on Company operated wells all targeting the Nisku formation. The Company plans to have 2 to 4 drilling rigs active targeting the Nisku and Rock Creek horizons operating through the balance of 2007 and into 2008.

Going forward into the third quarter, we have had several plant issues arise from third party operated facilities. One of our important but non-operated sour gas processing facilities went down on July 7, 2007 for four days of unscheduled plant maintenance and did not resume production until August 5, 2007. Further, the operator of the "II" and "QQ" Pool shut down production from these pools from July 15 to July 31 for unscheduled plant modifications. Compounding all of this has been unusually wet weather in Pembina, slowing down all field activities. The net result is that our previous forecasted production increases will likely be deferred until September, as August had always been a scheduled plant maintenance month for another major plant which processes our sour gas.

Highpine has been successful in obtaining four (4) critical sour Nisku well licences in the Pembina area during the second quarter. We have 19 Nisku well licence applications filed with the EUB awaiting licencing approval (9 of which will be going to EUB public hearings). Highpine is working on 16 additional Nisku well licence applications that will be submitted to the EUB for approval during the third and fourth quarter. The Company has an EUB public hearing date set for September 17, 2007 for two Nisku wells near the community of Rocky Rapids and has requested two additional hearings for seven (7) well locations. Highpine is awaiting the EUB to set public hearing dates.

Highpine's board of directors has approved an incremental \$22 million for its capital program for the remainder of 2007 to drill an additional twelve (12) Rock Creek gas wells in the Pembina area. Highpine has identified in excess of 150 Rock Creek drilling locations on Company lands in Pembina.

## OUTLOOK

Highpine's Pembina drilling inventory continues to expand in both the Nisku and Rock Creek hydrocarbon horizons. The Company continues to acquire land and farmin to other operators as we expand our position in West Pembina. Under a recently secured pooling and farmin agreement, the Company will drill 5 new Nisku reefs defined on 3D seismic to earn 100% working interest in up to five and one half (5.5) sections of land adjacent to the Company's holdings in Pembina.

The Company has the potential to annually drill 25 to 35 net Pembina Nisku wells and 20 to 30 net Rock Creek wells, for at least the next three years.

Highpine will continue to evaluate select strategic acquisitions that complement and augment "organic" production and reserve growth.

Given third party operational issues and shutdowns, compositional gas/condensate/oil phase behavior changes, and the late start to the summer drilling program, the 2007 average annual guidance is expected to be 18,500 boe/d.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is dated and based on information at August 8, 2007. This MD&A has been prepared by management and should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended June 30, 2007 and audited consolidated financial statements for the years ended December 31, 2006 and 2005 for a complete understanding of the financial position and results of operations of Highpine Oil & Gas Limited ("Highpine" or the "Company").

Certain information set forth in this MD&A contains forward-looking statements including expectations of future production, procurement of drilling permits, plans for and results of exploration and development activities and other operational developments and components of cash flow and earnings. Readers are cautioned that assumptions used in the preparation of such statements may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, as 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 natural gas industry, commodity prices, and exchange rate changes. Industry related risks include, but are not limited to: operational risks in exploration, development and production of oil and natural gas and production risks associated with sour hydrocarbons, dependence on third-party owned and operated production facilities, availability of skilled personnel and services, failure to obtain industry partner, regulatory and other third-party consents and approvals, 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 reserves, production, costs and expenses. The risks outlined above should not be construed as exhaustive. Readers are cautioned not to place undue reliance on these statements. The Company undertakes no obligation to update or revise any forward-looking statements except as required by applicable securities laws.

This MD&A uses the terms "cash flow from operations," "cash flow" and "cash flow per share," 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 demonstrates Highpine's ability to generate cash necessary to repay debt or fund future growth through capital investment. 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 may not be comparable to measures used by other companies. Highpine calculates cash from operations as cash from operating activities before the change in non-cash working capital related to operating activities and abandonment expenditures.

The following table reconciles the cash flow from operating activities to cash from operations:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
(\$000s)				
Cash flow from operating activities	<b>46,898</b>	45,273	<b>92,643</b>	60,698
Change in non-cash operating working capital	<b>(258)</b>	(10,569)	<b>(1,889)</b>	5,552
Abandonment expenditures	<b>229</b>	46	<b>745</b>	46
Cash from operations	<b>46,869</b>	34,750	<b>91,499</b>	66,296

Highpine also uses operating netback 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, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.highpineog.com](http://www.highpineog.com).

## Financial Results

### Oil and Natural Gas Revenue

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<i>(\$000s)</i>						
Crude oil and natural gas liquids (NGLs) revenue	<b>66,789</b>	46,251	44	<b>128,123</b>	92,619	38
Natural gas revenue	<b>30,896</b>	15,393	101	<b>60,313</b>	30,831	96
	<b>97,685</b>	61,644	58	<b>188,436</b>	123,450	53
Realized hedging gain	<b>1,000</b>	1,840	(46)	<b>2,795</b>	2,308	21
Unrealized hedging gain (loss)	<b>5,084</b>	(719)	-	<b>(1,551)</b>	1,423	-
Total oil and natural gas revenue	<b>103,769</b>	62,765	65	<b>189,680</b>	127,181	49

For the six months ended June 30, 2007 total oil and natural gas revenue increased to \$189.7 million from \$127.2 million for the six months ended June 30, 2006 due to production volume increases.

For the three months ended June 30, 2007, total oil and gas revenue increased to \$103.8 million from \$62.8 million for the three months ended June 30, 2006 due to production volume increases and a \$5.1 million unrealized hedging gain.

