



## North Peace Energy Announces Operations Update and 2007 Financial Results

**Calgary, Alberta, April 8, 2008** North Peace Energy Corp. (“North Peace” or the “Company”) releases operating and financial results for year ended December 31, 2007.

### *Fourth Quarter Operations and Financial update:*

- ◆ Completed winter delineation program; total delineation wells drilled by North Peace is now 17.
- ◆ Refined the Company’s geological mapping and identified an eight section focus area for the first phase of a 24 section commercial development area
- ◆ Initiated preliminary environmental baseline work on the commercial project area
- ◆ Cash and cash equivalents of \$10 million and no debt as at December 31, 2007
- ◆ Capital expenditures of \$2 million in the fourth quarter and \$24 million for the year ended December 31, 2007

### *Cyclic Steam Stimulation (“CSS”) Pilot Project update:*

- ◆ ERCB and Alberta Environment approvals for the pilot project are pending
- ◆ The steam generator has been moved to Edmonton, where it is being refurbished with a new low emissions burner and instrument panel
- ◆ The pilot site has been cleared and is ready for horizontal drilling and pilot facility construction
- ◆ Detailed process engineering is complete
- ◆ Major equipment request for quotations have been issued
- ◆ Initial testing of water source is complete
- ◆ Secured and tested the water disposal well
- ◆ Two Company owned saline carbonate aquifers have been identified for potential CO<sub>2</sub> sequestration
- ◆ The two CSS capable horizontal wells will be drilled after spring break-up and pilot facility construction will begin shortly thereafter; all long lead equipment has been procured for drilling and construction
- ◆ The project is progressing as per the schedule and budget identified in the third quarter of 2007

**Louis Dufresne, President of North Peace**, commented “North Peace Energy has now completed its first full year of operations and it proved to be a very successful 12 months. We began trading publicly on the Venture Exchange, assembled a complete management and technical team, obtained a 100 percent interest in our landholdings, mapped and further delineated our resource identifying 24 contiguous sections of net pay averaging 12m, determined CSS as the thermal recovery method best suited to produce the resource and identified Canadian Natural’s Primrose as a strong producing analogue to our reservoir. We are now on the verge of building our own pilot project and anticipate we will have first steam and production by year-end”

Annual Meeting

The Company's Annual General Meeting of Shareholders is scheduled for 10:00 AM on Friday May 30, 2008 in the Strand/Tivoli Room - Metropolitan Centre, 333-4th Avenue SW, Calgary, AB.

For further information, please contact:

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## Management's Discussion and Analysis of Financial Results

*This Management's Discussion and Analysis for North Peace Energy Corp. ("North Peace" or the "Company") provides analysis of the Company's financial results for the year ended December 31, 2007. The following information should be read in conjunction with the unaudited financial statements for the year ended December 31, 2007.*

*Additional information about North Peace filed with Canadian securities commissions is available online at [www.sedar.com](http://www.sedar.com).*

Date of Report            April 4, 2008

### Overview

North Peace Energy has an oil sands project in northern Alberta with 86,400 acres of nearly contiguous oil sands leases bridging the Peace River and Athabasca oil sands areas. The Company is advancing the development of its resource by using a robust and proven in-situ recovery method, Cyclic Steam Stimulation (CSS). A pilot project consisting initially of two horizontal CSS capable wells (with the potential to increase to three wells) has been engineered with construction of pilot facilities scheduled during summer 2008. First steam and oil production is anticipated Q4 2008.

### Overall Performance

During the year ended December 31, 2007 the Company has completed the following significant milestones:

- ◆ Assembled the management and technical team to lead the Company through commercial development
- ◆ Raised \$20 million to buy out North Peace's joint venture partner and obtain sole ownership of the asset
- ◆ Identified Canadian Natural's Primrose South as a commercial analogue. Detailed information about this project was used to model and plan future development
- ◆ Filed a pilot project application with the Energy Resources Conservation Board ("ERCB" formerly the Energy and Utilities Board, "EUB")
- ◆ Drilled five wells on the Company's land holdings in addition to the seven previous wells
  - The results from these wells confirm management's expectations of the resource and validates commercial feasibility of the project
- ◆ Purchased a 50 mmBTU steam generator, a key long-lead item for the pilot project

Subsequent to December 31, 2007 the Company has completed the following:

- ◆ Completed the winter drilling program which consisted of an additional five delineation wells to bring the total well count drilled by the Company to 17 delineation wells.
  - Post the winter drilling program the Company has approximately \$5 million of working capital
- ◆ ERCB and Alberta Environment approvals for the pilot project are pending

## Financial Results

### Annual Financial Information

	As at and for the years ended December 31		
	2007	2006	2005
Revenues	343,621	42,810	-
Net Loss and Comprehensive loss	1,228,325	1,572,433	-
Basic and diluted Net Loss Per share	0.040	0.157	-
Total Assets	43,140,812	12,482,723	961,200
Total Long – Term Liabilities	-	-	-

### Quarterly Financial Information

	2007	2007	2007	2007
	Q4	Q3	Q2	Q1
Revenues	117,197	128,821	67,297	30,306
Net Loss and Comprehensive loss	448,481	282,614	363,906	133,324
Basic and diluted Net Loss Per share	0.012	0.007	0.012	0.008

	2006	2006	2006	2006
	Q4	Q3	Q2	Q1
Revenues	30,247	12,563	-	-
Net Loss and Comprehensive loss	44,955	14,981	1,505,287	7,210
Basic and diluted Net Loss Per share	0.003	0.001	0.131	18.025

## Results of Operations

### Interest Income

	Twelve months ended December 31,	
	2007	2006
Interest Income	343,621	42,810

Interest income was \$343,621 for 2007, with the majority from redeemable term deposits bearing interest between 4% and 4.25% and maturing at various times throughout the year. Interest income was \$42,810 in 2006. The increase in interest income from 2006 is due to more cash on deposit.

