

**CONSOLIDATED BALANCE SHEETS**

As at	March 31, 2006	December 31, 2005
<i>(\$000s) (unaudited)</i>		
<b>Assets</b>		
Current assets		
Accounts receivable	51,655	40,716
Prepaid expenses and deposits	1,526	1,795
Financial instruments <i>(note 7)</i>	2,905	763
	<b>56,086</b>	43,274
Property, plant and equipment <i>(note 3)</i>	<b>601,040</b>	493,330
Long-term investment, at cost	<b>1,150</b>	1,000
Deferred charges	–	251
Goodwill <i>(note 2)</i>	<b>251,881</b>	215,835
	<b>910,157</b>	753,690
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	65,074	47,403
Bank indebtedness <i>(note 5)</i>	34,356	104,707
	<b>99,430</b>	152,110
Future income taxes	<b>94,712</b>	84,167
Asset retirement obligations <i>(note 4)</i>	<b>7,493</b>	5,898
Deferred lease inducements	<b>471</b>	492
Shareholders' equity		
Share capital <i>(note 6)</i>	673,885	479,496
Contributed surplus <i>(note 6)</i>	4,975	3,627
Retained earnings	29,191	27,900
	<b>708,051</b>	511,023
	<b>910,157</b>	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
<i>(\$000s, except per share amounts) (unaudited)</i>		
Revenues		
Oil and gas revenues	<b>61,806</b>	14,973
Royalties, net of Alberta Royalty Tax Credits	<b>(19,994)</b>	(3,816)
Financial instruments		
Realized gains (losses)	<b>468</b>	(881)
Unrealized gains	<b>2,142</b>	–
	<b>44,422</b>	10,276
Interest and other income	<b>18</b>	–
	<b>44,440</b>	10,276
Expenses		
Operating costs	<b>6,895</b>	1,396
Transportation costs	<b>518</b>	220
General and administrative	<b>1,995</b>	846
Depletion, depreciation and accretion	<b>29,160</b>	5,433
Interest and finance costs	<b>1,143</b>	824
Stock-based compensation <i>(note 6)</i>	<b>1,520</b>	278
	<b>41,231</b>	8,997
Earnings before taxes	<b>3,209</b>	1,279
Taxes		
Current	<b>180</b>	50
Future	<b>1,738</b>	461
	<b>1,918</b>	511
Net earnings	<b>1,291</b>	768
Retained earnings, beginning of period	<b>27,900</b>	23,992
Stock dividend and adjustment	<b>–</b>	(8,366)
Retained earnings, end of period	<b>29,191</b>	16,394
Net earnings per share <i>(note 6)</i>		
Basic	<b>0.03</b>	0.04
Diluted	<b>0.03</b>	0.04

*See accompanying notes to the consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Three Months Ended March 31, (\$000s) (unaudited)	2006	2005
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)
	<b>15,425</b>	<b>1,083</b>
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)
	<b>22,458</b>	<b>28,488</b>
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
	<b>(37,883)</b>	<b>(29,571)</b>
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)
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	96,007

#### Consideration

Acquisition costs	527
Class A common shares issued	95,480
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	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
<i>(\$000s)</i>		
Asset retirement obligations, beginning of period	<b>5,898</b>	1,974
Liabilities acquired	<b>1,145</b>	1,903
Liabilities incurred	<b>332</b>	1,694
Liabilities disposed of	–	–
Accretion expense	<b>118</b>	327
Asset retirement obligations, end of period	<b>7,493</b>	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 (000s)	Shares (#)	Amount (\$)
Class A common shares		
Balance, beginning of period	44,250	479,496
Issued to acquire White Fire Energy Ltd.	<b>4,089</b>	<b>95,480</b>
Issued for cash	<b>4,300</b>	<b>100,620</b>
Stock options exercised	<b>133</b>	<b>998</b>
Contributed surplus transferred on exercise of stock options	—	<b>172</b>
Share issue costs less tax effect of \$1,458	—	<b>(2,881)</b>
Balance, end of period	<b>52,772</b>	<b>673,885</b>

### Per Share Amounts

Three Months Ended March 31, (#000s)	2006	2005
Weighted average number of common shares outstanding		
Basic	<b>47,796</b>	20,708
Dilutive effect of stock options	<b>421</b>	907
Diluted	<b>48,217</b>	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 (#000s)	Weighted Average Exercise Price (\$)	Class A Common Shares Issuable Upon Exercise of Options (#000s)	Weighted Average Exercise Price (\$)
Balance, beginning of period	<b>3,652</b>	<b>13.06</b>	1,542	5.26
Granted	<b>1,116</b>	<b>21.69</b>	2,308	18.96
Exercised	<b>(133)</b>	<b>(7.82)</b>	(47)	(3.89)
Cancelled	—	—	(224)	(17.00)
Stock dividend adjustment	—	—	73	—
Balance, end of period	<b>4,635</b>	<b>15.51</b>	3,652	13.06
Exercisable, end of period	<b>635</b>	<b>4.60</b>	556	4.33

**6. Share Capital** (Continued)

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.

**Contributed Surplus**

	<b>Three Months Ended March 31, 2006</b>	Year Ended December 31, 2005
<i>(\$000s)</i>		
Balance, beginning of period	<b>3,627</b>	511
Compensation expense, net of recovery	<b>1,520</b>	3,151
Transferred to share capital on exercise of stock options	<b>(172)</b>	(35)
Balance, end of period	<b>4,975</b>	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 <i>(bbls/d)</i>	Fixed Price <i>(\$/bbl)</i>	Unrealized Gain (Loss) As at March 31, 2006 <i>(CDN \$000s)</i>
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	—

**7. Commodity Price Risk Management** (Continued)**Financial AECO Natural Gas Contract**

Term	Contract	Volume (GJs/d)	Fixed Price (\$/GJ)	Unrealized Gain (Loss) As at March 31, 2006 (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.

**8. Comparative Balances**

Certain of the comparative balances have been reclassified to conform to the current period's presentation.