



## North Peace Energy Announces Third Quarter Results and Provides Operations Update

Calgary, Alberta, November 25, 2008 North Peace Energy Corp. (“North Peace” or the “Company”) releases operating and financial results for the three and nine months ended September 30, 2008.

### *CSS Pilot Project Update:*

#### Schedule and Costs

- ◆ Construction of the steam generation facilities is 79% complete (11 out of 14 weeks of planned construction) with first steam anticipated thereafter
  - It is expected that the production portion of the facilities will be completed in January 2009 and timed to coincide with the conclusion of steaming the first well
- ◆ \$8 million has been spent on the pilot construction to September 30, 2008,
  - Total pilot costs are expected to be approximately \$13.1 million compared to the budgeted amount of \$11.5 million, the 14% increase is due to:
    - Higher than expected detailed engineering and design costs
    - Additional time required to complete the mechanical portion of construction

#### Construction and Procurement

- ◆ All major equipment required for first steam is currently on-site
- ◆ Tie-ins are complete for water supply, water disposal, natural gas and power
- ◆ The steam generator is in place and the new low-emissions burner has been installed
- ◆ The building for the steam generator has been erected and assembly is being completed
- ◆ The observation wells are currently being equipped with micro-seismic geophones and temperature sensors to monitor steam chamber development
- ◆ Pump jacks are in place for both horizontal wells
- ◆ Recent pictures of the construction progress are available on the Company’s website
  - [www.northpec.com/operations/photo\\_gallery.html](http://www.northpec.com/operations/photo_gallery.html)

### *Financial and Budget Update:*

- ◆ As at September 30, 2008 the Company had working capital of \$19.3 million (no debt) and approximately \$15.6 million remaining to spend on the 2008/2009 capital budget
  - The budget includes pilot construction, pilot start-up activities, delineation drilling and costs for the commercial project application
- ◆ Post the capital budget spending, \$3.7 million of working capital will remain for any potential contingencies during pilot construction and for corporate expenses during 2009
  - In addition, the Company has the flexibility to defer up to \$6 million of costs related to the delineation program and the commercial application to conserve working capital if required

**Louis Dufresne, President of North Peace**, said “North Peace will soon be a producing junior oil sands company and successful pilot results will put the Company on a solid path to commercial production”

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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 nine month periods ended September 30, 2008. The following information should be read in conjunction with the Company's unaudited interim financial statements for the three and nine months ended September 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](http://www.sedar.com).*

*See "Forward-Looking Statements" below.*

Date of Report                      November 24, 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 at Red Earth Creek 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 is nearing completion and steam injection is expected to occur in December 2008. The Company does not currently have any oil and gas production.

### Overall Performance

During the three months ended September 30, 2008 the Company has achieved the following significant milestones:

- 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.
- Facility construction of the CSS pilot project facilities began in September with \$4 million of capital expenditures during the quarter
- Drilled two CSS capable horizontal wells.

## Financial Results

### Quarterly Financial Information

	<b>2008</b>	2008	2008	2007	2007	2007	2007	2006
	<b>Q3(\$)</b>	Q2(\$)	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)	Q1(\$)	Q4(\$)
Revenues	<b>120,028</b>	39,045	87,905	117,197	128,821	67,297	30,306	30,247
Net Loss and Comprehensive loss	<b>571,983</b>	486,924	399,290	448,481	282,614	363,906	133,324	44,955
Basic and diluted Net Loss Per share	<b>0.012</b>	0.013	0.010	0.012	0.007	0.012	0.008	0.003

### Results of Operations

#### *Interest Income*

	2008		2007	Nine months ended September 30,	
	<b>Q3(\$)</b>	Q2(\$)	Q3(\$)	<b>2008(\$)</b>	2007(\$)
Interest Income	<b>120,028</b>	39,045	128,821	<b>246,978</b>	226,424

Interest income for the third quarter of 2008 was \$120,028 and \$246,978 for the first nine months of 2008, with the majority derived from redeemable term deposits bearing interest at 2%. Interest income is up from the second quarter of 2008 due to the cash from the recently completed equity financing being deposited and generating interest income. The increase in interest income in the first nine months of 2008 from the first nine months of 2007 is due to additional cash on deposit. The decrease in interest from the same period in 2007 is due to less cash on deposit and reduced interest rates.

