

CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006
<i>(\$000s)(unaudited)</i>		
Assets		
Current assets		
Accounts receivable	66,364	54,944
Prepaid expenses and deposits	2,500	2,928
Financial instruments <i>(notes 2 and 8)</i>	307	3,194
	69,171	61,066
Property, plant and equipment <i>(note 4)</i>	974,494	972,599
Long-term investment, at cost <i>(note 2)</i>	1,150	1,150
Goodwill <i>(note 3)</i>	-	358,096
	1,044,815	1,392,911
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	77,403	88,552
Future income taxes	93	970
	77,496	89,522
Long-term debt <i>(note 5)</i>	162,266	138,890
Future income taxes	150,414	150,832
Asset retirement obligations <i>(note 6)</i>	11,406	11,258
Deferred lease inducements	345	408
Shareholders' equity		
Share capital <i>(note 7)</i>	959,415	957,186
Contributed surplus <i>(note 7)</i>	13,479	9,962
Retained earnings (deficit)	(330,006)	34,853
	642,888	1,002,001
	1,044,815	1,392,911

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS (DEFICIT)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
<i>(\$000s, except per share amounts) (unaudited)</i>				
Revenues				
Oil and natural gas revenues	89,609	57,753	278,045	181,203
Royalties, net of ARTC	(26,190)	(13,948)	(80,269)	(51,894)
Financial instruments <i>(note 8)</i>				
Realized gains	1,166	1,668	3,961	3,976
Unrealized (losses) gains	(1,336)	784	(2,887)	2,207
	63,249	46,257	198,850	135,492
Expenses				
Operating costs	14,287	9,472	45,247	23,715
Transportation costs	1,107	979	4,499	2,291
General and administrative	2,734	2,281	9,488	6,473
Depletion, depreciation and accretion	42,862	29,489	137,638	88,404
Interest and finance costs	2,452	1,549	6,957	3,403
Stock-based compensation <i>(note 7)</i>	1,282	1,389	3,323	4,344
Impairment of goodwill <i>(note 3)</i>	358,096	-	358,096	-
	422,820	45,159	565,248	128,630
Earnings (loss) before taxes	(359,571)	1,098	(366,398)	6,862
Taxes (reduction)				
Current	-	-	-	(127)
Future	(58)	584	(1,539)	(5,410)
	(58)	584	(1,539)	(5,537)
Net earnings (loss) and comprehensive income	(359,513)	514	(364,859)	12,399
Retained earnings, beginning of period	29,507	39,785	34,853	27,900
Retained earnings (deficit), end of period	(330,006)	40,299	(330,006)	40,299
Net earnings (loss) per share <i>(note 7)</i>				
Basic	\$ (5.30)	\$ 0.01	\$ (5.39)	\$ 0.23
Diluted	\$ (5.30)	\$ 0.01	\$ (5.39)	\$ 0.22

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<i>(\$000s) (unaudited)</i>				
Cash provided by (used in):				
Operating Activities				
Net earnings (loss)	(359,513)	514	(364,859)	12,399
Items not involving cash:				
Depletion, depreciation and accretion	42,862	29,489	137,638	88,404
Future income taxes (reduction)	(58)	584	(1,539)	(5,410)
Stock-based compensation	1,282	1,389	3,323	4,344
Unrealized losses (gains) on financial instruments	1,336	(784)	2,887	(2,207)
Amortization of deferred lease inducements	(21)	(21)	(63)	(63)
Impairment of goodwill <i>(note 3)</i>	358,096	-	358,096	-
Abandonment expenditures	(271)	(6)	(1,016)	(52)
Change in non-cash operating working capital	(5,699)	(21,918)	(3,810)	(27,470)
	38,014	9,247	130,657	69,945
Financing Activities				
Common shares issued for cash	-	-	-	100,620
Share issue costs	-	(260)	-	(4,606)
Proceeds on exercise of stock options	725	67	1,863	1,150
Increase (decrease) in bank indebtedness	(9,677)	27,241	23,376	(20,985)
	(8,952)	27,048	25,239	76,179
Investing Activities				
Property, plant and equipment additions	(40,705)	(43,191)	(141,197)	(121,872)
Proceeds on disposal of property, plant and equipment	3,632	-	3,632	-
Property acquisitions	-	(12,953)	-	(27,631)
Purchase of investments	-	-	-	(150)
Net cash paid on business combination	-	(564)	-	(1,091)
Deferred charges	-	-	-	251
Change in non-cash investing working capital	8,011	20,413	(18,331)	4,369
	(29,062)	(36,295)	(155,896)	(146,124)
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	-	-	-	-
Cash interest paid	2,096	1,861	7,297	3,436
Cash taxes paid	-	(105)	1,025	263