### Stock-based Compensation

	Twelve months ended December 31,	
	2007	2006
Stock-based Compensation	451,430	1,500,050

Stock-based compensation for 2007 was \$451,430. The amount in 2007 consists of additional option grants in the year as the Company was adding full-time employees and recognition of the expense for existing stock options. The majority of the \$1,500,050 expensed in 2006 consisted of performance warrants which were recognized during 2006. \$180,173 of stock based compensation was capitalized during the year relating to consultants working directly on the capital program and pilot project.

#### Administrative Expenses

	Twelve months ended December 31,	
	2007	2006
G&A expense	<b>1,091,955</b>	115,193

Administrative expenses for 2007 amounted to \$1,091,955 compared to \$115,193 for 2006. The increase from 2006 is due to increased corporate activity during 2007 including increased payroll, more investor relations activity and higher legal costs due to the Company's growth in size and operations.

#### Depreciation and Accretion

	Twelve months ended December 31,	
	2007	2006
Depreciation and Accretion	<b>28,561</b>	-

The Company had depreciation expense during 2007 of \$15,940 related to office furniture and computer equipment. Accretion related to asset retirement obligations during 2007 was \$12,621 the increase is due to the passage of time. There was no depreciation or accretion expense recognized during 2006.

#### Future Income Taxes

During the year ended December 31, 2007 the Company recognized \$915,900 as a future income tax liability related to the renunciation of expenses associated with flow-through shares.

#### Liquidity and Capital Resources

As at December 31, 2007 the Company had working capital of \$9.4 million.

The Company's revised 2007/2008 capital program now takes into account a 100 percent working interest, and was \$10 million. The majority of the 2007/2008 capital program is already completed and the remainder is expected to be completed in the first quarter of 2008 and post completion the company will have approximately \$5 million of working capital. The Board of Directors has approved a 2008/2009 capital budget of \$20 million dollars to build the pilot project and complete a winter 2008/2009 delineation drilling program, the approval is subject to financing and the Company is currently exploring various alternatives for raising the required funds.

As at December 31, 2007, the payments due under the office lease commitment are as follows:

(Cdn \$)	
2008	82,246
2009	82,246
2010	82,246
2011	82,246
Thereafter	Nil

Capital expenditures were as follows:

(Cdn \$)	Twelve months ended December 31	
	2007	2006
Property Acquisition	<b>20,187,456</b>	-
Land & Lease Rentals	<b>160,114</b>	4,219,092
Drilling	<b>2,905,175</b>	3,764,468
Geological Costs	<b>51,828</b>	-
Facilities	<b>450,000</b>	-
Preliminary Pilot Project Costs	<b>83,540</b>	-
Total	<b>23,838,113</b>	7,983,560

Capitalized stock-based compensation and asset retirement obligation additions are not included in the above table.

The following table shows the common shares, stock options, purchase warrants and performance warrants issued and outstanding at December 31, 2007:

	<b>December 31, 2007</b>
Common shares outstanding	38,050,640
Weighted average number of shares outstanding during the period	30,992,790
Stock options outstanding	2,280,500
Purchase warrants outstanding	-
Performance warrants outstanding	6,300,000

As at April 4, 2007, there were 38,050,640 common shares outstanding, 2,280,500 stock options and 6,300,000 performance warrants outstanding.

#### Off Balance Sheet Arrangements

There were no off balance sheet arrangements.

### Transactions with Related Parties

As at December 31, 2007, the Company accrued legal costs of \$30,000 payable to a firm in which a director is a partner. During 2007 \$432,125 of legal costs were paid to the same law firm.

### Critical Accounting Estimates

The preparation of financial statements requires the Company to make judgements, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. Actual results could differ from those estimates. A comprehensive discussion of the Company's significant accounting policies is contained in the financial statements for the year ended December 31, 2007.

### Accounting Policies

For the impact of new accounting standards related to financial instruments, comprehensive income and other assets please refer to note 2 of the unaudited financial statements as at December 31, 2007.

### Financial Instruments and Other Instruments

The Company's carrying value of cash and cash equivalents, accounts receivable and accounts payable and accruals approximates its fair value due to the immediate or short-term maturity of these instruments.

### Risks and Uncertainties

North Peace is exposed to significant operational and regulatory risks and uncertainties in the normal course of business that can influence its future financial performance. A summary of certain of these risks is set out below under "Forward-Looking Statements" and a more detailed description of these risks is presented in the Company's Information Circular dated November 29, 2006 and in the Company's 2007 Annual Information Form (when filed), which is or will be available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Fourth-Quarter 2007 Activities

During the three months ended December 31, 2007 the Company had interest income of \$117,197 compared to interest income of \$128,821 in the three months ended September 30, 2007. The decrease is due to reduced cash as the Company completed its capital program.

