



North Peace Energy Announces Operations Update and Second Quarter Results

Calgary, Alberta, August 27, 2008 North Peace Energy Corp. (“North Peace” or the “Company”) releases operating and financial results for the three and six months ended June 30, 2008.

Operations and Financial Highlights:

- ◆ Completed a \$26 million financing on August 7, 2008, issuing 13,333,300 common shares, 6,666,650 warrants to purchase common shares and 3,636,360 flow-through shares.
- ◆ Working capital position of approximately \$25 million subsequent to the recent financing
- ◆ Received Energy Resources Conservation Board (“ERCB”) and Alberta Environment approval in June for a Cyclic Steam Stimulation (“CSS”) pilot project at Red Earth.
- ◆ Invested \$2.9 million procuring equipment for the CSS pilot project in the second quarter of 2008.

CSS Pilot Project Update:

- ◆ Completed drilling of the two horizontal wells in August on budget
 - Bitumen saturated sands, consistent with previously determined reservoir characteristics and quality, were encountered over the entire horizontal section of both wells
- ◆ Hired all key field operations employees
- ◆ Commenced facility construction
 - Steam injection is expected to commence during November, on schedule and on budget

Commercial Project Update:

- ◆ Drilling of the remaining delineation wells required for the first 10,000 bbl/d phase of our 30,000 bbl/d commercial project is scheduled to commence in November
- ◆ Advancing commercial engineering and environmental work and the Company expects to file an application with the ERCB in mid-2009
- ◆ Subject to successful pilot project results, the Commercial project remains on schedule with first steam expected in 2012

Louis Dufresne, President of North Peace, said the Company now has all the pieces in place for its CSS pilot project which remains the key building block for the commercial project.

“Engineering is complete, all major equipment has been procured, and the project is fully funded,” he said. “The remainder of the year is populated with significant milestones, including construction completion and first steam in November, culminating in pilot oil production either late in 2008 or in early 2009.”

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Management's Discussion and Analysis of Financial Results

This Management's Discussion and Analysis of North Peace Energy Corp. ("North Peace" or the "Company") provides analysis of the Company's financial results for the three and six month periods ended June 30, 2008. The following information should be read in conjunction with the Company's unaudited interim financial statements for the three and six months ended June 30, 2008, and the audited financial statements for the year ended December 31, 2007.

Additional information about North Peace filed with Canadian securities commissions is available on-line at www.sedar.com.

See "Forward-Looking Statements" below.

Date of Report August 26, 2008

Overview

North Peace has an early stage in-situ oil sands play in northern Alberta with an estimated 2 to 3.1 billion barrels of Discovered Petroleum Initially-In-Place. The Company has a 100% working interest in 86,400 acres of Crown oil sands leases in the Peace River area. The lands have the benefit of over 300 legacy logs and are surrounded by accessible oil and gas production infrastructure. The target Bluesky zone is a regional sand, deposited in a near shore marine environment at approximately 400 metres depth. The initial focus area has 24 contiguous land sections with 10 to 16 metres of oil bearing thickness, sufficient to advance a 30,000 bbl/d commercial project. North Peace is currently advancing the development of its resource using a robust and proven in-situ thermal recovery process, Cyclic Steam Stimulation ("CSS"). A pilot project consisting initially of two horizontal CSS wells has been engineered, regulatory approval has been obtained and the project is fully funded. Pilot facility construction has commenced and construction completion is scheduled for November. The Company does not currently have any oil and gas production.

Overall Performance

During the three months ended June 30, 2008 the Company has completed the following significant milestones:

- ◆ Received Energy Resources Conservation Board ("ERCB") and Alberta Environment EPEA approval for our CSS pilot project
- ◆ Procured \$2.9 million of equipment for the CSS pilot project

Financial Results

Quarterly Financial Information

	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4	2006 Q3
Revenues	39,045	87,905	117,197	128,821	67,297	30,306	30,247	12,563
Net Loss and Comprehensive loss Basic and diluted	486,924	399,290	448,481	282,614	363,906	133,324	44,955	14,981
Net Loss Per share	0.013	0.010	0.012	0.007	0.012	0.008	0.003	0.001

Results of Operations

Interest Income

	2008		2007	Six months ended June 30,	
	Q2	Q1	Q2	2008	2007
Interest Income	39,045	87,905	67,297	126,950	97,603

Interest income was \$39,045 for the second quarter of 2008, with the majority derived from redeemable term deposits bearing interest at 2.75%. The increase in interest income in the first half of 2008 from the first half 2007 is due to more cash on deposit. Interest income is down from the first quarter of 2008 and the same period in 2007 due to reduced cash on hand as the Company executed its capital program.

