TSX-V: NPE

North Peace Energy Announces Operations Update and 2008 Financial Results

Calgary, Alberta, April 21, 2009 North Peace Energy Corp. ("North Peace" or the "Company") releases operating and financial results for the year ended December 31, 2008.

Fourth Quarter Operations and Financial Update:

- Working capital of $10.3 million and no debt as at December 31, 2008
- Capital expenditures of $8.4 million in the fourth quarter and $22.0 million for the year ended December 31, 2008

Cyclic Steam Stimulation ("CSS") Pilot Project Construction Update:

- Construction of the facility is complete
- Total pilot facility costs are expected to be approximately $15 million
    - Post pilot construction, the Company has approximately $6 million of working capital

CSS Pilot Project Operations Update:

- Steaming on the first well (L1) is complete and steaming of the second well (L2) has been initiated
- L1 is currently soaking and will be placed on flowback in early May
- Conversion to pumping is expected later during the month
    - Production is expected to last several months and will be characterized with initial high water cuts which will decrease throughout the production period
    - Production and oil sales are dependent on spring ground conditions

- For this first steam cycle of L1, injection was terminated at 75,000 bbls (cold water equivalent), 60% of the initially targeted slug size
    - This reduced slug size was determined by management as sufficient to generate representative production information and not result in any material changes to steam oil ratios
    - The steam injection rates were limited by the regulated pressure limitation of 9,000 kPa
    - To date, steam injection pressures and rates confirm the absence of thief zones

Future Development:

- During the first half of 2009, the Company is focusing on pilot operations

- The operational data garnered from the pilot will be used to develop steaming and operational strategies as well as to validate the well models specific to the Red Earth asset
    - Injection and production data will be collected over additional cycles on both pilot wells to properly advance commercial development

- The Company is investigating the possibility of adding additional wells to the existing pilot facility
    - The decision to drill these additional wells will be based on the remaining capacity of the pilot facilities, the economic returns from the wells and obtaining the required regulatory approvals

- Capital has also been allocated to advance the front-end engineering work and the regulatory approval process for a 3,000 bbl/d pilot expansion
    - The 3,000 bbl/d expansion is considered to be a more viable option than a 10,000 bbl/d first phase commercial project in the current economic conditions. However, the 3,000 bbl/d option would still require improvements in commodity prices
    - Vista Projects Limited has been engaged to advance engineering work on a 3,000 bbl/d pilot expansion

An updated corporation presentation is available on the Company's website.

http://www.northpec.com/investor/event_presentations.html

Louis Dufresne, President of North Peace, commented "In the current market conditions, North Peace has balanced the need to preserve financial liquidity with the execution of significant development milestones. We believe this approach will put North Peace in an excellent position to benefit from a recovery in the marketplace."

Annual Meeting

The Company's Annual General Meeting of Shareholders is scheduled for 10:00 AM on Thursday May 28, 2009 in the Strand/Tivoli Room - Metropolitan Centre, 333-4th Avenue SW, Calgary, AB.

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Management's Discussion and Analysis of
Financial Results

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

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

<u>Date of Report</u> April 21, 2009

<u>Overview</u>

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 in depth. The initial focus area has approximately 22 sections with 10 to 16 metres of oil bearing thickness, technically 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 built and the facility is currently steaming with first production scheduled for May. The Company does not currently have any oil and gas production.

<u>Company and Project Overview</u>

During the year ended December 31, 2008 the Company has completed the following significant milestones:

- Completed the winter drilling program which consisted of an additional five delineation wells to bring the total well count drilled by the Company to 17 delineation wells
- Received Energy Resources Conservation Board ("ERCB") and Alberta Environment approval in June 2008 for a Cyclic Steam Stimulation ("CSS") pilot project at Red Earth
- 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
- Completed drilling of the two horizontal pilot wells in August 2008
- Commenced construction on the pilot project in September 2008

Subsequent to December 31, 2008 the Company has completed the following:

- Completed construction on the pilot project; total costs are expected to be approximately $15 million.
    - Subsequent to the pilot construction the Company has approximately $6 million of working capital
- Completed steam injection on the first horizontal well at the pilot project
    - First production response expected in May 2009
    - Commenced steam injection of the second horizontal well

Financial Results

Annual Financial Information

	As at and for the years ended December 31		
	2008($)	2007($)	2006($)
Revenues	**397,941**	343,621	42,810
Net Loss and Comprehensive loss	**1,488,297**	1,228,325	1,572,433
Basic and diluted Net Loss Per share	**0.032**	0.040	0.157
Total Assets	**74,609,635**	43,140,812	12,482,723

Over the last three years the Company has grown in size and assets. The Company's only source of revenue has been interest income, which was generated from the cash invested from the $20 million equity financing completed in June 2007 and the $26 million equity financing completed in August 2008. The Company's assets have grown since 2006 through capital expenditures In 2007 the Company drilled five vertical delineation wells and bought out its 30% working interest partner. In 2008 the Company drilled an additional five vertical delineation wells, two horizontal wells and completed the majority of the construction on its pilot project.