General and Administrative expenses for the fourth quarter were \$413,467 compared to \$243,488 in the third quarter of 2007. The increase is due to the accrual of year-end bonuses in the fourth quarter and investor relations costs during the period.

### Outlook

The Company has drilled an additional 5 wells in the first quarter of 2008, bringing the total delineation wells drilled by the Company to 17. The majority of the capital spending during 2008 will be focused on the pilot. The two CSS capable delineation wells will be drilled following spring breakup. Construction of pilot facilities will commence in the summer of 2008, with first steam and production expected in the fourth quarter of 2008. Additional delineation work will commence in the winter of 2008 to define an area sufficient to construct the first phase of a commercial project. Pilot production information combined with the data gathered from the winter delineation program will allow the company to commence engineering the first 10,000 bbl/d phase of a commercial project.

### Disclosure Controls and Procedures over Financial Reporting

North Peace carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to North Peace is made known to them by others within the entity, particularly during the period in which the annual filings are being prepared. A control system however, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of North Peace are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company has identified the following weaknesses in internal controls over financial reporting:

- a) Due to the limited number of staff at North Peace, it is not feasible to achieve complete segregation of incompatible duties.
- b) Due to the limited number of staff, North Peace does not have a sufficient number of finance personnel with all the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.

These weaknesses in North Peace's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Other than the matters discussed above, there were no changes during the last quarter of 2007 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

### Forward-Looking Statements

Certain statements contained in this release and MD&A including statements relating to future development plans including the application of CSS, anticipated costs and expenditures, anticipated production capacity and business strategies, constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Actual results will differ and could differ materially as a result of changes in North Peace's plans, changes in commodity prices, regulatory changes, including but not limited to changes in royalty regimes, tax laws and environmental regulations, general economic, market and business conditions, ability to access sufficient capital in the future, failure to obtain required regulatory approvals, as well as production, development and operating performance and other risks associated with oil and gas operations including anticipated success of resource prospects and the expected characteristics of resource prospects; anticipated capital requirements, project rates of return and estimated project life; estimates of original discovered resource; estimates of recovery factors; estimates of the geologic and other attributes and characteristics of the Company's property; the effectiveness and economic feasibility of utilizing CSS; lack of diversification; and overall technical and economic feasibility of the Company's project. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect North Peace's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or at North Peace's website ([www.northpec.com](http://www.northpec.com)). These statements speak only as of the date of this release or as of the date specified in the documents accompanying this release, as the case may be. The Company undertakes no obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities laws.

## NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Formerly North Peace Energy Inc. and Juno Capital Corp. (see note 4)

Balance Sheets, as at

(Cdn \$)	<b>December 31, 2007 (unaudited)</b>	December 31, 2006 (audited)
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 6)	\$ 9,964,393	\$ 3,282,421
Accounts receivable	363,600	46,119
Prepaid expenses	46,360	36,000
	<b>10,374,353</b>	3,364,540
Oil and gas properties (note 7)	32,711,756	8,658,242
Advance on oil and gas properties (note 7)	-	323,232
Deferred transaction charges (note 4)	-	136,709
Other assets	54,703	-
	<b>\$ 43,140,812</b>	<b>\$ 12,482,723</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accruals	\$ 944,654	\$ 95,083
Asset retirement obligations (note 8)	215,820	167,971
Future income taxes (note 9)	915,900	-
	<b>2,076,374</b>	263,054
Shareholders' equity		
Common shares (note 10)	42,037,961	12,292,052
Performance warrants (note 10)	1,466,550	1,466,550
Contributed surplus (note 11)	665,103	33,500
Deficit	(3,105,176)	(1,572,433)
	<b>41,064,438</b>	12,219,669
	<b>\$ 43,140,812</b>	<b>\$ 12,482,723</b>

Commitments (note 13)

Financial Instruments (note 14)

Signed on behalf of the Board:

“Ian Robertson”, Director

“William S Maslechko”, Director

## NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Formerly North Peace Energy Inc. and Juno Capital Corp. (see note 4)

Statements of Loss, Comprehensive Loss and Deficit  
(unaudited)

(Cdn \$)	Three months ended December 31,		Twelve months ended December 31,	
	2007	2006	2007	2006
<b>Revenue</b>				
Interest Income	\$ 117,197	\$ 30,247	\$ 343,621	\$ 42,810
	<b>117,197</b>	<b>30,247</b>	<b>343,621</b>	<b>42,810</b>
<b>Operating expenses</b>				
General and administrative	413,467	41,702	1,091,955	115,193
Stock-based compensation	144,168	33,500	451,430	1,500,050
Depletion, depreciation and accretion	8,043	-	28,561	-
	<b>565,678</b>	<b>75,202</b>	<b>1,571,946</b>	<b>1,615,243</b>
Net Loss and Comprehensive Loss	\$ 448,481	\$ 44,955	\$ 1,228,325	\$ 1,572,433
Deficit at beginning of period	2,656,695	1,527,478	1,572,433	-
Costs relating to Juno transaction (note 4)	-	-	304,418	-
Deficit at end of period	\$ 3,105,176	\$ 1,572,433	\$ 3,105,176	\$ 1,572,433
Net Loss per share (note 15)				
Basic	\$ 0.012	\$ 0.003	\$ 0.040	\$ 0.157
Diluted	\$ 0.012	\$ 0.003	\$ 0.040	\$ 0.157

# NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Formerly North Peace Energy Inc. and Juno Capital Corp. (see note 4)

## Statements of Cash Flows (unaudited)

(Cdn \$)	Three months ended December 31,		Twelve months ended December 31,	
	2007	2006	2007	2006
<b>Cash provided by (used in):</b>				
<b>Operating Activities</b>				
Net Loss	\$ (448,481)	\$ (44,955)	\$ (1,228,325)	\$ (1,572,433)
Non-cash charges to earnings				
Depletion, depreciation and accretion	8,043	-	28,561	-
Stock-based compensation	144,168	33,500	451,430	1,500,050
	<b>(296,270)</b>	<b>(11,455)</b>	<b>(748,334)</b>	<b>(72,383)</b>
Net change in non cash working capital				
Accounts receivable	(48,552)	(33,046)	(300,109)	(45,626)
Prepaid expenses	(16,473)	(27,500)	(10,360)	(36,000)
Accounts payable and accruals	(73,166)	(31,408)	(206,231)	37,585
	<b>(434,461)</b>	<b>(103,409)</b>	<b>(1,265,034)</b>	<b>(116,424)</b>
<b>Investing Activities</b>				
Additions to oil and gas properties	(2,409,987)	(2,179,305)	(23,838,113)	(7,983,560)
Advance on oil and gas properties	-	1,266,718	-	(323,232)
Other assets	(3,238)	-	(70,643)	-
Net change in non cash working capital				
Accounts receivable	-	-	323,232	-
Accounts payable and accruals	699,468	-	796,478	-
	<b>(1,713,757)</b>	<b>(912,587)</b>	<b>(22,789,046)</b>	<b>(8,306,792)</b>
<b>Financing Activities</b>				
Proceeds on issue of common shares	-	754,000	31,891,948	11,458,400
Share issue costs	-	-	(1,377,169)	(41,548)
Cash acquired from Juno Capital Corp. (note 4)	-	-	261,845	-
Deferred financing charges	-	(52,702)	24,353	(136,709)
Net change in non cash working capital				
Accounts payable and accruals	(104,274)	-	(64,925)	(28,993)
	<b>(104,274)</b>	<b>701,298</b>	<b>30,736,052</b>	<b>11,251,150</b>
<b>Increase in cash and cash equivalents</b>	<b>(2,252,492)</b>	<b>(314,698)</b>	<b>6,681,972</b>	<b>2,827,934</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>12,216,885</b>	<b>3,597,119</b>	<b>3,282,421</b>	<b>454,487</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 9,964,393</b>	<b>\$ 3,282,421</b>	<b>\$ 9,964,393</b>	<b>\$ 3,282,421</b>
Supplemental disclosure:				
Cash interest received	\$ 26,729	\$ -	\$ 160,611	\$ -
Cash taxes paid	\$ -	\$ -	\$ -	\$ -

# **NORTH PEACE ENERGY CORP.**

(A Development Stage Company)

Formerly North Peace Energy Inc. and Juno Capital Corp. (see note 4)

Notes to Financial Statements

As at December 31, 2007 (unaudited), as at December 31, 2006 (audited)

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## **1. Nature of Operations**

North Peace Energy Corp. (the “Company”) was amalgamated pursuant to the provisions of the *Business Corporations Act* (Alberta) on February 6, 2007, the result of a reverse takeover (note 4). The Company’s principal business activity is the exploration, exploitation and development and production of petroleum and natural gas resources in the Province of Alberta. To date the Company has not earned significant revenue and is therefore considered to be a development stage Company.

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. The recoverability of the amounts shown for oil and gas assets is dependent upon the discovery of economically recoverable oil and gas resources and the ability of the Company to obtain financing necessary to complete the exploration and development and the success of future operations.

## **2. Adoption of new accounting policies**

### Financial Instruments

On January 1, 2007 the Company adopted three new standards issued by the Canadian Institute of Chartered Accountants (“CICA”) relating to the accounting for and disclosure of financial instruments.

- ◆ Section 3855 - “Financial Instruments – Recognition and Measurement” prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet as well as its measurement amount depending on its classification. This Section also specifies how gains and losses on financial instruments are to be presented.
- ◆ Section 3865 – “Hedges” expands on and replaces Accounting Guideline 13 – “Hedging Relationships” by specifying how hedge accounting is to be applied and what disclosures are necessary when it is applied.
- ◆ Section 1530 – “Comprehensive Income” introduces new standards for reporting and disclosure of comprehensive income. Comprehensive income is the change in equity of the Company during that period from transactions and other events and circumstances from non-owner sources including changes in the fair value of financial instruments designated as cash flow hedges as well as foreign currency translation amounts related to self-sustaining foreign operations.

At January 1, 2007 the Company’s financial instruments included cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. Cash and cash equivalents are classified as held for sale. Accounts receivable is measured at amortized cost and classified as a loan and receivable. The financial liabilities are all measured at amortized cost and classified as other. The fair value of these financial instruments approximate carrying value due to their short term to maturity.

# **NORTH PEACE ENERGY CORP.**

(A Development Stage Company)

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Notes to Financial Statements

As at December 31, 2007 (unaudited), as at December 31, 2006 (audited)

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## **2. Adoption of new accounting policies (continued)**

The Company does not hold any derivative financial instruments or any embedded derivatives and does not apply hedge accounting under Section 3865. In addition, the Company does not have any items related to comprehensive income for the year ended December 31, 2007 and accordingly, comprehensive loss is equivalent to net loss.