See accompanying notes to the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 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. Goodwill

At September 30, 2007, goodwill was tested for impairment by comparing the book value of net assets to the fair value. The fair value did not exceed the identifiable net assets at September 30, 2007, and accordingly, the full amount of goodwill was impaired and \$358.1 million was charged to earnings.

4. Property, Plant and Equipment

	September 30, 2007		December 31, 2006	
	Cost	Accumulated depletion and depreciation	Net book value	Net book Value
Petroleum and natural gas properties	\$ 1,308,797	\$ (336,926)	\$ 971,871	\$ 969,784
Land, buildings and leaseholds	2,409	(369)	2,040	2,170
Office equipment and computers	1,036	(453)	583	645
	\$ 1,312,242	\$ (337,748)	\$ 974,494	\$ 972,599

At September 30, 2007, approximately \$144.9 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 \$30.5 million (December 31, 2006 – \$56.4 million) were included in the depletion calculation. Salvage value of \$54.9 million (December 31, 2006 – \$23.9) was excluded from the depletion calculation.

During the nine months ended September 30, 2007, cash general and administrative expenses of \$2.4 million (nine months ended September 30, 2006 – \$2.0 million) were capitalized. The Company also capitalized \$1.4 million of stock based compensation expense for the nine months ended September 30, 2007.

5. Long-Term Debt

At September 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 \$6.8 million (nine months ended September 30, 2006 - \$3.4 million) in respect of debt repayable for a period exceeding one year.

6. Asset Retirement Obligations

At September 30, 2007, the estimated total undiscounted cash flows required to settle asset retirement obligations were \$18.0 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:

	Nine months ended September 30, 2007	Year ended December 31, 2006
Asset retirement obligations, beginning of period	11,258	5,898
Liabilities acquired	-	3,980
Liabilities incurred	487	1,069
Liabilities settled	(1,016)	(368)
Accretion expense	677	679
Asset retirement obligations, end of period	11,406	11,258

7. 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.

	Nine months ended September 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	230	1,863	178	1,202
Contributed surplus transferred on exercise of stock options	-	366	-	225
Share issue costs less tax effect of (2007 - nil; 2006 – \$1,500)	-	-	-	(3,106)
Balance, end of period	67,878	959,415	67,648	957,186

Per Share Amounts

	Three months ended September 30,		Nine months ended September 30,	
	2007 <i>(thousands)</i>	2006 <i>(thousands)</i>	2007 <i>(thousands)</i>	2006 <i>(thousands)</i>
Weighted average number of common shares outstanding				
Basic	67,856	62,479	67,735	54,408
Dilutive effect of stock options	-	877	-	945
Diluted	67,856	63,356	67,735	55,353

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:

	Nine months ended September 30, 2007		Year ended December 31, 2006	
	Class A Common Shares Issuable Upon Exercise of Options <i>(thousands)</i>	Weighted Average Exercise Price <i>(\$/share)</i>	Class A Common Shares Issuable Upon Exercise of Options <i>(thousands)</i>	Weighted Average Exercise Price <i>(\$/share)</i>
Balance, beginning of period	5,077	15.80	3,652	13.06
Granted	1,775	12.36	2,016	20.42
Exercised	(230)	(8.26)	(178)	(6.75)
Cancelled	(1,681)	(19.81)	(413)	(18.06)
Repriced	(1,851)	(19.67)	-	-
Repriced	1,851	12.05	-	-
Balance, end of period	4,941	10.71	5,077	15.80
Exercisable, end of period	1,083	5.96	1,271	9.44