Quarterly Financial Information

	2008 Q4($)	**2008 Q3($)**	**2008 Q2($)**	**2008 Q1($)**
Revenues	**150,963**	**120,028**	**39,045**	**87,905**
Net Loss	**30,100**	**571,983**	**486,924**	**399,290**
Basic and diluted Loss Per share	**0.001**	**0.012**	**0.013**	**0.010**

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

Results of Operations

Interest Income

	Twelve months ended December 31,	
	2008($)	2007($)
Interest Income	**397,941**	343,621

Interest income was $397,941 for 2008, with the majority from redeemable term deposits bearing interest between 0.50% and 3.75% and maturing at various times throughout the year. Interest income was $343,621 in 2007. The increase in interest income from 2007 is due to higher amounts of cash on deposit throughout the year following the Company's equity raise in August and capital spending schedule.

Stock-based Compensation

	Twelve months ended December 31,	
	2008($)	2007($)
Stock-based Compensation	**776,133**	451,430

Stock-based compensation for 2008 was $776,133. The amount in 2008 consists of additional option grants in the year as the Company was adding full-time employees and recognition of the expense for existing stock options. A recovery of $93,864 related to stock based compensation was capitalized during the year relating to consultants working directly on the capital program and pilot project. The average fair value of the options granted in 2008 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 3.10%, an expected life of 4 years and an expected dividend rate of 0%.

Administrative Expenses

	Twelve months ended December 31,	
	2008($)	2007($)
G&A expense		
Salaries, Benefits and Consulting Fees	**937,058**	467,544
Legal, Accounting and Audit Fees	**123,965**	113,073
Office rent	**109,471**	106,189
Other G&A	**526,619**	405,149
Total G&A expense	**1,697,113**	1,091,955

Salaries, Benefits and Consulting Fees

The increase from 2007 is due to increased salaries attributable to additional staff and salary increases for existing staff.

Legal, Accounting and Audit Fees

Legal accounting and audit fees for 2008 was consistent with 2007 as the company had similar legal and audit requirements from year to year.

Office Rent

Office rent for 2008 was consistent with 2007 as the company had the same office location for both years.

Other G&A

The increase in Other G&A for the year is due to increased insurance expense for the pilot project construction and higher office expenses as the size of the Company increases.

Depreciation and Accretion

	Twelve months ended December 31,	
	2008($)	2007($)
Depreciation and Accretion	**41,662**	28,561

The Company had depreciation expense during 2008 of $24,542 related to office furniture and computer equipment. Accretion related to asset retirement obligations during 2008 was $17,120. The increase is due to the passage of time.

Future Income Taxes

During the year ended December 31, 2007 the Company recognized $915,900 as a future income tax liability related to the renunciation of expenses associated with flow-through shares. A tax asset of $557,477 was recognized for year ended December 31, 2008 as it is more likely than not that the asset will be realized when the tax effect of the 2008 flow-through shares are recorded in the first quarter of 2009.

Liquidity and Capital Resources

As at December 31, 2008 the Company had working capital of $10.3 million and no debt

The Company has deferred the reminder of its capital budget including $6 million of costs related to the delineation program. Subsequent to pilot construction the working capital position is expected to be approximately $6 million which will be sufficient to fund pilot operations and G&A for 2009. The Company will reassess the capital budget in the second half of 2009 and is currently exploring various alternatives for obtaining funds to advance future capital requirements.

As at December 31, 2008, the payments due under the office lease commitment are as follows:

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

On January 1, 2009 the Company entered into a new lease agreement in a larger office for $192,864 per year. The new lease will expire December 31, 2011.

As at December 31, 2008 the Company had a flow through share commitment of $6 million which is to be spent on Canadian Exploration Expenditures ("CEE") prior to December 31, 2009. During the year ended December 31, 2008 the Company spent $385,888 of CEE towards this commitment.

