

CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
<i>(\$000s)(unaudited)</i>		
Assets		
Current assets		
Accounts receivable	83,882	75,772
Prepaid expenses and deposits	10,200	4,642
Financial instruments <i>(note 7)</i>	-	406
Future income taxes	329	-
	94,411	80,820
Property, plant and equipment <i>(note 3)</i>	957,459	980,906
Long-term investment	850	850
	1,052,720	1,062,576
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	101,243	108,560
Financial instruments <i>(note 7)</i>	1,269	-
Future income taxes	-	105
	102,512	108,665
Long-term debt <i>(note 4)</i>	125,912	146,675
Future income taxes	135,926	131,249
Asset retirement obligations <i>(note 5)</i>	11,671	11,378
Deferred lease inducements	303	324
Shareholders' equity		
Share capital <i>(note 6)</i>	959,693	959,456
Contributed surplus <i>(note 6)</i>	16,449	15,030
Deficit	(299,746)	(310,201)
	676,396	664,285
Contingency <i>(note 9)</i>		
	1,052,720	1,062,576

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Three months ended March 31,

	2008	2007
<i>(\$000s, except per share amounts) (unaudited)</i>		
Revenues		
Oil and natural gas revenues	141,839	90,751
Royalties	(43,809)	(26,718)
Financial instruments <i>(note 7)</i>		
Realized gains	147	1,795
Unrealized (losses)	(1,675)	(6,635)
	96,502	59,193
Expenses		
Operating costs	19,679	14,374
Transportation costs	(477)	1,592
General and administrative	2,825	3,355
Depletion, depreciation and accretion	56,907	45,610
Interest and finance costs	1,889	1,856
Stock-based compensation <i>(note 6)</i>	1,112	1,121
	81,935	67,908
Earnings (loss) before taxes	14,567	(8,715)
Future income taxes (reduction)	4,112	(2,309)
Net earnings (loss)	10,455	(6,406)
Retained earnings (deficit), beginning of period	(310,201)	34,853
Retained earnings (deficit), end of period	(299,746)	28,447
Net earnings (loss) per share <i>(note 6)</i>		
Basic	\$ 0.15	\$ (0.09)
Diluted	\$ 0.15	\$ (0.09)

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2008	2007
<i>(\$000s) (unaudited)</i>		
Cash provided by (used in):		
Operating Activities		
Net earnings (loss)	10,455	(6,406)
Items not involving cash:		
Depletion, depreciation and accretion	56,907	45,610
Future income taxes (reduction)	4,112	(2,309)
Stock-based compensation	1,112	1,121
Unrealized losses on financial instruments	1,675	6,635
Amortization of deferred lease inducements	(21)	(21)
Abandonment expenditures	(177)	(516)
Change in non-cash operating working capital	(13,738)	1,631
	60,325	45,745
Financing Activities		
Proceeds on exercise of stock options	173	176
Increase (decrease) in long-term debt	(20,763)	18,980
	(20,590)	19,156
Investing Activities		
Property, plant and equipment additions	(32,647)	(75,822)
Proceeds on disposal of property, plant and equipment	2,134	-
Property acquisitions	(1,975)	-
Change in non-cash investing working capital	(7,247)	10,921
	(39,735)	(64,901)
Change in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	-	-
Cash interest paid	1,554	2,207
Cash taxes paid	-	1,025

See accompanying notes to the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2008 and 2007
(tabular amounts in thousands of dollars, unless otherwise noted)

1. Significant Accounting Policies

The interim consolidated financial statements of Highpine Oil & Gas Limited ("Highpine" or 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, 2007 and 2006.

2. New Accounting Policies

Effective January 1, 2008, the Company adopted the following new accounting standards:

Capital Disclosures. The new standard requires the Company to disclose its objectives, policies and processes for managing its capital structure (see note 8).

Financial Instruments – Disclosures and Financial Instruments – Presentation. The new disclosure standard increases Highpine's disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed (see note 7). The new presentation standard carries forward the former presentation requirements.