The Company also adopted Section 1506 – “Accounting Changes” the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862 – “Financial Instruments Disclosures” and Section 3863 – “Financial Instruments Presentations” which are required to be adopted for fiscal years beginning on or after October 1, 2007.

The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

## **3. Significant accounting policies**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The significant policies are detailed as follows:

### **(a) Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. The calculation of asset retirement obligations includes estimates of the future costs to settle the asset retirement obligation, the timing of the cash flows to settle the obligation, and the future inflation rates. The calculation of future income taxes requires judgement in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realizability of future tax assets. Actual results could differ from those estimates. The fair values of stock options are based on estimates using the Black-Scholes option pricing model and the total value of such stock options is recorded as stock based compensation expense on the financial statements.

### **(b) Measurement uncertainty**

The impairment calculations are based on estimates of the recoverability of oil and gas reserves, future costs required to develop and produce these reserves, estimates of future commodity prices and the fair value of unproved properties. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the effect on the financial statements of future years could be significant.

## **NORTH PEACE ENERGY CORP.**

(A Development Stage Company)

Formerly North Peace Energy Inc. and Juno Capital Corp. (see note 4)

Notes to Financial Statements

As at December 31, 2007 (unaudited), as at December 31, 2006 (audited)

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### **3. Significant accounting policies (continued)**

#### **(c) Cash and cash equivalents**

Cash includes cash balances with banks and those short-term money market instruments which have an original term to maturity of three months or less.

#### **(d) Petroleum and natural gas properties**

Capitalized costs

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in a Canadian cost centre. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, cost of drilling both productive and non-productive wells and related production equipment costs, and that portion of general and administrative expenses directly attributable to exploration and development activities.

Proceeds from the disposition of petroleum and natural gas properties are applied to reduce the capitalized costs and no gain or loss is recognized on the disposal of petroleum and natural gas properties unless such disposition would alter the depletion and amortization rate by 20 percent or more.

Depletion/Depreciation

Capitalized costs, together with estimated future capital costs associated with proved undeveloped reserves and amounts related to asset retirement obligations are depleted and depreciated using the unit-of-production method based on total estimated proved petroleum and natural gas reserves, before royalties, as determined by independent engineers. The relative volumes of petroleum and natural gas reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Costs of undeveloped and unproved properties are initially excluded from depletion calculations. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the capitalized costs subject to depletion.

Office equipment is recorded at cost and depreciation is provided on a declining balance basis at 30%.

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(A Development Stage Company)

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Notes to Financial Statements

As at December 31, 2007 (unaudited), as at December 31, 2006 (audited)

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## **3. Significant accounting policies (continued)**

### **(d) Petroleum and natural gas properties (continued)**

#### **Impairment**

The Company determines whether impairment exists by comparing the carrying value of property and equipment to the undiscounted future cash flows expected to result from production of proved reserves, determined by using expected future product prices and costs, and carrying value of unproved properties net of impairments. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying value of property and equipment to the estimated net present value of future cash flows from proved plus probable reserves and carrying value of undeveloped properties net of impairments. A risk free interest rate is used to determine the net present value. Any excess carrying value is recorded as a permanent impairment and charged as additional depletion and depreciation expense. Undeveloped and unproved properties are assessed periodically to determine whether impairment has occurred. The Company uses undiscounted future cash flows based on estimated reserves, costs to develop and future prices in assessing the impairment of these properties.

### **(e) Joint ventures**

The Company's exploration, development and production activities may be conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

### **(f) Asset retirement obligations**

Asset retirement obligations reflect the liability associated with retirement and reclamation of long-lived assets such as petroleum and gas wells and related equipment. An asset retirement obligation is recognized in the period it is incurred and a reasonable estimate of the fair value can be made. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The asset retirement cost, equal to the fair value of the retirement obligation at the time the obligation is incurred, is capitalized as part of the cost of the related long-lived asset and depleted using the unit-of-production method. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time as accretion and changes in estimated future cash flows underlying the obligation. Actual costs incurred to abandon the asset reduce the asset retirement obligation.

### **(g) Income taxes**

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

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### **3. Significant accounting policies (continued)**

#### **(g) Income taxes (continued)**

The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

#### **(h) Stock-based compensation**

Stock options and performance warrants issued by the Company are accounted for in accordance with the fair-value based method of accounting. The fair value of options and performance warrants issued to directors, officers, employees, consultants and service providers to the Company is charged to income with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes options pricing model. Consideration paid upon the exercise of stock options or performance warrants, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. Unvested stock options issued to consultants and service providers are revalued each reporting period. Forfeitures of stock options are accounted for as they occur.

#### **(i) Per share information**

Per share information is calculated using the weighted average number of shares outstanding during the period. The treasury stock method of calculating per share amounts is used, which assumes that all outstanding stock option grants and share purchase warrants with an exercise price below the average market price are exercised, and the assumed proceeds are used to purchase shares at the average market price during the period.

#### **(j) Flow-through shares**

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The carrying value of the shares issued is reduced by the income tax effect of the renunciation when the corresponding exploration and development expenditures are renounced.