Stock-based Compensation

	2008		2007	Six months ended June 30,	
	Q2	Q1	Q2	2008	2007
Stock-based Compensation	150,651	166,376	94,152	317,027	149,169

Stock-based compensation for the second quarter of 2008 was \$306,232. \$150,651 of stock based compensation was expensed relating to the recognition of existing stock options as there were no additional option grants in the first half of 2008. \$155,581 of stock based compensation was capitalized during the quarter relating to consultants working directly on the capital program and pilot project.

Administrative Expenses

	2008		2007	Six months ended June 30,	
	Q2	Q1	Q2	2008	2007
G&A expense	365,118	310,883	331,719	676,001	435,000

Administrative expenses for the second quarter amounted to \$365,118 compared to \$310,883 for the first quarter of 2008 and \$331,719 for the same period last year. The increase from the first quarter of 2008 is due to increased investor relations activity. The increase from the same period in 2007 is due to the Company's growth in size and level of activity.

Depletion, Depreciation and Accretion

	2008		2007	Six months ended June 30,	
	Q2	Q1	Q2	2008	2007
Depletion, Depreciation and Accretion	10,200	9,936	5,332	20,136	10,664

The Company had depreciation expense during the second quarter of 2008 of \$5,920 related to office furniture and computer equipment. Accretion related to asset retirement obligations in the second quarter of 2008 was \$4,280. The increase from the same period last year is due to additional wells. The change from the previous quarter is due to the passage of time.

Liquidity and Capital Resources

As at June 30, 2008, the Company had working capital of \$2 million.

The Board of Directors has approved a 2008/2009 capital budget of \$20 million to build the pilot project and complete a winter 2008/2009 delineation drilling program.

On August 7, 2008 the Company completed a private placement equity offering, issuing a total of 13,333,300 units ("Units"), at a price of \$1.50 per Unit and 3,636,360 flow-through common shares ("Flow-Through Shares"), at a price of \$1.65 per Flow-Through Share for gross proceeds of approximately \$26 million. Each Unit consists of one common share and half of one common share purchase warrant ("2.00 Warrant"). Each full \$2.00 Warrant entitles the holder to acquire one common share at an exercise price of \$2.00 per share until February 7, 2010.

The proceeds from the financing are sufficient to fully fund the \$20 million 2008/2009 capital budget and the additional funds raised will be used for potential contingencies during pilot construction. Following construction and first steam injection the remaining funds will be used to increase the number of wells drilled in the winter 2008/2009 delineation drilling program and for commercial project engineering.

As at June 30, 2008, the payments due under the office lease commitment are as follows:

(Cdn \$)	
2008	41,123
2009	82,246
2010	82,246
2011	82,246
Thereafter	Nil

Capital expenditures were as follows:

	2008		2007	Six months ended June 30,	
	Q2	Q1	Q2	2008	2007
Property Acquisition	-	-	20,160,921	-	20,160,921
Land & Lease Rentals	19,880	120,735	8,064	140,615	41,694
Drilling	42,216	3,538,738	131,700	3,580,953	1,000,087
Geological Costs	15,906	40,393	-	56,299	30,000
Pilot Facilities	2,895,907	188,489	-	3,084,396	-
Pilot Project Costs	64,730	27,314	-	92,043	-
Other	-	-	26,780	-	32,134
Total	3,038,639	3,915,669	20,327,465	6,954,306	21,264,836

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

Share Capitalization

The following table shows the common shares, stock options and performance warrants issued and outstanding at June 30, 2008:

	June 30, 2008
Common shares outstanding	38,101,140
Weighted average number of shares outstanding during the period	38,059,057
Stock options outstanding	2,230,000
Performance warrants outstanding	6,300,000

As at August 26, 2008, there were 55,070,800 common shares, 3,770,000 stock options, 6,300,000 performance warrants and 6,666,650 purchase warrants outstanding.

Off Balance Sheet Arrangements

There were no off balance sheet arrangements as at June 30, 2008.

Transactions with Related Parties

As at June 30, 2008, the Company accrued legal costs of \$30,000 payable to a firm in which a director is a partner.

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 policies please refer to note 2 of the unaudited financial statements as at June 30, 2008.

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 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 April 18, 2008 which is available on SEDAR at www.sedar.com. Readers are cautioned that these descriptions are not exhaustive.

Outlook

The majority of the capital spending during the balance of 2008 will be focused on completing the pilot project. The two CSS horizontal were drilled following the equity financing. Construction of pilot facilities has commenced, with first steam injection expected in November. Initial production response should occur approximately two months following steam injection and is expected late in the fourth quarter 2008 or early 2009.