### Production

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<b>Daily Production</b>						
Crude oil and NGLs <i>(bbls/d)</i>	<b>11,025</b>	6,940	59	<b>10,888</b>	7,442	46
Natural gas <i>(mcf/d)</i>	<b>41,449</b>	25,562	62	<b>40,604</b>	23,135	76
Boe/d	<b>17,933</b>	11,201	60	<b>17,655</b>	11,298	56
<b>Production Mix</b>						
Crude oil and NGLs	61%	62%	(2)	62%	66%	(6)
Natural gas	39%	38%	3	38%	34%	12
	100%	100%	-	100%	100%	-

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<i>(boe/d)</i>						
<b>Daily Production by Area</b>						
Pembina Nisku Fairway	<b>14,166</b>	7,584	87	<b>13,667</b>	8,033	70
West Central Alberta Gas Fairway	<b>2,959</b>	2,840	4	<b>3,146</b>	2,389	32
Bantry / Retlaw	<b>564</b>	460	23	<b>576</b>	478	21
Other	<b>244</b>	317	(23)	<b>266</b>	398	(33)
Total	<b>17,933</b>	11,201	60	<b>17,655</b>	11,298	56

Production for the six months ended June 30, 2007 increased 56 percent to 17,655 boe/d from 11,298 boe/d for the six months ended June 30, 2006. The increase is attributable to production from the

acquisition of Kick Energy Corporation (“Kick”) on August 1, 2006 and new production from the Company’s drilling program.

Production for the three months ended June 30, 2007 increased 60 percent to 17,933 boe/d from 11,201 boe/d for the three months ended June 30, 2006. The increase in production is a result of bringing new wells from the Company’s drilling program on stream.

#### Pricing

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<b>Selling Prices Before Hedges</b>						
Crude oil and NGLs <i>(\$/bbl)</i>	<b>66.57</b>	73.23	(9)	<b>65.01</b>	68.76	(5)
Natural gas <i>(\$/mcf)</i>	<b>8.19</b>	6.62	24	<b>8.21</b>	7.36	12
Total combined <i>(\$/boe)</i>	<b>59.86</b>	60.48	(1)	<b>58.97</b>	60.37	(2)

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<b>Benchmark Prices</b>						
WTI oil <i>(US\$/bbl)</i>	<b>64.94</b>	70.70	(8)	<b>61.46</b>	67.13	(8)
US\$/Cdn\$ exchange rate	<b>0.91</b>	0.89	2	<b>0.88</b>	0.88	-
AECO natural gas <i>(\$/mcf)</i>	<b>7.09</b>	6.03	18	<b>7.24</b>	6.76	7

A decrease in the WTI benchmark price for crude oil of 8 percent combined with a stronger Canadian dollar resulted in a lower realized price for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. Average AECO prices were 18 percent higher in the second quarter of 2007 compared to the second quarter of 2006 resulting in higher realized natural gas prices.

The WTI benchmark price for crude oil was 8 percent lower for the first six months of 2007 compared to the first six months of 2006. Average AECO prices were 7 percent higher for the first six months of 2007 compared to the first six months of 2006.

#### Commodity Price Risk Management

Highpine’s ability to execute its business strategy is dependent on generating cash flow that can be reinvested into its capital program. Highpine utilizes financial and physical commodity price hedges to protect cash flow against commodity price volatility. Highpine may enter into commodity price hedges to a maximum of 50 percent of budgeted production.

Six months ended June 30,	2007			2006
	Crude Oil & NGLs (bbl)	Natural Gas (mcf)	Total (boe)	Total (boe)
Average volumes hedged (per day)	<b>5,500</b>	<b>14,583</b>	<b>7,931</b>	3,972
Percent of production hedged	<b>51%</b>	<b>36%</b>	<b>45%</b>	35%
Realized hedging gain (\$)	<b>1.03</b>	<b>0.10</b>	<b>0.87</b>	1.13

For the six months ended June 30, 2007, Highpine realized a \$0.8 million natural gas hedging gain and a \$2.0 million crude oil hedging gain. For the six months ended June 30, 2006, Highpine realized a \$2.5 million natural gas hedging gain and a \$0.2 million crude oil hedging loss.

For the three months ended June 30, 2007, Highpine realized a \$5.1 million unrealized hedging gain. The gain was primarily related to weakening forward prices for natural gas.

Six months ended June 30,	2007			2006
	Crude Oil & NGLs	Natural Gas	Total	Total
<i>(\$000s)</i>				
Realized hedging gain	2,030	765	2,795	2,308
Unrealized hedging gain (loss)	(1,644)	93	(1,551)	1,423
Total hedging gain (loss)	386	858	1,244	3,731

The following contracts were outstanding at June 30, 2007:

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
Jan 07 to Dec 07	Oil Swap	500 bbls/d	Cdn \$73.00/bbl
Jan 07 to Dec 07	Oil Swap	500 bbls/d	Cdn \$73.70/bbl
Jan 07 to Dec 07	Oil Swap	500 bbls/d	Cdn \$74.70/bbl
Jan 07 to Dec 07	Oil Swap	500 bbls/d	Cdn \$75.82/bbl
Jan 07 to Dec 07	Natural Gas Swap	2,500 GJs/d	Cdn \$7.55/GJ
Jan 07 to Dec 07	Natural Gas Swap	2,500 GJs/d	Cdn \$7.62/GJ
Feb 07 to Mar 08	Natural Gas Swap	1,250 GJs/d	Cdn \$7.68/GJ
Feb 07 to Mar 08	Natural Gas Swap	1,250 GJs/d	Cdn \$7.70/GJ
Jul 06 to Mar 08	Natural Gas Collar	5,000 GJs/d	Cdn \$6.00 to \$11.10/GJ

As at June 30, 2007, the unrealized mark-to-market loss on outstanding crude oil contracts was \$0.5 million and the unrealized mark-to-market gain on outstanding natural gas contracts was \$2.2 million.