### **4. Reverse Takeover**

On February 6, 2007, Juno Capital Corp. ("Juno") completed its qualifying transaction (the "Transaction") with North Peace Energy Inc. to acquire all of the issued and outstanding common shares of North Peace Energy Inc. in exchange for ten common shares of Juno for each issued and outstanding common share of North Peace Energy Inc. All outstanding and unexercised stock options and warrants of North Peace Energy Inc. were exchanged for equivalent stock options and warrants of Juno having regard for the foregoing ten for one ratio.

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## 4. Reverse Takeover (continued)

Upon completion of the Transaction, Juno consolidated its common shares on the basis of one consolidated common share for each five issued and outstanding common shares, and amalgamated with North Peace Energy Inc. to form the Company under the name "North Peace Energy Corp."

The Transaction has been accounted for as a reverse take-over of Juno by North Peace Energy Inc. For accounting purposes, North Peace Energy Inc. is the acquirer and the combined entity is considered to be the continuation of North Peace Energy Inc., except for the authorized and issued share capital which is that of Juno.

The net assets of Juno were recorded on the balance sheet, as follows:

(Cdn \$)	Number of Shares		Amount
Assets acquired		\$	271,016
Liabilities assumed			123,986
Net assets acquired		\$	147,030
Consideration			
Common shares (2,525,000 Juno common shares)	505,000	\$	134,422
Stock options at fair value (252,500 Juno stock options)	50,500		12,608
Total share capital		\$	147,030

The fair value of the net assets of the Company deemed to have been acquired by North Peace Energy Inc. was \$147,030, consisting of cash of \$261,845, accounts receivable and prepaid expenses of \$9,171 and accounts payable of \$123,986. Transaction costs were \$304,418 at the date of the transaction they were recognized in the deficit.

## 5. Basis of presentation

The accompanying financial statements have been prepared without audit. These interim financial statements have been prepared following the same accounting policies and methods used in the financial statements for the year ended December 31, 2006. These financial statements should be read in conjunction with the audited year-end financial statements for North Peace Energy Corp.

Prior year figures are for North Peace Energy Inc. and certain figures have been reclassified to conform to the presentation adopted in 2007.

All common shares, stock options and warrants have been adjusted for the effects of the 10:1 share exchange and the 1:5 consolidation (note 4).

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### 6. Cash and cash equivalents

Included in cash and cash equivalents are redeemable term variable rate deposits of \$8,500,000 and \$500,000 which currently bear interest at 4.25% and mature on June 28, 2008 & September 28, 2008 respectively. As at December 31, 2006, \$3,000,000 was included in cash and cash equivalents and was held in a Guaranteed Investment Certificate bearing interest at an annualized rate of 3.25%.

### 7. Oil and gas properties

(Cdn \$)	December 31, 2007	December 31, 2006
Oil and gas interests	\$ 32,711,756	\$ 8,658,242
Accumulated depletion and depreciation	-	-
	\$ 32,711,756	\$ 8,658,242

At December 31, 2007, the Company has no reserves or production. Accordingly, no provision for depletion expense has been made. On June 28, 2007 the Company completed a property acquisition of the remaining 30 percent ownership in its land holdings in the Red Earth area of northern Alberta. Consideration for the acquisition consisted of \$15,000,000 in cash and \$4,994,947 in common shares of North Peace (2,270,430 common shares at a deemed price of \$2.20 per share).

Stock-based compensation of \$180,173 was capitalized during the year ended December 31, 2007 (2006 – nil).

The Company advanced nil (2006- \$323,232) as a cash call which was outstanding as at December 31, 2007.

No impairment has been recognized on oil and gas interests for the year ended December 31, 2007.

### 8. Asset retirement obligations

The following table represents the reconciliation of the carrying amount of the obligation associated with the retirement of the Company's petroleum and gas interests.

(Cdn \$)	December 31, 2007	December 31, 2006
Asset retirement obligations, beginning of year	\$ 167,971	\$ -
Increase in liabilities	206,509	167,971
Accretion	12,621	-
Change in estimates	(171,281)	-
Asset retirement obligations, end of year	\$ 215,820	\$ 167,971

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### 8. Asset retirement obligations (continued)

The total undiscounted amount of cash flows required to settle the obligations as measured at December 31, 2007 is estimated to be \$220,860 (2006 - 178,283). These obligations will be settled based on the useful lives of the underlying assets, which ranges from one to ten years. The credit-adjusted risk free rate at which the estimated cash flows were discounted was 8% (2006 - 8%) and the estimated inflation rate used to project future costs was 2% (2006 - 2%).

### 9. Income Taxes

Future income tax components are as follows:

(Cdn \$)	December 31, 2007	December 31, 2006
Future income tax asset		
Share issuance costs	\$ 329,100	\$ 11,600
Non-capital losses carried forward	333,400	24,700
	<b>662,500</b>	36,300
Valuation allowance	<b>(662,500)</b>	(36,300)
	\$ -	\$ -
Future income tax liability		
Carrying value of oil and gas properties in excess of tax basis	\$ 915,900	\$ -
	<b>915,900</b>	-

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 32.12% (2006 - 34.49%), as follows:

(Cdn \$)	December 31, 2007	December 31, 2006
Loss for the year before income tax	\$ (1,228,325)	\$ (1,572,433)
Anticipated income tax recovery	\$ (394,500)	\$ (542,300)
Stock-based compensation	147,300	517,300
Share issuance costs	(450,200)	(14,300)
Change in income tax rate	71,200	3,000
	<b>(626,200)</b>	(36,300)
Increase in valuation allowance	<b>626,200</b>	36,300
	\$ -	\$ -

The Company's non-capital losses carried-forward expire in 2027.