#### *Stock-based Compensation*

	2008		2007	Nine months ended September 30,	
	<b>Q3(\$)</b>	Q2(\$)	Q3(\$)	<b>2008(\$)</b>	2007(\$)
Stock-based Compensation	<b>217,161</b>	150,651	158,093	<b>534,188</b>	307,262

Stock-based compensation for the third quarter of 2008 was \$217,161 and \$534,188 for the first nine months of 2008. The increase from the previous quarter and the same periods in 2007 is related to the additional grant of 1,830,000 options in June of this year. A recovery of \$63,902 for stock based compensation was capitalized during the quarter relating to consultants working directly on the capital program and pilot project. The average fair value of the options granted in June is \$0.82 per option assuming an average volatility of 80% on the underlying shares, a weighted average exercise price of \$1.46 a risk-free interest rate of 3.35% an expected life of 4 years and an expected dividend rate of 0%.

### *Administrative Expenses*

	2008		2007	Nine months ended September 30,	
	Q3(\$)	Q2(\$)	Q3(\$)	2008(\$)	2007(\$)
G&A expense					
Salaries, Benefits and Consulting Fees	277,432	180,469	91,916	634,792	242,327
Legal, Accounting and Audit Fees	47,232	23,112	20,206	89,980	62,097
Other G&A	139,595	161,537	131,366	415,488	374,064
Total G&A expense	464,259	365,118	243,488	1,140,260	678,488

#### Salaries, Benefits and Consulting Fees

The increase from the second quarter of 2008 is due to increased salaries from additional staff and salary increases for existing staff. The increase from the same period in 2007 is due to the Company's growth in size and level of activity.

#### Legal, Accounting and Audit Fees

The increase in legal costs from the previous quarter and the same period last year is due to additional legal expenses as the Company grows in size and complexity.

#### Other G&A

The Other G&A has decreased from the previous quarter as a result of reduced investor relations activity during the third quarter. The increase in other G&A for the nine month period is due to increased insurance expense for the pilot project construction and higher office expenses as the size of the Company increases.

### *Depletion, Depreciation and Accretion*

	2008		2007	Nine months ended September 30,	
	Q3(\$)	Q2(\$)	Q3(\$)	2008(\$)	2007(\$)
Depletion, Depreciation and Accretion	10,591	10,200	9,854	30,727	20,518

The Company had depreciation expense during the third quarter of 2008 of \$6,311 related to office furniture and computer equipment. Accretion related to asset retirement obligations in the third quarter of 2008 was \$4,280. The increase from the three and nine month periods last year is due to additional wells. The change from the previous quarter is due to the passage of time. The Company has no depletion expense as its assets are not currently on production.

### Liquidity and Capital Resources

During the quarter 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 consisted of one common share and half of one common share purchase warrant ("\$.00 Warrant"). Each full \$.00 Warrant entitles the holder to acquire one common

share at an exercise price of \$2.00 per share until February 7, 2010. Net proceeds to the Company from the offering, after share issue costs, were approximately \$24 million.

As at September 30, 2008, the Company had working capital of \$19.3 million and no debt with \$15.6 million remaining to spend on its capital budget. This leaves \$3.7 million of working capital for any potential contingencies during pilot construction and corporate expenses for 2009. In addition, the Company has the flexibility to defer up to \$6 million of costs related to the delineation program and the commercial application to conserve working capital if required

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

(Cdn \$)	
2008	20,562
2009	82,246
2010	82,246
2011	82,246
Thereafter	Nil

Subsequent to September 30, 2008 the Company canceled the above lease and entered into a new lease agreement in a larger office for \$192,864 per year. The new lease will take effect January 1, 2009 and expire December 31, 2011.

Capital expenditures were as follows:

	2008		2007	Nine months ended September 30,	
	Q3(\$)	Q2(\$)	Q3(\$)	2008(\$)	2007(\$)
Property Acquisition	-	-	26,535	-	20,187,456
Land & Lease Rentals	<b>56,356</b>	19,880	2,160	<b>196,961</b>	43,854
Drilling	<b>2,253,696</b>	42,216	96,632	<b>5,834,649</b>	1,096,719
Geological Costs	<b>13,301</b>	15,906	4,143	<b>69,601</b>	34,143
Pilot Facilities	<b>4,123,684</b>	2,895,907	-	<b>7,208,080</b>	-
Other	<b>97,204</b>	64,730	33,820	<b>189,246</b>	65,954
<b>Total</b>	<b>6,544,231</b>	3,038,639	163,290	<b>13,498,537</b>	21,428,126

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

The Company has no expensed exploration or research and development costs. Capitalized exploration costs are related to the purchase of oil sands leases, the drilling of 17 delineation wells and the related geological assessments. Capitalized development costs relate to the construction of the Company's CSS pilot project and the drilling of two horizontal production wells.