Capital expenditures were as follows:

(Cdn $)	Twelve months ended December 31	
	2008($)	2007($)
Property acquisition	**-**	20,187,456
Land & Lease rentals	**319,635**	160,114
Drilling and Completion	**8,871,459**	2,905,175
Geological costs	**74,411**	51,828
Pilot facilities		
Construction, equipment and engineering	**11,982,697**	450,000
Capitalized plant overhead and operations	**322,495**	-
Other	**477,530**	83,540
Total	**22,048,227**	23,838,113

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

Additional Disclosure for Venture Issuers without Significant Revenues

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, purchase warrants and performance warrants issued and outstanding at December 31, 2008:

	December 31, 2008
Common shares outstanding	55,070,800
Weighted average number of shares outstanding during the year	47,219,898
Stock options outstanding	4,060,000
Performance warrants outstanding	6,300,000
$2.00 Warrants outstanding	6,666,650

As at April 21, 2009, there were 55,070,800 common shares, 4,110,000 stock options, 6,300,000 performance warrants and 6,666,650 $2.00 warrants outstanding.

Off Balance Sheet Arrangements

There were no off balance sheet arrangements, other than the office lease commitment.

Transactions with Related Parties

As at December 31, 2008, the Company accrued legal costs of $10,000 payable to a firm in which a director is a partner. During 2008 $146,354 of legal costs were paid to the same law firm. These costs were 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

Property costs are reviewed at least annually to consider whether there are conditions that may indicate impairment. The carrying values of petroleum and natural gas properties are compared to their net recoverable amount as estimated by quantifiable evidence of the market value of similar assets or geological resources. If the carrying value is found to exceed the estimated net recoverable amount a write down will be recorded.

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.

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 14 & 15).

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.

In February 2008, the CICA's Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, including comparable figures for 2010.

The International Accounting Standards Board ("IASB") has issued an exposure draft relating to certain amendments to IFRS. 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. The amendment, if implemented, will 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 provision that the ceiling test, under IFRS standards, is conducted at the transition date. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009.

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". Readers are cautioned that these descriptions are not exhaustive. Certain additional risks and uncertainties are discussed below.

Capital Markets

Based on the current working capital balance the Company currently has sufficient capital to fund corporate and operational expenses 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 capital expenditures during 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 has flexibility in timing of future capital expenditures and will investigate all options to obtain the required funds to grow the Company.

Oil & Gas Prices

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

Crude oil prices, while a significant factor, are 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 1, 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.

Fourth-Quarter 2008 Activities

During the three months ended December 31, 2008 the Company had interest income of $150,963 compared to interest income of $120,028 in the three months ended September 30, 2008. The increase is due to increased cash as the Company completed its $26 million equity raise in August.

General and Administrative expenses for the fourth quarter were $556,853 compared to $464,259 in the third quarter of 2008. The increase is due to year-end bonuses in the fourth quarter and investor relations costs during the period.

Capital expenditures of $8,549,690 in the fourth quarter of 2008 related to pilot construction.

Project and Company Outlook

During the first half of 2009 the Company will focus on pilot operations. The Company will utilize the data from the pilot in evaluating the feasibility of commercial operations. The Company is also investigating the possibility of adding additional wells to the existing pilot. The decision to drill these additional wells will be based on the remaining capacity of the pilot facilities, the economic returns from the wells and obtaining the required regulatory approvals. Capital has also been allocated to advance the front-end engineering work and the regulatory approval process for a 3,000 bbl/d pilot expansion. The 3,000 bbl/d expansion is considered to be a more viable option than a 10,000 bbl/d first phase commercial project in the current economic conditions. However the 3,000 bbl/d option will still require improvements in the current commodity price environment to generate sufficient returns to justify the up-front construction costs. Cash flow from the 3,000 bbl/d expansion can then be used to fund additional commercial phases.

Subsequent to initial pilot production from the pilot project the Company will reassess the capital budget for the remainder of 2009. The revised capital budget will be tailored to the prevailing economic conditions at that time.

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 will 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.