#### Royalty Expense

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Total royalties, net of ARTC <i>(\$000s)</i>	27,361	17,952	52	54,079	37,946	43
As a percent of oil and natural gas sales (before hedging)	28%	29%	(3)	29%	31%	(6)
\$/boe	16.77	17.61	(5)	16.92	18.56	(9)

Royalty rates as a percentage of oil and natural gas sales were slightly lower in the second quarter of 2007 compared to the second quarter of 2006. The decrease in royalties as a percentage of revenues is due to certain wells with gross overriding royalties being shut-in during the quarter combined with receiving a royalty refund relating to a 2006 Gas Cost Allowance adjustment.

Royalty rates as a percentage of oil and natural gas sales were lower during the first six months of 2007 compared to the first six months of 2006 primarily due to wells with gross overriding royalties comprising a lower proportion of the Company's total production.

During the year ended December 31, 2006, the Company received \$500,000 of Alberta Royalty Tax credits (ARTC). The ARTC program has been discontinued for 2007.

#### Operating Costs

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Operating costs <i>(\$000s)</i>	16,586	7,348	126	30,960	14,243	117
\$/boe	10.16	7.21	41	9.69	6.96	39

For the six and three months ended June 30, 2007, operating costs on a per boe basis increased 39 percent and 41 percent respectively compared to the comparative 2006 periods. The increases were a result of higher processing costs on increased Pembina sour production realized in 2007 including higher processing charges on volumes processed at third party facilities. In addition, the Company has experienced more work-over costs in 2007.

#### Transportation Costs

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Transportation costs (\$000s)	<b>1,800</b>	794	127	<b>3,392</b>	1,312	159
\$/boe	<b>1.10</b>	0.78	41	<b>1.06</b>	0.64	66

For the six and three months ended June 30, 2007, transportation costs on a per boe basis increased 66 percent and 41 percent respectively compared to the comparative 2006 periods. The increase is attributable to higher sulphur transportation charges as a result of the increase in sour oil production combined with railway interruptions during 2007.

#### Operating Netback

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<i>(\$/boe)</i>						
Sales price before hedging	<b>59.86</b>	60.48	(1)	<b>58.97</b>	60.37	(2)
Royalties	<b>(16.77)</b>	(17.61)	(5)	<b>(16.92)</b>	(18.56)	(9)
Operating costs	<b>(10.16)</b>	(7.21)	41	<b>(9.69)</b>	(6.96)	39
Transportation costs	<b>(1.10)</b>	(0.78)	41	<b>(1.06)</b>	(0.64)	66
Netback before hedges	<b>31.83</b>	34.88	(9)	<b>31.30</b>	34.21	(9)
Realized hedging gain	<b>0.61</b>	1.81	(66)	<b>0.87</b>	1.13	(23)
Operating netback	<b>32.44</b>	36.69	(12)	<b>32.17</b>	35.34	(9)

Operating netback before realized hedging gains was \$31.83/boe for the three months ended June 30, 2007 compared to \$34.88/boe for the three months ended June 30, 2006. The \$3.05/boe decrease is primarily attributable to higher operating costs as a result of increases in processing costs relating to increased sour oil production combined with higher work-over expenditures.

Operating netback before realized hedging gains was \$31.30/boe for the six months ended June 30, 2007 compared to \$34.21/boe for the six months ended June 30, 2006. The 9 percent decrease was due to a combination of lower commodity prices and higher operating and transportation costs.

#### General and Administrative Expenses

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Gross expenses (\$000s)	<b>4,195</b>	2,899	45	<b>8,320</b>	5,490	52
Capitalized (\$000s)	<b>(796)</b>	(702)	13	<b>(1,566)</b>	(1,298)	21
Net expenses (\$000s)	<b>3,399</b>	2,197	55	<b>6,754</b>	4,192	61
\$/boe	<b>2.08</b>	2.16	(4)	<b>2.11</b>	2.05	3
percent capitalized	<b>19%</b>	24%	(21)	<b>19%</b>	24%	(21)

Gross expenses increased 52 percent to \$8.3 million in the first six months of 2007 from \$5.5 million in the first six months of 2006 as a result of staff increases necessary to manage the growth of the Company and severance costs incurred. At June 30, 2007, Highpine had 63 Calgary based office employees compared to 53 at June 30, 2006. On a per boe basis, general and administrative expenses increased 3 percent to \$2.11/boe from \$2.05/boe in the first six months of 2006.

### Stock-Based Compensation

Stock-based compensation expense totaled \$2.0 million in the first six months of 2007 compared to \$3.0 million in the first six months of 2006. The decrease is attributable to options cancelled in the quarter which resulted in a recovery of previously recognized stock-based compensation expense.

On March 21, 2007, 1.9 million stock options which had been granted to non-officer employees at exercise prices ranging from \$14.92 to \$23.25 were repriced to an exercise price of \$12.05. The vesting period of all repriced options was reset such that the repriced options vest as to one-quarter thereof on each of the first, second, third and fourth anniversaries of the repricing. An additional \$5.1 million of stock based compensation expense will be recorded over the four year vesting period of the repriced options as a result of the reprice.