### Share Capitalization

The following table shows the common shares, stock options and performance warrants issued and outstanding at September 30, 2008 and as at November 24, 2008:

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Common shares outstanding	55,070,800
Weighted average number of shares outstanding during nine month period ending September 30, 2008	41,844,120
Stock options outstanding	4,060,000
Performance warrants outstanding	6,300,000
\$2.00 Warrants outstanding	6,666,650

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### Off Balance Sheet Arrangements

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

### Transactions with Related Parties

As at September 30, 2008, the Company accrued legal costs of \$150,000 payable to a firm in which a director is a partner, for general legal services and services related to the most recent equity financing.

### 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.

### *Impairment of Property and Equipment*

The Company is required to review the carrying value of all property and equipment, including petroleum and natural gas assets, for potential impairment. Impairment is indicated if the carrying amount of the property and equipment is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property and equipment is charged to earnings. The assessment of impairment is dependent on estimates of future cash flows, production rates, prices, future costs and other relevant assumptions.

### *Asset Retirement Obligations*

The Company is required to provide for future removal and restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability for the Company's asset retirement obligations is recorded in the period in which it is expected to be incurred, discounted to its present value using the Company's risk-adjusted interest rate and expected inflation rate. The offset to the liability is recorded in the carrying amount of property and equipment. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

### *Income Tax Accounting*

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time.

### *Stock-Based Compensation*

The Company uses the fair value method for valuing stock option grants. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. This model requires the Company's management to make estimates and assumptions for the following: dividend yield; expected volatility and risk-free rate. A zero dividend yield is used as the Company does not pay dividends; the volatility is a calculation based on a peer company comparison because of our lack of trading history and the risk-free rate is obtained from the Bank of Canada. An increase in dividends would decrease the option expense and an increase in the volatility or risk-free rate would increase the option expense.

### Changes in Accounting Policies (including initial adoption)

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.

### 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 November 26, 2006 which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Readers are cautioned that these descriptions are not exhaustive. Certain additional risks and uncertainties are discussed below.

### *Capital Markets*

As a result of the recently completed equity financing the Company currently has sufficient capital to fund planned capital expenditures and operations until the end of 2009. However, the recent downturn in the capital markets may limit the Company's ability to raise the capital necessary to undertake or complete projects after 2009 or to expand operations beyond those currently budgeted in 2008 and 2009 if the capital market conditions do not improve. If debt or equity financing is available, there is no assurance that it will be on terms acceptable to the Company. In the second half of 2009, the Company will make an assessment on its future capital planning, taking into account, among other factors, capital market conditions at that time.

### *Oil & Gas Prices*

World prices for crude oil and natural gas have decreased significantly in the recent quarter. The Company's CSS pilot project will proceed regardless of the prevailing commodity price environment as its purpose is to validate the economic and technical parameters of the commercial project.

Crude oil prices are just one of many factors in the Company's decision to advance a commercial project. The Company will monitor commodity prices as it is evaluating cyclic steam stimulation and production performance data from the pilot project. The Company will utilize this data and then current and anticipated crude oil and natural gas prices in evaluating the feasibility of a commercial project.

### *New Alberta Royalty Regime*

The Province of Alberta has set January 1st of 2009 for the implementation of the New Royalty Framework ("NRF"). In the current pricing environment, the implementation of the NRF is not materially adverse to the economics of the Company's proposed commercial project. As the commodity price increases, the payments made to the Province of Alberta under the NRF increase, however, this is partially offset as the economics of the commercial project also improve with increased commodity prices.

## Outlook

The majority of the capital spending during the balance of 2008 will be focused on completing the pilot project. The two CSS horizontal wells have been drilled and construction of the pilot facilities is nearing completion, with first steam injection expected in December. Initial production response should occur approximately two months following steam injection and is expected in early 2009.

Additional delineation drilling work will commence in the winter of 2008/2009 with the objective of confirming an area sufficient to construct the first 10,000 bbl/d phase of a planned 30,000 bbl/d commercial project.