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 operations at 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)

(Cdn $)		**December 31, 2008**		December 31, 2007
Assets				
Current assets				
Cash and cash equivalents (note 6)	$	**18,119,752**	$	9,964,393
Accounts receivable		**922,537**		363,600
Prepaid expenses		**86,290**		46,360
		19,128,579		10,374,353
Oil and gas properties (note 7)		**54,875,482**		32,711,756
Other assets		**48,097**		54,703
Future income tax asset (note 9)		**557,477**		-
	$	**74,609,635**	$	43,140,812
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accruals	$	**8,788,438**	$	944,654
Asset retirement obligations (note 8)		**442,303**		215,820
Future income tax liability (note 9)		**-**		915,900
		9,230,741		2,076,374
Shareholders' equity				
Equity Instruments (note 10)		**67,158,445**		42,037,961
Contributed surplus (note 11)		**2,813,922**		2,131,653
Deficit		**(4,593,473)**		(3,105,176)
		65,378,894		41,064,438
	$	**74,609,635**	$	43,140,812

Future Operations (note 1)
Commitments (note 13)
Financial Instruments (note 14)

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)

(Cdn $)		Three months ended December 31, 2008		2007		Year ended December 31, 2008		2007
Revenue								
Interest income	$	**150,963**	$	117,197	$	**397,941**	$	343,621
		150,963		117,197		**397,941**		343,621
Operating expenses								
General and administrative		**556,853**		413,467		**1,697,113**		1,091,955
Stock-based compensation		**241,945**		144,168		**776,133**		451,430
Depletion, depreciation and accretion		**10,935**		8,043		**41,662**		28,561
		809,733		565,678		**2,514,908**		1,571,946
Net Loss before taxes		**658,770**		448,481		**2,116,967**		1,228,325
Future Income Tax Recovery		**628,670**		-		**628,670**		-
Net Loss and Comprehensive Loss	$	**30,100**	$	448,481	$	**1,488,297**	$	1,228,325
Deficit at beginning of period		**4,563,373**		2,656,695		**3,105,176**		1,572,433
Costs relating to Juno transaction (note 4)		**-**		-		**-**		(304,418)
Deficit at end of period	$	**4,593,473**	$	3,105,176	$	**4,593,473**	$	3,105,176
Net Loss per share (note 16)								
Basic	$	**0.001**	$	0.012	$	**0.032**	$	0.040
Diluted	$	**0.001**	$	0.012	$	**0.032**	$	0.040

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Cash Flows
(unaudited)

(Cdn $)	Three months ended December 31, 2008	Three months ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2007
Cash provided by (used in):				
Operating Activities				
Net Loss	$ **(30,100)**	$ (448,481)	$ **(1,488,297)**	$ (1,228,325)
Non-cash charges to earnings				
Depletion, depreciation and accretion	**10,935**	8,043	**41,662**	28,561
Stock-based compensation	**241,945**	144,168	**776,133**	451,430
Future income tax recovery	**(628,670)**	-	**(628,670)**	-
	(405,890)	(296,270)	**(1,299,172)**	(748,334)
Net change in non cash working capital				
Accounts receivable	**(387,227)**	(48,552)	**(363,437)**	(300,109)
Prepaid expenses	**18,659**	(16,473)	**(39,930)**	(10,360)
Accounts payable and accruals	**4,460**	(73,166)	**(25,109)**	(206,231)
	(769,998)	(434,461)	**(1,727,648)**	(1,265,034)
Investing Activities				
Additions to oil and gas properties	**(8,549,690)**	(2,409,987)	**(22,048,227)**	(23,838,113)
Other assets	**(4,570)**	(3,238)	**(17,936)**	(70,643)
Net change in non cash working capital				
Accounts receivable	**(71,451)**	-	**(195,500)**	323,232
Accounts payable and accruals	**1,947,199**	699,468	**7,788,893**	796,478
	(6,678,512)	(1,713,757)	**(14,472,770)**	(22,789,046)
Financing Activities				
Net Proceeds on issue of common shares	**(1,641)**	-	**24,275,777**	30,514,779
Cash acquired from Juno Capital Corp. (note 4)	**-**	-	**-**	261,845
Deferred financing charges	**-**	-	**-**	24,353
Net change in non cash working capital				
Accounts payable and accruals	**-**	(104,274)	**80,000**	(64,925)
	(1,641)	(104,274)	**24,355,777**	30,736,052
Increase in cash and cash equivalents	**(7,450,151)**	(2,252,492)	**8,155,359**	6,681,972
Cash and cash equivalents, beginning of period	**25,569,903**	12,216,885	**9,964,393**	3,282,421
Cash and cash equivalents, end of period	$ **18,119,752**	$ 9,964,393	$ **18,119,752**	$ 9,964,393
Supplemental disclosure:				
Interest received	$ **58,848**	$ 26,729	$ **380,329**	$ 160,611

1. Nature of operations and future operation

North Peace Energy Corp. (the "Company" or "North Peace") 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 4). The Company's principal business activity is the exploration, exploitation and development and production of petroleum and natural gas resources in the Province of Alberta.