### Interest and Finance Costs

Interest and finance costs for the first six months of 2007 were \$4.5 million versus \$1.9 million in the first six months of 2006. This increase was primarily due to higher average debt levels.

### Depletion, Depreciation and Accretion

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Depletion and depreciation (\$000s)	48,940	29,605	65	94,325	58,647	61
Accretion of asset retirement obligation (\$000s)	226	150	51	451	268	68
Total DD&A	49,166	29,755	65	94,776	58,915	61
DD&A rate \$/boe	30.13	29.20	3	29.66	28.81	3

The depletion, depreciation, and accretion (DD&A) rate increased to \$30.13/boe in the second quarter of 2007 from \$29.20/boe in the second quarter of 2006. The higher DD&A rate is primarily attributable to the Kick acquisition for which Highpine recorded a higher proportionate cost per barrel of proved reserves compared to the Company's existing properties.

### Income Taxes

The Company did not incur any cash taxes during the first six months of 2007. For 2007 and subsequent years, Crown charges are fully deductible for income tax purposes. Resource allowance which was intended to compensate taxpayers for non-deductible Crown charges has also been eliminated.

Although current tax horizons depend on product prices, production levels and the nature, magnitude and timing of capital expenditures, the Company currently believes no cash income tax will be payable in 2007 or 2008.

### Cash From Operations and Net Earnings

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Cash from operations (\$000s)	46,869	34,750	35	91,499	66,296	38
Per diluted share (\$)	0.68	0.65	5	1.35	1.29	5
Net earnings(loss) (\$000s)	1,060	10,594	(90)	(5,346)	11,885	-
Per diluted share (\$)	0.02	0.20	(90)	(0.08)	0.23	-

For the six months ended June 30, 2007, cash from operations increased 38 percent to \$91.5 million from \$66.3 million for the six months ended June 30, 2006 due to production increases realized. Cash flow per diluted share increased 5 percent to \$1.35.

During the first six months of 2007, Highpine incurred a net loss of \$5.3 million, compared to net earnings of \$11.9 million for the six months ended June 30, 2006. Net earnings for the six months ended June 30, 2006 included a \$9.1 million non-recurring future tax reduction realized as a result of enacted Canadian federal and Alberta tax rate reductions.

#### *Liquidity and Capital Resources*

At June 30, 2007, the Company had a revolving term credit facility of \$230 million and a demand operating credit facility of \$20 million with \$172 million drawn against these facilities, thereby providing remaining credit capacity of \$78 million. At June 30, 2007, the Company had a working capital deficiency of \$6 million and net debt of \$178 million.

As at	<b>June 30, 2007</b>	December 31, 2006
<i>(\$000s)</i>		
<b>Capitalization</b>		
Bank debt	<b>171,943</b>	138,890
Working capital deficiency <sup>(1)</sup>	<b>6,227</b>	30,680
Net debt	<b>178,170</b>	169,570
Shares outstanding (#)	<b>67,744</b>	67,648
Market price at end of period (\$)	<b>14.25</b>	15.70
Market capitalization	<b>965,352</b>	1,062,074
Total capitalization	<b>1,143,522</b>	1,231,644
Net debt as a percent of total capitalization	<b>16%</b>	14%
Annualized cash from operations	<b>182,998</b>	127,440
Net debt to annualized cash from operations ratio	<b>0.97</b>	1.33

(1) Working capital excludes unrealized financial instruments.

On May 3, 2007, the Company's revolving term credit facility was increased to \$230 million and was extended to May 28, 2008 thereby providing a total available bank line of \$250 million to the Company.

Expenditures to be incurred on Highpine's remaining 2007 capital budget are expected to be funded from the Company's credit facilities and cash from operations.

At August 8, 2007, the Company's bank debt was approximately \$160 million.

### Capital Expenditures

Capital expenditures, excluding corporate acquisitions and property acquisitions, totaled \$100.5 million for the six months ended June 30, 2007 compared to \$78.7 million for the six months ended June 30, 2006. The Company's capital program is heavily weighted to the Pembina Nisku fairway which accounted for 87 percent of capital expenditures for the six months ended June 30, 2007.

	Six months ended June 30,		
	2007	2006	% Change
(\$000s)			
Land	<b>9,566</b>	14,090	(32)
Geologic and geophysical	<b>7,304</b>	5,785	26
Drilling and completions	<b>55,665</b>	37,591	48
Facilities and equipment	<b>26,339</b>	19,761	33
Capitalized general and administrative	<b>1,566</b>	1,298	21
Office and other	<b>52</b>	147	(65)
Total capital expenditures	<b>100,492</b>	78,672	28
Property acquisitions	-	14,687	(100)
Corporate acquisitions <sup>(1)</sup>	-	114,287	(100)
Total capital expenditures and acquisitions	<b>100,492</b>	207,646	(52)

(1) Represents total consideration for the transactions, including fees, but is prior to the related future income tax liability and asset retirement obligation.

### Outstanding Common Shares

As at August 8, 2007, the Company had 67.9 million class A common shares outstanding and had granted options to directors, officers, employees and consultants to acquire a further 4.8 million class A common shares with an average exercise price of \$10.71 per share.

### Change in Accounting Policies

#### Financial Instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855 "Financial Instruments - Recognition and Measurement," section 1530 "Comprehensive Income," section 3865 "Hedges" and section 3861 "Financial Instruments – Disclosure and Presentation". The standards deal with the recognition and measurement of financial instruments and comprehensive income. These standards have been adopted prospectively. Adoption of these standards did not impact January 1, 2007 opening balances. See Note 2 to the consolidated financial statements.