Additional delineation drilling work will commence in the winter of 2008/2009 to confirm an area sufficient to construct the first 10,000 bbl/d phase of a 30,000 bbl/d commercial project. Pilot production information combined with the data gathered from this drilling program will allow the Company to advance commercial engineering and in mid 2009 North Peace expects to be in a position to submit an application to the ERCB for the first 10,000 bbl/d phase of the commercial project.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the use of US GAAP by domestic issuers. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company has not completed development of its IFRS changeover plan, which will include project structure governance, resourcing and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS as well as potential IFRS 1 ("First Time Adoption of IFRS") exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements during 2009.

The International Accounting Standards Board (“IASB”) has stated that it plans to issue an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to result in a reduced administrative transition from the current Acg-16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Company to apply IFRS prospectively to its full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the proviso that the ceiling test, under IFRS standards, is conducted at the transition date.

Discovered Petroleum Initially-In-Place

Discovered Petroleum Initially-In-Place (equivalent to Discovered Resources) is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of Discovered Petroleum Initially-In-Place includes production, reserves, and contingent resources. There is no certainty that the Discovered Petroleum Initially-In-Place will ever be produced.

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; results of the Company's pilot project and delineation program; 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) or at North Peace's website (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)

Balance Sheets, as at
(unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 4,517,878	\$ 9,964,393
Accounts receivable	277,178	363,600
Prepaid expenses	47,603	46,360
	4,842,659	10,374,353
Oil and gas properties (note 5)	39,959,843	32,711,756
Other assets	51,639	54,703
	\$ 44,854,141	\$ 43,140,812
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accruals	\$ 2,874,329	\$ 944,654
Asset retirement obligations (note 6)	378,290	215,820
Future income taxes	550,929	915,900
	3,803,548	2,076,374
Shareholders' equity		
Common shares (note 7)	42,453,432	42,037,961
Performance warrants (note 7)	1,466,550	1,466,550
Contributed surplus (note 8)	1,122,001	665,103
Deficit	(3,991,390)	(3,105,176)
	41,050,593	41,064,438
	\$ 44,854,141	\$ 43,140,812

Commitments (note 10)

Subsequent events (note 13)

Signed on behalf of the Board:

“Ian Robertson”, Director

“Don Garner”, Director

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Loss, Comprehensive Loss and Deficit
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue				
Interest Income	\$ 39,045	\$ 67,297	\$ 126,950	\$ 97,603
	39,045	67,297	126,950	97,603
Operating expenses				
General and administrative	365,118	331,719	676,001	435,000
Stock-based compensation	150,651	94,152	317,027	149,169
Depletion, depreciation and accretion	10,200	5,332	20,136	10,664
	525,969	431,203	1,013,164	594,833
Net Loss and Comprehensive Loss	\$ 486,924	\$ 363,906	\$ 886,214	\$ 497,230
Deficit at beginning of period	3,504,466	1,818,112	3,105,176	1,572,433
Costs relating to Juno transaction (note 3)	-	-	-	112,355
Deficit at end of period	\$ 3,991,390	\$ 2,182,018	\$ 3,991,390	\$ 2,182,018
Net Loss per share (note 12)				
Basic and Diluted	\$ 0.013	\$ 0.012	\$ 0.023	\$ 0.021

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Cash Flows (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating Activities				
Net Loss	\$ (486,924)	\$ (363,906)	\$ (886,214)	\$ (497,230)
Non-cash charges to earnings				
Depletion, depreciation and accretion	10,200	5,332	20,136	10,664
Stock-based compensation	150,651	94,152	317,027	149,169
	(326,073)	(264,422)	(549,051)	(337,397)
Net change in non cash working capital				
Accounts receivable	204,557	(158,377)	210,471	(226,311)
Prepaid expenses	(13,479)	16,772	(1,243)	15,368
Accounts payable and accruals	14,332	(21,105)	(76,636)	(139,060)
	(120,663)	(427,132)	(416,459)	(687,400)
Investing Activities				
Additions to oil and gas properties	(3,038,639)	(20,327,465)	(6,954,306)	(21,264,836)
Other assets	(3,537)	(32,224)	(8,512)	(58,528)
Net change in non cash working capital				
Accounts receivable	(52,600)	399,361	(124,049)	323,232
Accounts payable and accruals	809,039	(647,434)	2,006,311	125,081
	(2,285,737)	(20,607,762)	(5,080,556)	(20,875,051)
Financing Activities				
Proceeds on issue of common shares	50,500	28,773,671	50,500	30,551,171
Cash acquired from Juno Capital Corp. (note 3)	-	-	-	261,845
Deferred financing charges	-	-	-	24,354
Net change in non cash working capital				
Accounts payable and accruals	-	5,027	-	48,002
	50,500	28,778,698	50,500	30,885,372
(Decrease) Increase in cash and cash equivalents	(2,355,900)	7,743,804	(5,446,515)	9,322,921
Cash and cash equivalents, beginning of period	6,873,778	4,861,538	9,964,393	3,282,421
Cash and cash equivalents, end of period	\$ 4,517,878	\$ 12,605,342	\$ 4,517,878	\$ 12,605,342
Supplemental disclosure:				
Interest received	\$ 246,413	\$ 4,120	\$ 308,551	\$ 4,120

