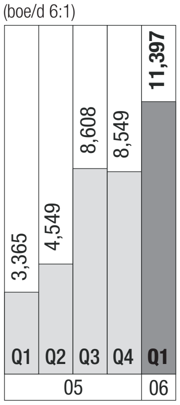
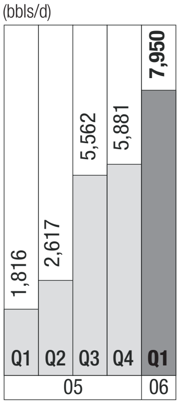
MANAGEMENT'S DISCUSSION AND ANALYSIS

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").

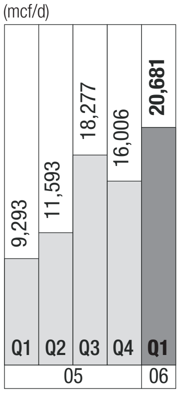
Production Volumes
(boe/d 6:1)



Crude Oil & NGLs Production
(bbls/d)



Natural Gas Production
(mcf/d)



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, *($000s)*	**2006**	2005	% Change
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, *(boe/d)*	**2006**	2005	% Change
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 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.

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.

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, *($/boe)*	**2006**	2005	% Change
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.

Special Note Regarding Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States, industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, the results of exploration and development drilling and related activities, imprecision in reserve estimates, the production and growth potential of the Company's various assets, fluctuations in foreign exchange or interest rates, stock market volatility, risks associated with hedging activities, and obtaining required approvals from regulatory authorities. These risks should not be construed as exhaustive. Accordingly, there is no assurance that the expectations conveyed by the forward-looking statements will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

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.