### Critical Accounting Estimates

The preparation of the Company's consolidated 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.

### Internal Controls Over Financial Reporting

Internal controls have been designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with Canadian GAAP. The Company's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting related to the Company, including its consolidated subsidiaries.

The Company's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose herein any change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that materially affected, or is reasonably likely

to materially affect, the Company's internal control over financial reporting. There were no material changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2007.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

### **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 licences and other consents and approvals;
- Finding and producing reserves economically;
- Production risks associated with sour hydrocarbons;
- 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.

### **Environmental Risks**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.

## Selected Annual Information

	2006	2005	2004
<b>Financial</b>			
<i>(\$000s, except per share amounts)</i>			
Total revenue <sup>(1)</sup>	254,938	141,634	41,025
Net earnings	6,953	12,274	3,177
Per share – basic	0.12	0.35	0.19
Per share – diluted	0.12	0.34	0.19
Cash from operations	127,440	74,550	19,773
Per share – basic	2.21	2.13	1.18
Per share – diluted	2.17	2.09	1.16
Corporate acquisitions	379,345	257,314	51,151
Capital expenditures <sup>(2)</sup>	222,214	153,606	61,133
Total assets	1,392,911	753,690	163,388
Long-term debt	138,890	-	-
<b>Operating</b>			
Average daily production			
Oil and NGLs <i>(bbls/d)</i>	7,554	3,984	1,578
Natural Gas <i>(mcf/d)</i>	25,350	13,823	6,423
Total <i>(boe/d)</i>	11,779	6,288	2,648

(1) Total revenue is after realized and unrealized hedging losses and gains.

(2) Capital expenditures are net of property dispositions.

## Summary of Quarterly Results

	2007			2006		2005		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Financial</b>								
<i>(\$000s, except per share amounts)</i>								
Total revenue <sup>(1)</sup>	<b>103,769</b>	85,911	67,552	60,205	62,765	64,416	54,229	51,495
Net earnings (loss)	<b>1,060</b>	(6,406)	(5,446)	514	10,594	1,291	4,855	6,683
Per share – basic	<b>0.02</b>	(0.09)	(0.08)	0.01	0.20	0.03	0.11	0.15
Per share – diluted	<b>0.02</b>	(0.09)	(0.08)	0.01	0.20	0.03	0.11	0.15
Cash from operations	<b>46,869</b>	44,630	29,973	31,171	34,750	31,546	27,957	29,796
Per share – basic	<b>0.69</b>	0.66	0.44	0.50	0.66	0.66	0.63	0.67
Per share – diluted	<b>0.68</b>	0.66	0.44	0.49	0.65	0.65	0.62	0.65
Corporate acquisitions	-	-	-	289,694	-	89,651	-	-
Capital expenditures <sup>(2)</sup>	<b>24,670</b>	75,822	72,711	56,144	46,590	46,769	50,861	48,149
Total assets	<b>1,415,081</b>	1,421,510	1,392,911	1,361,249	920,941	910,157	753,690	715,360
Long-term debt	<b>171,943</b>	157,870	138,890	113,287	-	-	-	-
<b>Operating</b>								
Average daily production								
Oil and NGLs <i>(bbls/d)</i>	<b>11,025</b>	10,750	8,653	6,675	6,940	7,950	5,881	5,562
Natural Gas <i>(mcf/d)</i>	<b>41,449</b>	39,749	30,221	24,837	25,562	20,681	16,006	18,277
Total <i>(boe/d)</i>	<b>17,933</b>	17,375	13,690	10,814	11,201	11,397	8,549	8,608

(1) Total revenue is after realized and unrealized hedging losses and gains.

(2) Capital expenditures are net of property dispositions.

**CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2007</b>	December 31, 2006
<i>(\$000s)(unaudited)</i>		
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	<b>71,706</b>	54,944
Prepaid expenses and deposits	<b>3,203</b>	2,928
Financial instruments <i>(notes 2 and 7)</i>	<b>1,643</b>	3,194
	<b>76,552</b>	61,066
Property, plant and equipment <i>(note 3)</i>	<b>979,283</b>	972,599
Long-term investment, at cost <i>(note 2)</i>	<b>1,150</b>	1,150
Goodwill	<b>358,096</b>	358,096
	<b>1,415,081</b>	1,392,911
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<b>81,136</b>	88,552
Long-term debt <i>(note 4)</i>	<b>171,943</b>	138,890
Future income taxes	<b>150,374</b>	151,802
Asset retirement obligations <i>(note 5)</i>	<b>11,305</b>	11,258
Deferred lease inducements	<b>366</b>	408
<b>Shareholders' equity</b>		
Share capital <i>(note 6)</i>	<b>958,404</b>	957,186
Contributed surplus <i>(note 6)</i>	<b>12,046</b>	9,962
Retained earnings	<b>29,507</b>	34,853
	<b>999,957</b>	1,002,001
	<b>1,415,081</b>	1,392,911