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at June 30, 2008 (unaudited), as at December 31, 2007

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 3). 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 on its assets and discharge its liabilities in the normal course of business. The recoverability of the amounts shown for petroleum and natural 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.

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, 2007 except as noted. These financial statements should be read in conjunction with the audited year-end financial statements for North Peace Energy Corp.

2. Adoption of new accounting policies

Effective January 1, 2008 the Company adopted Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. Section 1535 specifies the disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 specify standards of presentation and enhanced disclosures on financial instruments. These Sections will require the Company to increase disclosure on the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The adoption of these new accounting standards did not impact the amounts reported in the Company’s financial statements; however, it did result in expanded note disclosure (see Note 11).

The CICA has amended Section 1400, “General Standards of Financial Statement Presentation”, which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company’s ability to continue as a going concern (note 1).

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new Section will be effective on January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at June 30, 2008 (unaudited), as at December 31, 2007

3. 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.

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 in the first quarter of 2007 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 and they were recognized in the deficit.

4. Cash and cash equivalents

Included in cash and cash equivalents is a redeemable term variable rate deposit totaling \$3,760,056 which currently bears interest at 2.75 % and matures on June 28, 2009. The term deposits are fully redeemable, without penalty, 30 days after the date of investment and therefore classified as cash and cash equivalents.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at June 30, 2008 (unaudited), as at December 31, 2007

5. Oil and gas properties

(Cdn \$)		June 30, 2008		December 31, 2007
Oil and gas interests	\$	39,959,843	\$	32,711,756
	\$	39,959,843	\$	32,711,756

The Company is advancing a Cyclic Steam Stimulation (“CSS”) project on its land holdings. The initial focus area has 24 contiguous land sections with 10 to 16 metres of oil bearing thickness, sufficient to advance a 30,000 bbl/d commercial project. A pilot project consisting initially of two horizontal CSS wells has been engineered and construction of the pilot facility has commenced.

At June 30, 2008, the Company has no reserves or production. Accordingly, no provision for depletion expense has been made.

In 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 \$139,871 (2007 - \$180,173) was capitalized during the six months ended June 30, 2008.

No impairment has been recognized on oil and gas interests for the six months ended June 30, 2008.

6. 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 \$)		June 30, 2008		December 31, 2007
Asset retirement obligations, beginning of period	\$	215,820	\$	167,971
Increase in liabilities		156,842		206,509
Accretion		8,561		12,621
Change in estimates		(2,933)		(171,281)
Asset retirement obligations, end of period	\$	378,290	\$	215,820

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at June 30, 2008 (unaudited), as at December 31, 2007

6. Asset retirement obligations (continued)

The total undiscounted amount of cash flows required to settle the obligations as measured at June 30, 2008 is estimated to be \$711,214 (2007 – 220,860). 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% (2007 - 8%) and the estimated inflation rate used to project future costs was 2% (2007 - 2%).

7. 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, 2006	16,555,400	\$ 12,292,052
Juno shares (note 3)	505,000	147,030
Tax effect of flow-through share renouncement	-	(915,900)
Warrants exercised (i)	9,196,000	6,897,000
Equity financing (ii)	9,523,810	20,000,001
Property acquisition (iii)	2,270,430	4,994,947
Share issue costs (iv)	-	(1,377,169)
Balance December 31, 2007	38,050,640	42,037,961
Tax effect of previously incurred share issue costs	-	364,971
Stock Options exercised	50,500	50,500
Balance June 30, 2008	38,101,140	\$ 42,453,432

- i. In 2007, 9,196,000 warrants were exercised for common shares at \$0.75 per warrant for gross proceeds of \$6,897,000.
- ii. 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.
- iii. 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 5).
- iv. 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.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at June 30, 2008 (unaudited), as at December 31, 2007

7. Share Capital (continued)

(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, 2006	840,000	\$ 1.00	\$ 1.00
Juno options (note 3)	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
Options exercised	50,500	1.00	1.00
June 30, 2008	2,230,000	\$ 1.00 – 2.62	\$ 1.44

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, a weighted average exercise price of \$1.71, 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 \$456,898 during the six months ended June 30, 2008, of which \$139,871 was capitalized to oil and gas properties.