The Company will utilize the data from the pilot and the delineation drilling in evaluating the feasibility of a commercial project. In the second half of 2009, assuming technical conclusions and industry conditions support an economic project, the Company expects to submit an application to the Energy Resources Conservation Board (“ERCB”) for the first 10,000 bbl/d phase of its targeted 30,000 bbl/d 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 MD&A 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.

In particular, this MD&A contains forward-looking statements pertaining, directly or indirectly, to the following: business and operations strategies including the completion of North Peace's pilot project and potential commencement of a subsequent commercial project.

The forward-looking statements contained in this MD&A are based on a number of expectations and assumptions that may prove to be incorrect. In addition to other assumptions identified in this MD&A, assumptions have been made regarding, among other things: that North Peace will continue to conduct its operations in a manner consistent with past operations; the continuance of existing (and in certain circumstances, proposed) tax and royalty regimes; the general continuance of current industry conditions; the accuracy of the estimates of North Peace's resource volumes; the ability of North Peace to obtain equipment, services and supplies in a timely manner and within budget to carry out its activities; the timely receipt of required regulatory approvals; the ability of North Peace to obtain financing on acceptable terms; future oil and gas prices and future cost assumptions.

No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. Actual results could differ materially as a result of changes in North Peace's plans, changes in commodity prices, regulatory changes, general economic, market and business conditions 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; lack of diversification; and overall technical and economic feasibility of the Company's project. These statements speak only as of the date of this MD&A or as of the date specified in the documents accompanying this MD&A, 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)**

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 4)	\$ 25,569,903	\$ 9,964,393
Accounts receivable	463,858	363,600
Prepaid expenses	104,949	46,360
	<b>26,138,710</b>	10,374,353
Oil and gas properties (note 5)	46,495,630	32,711,756
Other assets	50,183	54,703
	<b>\$ 72,684,523</b>	<b>\$ 43,140,812</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accruals	\$ 6,836,779	\$ 944,654
Asset retirement obligations (note 6)	438,023	215,820
Future income taxes	71,192	915,900
	<b>7,345,994</b>	2,076,374
Shareholders' equity		
Equity instruments (note 7)	67,160,087	42,037,961
Contributed surplus (note 8)	2,741,815	2,131,653
Deficit	(4,563,373)	(3,105,176)
	<b>65,338,529</b>	41,064,438
	<b>\$ 72,684,523</b>	<b>\$ 43,140,812</b>

Commitments (note 10)

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 September 30, <b>2008</b>		Nine months ended September 30, <b>2008</b>	
		2007		2007
<b>Revenue</b>				
Interest Income	\$ <b>120,028</b>	\$ 128,821	\$ <b>246,978</b>	\$ 226,424
	<b>120,028</b>	128,821	<b>246,978</b>	226,424
<b>Operating expenses</b>				
General and administrative	<b>464,259</b>	243,488	<b>1,140,260</b>	678,488
Stock-based compensation	<b>217,161</b>	158,093	<b>534,188</b>	307,262
Depletion, depreciation and accretion	<b>10,591</b>	9,854	<b>30,727</b>	20,518
	<b>692,011</b>	411,435	<b>1,705,175</b>	1,006,268
Net Loss and Comprehensive Loss	\$ <b>571,983</b>	\$ 282,614	\$ <b>1,458,197</b>	\$ 779,844
Deficit at beginning of period	<b>3,991,390</b>	2,182,018	<b>3,105,176</b>	1,572,433
Costs relating to Juno transaction (note 3)	-	192,063	-	304,418
Deficit at end of period	\$ <b>4,563,373</b>	\$ 2,656,695	\$ <b>4,563,373</b>	\$ 2,656,695
Net Loss per share (note 12)				
Basic and Diluted	\$ <b>0.012</b>	\$ 0.007	\$ <b>0.035</b>	\$ 0.027

# NORTH PEACE ENERGY CORP.

(A Development Stage Company)