See accompanying notes to the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<i>(\$000s, except per share amounts) (unaudited)</i>				
<b>Revenues</b>				
Oil and natural gas revenues	<b>97,685</b>	61,644	<b>188,436</b>	123,450
Royalties, net of ARTC	<b>(27,361)</b>	(17,952)	<b>(54,079)</b>	(37,946)
Financial instruments <i>(note 7)</i>				
Realized gains	<b>1,000</b>	1,840	<b>2,795</b>	2,308
Unrealized (losses) gains	<b>5,084</b>	(719)	<b>(1,551)</b>	1,423
	<b>76,408</b>	44,813	<b>135,601</b>	89,235
<b>Expenses</b>				
Operating costs	<b>16,586</b>	7,348	<b>30,960</b>	14,243
Transportation costs	<b>1,800</b>	794	<b>3,392</b>	1,312
General and administrative	<b>3,399</b>	2,197	<b>6,754</b>	4,192
Depletion, depreciation and accretion	<b>49,166</b>	29,755	<b>94,776</b>	58,915
Interest and finance costs	<b>2,649</b>	729	<b>4,505</b>	1,854
Stock-based compensation <i>(note 6)</i>	<b>920</b>	1,435	<b>2,041</b>	2,955
	<b>74,520</b>	42,258	<b>142,428</b>	83,471
Earnings (loss) before taxes	<b>1,888</b>	2,555	<b>(6,827)</b>	5,764
<b>Taxes (reduction)</b>				
Current	-	(307)	-	(127)
Future	<b>828</b>	(7,732)	<b>(1,481)</b>	(5,994)
	<b>828</b>	(8,039)	<b>(1,481)</b>	(6,121)
Net earnings (loss) and comprehensive income	<b>1,060</b>	10,594	<b>(5,346)</b>	11,885
Retained earnings, beginning of period	<b>28,447</b>	29,191	<b>34,853</b>	27,900
Retained earnings, end of period	<b>29,507</b>	39,785	<b>29,507</b>	39,785
<b>Net earnings (loss) per share <i>(note 6)</i></b>				
Basic	<b>\$ 0.02</b>	\$ 0.20	<b>\$ (0.08)</b>	\$ 0.24
Diluted	<b>\$ 0.02</b>	\$ 0.20	<b>\$ (0.08)</b>	\$ 0.23

See accompanying notes to the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<i>(\$000s) (unaudited)</i>				
Cash provided by (used in):				
Operating Activities				
Net earnings (loss)	1,060	10,594	(5,346)	11,885
Items not involving cash:				
Depletion, depreciation and accretion	49,166	29,755	94,776	58,915
Future income taxes (reduction)	828	(7,732)	(1,481)	(5,994)
Stock-based compensation	920	1,435	2,041	2,955
Unrealized losses (gains) on financial instruments	(5,084)	719	1,551	(1,423)
Amortization of deferred lease inducements	(21)	(21)	(42)	(42)
Abandonment expenditures	(229)	(46)	(745)	(46)
Change in non-cash operating working capital	258	10,569	1,889	(5,552)
	<b>46,898</b>	45,273	<b>92,643</b>	60,698
Financing Activities				
Common shares issued for cash	-	-	-	100,620
Share issue costs	-	(7)	-	(4,346)
Proceeds on exercise of stock options	962	85	1,138	1,083
Increase (decrease) in bank indebtedness	14,073	26,595	33,053	(48,226)
	<b>15,035</b>	26,673	<b>34,191</b>	49,131
Investing Activities				
Property, plant and equipment additions	(24,670)	(32,118)	(100,492)	(78,677)
Property acquisitions	-	(14,472)	-	(14,682)
Purchase of investments	-	-	-	(150)
Net cash paid on business combination	-	-	-	(527)
Deferred charges	-	-	-	251
Change in non-cash investing working capital	(37,263)	(25,356)	(26,342)	(16,044)
	<b>(61,933)</b>	(71,946)	<b>(126,834)</b>	(109,829)
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	-	-	-	-
Cash interest paid	5,279	827	3,072	1,575
Cash taxes paid	-	88	1,025	368

See accompanying notes to the interim consolidated financial statements.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2007 and 2006

*(tabular amounts in thousands of dollars, unless otherwise noted)*

### 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 policies and follow the same accounting policies as the most recent audited annual consolidated financial statements, except as noted below. 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 consolidated financial statements and the notes thereto for the years ended December 31, 2006 and 2005.

### 2. Change in Accounting Policy

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855, "Financial Instruments - Recognition and Measurement," section 1530 "Comprehensive Income," section 3865 "Hedges" and section 3861 "Financial Instruments – Disclosure and Presentation." These standards have been adopted prospectively. Adoption of these standards did not impact January 1, 2007 opening balances.

#### *i) Financial instruments*

All financial instruments must initially be recognized at fair value on the balance sheet date. The Company has classified each financial instrument into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in other comprehensive income and are transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held for trading, even if the financial instrument does not meet the criteria to designate it as held for trading. The Company has not elected to classify any financial assets or financial liabilities as held for trading unless they meet the held for trading criteria. A held for trading financial instrument is not a loan or receivable and includes one of the following criteria:

- it is a derivative, except for those derivatives that have been designated as effective hedging instruments;
- it has been acquired or incurred principally for the purpose of selling or repurchasing in the near future; or
- it is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

#### *ii) Derivative instruments and hedging activities*

The Company may enter into derivative instrument contracts to manage its commodity price exposure, foreign exchange exposure and interest rate exposure. The Company does not enter into derivative instrument contracts for trading or speculative purposes. The Company may choose to designate derivative instruments as hedges. Hedge accounting continues to be optional.

iii) *Comprehensive income*

Comprehensive income consists of net earnings and other comprehensive income (“OCI”). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI.