3. Property, Plant and Equipment

	March 31, 2008			December 31, 2007
	Cost	Accumulated depletion and depreciation	Net book value	Net book Value
Petroleum and natural gas properties	\$ 1,404,672	\$ (449,782)	\$ 954,890	\$ 978,348
Land, buildings and leaseholds	2,503	(471)	2,032	1,990
Office equipment and computers	1,050	(513)	537	568
	\$ 1,408,225	\$ (450,766)	\$ 957,459	\$ 980,906

At March 31, 2008, approximately \$77.1 million (December 31, 2007 – \$83.7 million) of unproved property costs and unevaluated seismic costs were excluded from the depletion calculation. Future development costs of \$31.5 million (December 31, 2007 – \$31.5 million) were included in the depletion calculation. Salvage value of \$46.5 million (December 31, 2007 – \$44.4 million) was excluded from the depletion calculation.

During the three months ended March 31, 2008, cash general and administrative expenses of \$1.0 million (three months ended March 31, 2007 – \$0.8 million) were capitalized. The Company also capitalized \$0.4 million (three months ended March 31, 2007 - \$0.4 million) of stock based compensation expense for the three months ended March 31, 2008.

4. Long-Term Debt

At March 31, 2008, 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 27, 2008. In April 2008 the lenders committed to extend the revolving term credit facility in the amount of \$205 million to May 26, 2009 and to provide a \$20 million demand operating facility.

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 \$1.9 million (three months ended March 31, 2007 - \$1.9 million) in respect of debt repayable for a period exceeding one year.

5. Asset Retirement Obligations

At March 31, 2008, the estimated total undiscounted cash flows required to settle asset retirement obligations were \$18.4 million (December 31, 2007 – \$18.0 million). Expenditures to settle asset retirement obligations will be incurred between 2008 and 2028. 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:

	Three months ended March 31, 2008	Year ended December 31, 2007
Asset retirement obligations, beginning of period	11,378	11,258
Liabilities incurred	243	687
Liabilities settled	(177)	(1,472)
Accretion expense	227	905
Asset retirement obligations, end of period	11,671	11,378

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.

	Three months ended		Year ended	
	March 31, 2008		December 31, 2007	
	Shares	Amount	Shares	Amount
	(thousands)	(\$thousands)	(thousands)	(\$thousands)
Class A common shares				
Balance, beginning of period	67,886	959,456	67,648	957,186
Stock options exercised	46	173	238	1,894
Contributed surplus transferred on exercise of stock options	-	64	-	376
Balance, end of period	67,932	959,693	67,886	959,456

On April 14, 2008, the Company issued 99,000 common shares on a flow-through basis for gross proceeds of \$1.0 million.

Per Share Amounts

	Three months ended	
	March 31, 2008	2007
	(thousands)	(thousands)
Weighted average number of common shares outstanding		
Basic	67,910	67,657
Dilutive effect of stock options	615	832
Diluted	68,525	68,489

Anti-dilutive options excluded from the calculation of diluted earnings per share for the three months ended March 31, 2008 were 3.9 million (March 31, 2007 – 4.5 million).

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:

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Class A Common Shares Issuable Upon Exercise of Options	Weighted Average Exercise Price	Class A Common Shares Issuable Upon Exercise of Options	Weighted Average Exercise Price
	(thousands)	(\$/share)	(thousands)	(\$/share)
Balance, beginning of period	4,802	10.68	5,077	15.80
Granted	459	10.41	1,785	12.34
Exercised	(46)	(3.78)	(238)	(8.11)
Cancelled	(154)	(11.98)	(1,822)	(19.21)
Repriced	-	-	(1,851)	(19.67)
Repriced	-	-	1,851	12.05
Balance, end of period	5,061	10.68	4,802	10.68
Exercisable, end of period	1,819	8.06	1,146	6.10