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### 10. Share Capital

#### (a) Authorized

Unlimited number of common shares

Unlimited number of first preferred shares issuable in series

Unlimited number of second preferred shares issuable in series

#### (b) Issued

	Number of Shares	Amount
Balance, December 31, 2005 (i)	400	\$ 200
Private Placement (ii)	9,396,000	4,698,000
Private Placement (iii)	6,160,000	6,686,400
Private Placement (iv)	799,000	799,000
Warrants exercised (v)	200,000	150,000
Share issue costs (iii)	-	(41,548)
Balance, December 31, 2006	16,555,400	\$ 12,292,052
Juno shares (note 4)	505,000	147,030
Tax effect of flow-through share renouncement	-	(915,900)
Warrants exercised (vi)	9,196,000	6,897,000
Equity financing (vii)	9,523,810	20,000,001
Property acquisition (viii)	2,270,430	4,994,947
Share issue costs (ix)	-	(1,377,169)
Balance, December 31, 2007	38,050,640	\$ 42,037,961

- i. On November 15, 2005, the Company issued 400 Class A shares at \$0.50 per share for cash consideration of \$200.
- ii. On April 10, 2006, the Company completed a private placement of 9,396,000 units, at \$0.50 per unit, for gross cash consideration of \$4,698,000. Each unit consists of one Class A share and one Class A share purchase warrant. Each warrant entitles the holder to purchase one Class A share of the Company at the price of \$1.50 per share. The warrants expire April 10, 2007.
- iii. On June 30, 2006, the Company completed a private placement of 6,160,000 common shares for gross cash proceeds of \$6,686,400. The Company issued 3,528,000 Class A shares at \$1.00 per share and 2,632,000 Class A flow through shares at \$1.20 per share. The Company incurred share issue costs of \$41,548 in connection with the June 30, 2006 private placement.

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### 10. Share Capital (continued)

#### (b) Issued (continued)

- iv. On November 8, 2006, the Company completed a private placement of 799,000 common shares at \$1.00 per Class A common share for gross proceeds of \$799,000.
- v. On December 21, 2006, 200,000 warrants were exercised for Class A common shares at \$0.75 per warrant for gross proceeds of \$150,000.
- vi. During the year ended December 31, 2007, 9,196,000 warrants were exercised for common shares at \$0.75 per warrant for gross proceeds of \$6,897,000.
- vii. The Company issued 9,523,810 subscription receipts for common shares of the Corporation at an issue price of \$2.10 per subscription receipt for gross proceeds of \$20,000,001. The effective date for the exchange of subscription receipts for common shares was June 28, 2007.
- viii. On June 28, 2007 2,270,430 common shares at a deemed price of \$2.20 per share were issued as partial consideration for a property acquisition (see note 6).
- ix. Share issue costs relate to the costs incurred for the equity issuance of 9,523,810 subscription receipts and the issuance of 2,270,430 common shares as partial payment for the property acquisition.

#### (c) Stock options

Changes in the number of shares issuable under outstanding options were as follows:

	Number of options	Range of Exercise Prices	Weighted Average Exercise Price
Balance, December 31, 2005	-	\$ -	\$ -
Options granted	840,000	1.00	1.00
Balance, December 31, 2006	840,000	\$ 1.00	\$ 1.00
Juno options (note 4)	50,500	1.00	1.00
Options granted	1,390,000	1.00 – 2.62	1.71
Options exercised	-	-	-
Balance, December 31, 2007	2,280,500	\$ 1.00 – 2.62	\$ 1.43

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## 10. Share Capital (continued)

### (c) Stock Options (continued)

The average fair value of the options granted during 2007 is \$1.03 per option assuming an average volatility of 90% on the underlying shares, an exercise price between \$1.00 and \$2.62, a risk-free interest rate of 3.89% - 4.58%, an expected life of 5 years, and an expected dividend rate of 0%. The majority of the options vest 1/3 per year on the first, second and third anniversary of the date of the grant. Options issued to consultants vest upon completion of consulting work or at equal amounts at 6 months, 18 months and 30 months after the date of grant. The Company has recognized stock-based compensation of \$631,603 in the year, of which \$180,173 was capitalized to oil and gas properties.

During the year ended December 31, 2007, 500,000 options issued to consultants contingent on them joining as employees were canceled and 250,000 of these contingent options were retained by the consultants as part of an engagement to support the Company. In addition 1,140,000 options were issued by the Company to management, employees, consultants and directors during 2007.

The following table sets forth information about stock options outstanding as at December 31, 2007.