### 3. Property, Plant and Equipment

	June 30, 2007		December 31, 2006	
	Cost	Accumulated depletion and depreciation	Net book value	Net book value
Petroleum and natural gas properties	\$ 1,270,949	\$ 294,373	\$ 976,576	\$ 969,784
Land, buildings and leaseholds	2,409	318	2,091	2,170
Office equipment and computers	1,038	422	616	645
	<u>\$ 1,274,396</u>	<u>\$ 295,113</u>	<u>\$ 979,283</u>	<u>\$ 972,599</u>

At June 30, 2007, approximately \$152.3 million (December 31, 2006 – \$152.2 million) of unproved property costs and unevaluated seismic costs were excluded from the depletion calculation. Future development costs of \$39.7 million (December 31, 2006 – \$56.4 million) were included in the depletion calculation. Salvage value of \$23.9 million (December 31, 2006 – \$23.9) was excluded from the depletion calculation.

During the six months ended June 30, 2007, cash general and administrative expenses of \$1.6 million (six months ended June 30, 2006 – \$1.3 million) were capitalized. The Company also capitalized \$1.0 million of stock based compensation expense for the six months ended June 30, 2007.

### 4. Long-Term Debt

At June 30, 2007, the Company had available a \$230 million revolving term credit facility with a syndicate of Canadian financial lenders and a \$20 million demand operating credit facility with a Canadian financial lender.

The revolving term credit facility has a 364-day extendable revolving period plus a one-year maturity. The term date of the revolving term credit facility is May 28, 2008. In the event that the term date on May 28, 2008 is not extended, the balance under the facility will be repayable on May 27, 2009. The revolving term credit facility bears interest within a range of the lenders’ prime rate to prime plus 0.25 percent depending on financial ratios of the Company. The demand operating facility bears interest at the lenders’ prime rate.

The lenders review the credit facilities semi-annually. The facilities are secured by a general security agreement and a first floating charge over all of the Company’s assets.

Interest expense includes \$4.5 million (six months ended June 30, 2006 - \$1.9 million) in respect of debt repayable for a period exceeding one year.

### 5. Asset Retirement Obligations

At June 30, 2007, the estimated total undiscounted cash flows required to settle asset retirement obligations were \$17.9 million (December 31, 2006 – \$17.9 million). Expenditures to settle asset retirement obligations will be incurred between 2007 and 2027. 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:

	Six months ended June 30, 2007	Year ended December 31, 2006
Asset retirement obligations, beginning of period	11,258	5,898
Liabilities acquired	-	3,980
Liabilities incurred	341	1,069
Liabilities settled	(745)	(368)
Accretion expense	451	679
Asset retirement obligations, end of period	11,305	11,258

## 6. Share Capital

Authorized:

- (i) an unlimited number of class A common shares without par value; and
- (ii) an unlimited number of class B common shares without par value issuable in series. The class B common shares are non-voting and are not entitled to the receipt of dividends.

	Six months ended June 30, 2007		Year ended December 31, 2006	
	Shares	Amount	Shares	Amount
	<i>(thousands)</i>	<i>(\$thousands)</i>	<i>(thousands)</i>	<i>(\$thousands)</i>
Class A common shares				
Balance, beginning of period	67,648	957,186	44,250	479,496
Issued to acquire White Fire	-	-	4,089	95,480
Issued to acquire Kick	-	-	14,831	283,269
Issued for cash	-	-	4,300	100,620
Stock options exercised	96	1,138	178	1,202
Contributed surplus transferred on exercise of stock options	-	80	-	225
Share issue costs less tax effect of (2007 - nil; 2006 - \$1,500)	-	-	-	(3,106)
Balance, end of period	67,744	958,404	67,648	957,186

### Per Share Amounts

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	<i>(thousands)</i>	<i>(thousands)</i>	<i>(thousands)</i>	<i>(thousands)</i>
Weighted average number of common shares outstanding				
Basic	67,688	52,788	67,673	50,306
Dilutive effect of stock options	801	953	-	979
Diluted	68,489	53,741	67,673	51,285

### 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.

In March 2007, 1,850,500 stock options previously granted to non-officer employees at exercise prices ranging from \$14.92 to \$23.25 were repriced. The new exercise price was set at \$12.05 which was the closing price of the Company's class A common shares on the day preceding the repricing.

The vesting period of the repriced stock options, including vested stock options, was reset. As a result of the stock options repricing, the fair value of the stock options, calculated using the Black-Scholes model, increased by \$5.1 million. The increase in the fair value of the stock options will be amortized over the four year vesting period of the repriced options. All other characteristics of the repriced options, including the expiry date, remain unchanged.

A summary of changes is as follows:

	<b>Six months ended June 30, 2007</b>		<b>Year ended December 31, 2006</b>	
	<b>Class A Common Shares Issuable Upon Exercise of Options</b>		<b>Class A Common Shares Issuable Upon Exercise of Options</b>	
	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Exercise Price</b>
	<i>(thousands)</i>	<i>(\$/share)</i>	<i>(thousands)</i>	<i>(\$/share)</i>
Balance, beginning of period	<b>5,077</b>	<b>15.80</b>	3,652	13.06
Granted	<b>1,644</b>	<b>12.47</b>	2,016	20.42
Exercised	<b>(96)</b>	<b>(11.84)</b>	(178)	(6.75)
Cancelled	<b>(1,637)</b>	<b>(20.02)</b>	(413)	(18.06)
Repriced	<b>(1,851)</b>	<b>(19.67)</b>	-	-
Repriced	<b>1,851</b>	<b>12.05</b>	-	-
Balance, end of period	<b>4,988</b>	<b>10.57</b>	5,077	15.80
Exercisable, end of period	<b>1,146</b>	<b>5.87</b>	1,271	9.44

Details of the exercise prices and expiry dates of options outstanding at June 30, 2007 are as follows:

Range of Exercise price	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Common Shares Issuable	Weighted Average Years to Expiry	Weighted Average Exercise Price	Common Shares Issuable	Weighted Average Exercise Price
	<i>(thousands)</i>	<i>(years)</i>	<i>(\$/share)</i>	<i>(thousands)</i>	<i>(\$/share)</i>
\$2.60 - \$3.50	552	1.67	\$ 2.76	511	\$ 2.72
\$4.50 - \$5.00	469	2.91	\$ 4.76	349	\$ 4.76
\$8.10 - \$9.00	282	3.43	\$ 8.42	141	\$ 8.42
\$12.05 - \$18.00	3,685	5.58	\$ 12.64	145	\$ 17.17
	4,988	4.77	\$ 10.57	1,146	\$ 5.87

The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following assumptions.