## Statements of Cash Flows (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Cash provided by (used in):</b>				
<b>Operating Activities</b>				
Net Loss	\$ (571,983)	\$ (282,614)	\$ (1,458,197)	\$ (779,844)
Non-cash charges to earnings				
Depletion, depreciation and accretion	10,591	9,854	30,727	20,518
Stock-based compensation	217,161	158,093	534,188	307,262
	(344,231)	(114,667)	(893,282)	(452,064)
Net change in non cash working capital				
Accounts receivable	(186,679)	(25,246)	23,791	(251,557)
Prepaid expenses	(57,346)	(9,255)	(58,589)	6,113
Accounts payable and accruals	47,065	5,994	(29,569)	(133,066)
	(541,191)	(143,174)	(957,649)	(830,574)
<b>Investing Activities</b>				
Additions to oil and gas properties	(6,544,231)	(163,290)	(13,498,538)	(21,428,126)
Other assets	(4,854)	(8,877)	(13,366)	-
Net change in non cash working capital				(67,405)
Accounts receivable	-	-	(124,049)	323,232
Accounts payable and accruals	3,835,383	(28,071)	5,841,694	97,010
	(2,713,702)	(200,238)	(7,794,259)	(21,075,289)
<b>Financing Activities</b>				
Proceeds on issue of common shares, net of share issue costs	24,226,918	(36,392)	24,277,418	30,514,779
Cash acquired from Juno Capital Corp. (note 3)	-	-	-	261,845
Deferred financing charges	-	-	-	24,354
Net change in non cash working capital				
Transaction cost related to the Juno transaction (note 3)	-	(192,063)	-	(192,063)
Accounts payable and accruals	80,000	183,410	80,000	231,412
	24,306,918	(45,045)	24,357,418	30,840,327
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>21,052,025</b>	<b>(388,457)</b>	<b>15,605,510</b>	<b>8,934,464</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,517,878</b>	<b>12,605,342</b>	<b>9,964,393</b>	<b>3,282,421</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 25,569,903</b>	<b>\$ 12,216,885</b>	<b>\$ 25,569,903</b>	<b>\$ 12,216,885</b>
Supplemental disclosure:				
Interest received	\$ 12,930	\$ 129,762	\$ 321,481	\$ 133,882

# **NORTH PEACE ENERGY CORP.**

(A Development Stage Company)

Notes to Financial Statements

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

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## **1. Nature of Operations**

North Peace Energy Corp. (the “Company”) resulted from the amalgamation of Juno Capital Corp. and North Peace Energy Inc. pursuant to the provisions of the *Business Corporations Act* (Alberta) on February 6, 2007 (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 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. See Note 11 for additional information on liquidity risk.

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 (see note 2). These financial statements should be read in conjunction with the audited year-end financial statements for the Company.

## **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.

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### 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 \$25,352,056 which currently bears interest at 2.00 % and matures on August 7, 2009. The term deposits are fully redeemable, without penalty, 30 days after the date of investment and therefore classified as cash and cash equivalents.

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

## 5. Oil and gas properties

(Cdn \$)	September 30, 2008	December 31, 2007
Oil and gas interests	\$ 46,495,630	\$ 32,711,756
	\$ 46,495,630	\$ 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 is nearing completion.

At September 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 \$75,974 (2007 - \$180,173) was capitalized during the nine months ended September 30, 2008.

No impairment has been recognized on oil and gas interests for the nine months ended September 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 \$)	September 30, 2008	December 31, 2007
Asset retirement obligations, beginning of period	\$ 215,820	\$ 167,971
Increase in liabilities	212,296	206,509
Accretion	12,840	12,621
Change in estimates	(2,933)	(171,281)
Asset retirement obligations, end of period	\$ 438,023	\$ 215,820

# NORTH PEACE ENERGY CORP.

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As at September 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 September 30, 2008 is estimated to be \$1,121,365 (2007 – \$220,860). These obligations will be settled based on the useful lives of the underlying assets, which ranges from one to ten years for wells and 25 years for the pilot project site. 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
<hr/>		
Common Shares		
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
Equity financing (v)	16,969,660	22,999,951
Share issue costs (vi)	-	(1,773,026)
Tax effect of share issue costs	-	479,737
<b>Balance September 30, 2008</b>	<b>55,070,800</b>	<b>\$ 64,160,094</b>
	Number of Warrants	Amount
<hr/>		
\$2.00 Share Purchase Warrants		
Balance December 31, 2007	-	\$ -
Equity financing (v)	6,666,650	2,999,993
<b>Balance September 30, 2008</b>	<b>6,666,650</b>	<b>\$ 2,999,993</b>
<b>Total Equity Instruments</b>	<b>61,737,450</b>	<b>\$ 67,160,087</b>

# **NORTH PEACE ENERGY CORP.**

(A Development Stage Company)