In 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 June 30, 2008.

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	1,415,000	\$1.00	3.48	505,000	\$1.00
\$1.55 – \$2.62	815,000	2.21	3.95	136,667	\$2.59
	2,230,000	\$1.43	3.69	641,667	\$1.34

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As at June 30, 2008 (unaudited), as at December 31, 2007

7. Share Capital (continued)

(d) Performance Warrants

	Number of Warrants	Exercise Price
Balance, December 31, 2006	6,300,000	\$ 0.50
Balance, December 31, 2007 and June 30, 2008	6,300,000	\$ 0.50
Exercisable, June 30, 2008	-	\$ -

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 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: 2,700,000 performance warrants upon achieving a share price of \$1.00 per share, 1,800,000 performance warrants upon achieving a share price of \$1.50 per share and 1,800,000 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 June 30, 2008 all performance criteria related to the Company have been satisfied except the minimum listing requirements for a Tier 1 Issuer on the TSX Venture Exchange.

The fair value of the performance warrants was estimated at \$1,466,550 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 2.50 years.

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8. Contributed surplus

(Cdn \$)		June 30, 2008		December 31, 2007
Balance, beginning of period	\$	665,103	\$	33,500
Stock-based compensation				
Expensed		300,512		451,430
Capitalized		75,744		120,394
Decrease/Increase in fair value of non-employee options				59,779
Expensed		16,515		
Capitalized		64,127		
Balance, end of period	\$	1,122,001	\$	665,103

9. Related party transactions

As at June 30, 2008, the Company accrued legal costs of \$30,000 (2007 - nil) payable to a firm in which a director is a partner. 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.

10. Commitments

As at June 30, 2008, 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.

11. Financial instruments

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risk faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. At June 30, 2008, the Company's accounts receivable relates to interest income and GST refunds.

Cash and cash equivalents consist of cash bank balances and short-term deposits redeemable in less than 90 days. When applicable, the Company manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return. The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure.

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As at June 30, 2008 (unaudited), as at December 31, 2007

11. Financial instruments (continued)

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, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company does not yet have a revolving reserve based credit facility.

Market risk

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

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company had no forward exchange rate contracts in place as at or during the six months ended June 30, 2008.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. From time to time, the Company may use both financial derivatives and physical delivery sales contracts to manage market risks. Any such transactions would be approved by the Board of Directors. The Company has not entered into any financial or physical delivery sales contract on future production at June 30, 2008.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's exposure is limited to interest rate fluctuations on its cash in its bank account which bears a floating rate of interest, historically between 2.75% and 4.50%. The Company had no interest rate swap or financial contracts in place as at or during the six months ended June 30, 2008.

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11. Financial instruments (continued)

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.

Capital Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

As the Company does not have any externally imposed capital requirements, for the purposes of this disclosure, the Company has defined its capital to mean its long-term debt (nil) and shareholders' equity and working capital, as determined each reporting date.

There have been no changes to capital management in the six months ended June 30, 2008.

12. Loss per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net loss (Cdn \$)	\$ (486,924)	\$ (363,906)	\$ (886,214)	\$ (497,230)
Weighted average number of shares outstanding	38,067,473	30,187,813	38,059,057	23,934,940
Basic loss per share	0.013	0.012	0.023	0.021
Diluted loss per share	0.013	0.012	0.023	0.021

The Company is in a loss position for the period, therefore all dilutive instruments which include stock options and performance warrants are anti-dilutive in nature.

13. Subsequent Events

On July 29, 2008 the Company granted 1,540,000 stock options at an exercise price of \$1.50 per share to management, employees, consultants and directors. 475,000 of the stock options granted to management will be exercisable only when the Company's previously announced cyclic steam pilot project demonstrates first oil production.

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13. Subsequent Events (continued)

On August 7, 2008 the Company completed a private placement equity offering, issuing a total of 13,333,300 units ("Units"), at a price of \$1.50 per Unit and 3,636,360 flow-through common shares ("Flow-Through Shares"), at a price of \$1.65 per Flow-Through Share for gross proceeds of approximately \$26 million. Each Unit consists of one common share and half of one common share purchase warrant. Each full warrant entitles the holder to acquire one common share at an exercise price of \$2.00 per share until February 7, 2010.