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

Range of Exercise price	Options Outstanding			Options Exercisable	
	Common Shares Issuable (thousands)	Weighted Average Years to Expiry (years)	Weighted Average Exercise Price (\$/share)	Common Shares Issuable (thousands)	Weighted Average Exercise Price (\$/share)
\$2.60 - \$3.50	551	1.42	\$ 2.76	531	\$ 2.74
\$4.50 - \$5.00	359	2.66	\$ 4.76	269	\$ 4.76
\$8.10 - \$11.00	334	3.79	\$ 8.93	130	\$ 8.41
\$11.01 - \$15.50	3,437	5.43	\$ 12.23	30	\$ 14.00
\$17.85 - \$18.00	260	3.81	\$ 17.98	123	\$ 17.99
	4,941	4.58	\$ 10.71	1,083	\$ 5.96

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

	Nine months ended September 30, 2007
Weighted average expected volatility (%)	52
Risk-free rate of return (%)	4.2
Expected option life (years)	4
Weighted average fair value (\$/share)	5.46

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

Contributed Surplus

	Nine months ended September 30, 2007	Year ended December 31, 2006
Balance, beginning of period	9,962	3,627
Stock-based compensation expense, net of recovery	3,323	5,677
Capitalized stock-based compensation expense	1,419	883
Recovery of capitalized stock-based compensation expense	(859)	-
Transferred to share capital on exercise of stock options	(366)	(225)
Balance, end of period	13,479	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 non-management director specifies following the date the director is no longer a director of the Company.

The Company has recorded a liability of \$127,000 relating to 12,493 DSUs outstanding at September 30, 2007.

8. 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 nine months ended September 30, 2007.

Realized Financial Instrument Gain

The realized financial instrument gain of \$4.0 million for the nine months ended September 30, 2007 relates to the cash settlement of derivative instruments.

Unrealized Financial Instrument Gain (Loss)

The unrealized financial instrument loss of \$2.9 million for the nine months ended September 30, 2007 represents the change in fair value of the Company's financial risk management agreements from December 31, 2006 to September 30, 2007. The loss is calculated as follows:

	Nine months ended September 30, 2007
Balance, beginning of period	3,194
Change in fair value of derivative instrument contracts	(2,887)
Balance, end of period	307

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

Financial WTI Crude Oil Contracts

Term	Contract	Volume (bbls/d)	Fixed Price (\$/bbl)	Unrealized (Loss) as at September 30, 2007 (CDN \$000s)
Jan 07 to Dec 07	Collar	1,750	US \$55.00 to \$86.15	(123)
Jan 07 to Dec 07	Collar	1,750	US \$60.00 to \$80.70	(389)
Jan 07 to Dec 07	Swap	500	Cdn \$73.00	(434)
Jan 07 to Dec 07	Swap	500	Cdn \$73.70	(392)
Jan 07 to Dec 07	Swap	500	Cdn \$74.70	(331)
Jan 07 to Dec 07	Swap	500	Cdn \$75.82	(263)

Financial AECO Natural Gas Contracts

Term	Contract	Volume (GJs/d)	Fixed Price (\$/GJ)	Unrealized Gain as at September 30, 2007 (CDN \$000s)
Jul 06 to Mar 08	Collar	5,000	Cdn \$6.00 to \$11.10	482
Jan 07 to Dec 07	Swap	2,500	Cdn \$7.55	442
Jan 07 to Dec 07	Swap	2,500	Cdn \$7.62	458
Feb 07 to Mar 08	Swap	1,250	Cdn \$7.68	373
Feb 07 to Mar 08	Swap	1,250	Cdn \$7.70	484