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

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## **7. Share Capital (continued)**

### **(b) Issued (continued)**

- 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.
- v.** 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. The fair value of the warrants is \$0.45 per warrant assuming a volatility of 80% on the underlying shares, a risk-free interest rate of 2.75%, an expected life of 1.5 years and an expected dividend rate of 0%.
- vi.** Share issue costs relate to the costs incurred for the equity issuance on August 7, 2008

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## 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
Option Granted	1,830,000		1.18 – 1.50		1.46
<b>Balance, September 30, 2008</b>	<b>4,060,000</b>	<b>\$</b>	<b>1.00 – 2.62</b>	<b>\$</b>	<b>1.45</b>

The average fair value of the options granted during 2008 is \$0.82 per option (2007 - \$1.03) assuming an average volatility of 80% (2007 - 90%) on the underlying shares, a weighted average exercise price of \$1.46 (2007 - \$1.71), a risk-free interest rate of 2.81% - 3.35% (2007 - 3.89% - 4.58%), an expected life of 4 years (2007 - 5 years), and an expected dividend rate of 0% (2007 - 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 \$610,162 during the nine months ended September 30, 2008, of which of \$75,974 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.

In 2008, the Company granted 1,830,000 stock options at a weighted average exercise price of \$1.46 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, these options have the same vesting terms as existing options and vest 1/3 per year on the first, second and third anniversary of the date of the grant.

# NORTH PEACE ENERGY CORP.

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## 7. Share Capital (continued)

### (c) Stock options (continued)

The following table sets forth information about stock options outstanding as at September 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	3.23	538,334	\$1.00
\$1.01 – \$2.00	2,245,000	\$1.53	4.68	138,333	\$1.81
\$2.00 – \$3.00	400,000	\$2.62	3.67	133,333	\$2.62
	4,060,000	\$1.45	4.04	810,000	\$1.41

### (d) Performance Warrants

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

The performance warrants may 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 takeover) 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.

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## 7. Share Capital (continued)

### (d) Performance Warrants (continued)

As at September 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%. During 2006, all the substantive criteria were considered probable and the \$1,466,550 was expensed.

The remaining contractual life of the outstanding and exercisable performance warrants is 2.25 years.

## 8. Contributed surplus

(Cdn \$)	September 30, 2008	December 31, 2007
Balance, beginning of period	\$ 2,131,653	\$ 1,500,050
Stock-based compensation		
Expensed	528,936	451,430
Capitalized	121,473	120,394
Decrease/Increase in fair value of non-employee options		59,779
Expensed	5,252	-
Capitalized	(45,499)	-
Balance, end of period	\$ 2,741,815	\$ 2,131,653

## 9. Related party transactions

As at September 30, 2008, the Company accrued legal costs of \$150,000 (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 September 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.

Subsequent to September 30, 2008 the Company canceled the above lease commitment and entered into a new lease agreement for 192,864 per year. The new lease will take effect January 1, 2009 and expire December 31, 2011.

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

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## **11. Financial instruments and capital management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

### **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 September 30, 2008, the Company's accounts receivable relates to interest income and GST refunds.

The term deposits are fully redeemable, without penalty, 30 days after the date of investment and therefore classified as cash and cash equivalents. 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, as far as possible, a stable return. The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure.

### **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.

As a result of the recently completed equity financing the Company currently has sufficient capital to fund planned capital expenditures and operations until the end of 2009. However, the recent downturn in the capital markets may limit the Company's ability to raise the capital necessary to undertake or complete projects after 2009 or undertake expanded operations in 2009 if the capital market conditions do not improve. If debt or equity financing is available, there is no assurance that it will be on terms acceptable to the Company. In the second half of 2009, the Company will make an assessment on its future capital planning, taking into account, among other factors, capital market conditions at that time.

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 have a 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.

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

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## **11. Financial instruments and capital management (continued)**

### Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the 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 nine months ended September 30, 2008.

### Commodity price risk

Commodity price risk is the risk that the 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 contracts on future production at September 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 nine months ended September 30, 2008.

### 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, as determined each reporting date.

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

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## 12. Loss per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net loss (Cdn \$)	\$ 571,983	\$ 282,614	\$ 1,458,197	\$ 779,844
Weighted average number of shares outstanding	49,414,247	38,050,640	41,844,120	28,640,173
Basic and diluted loss per share	0.012	0.007	0.035	0.027

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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.