	<b>Six months ended June 30, 2007</b>
Weighted average expected volatility (%)	<b>51</b>
Risk-free rate of return (%)	<b>4.2</b>
Expected option life (years)	<b>4</b>
Weighted average fair value (\$/share)	<b>5.54</b>

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

**Contributed Surplus**

	<b>Six months ended June 30, 2007</b>	Year ended December 31, 2006
Balance, beginning of period	9,962	3,627
Stock-based compensation expense, net of recovery	2,041	5,677
Capitalized stock-based compensation expense	982	883
Recovery of capitalized stock-based compensation expense	(859)	-
Transferred to share capital on exercise of stock options	(80)	(225)
Balance, end of period	<b>12,046</b>	9,962

**Deferred Share Units Plan**

In 2006, the Company implemented a deferred share unit ("DSU") plan for non-management directors. Under the terms of the plan, DSUs awarded will vest immediately and will be settled with cash in the amount equal to the closing price of the Company's class A common shares on the date the Director specifies upon tendering their resignation from the Board.

The Company has recorded a liability of \$163,000 relating to 11,400 DSUs outstanding at June 30, 2007.

**7. Commodity Price Risk Management**

The Company uses a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices. Derivative instruments are classified as held for trading and recorded at fair value on the consolidated balance sheet. No derivative instruments were designated as hedges during the six months ended June 30, 2007.

**Realized Financial Instrument Gain**

The realized hedging gain of \$2.8 million for the six months ended June 30, 2007 relates to the cash settlement of derivative instruments.

**Unrealized Financial Instrument Gain (Loss)**

The unrealized financial instrument loss of \$1.6 million for the six months ended June 30, 2007 represents the change in fair value of the Company's financial risk management agreements from December 31, 2006 to June 30, 2007. The loss is calculated as follows:

	<b>Six months ended June 30, 2007</b>
Balance, beginning of period	3,194
Change in fair value of derivative instrument contracts	(1,551)
Balance, end of period	<b>1,643</b>

The following commodity price risk management agreements were in place as at June 30, 2007.

#### Financial WTI Crude Oil Contracts

Term	Contract	Volume (bbls/d)	Fixed Price (\$/bbl)	Unrealized Gain (Loss) as at June 30, 2007 (CDN \$000s)
Jan 07 to Dec 07	Collar	1,750	US \$55.00 to \$86.15	(65)
Jan 07 to Dec 07	Collar	1,750	US \$60.00 to \$80.70	(99)
Jan 07 to Dec 07	Swap	500	Cdn \$73.00	(232)
Jan 07 to Dec 07	Swap	500	Cdn \$73.70	(158)
Jan 07 to Dec 07	Swap	500	Cdn \$74.70	(53)
Jan 07 to Dec 07	Swap	500	Cdn \$75.82	65

#### Financial AECO Natural Gas Contracts

Term	Contract	Volume (GJs/d)	Fixed Price (\$/GJ)	Unrealized Gain (Loss) as at June 30, 2007 (CDN \$000s)
Jul 06 to Mar 08	Collar	5,000	Cdn \$6.00 to \$11.10	361
Jan 07 to Dec 07	Swap	2,500	Cdn \$7.55	553
Jan 07 to Dec 07	Swap	2,500	Cdn \$7.62	584
Feb 07 to Mar 08	Swap	1,250	Cdn \$7.68	302
Feb 07 to Mar 08	Swap	1,250	Cdn \$7.70	385

#### 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.

Statements in this news release contain forward-looking information including expectations of future production, procurement of drilling permits, plans for and results of exploration and development activities and other operational developments 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, as 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 of oil and gas and production risks associated with sour hydrocarbons, dependence on third party owned and operated production facilities, availability of skilled personnel and services, failure to obtain industry partner, regulatory and other third party consents and approvals, 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 reserves, production, costs and expenses. The risks outlined above should not be construed as exhaustive. Readers are 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.

Readers are further cautioned that the preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating

reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

The terms Cash flow from operations “cash flow”, and “cash flow per share” and “operating netbacks” are not recognized measures under 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 may not be comparable to measures used by other companies. Highpine calculates cash from operations as cash from operating activities before the change in non-cash working capital related to operating activities. Highpine also uses operating netback 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.

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 Pembina Nisku and West Central Alberta Gas Fairways, both located in Central Alberta. The Company’s class “A” common shares trade on the Toronto Stock Exchange under the symbol “HPX”.

**For further information, please contact:**

A. Gordon Stollery, President and Chief Executive Officer  
Bob Rosine, Executive Vice President, Corporate Development  
Harry Cupric, Vice President, Finance and Chief Financial Officer

Telephone: (403) 265-3333

Facsimile: (403) 265-3362

Media Contact: Shauna MacDonald (403) 538-5645

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