Details of the exercise prices and expiry dates of options outstanding at March 31, 2008 are as follows:

Range of Exercise price	Options Outstanding			Options Exercisable	
	Common Shares Issuable	Weighted Average Years to Expiry	Weighted Average Exercise Price	Common Shares Issuable	Weighted Average Exercise Price
	(thousands)	(years)	(\$/share)	(thousands)	(\$/share)
\$2.60 - \$3.50	506	0.92	2.75	506	2.75
\$4.50 - \$5.00	359	2.16	4.76	269	4.76
\$8.10 - \$11.00	741	4.70	9.69	187	8.40
\$11.01 - \$15.50	3,195	4.96	12.23	734	11.18
\$17.85 - \$18.00	260	3.31	17.98	123	17.95
	5,061	4.23	10.68	1,819	8.06

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

	Three months ended March 31, 2008	Year ended December 31, 2007
Weighted average expected volatility (%)	67	52
Risk-free rate of return (%)	3.0	4.2
Expected option life (years)	4	4
Weighted average fair value (\$/share)	5.49	5.46

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

Contributed Surplus

	Three months ended March 31, 2008	Year ended December 31, 2007
Balance, beginning of period	15,030	9,962
Stock-based compensation expense, net of recovery	1,112	4,463
Capitalized stock-based compensation expense	431	1,840
Recovery of capitalized stock-based compensation expense	(60)	(859)
Transferred to share capital on exercise of stock options	(64)	(376)
Balance, end of period	16,449	15,030

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 \$279,000 as at March 31, 2008 (December 31, 2007 - \$196,000) relating to 28,780 DSUs outstanding at March 31, 2008 (December 31, 2007 - 19,595).

7. Financial Instruments

The Company's financial instruments as at March 31, 2008 were comprised of accounts receivable, accounts payable and accrued liabilities, derivative financial instruments, long-term debt and an equity investment in a private oil and gas company. Fair value of financial assets and liabilities, information related to risk management positions and discussion of risks associated with financial assets and liabilities are presented as follows.

a) Fair Value

The carrying amount of the Company's accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity. Highpine's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates carrying amount. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted crude oil and natural gas volumes. The fair value of the Company's long-term investment is adjusted for other-than-temporary impairments.

b) 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 three months ended March 31, 2008.

Realized Financial Instrument Gain

The realized financial instrument gain of \$147,000 (March 31, 2007 - \$1.8 million) for the three months ended March 31, 2008 relates to the cash settlement of derivative instruments.

Unrealized Financial Instrument (Loss)

The unrealized financial instrument loss of \$1.7 million for the three months ended March 31, 2008 (March 31, 2007 - \$6.6 million) represents the change in fair value of the Company's financial risk management agreements.

	Three months ended March 31, 2008
Balance, beginning of period	406
Change in fair value of derivative instrument contracts	(1,675)
Balance, end of period	(1,269)

The fair value of financial instruments as at March 31, 2008 is comprised of the following commodity price risk management agreements.

Financial AECO Natural Gas Contracts

Term	Contract	Volume (GJs/d)	Fixed Price (\$/GJ)	Unrealized (Loss) as at March 31, 2008 (CDN \$000s)
Apr 08 to Oct 08	Swap	2,500	Cdn \$7.94	(465)
Apr 08 to Oct 08	Swap	2,500	Cdn \$8.01	(426)
Apr 08 to Oct 08	Swap	2,500	Cdn \$8.10	(378)
Total				(1,269)

Sensitivity

The Company believes a change in natural gas prices of 10% could have resulted in unrealized losses or gains impacting net earnings by \$0.9 million.

c) Risks Associated with Financial Assets and Liabilities

Credit Risk

Credit risk is primarily related to the Company's receivables from joint venture partners and petroleum and natural gas marketers and the risk of financial loss if a partner, customer or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Highpine sells the majority of its production to five petroleum and natural gas marketers and is therefore subject to concentration risk. Highpine assesses the financial strength of petroleum and natural gas marketers prior to entering into sales contracts. Highpine has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. Collection of outstanding joint venture receivables is dependent on industry factors including commodity price fluctuations, escalating costs and disagreements with partners. Highpine mitigates the risk from joint venture receivables by obtaining partner approval before significant capital expenditures are incurred. Highpine does have the ability to withhold production from joint venture partners in the event of non-payment. At March 31, 2008, receivables outstanding for more than 90 days totaled \$14.6 million.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due.