North Peace is a development stage enterprise whose principle focus is the creation of shareholder value through the production of heavy oil from its oil sands leases at its Red Earth project. The Company does not currently have any production revenue. Production from its pilot project is expected to commence in the first half of 2009, however production of commercial quantities is not expected for 2 to 3 years.

The Company's Red Earth project contains of a 100% working interest in 86,400 acres of Crown oil sands leases in the Peace River area. The target geological zone is the Bluesky formation which is a regional sand, deposited in a near shore marine environment at approximately 400 metres depth. North Peace is currently advancing the development of its resource using Cyclic Steam Stimulation ("CSS"). A pilot project consisting initially of two horizontal CSS wells has been built and the facility is currently steaming.

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. Recent market events, including disruption of credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices and made completing financings more difficult. As at December 31, 2008 the Company had working capital of $10.3 million and no debt. In an effort to conserve working capital the Company has deferred the remainder of the capital budget, other than completion of the pilot project, including $6 million of costs related to the delineation program. Subsequent to pilot construction, the working capital position is expected to be approximately $6 million which will be sufficient to fund pilot operations, general & administration expenses and retain all oil and gas assets for 2009. The Company is currently exploring various alternatives for raising funds to advance future capital requirements but has flexibility in the timing of any future expenditures. See Note 14 for additional information on liquidity risk.

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.

2. Adoption of new accounting policies (continued)

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 14 & 15).

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.

In February 2008, the CICA's Accounting Standards Board confirmed that Canadian publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board in place of generally accepted accounting principles in Canada ("GAAP") effective January 1, 2011.

The International Accounting Standards Board ("IASB") has issued an exposure draft relating to certain amendments to IFRS. 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. The amendment, if implemented, will 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 provision that the ceiling test, under IFRS standards, is conducted at the transition date. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009.

The Company is currently assessing which accounting policies will be affected by the change to IFRS and the potential impact of these changes on its financial position and results of operations.

3. Significant accounting policies

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

(a) Use of estimates

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

(b) Cash and cash equivalents

Cash includes cash balances with banks and those short-term money market instruments which are redeemable in three months or less.

(c) Petroleum and natural gas properties

Capitalized costs

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

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

3. Significant accounting policies (continued)

(c) Petroleum and natural gas properties (continued)

Depletion/Depreciation

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

Steaming facilities, such as the steam generator at the pilot project, will be depreciated on a straight line basis using their useful life of 15 years.

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

Impairment

Property costs are reviewed at least annually to consider whether there are conditions that may indicate impairment. The carrying values of petroleum and natural gas properties are compared to their net recoverable amount as estimated by quantifiable evidence of the market value of similar assets or geological resources. If the carrying value is found to exceed the estimated net recoverable amount a write down will be recorded.

(d) Joint interests

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

(e) Asset retirement obligations

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

3. Significant accounting policies (continued)

(e) Asset retirement obligations (continued)

Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time as accretion and changes in estimated future cash flows underlying the obligation. Actual costs incurred to abandon the asset reduce the asset retirement obligation.

(f) Income taxes

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

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

(g) Stock-based compensation

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

(h) Per share information

Per share information is calculated using the weighted average number of shares outstanding during the period. The treasury stock method is used to calculate diluted per share amounts, whereby proceeds from the exercise of in-the-money stock options and share purchase warrants are used to purchase the Company's common shares at the average market price during the period. Diluted per share amounts reflect the potential dilution that could occur if stock options or share purchase warrants were exercised and converted to common shares.

3. Significant accounting policies (continued)

(i) Flow-through shares

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

4. Reverse Takeover

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

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

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

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

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

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

5. Basis of presentation

The accompanying financial statements have been prepared without audit. These interim financial statements have been prepared following the same accounting policies and methods used in the financial statements for the year ended December 31, 2007. These financial statements should be read in conjunction with the audited year-end financial statements for North Peace Energy Corp.

Certain prior year figures have been reclassified to conform to the presentation adopted in 2008.

All common shares, stock options and warrants have been adjusted for the effects of the 10:1 share exchange and the 1:5 consolidation that occurred in 2007 (note 4).

6. Cash and cash equivalents

Included in cash and cash equivalents is a redeemable term variable rate deposit totaling $17,500,000 which currently bears interest at 0.50 % 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.