Range of Exercise Price	Number of Options	Options Outstanding		Options Exercisable	
		Weighted Average Price Per Share	Remaining Contractual Life (yrs)	Options Exercisable	Weighted Average Price Per Share
\$1.00	1,465,500	\$1.00	3.10	430,500	\$1.00
\$1.55 – \$2.62	815,000	2.21	4.45	-	-
	2,280,500	\$1.43	3.62	430,500	\$1.00

### (d) Purchase Warrants

	Number of Warrants	Exercise Price
Balance, December 31, 2005	-	\$ -
Warrants Issued	9,396,000	0.75
Warrants exercised	(200,000)	0.75
Balance, December 31, 2006	9,196,000	\$ 0.75
Warrants exercised	(9,196,000)	0.75
Balance, December 31, 2007	-	\$ -

In connection with the April 10, 2006 private placement described above, the Company issued 4,698,000 common share purchase warrants entitling the holder to acquire one common share at \$1.50 per share. All of the proceeds from the private placement were allocated to the Class A shares issued.

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Notes to Financial Statements

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### 10. Share Capital (continued)

#### (e) Performance Warrants

	Number of Warrants	Exercise Price
Balance, December 31, 2005	-	\$ -
Warrants issued	6,300,000	
Balance, December 31, 2006	6,300,000	\$ 0.50
Warrants exercised	-	-
Balance, December 31, 2007	6,300,000	\$ 0.50
Exercisable, December 31, 2007	-	\$ -

The performance warrants must be exercised the earlier of: (a) immediately following a liquidity event whereby the Board of the Company determines to liquidate all or substantially all of the assets of the Company, (b) immediately following an offer to purchase at least 66 2/3% of the outstanding Class A common shares for cash or similar consideration (other than pursuant to a reverse take-over) that is received and taken up and paid for by the offeror, or (c) December 31, 2010, otherwise they expire.

The performance warrants vest immediately if (a) or (b) above occurs, or after the shares are listed on a recognized stock exchange and all of the following performance criteria are satisfied; (i) the Company has a market capitalization of at least \$30,000,000; (ii) at least 32,000,000 equity shares are outstanding; and (iii) the Company meets or exceeds the minimum listing requirements of a Tier 1 Issuer as defined in the policies of the TSX Venture Exchange (collectively the "Performance Criteria"). If the Performance Criteria are met, the warrants vest as follows: 1,350,000 performance warrants upon achieving a share price of \$1.00 per share, 900,000 performance warrants upon achieving a share price of \$1.50 per share and 900,000 performance warrants upon achieving a share price of \$2.00 per share. Share prices are calculated based on the ten day weighted average trading price per share of the Company. As at December 31, 2007 all performance criteria related to the Company have been satisfied the minimum listing requirements for a Tier 1 Issuer on the TSX Venture Exchange has not been satisfied.

The fair value of the performance warrants was estimated using the Black-Scholes option pricing model assuming expected volatility of 90% and an expected life of between one and three years with corresponding risk-free rates of 4.07% to 4.16%.

The remaining contractual life of the outstanding and exercisable performance warrants is 3.00 years.

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## 11. Contributed surplus

(Cdn \$)	December 31, 2007	December 31, 2006
Balance, beginning of year	\$ 33,500	\$ -
Stock-based compensation		
Expensed	451,430	33,500
Capitalized	120,394	-
Increase in fair value of non-employee options (capitalized)	59,779	-
Balance, end of year	\$ 665,103	\$ 33,500

## 12. Related party transactions

As at December 31, 2007, the Company accrued legal costs of \$30,000 (2006 - nil) payable to a firm in which a director is a partner. During 2007 \$432,125(2006 - nil) of legal costs were paid to the same law firm. All related party transactions are in the normal course of operations, related party transactions entered into by the Company have been measured at the exchange amount established and agreed to by the related parties.

## 13. Commitments

As at December 31, 2007, the Company was committed under a lease for office premises, requiring future minimum rental payments of \$82,246 per annum plus operating costs, expiring December 31, 2011.

## 14. Financial instruments

Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable and accounts payable and accruals approximates its fair value due to the immediate or short-term maturity of these instruments.

Risk

As the company has no current production or debt outstanding it is not exposed to any significant currency, credit, commodity or interest rate risk.

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### 15. Loss per Share

The following is a reconciliation of basic and diluted loss per share.

	Three months ended December 31,		Twelve months ended December 31,	
	2007	2006	2007	2006
Net loss (Cdn \$)	\$ 448,481	44,955	1,228,325	1,572,433
Weighted average number of shares outstanding	38,050,640	15,889,400	30,992,790	10,017,854
Basic loss per share	\$ 0.012	0.003	0.040	0.157
Diluted loss per share	\$ 0.012	0.003	0.040	0.157

The Company is in a loss position for the period, therefore all dilutive instruments are anti-dilutive in nature.

### 16. Future Changes

#### Convergence with International Financial Reporting Standards

A decision of the CICA Accounting Standards Board (the "AcSB") will require the Company to report under International Financial Reporting Standards commencing January 1, 2011 though specific requirements of the transition continue to be under review by the AcSB. The Company is monitoring the requirements but is unable to assess the impact on its financial statements.

#### Capital disclosures

On January 1, 2008, the Company will be required to adopt the CICA Handbook Section -1535 – Capital Disclosures. Under the requirements of the new standard, the Company will disclose information about its objectives, policies and processes for managing capital, quantitative information about what the Company regards as capital and information regarding its compliance with any externally imposed capital requirements and the consequences of any non-compliance. The Company anticipates that the main impact to its financial statements will be in terms of additional disclosures required.

#### Going concern

On January 1, 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400 – General Standards of Financial Statements. The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company is currently reviewing the standard but is unable to assess the impact on its financial statements at this time.