Highpine prepares a capital expenditure budget on an annual basis which actual capital expenditures are monitored against. The capital expenditure budget is updated when necessary. Highpine utilizes authorizations for expenditures to further manage capital expenditures.

The following table illustrates the contractual maturities of financial liabilities as at March 31, 2008:

	< 1 Year	1-2 Years	2-5 Years	Thereafter
Accounts payable and accrued liabilities	101,243	-	-	-
Long-term debt ⁽¹⁾	-	-	125,912	-

(1) The Company's lenders have committed to extend the Company's revolving term credit facility. The next term date is May 26, 2009. If the credit facilities are not extended, the amount outstanding would be repayable on May 25, 2010.

Market Risk

Market risk is the risk that changes in market prices including commodity prices, foreign exchange rates and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to reduce exposures to acceptable limits while maximizing returns.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Highpine attempts to mitigate commodity price risk through the use of financial derivative sales contracts.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Highpine is exposed to interest rate fluctuations on its credit facility which bears a floating rate of interest. The Company had no interest rate contracts in place as at or during the three months ended March 31, 2008. For the three months ended March 31, 2008, a change in the interest rate of 1.0% would change net earnings by an estimated \$0.2 million, assuming all other variables remain constant.

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of Highpine's petroleum and natural gas revenues are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. Highpine had no foreign exchange rate contracts in place as at or during the three months ended March 31, 2008.

8. Capital Structure

The Company's capital structure is comprised of shareholders' equity, long-term debt and working capital. The Company's objectives when managing its capital structure are to maintain financial flexibility to meet financial obligations and to finance internally generated growth as well as potential acquisitions.

The Company monitors its capital structure and short-term financing requirements using non-GAAP financial metrics consisting of net debt as a percent of total capitalization and net debt to trailing funds from operations ratio.

As at	March 31, 2008	December 31, 2007
(\$000s)		
Capitalization		
Bank debt	125,912	146,675
Working capital deficiency ⁽¹⁾	7,161	28,146
Net debt	133,073	174,821
Shares outstanding (#)	67,932	67,886
Market price at end of period (\$/share)	9.70	9.98
Market capitalization	658,940	677,502
Total capitalization	792,013	852,323
Net debt as a percent of total capitalization	17%	21%
Trailing funds from operations ⁽²⁾	223,450	193,840
Net debt to trailing funds from operations ratio	0.60	0.90

(1) Working capital excludes unrealized financial instruments.

(2) Trailing funds from operations is calculated as cash flow from operations before abandonment expenditures and the change in non-cash operating working capital and is calculated on a most current rolling four quarters basis.

Highpine's net debt as a percent of total capitalization decreased from 21 percent to 17 percent due to funds from operations exceeding capital expenditures for the first quarter of 2008. Highpine's targets a net debt to funds from operations ratio of less than 1.0 times. Highpine's net debt to funds from operations ratio is well below the target of 1.0 times in anticipation of an increase in Crown royalty rates in 2009 as a result of the New Royalty Framework.

Highpine manages its capital structure and makes adjustments according to market conditions to maintain flexibility to achieve the objectives stated above. To adjust the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or repay existing debt.

9. Contingency

During the first quarter of 2008, a Statement of Claim was filed against Highpine and four co-defendants in the amount of \$7.5 million. Highpine believes that the claim is without merit. Highpine believes that its insurance policy would cover a claim of this nature if the Company is determined to be liable.