7. Oil and gas properties

(Cdn $)		**December 31, 2008**		December 31, 2007
Oil and gas interests	$	**42,442,785**	$	32,261,756
Pilot facilities		**12,432,697**		450,000
Accumulated depletion and depreciation		**-**		-
	$	**54,875,482**	$	32,711,756

The Company is advancing a Cyclic Steam Stimulation ("CSS") project on its land holdings. A pilot project consisting initially of two horizontal CSS wells has been built and is currently steaming. At December 31, 2008, the Company has no reserves or production. Accordingly, no provision for depletion expense has been made.

As at December 31, 2008, the pilot facilities were not yet complete and available for use.

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).

A stock-based compensation recovery of $93,864 was capitalized during the year ended December 31, 2008 (2007 – $180,173).

Deposits with the Energy Resources and Conservation Board of $126,782 (2007 – nil) were included in oil and gas properties as at December 31, 2008.

8. Asset retirement obligations

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

(Cdn $)		**December 31, 2008**		December 31, 2007
Asset retirement obligations, beginning of year	$	**215,820**	$	167,971
Increase in liabilities		**212,296**		206,509
Accretion		**17,120**		12,621
Change in estimates		**(2,933)**		(171,281)
Asset retirement obligations, end of year	$	**442,303**	$	215,820

The total undiscounted amount of cash flows required to settle the obligations as measured at December 31, 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. 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%).

9. Income Taxes

Future income tax components are as follows:

(Cdn $)		**December 31, 2008**		December 31, 2007
Future income tax asset				
Share issuance costs	$	**590,471**	$	329,100
Non-capital losses carried forward		**918,645**		333,400
Asset retirement obligations		**110,576**		-
		1,619,692		662,500
Future income tax liability				
Carrying value of oil and gas properties in excess of tax basis	$	**(1,062,215)**	$	(915,900)
Net future income tax asset (liability)		**557,477**		(253,400)
Valuation allowance		**-**		(662,500)
	$	**557,477**	$	(915,900)

9. Income Taxes (continued)

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 29.50% (2007 – 32.12%), as follows:

(Cdn $)		**December 31, 2008**		December 31, 2007
Loss for the year before income tax	$	**(2,116,969)**	$	(1,228,325)
Anticipated income tax recovery	$	**(624,506)**	$	(394,500)
Non deductable expenses				
Stock based compensation		**201,393**		147,300
Share issuance costs		**-**		(450,200)
Change in income tax rate		**91,972**		71,200
		(331,141)		(626,200)
Change in valuation allowance		**(297,529)**		626,200
Total future tax recovery	$	**(628,670)**	$	-

The company has non capital losses of $3.7 million as at December 31, 2008

The non-capital losses carried-forward expire in years up to 2028.

10. Share Capital

(a) Authorized

Unlimited number of common shares
Unlimited number of first preferred shares issuable in series
Unlimited number of second preferred shares issuable in series

10. Share Capital (continued)

(b) Issued

	Number of Shares		Amount
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 on 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)	**-**		**(1,774,667)**
Tax effect of share issue costs	**-**		**479,736**
Balance December 31, 2008	**55,070,800**	$	**64,158,452**

	Number of Warrants		Amount
$2.00 Share Purchase Warrants			
Balance December 31, 2007	**-**	$	**-**
Equity financing (v)	**6,666,650**		**2,999,993**
Balance December 31, 2008	**6,666,650**	$	**2,999,993**
Total Equity Instruments		$	**67,158,445**

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. On June 28, 2007, 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.

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 7).

10. Share Capital (continued)

(b) Issued (continued)

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.

(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
Balance, December 31, 2008	**4,060,000**	**$**	**1.00 – 2.62**	**$**	**1.45**

The average fair value of the options granted during 2008 was $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%).

10. Share Capital (continued)

(c) Stock Options (continued)

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 at equal amounts at 6 months, 18 months and 30 months after the date of grant. All options expire 5 years after the initial grant date.

The Company has recognized stock-based compensation of $776,133 during the year ended December 31, 2008. A recovery of $93,864 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.

The following table sets forth information about stock options outstanding as at December 31, 2008.

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Price Per Share	Remaining Contractual Life (yrs)	Options Exercisable	Weighted Average Price Per Share
$1.00	1,415,000	$1.00	2.98	818,335	$1.00
$1.01 – $2.00	2,245,000	$1.53	4.43	138,333	$1.81
$2.00 – $3.00	400,000	$2.62	3.42	150,001	$2.62
	4,060,000	$1.45	3.78	1,106,669	$1.32

(d) Purchase Warrants

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

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

10. Share Capital (continued)

(e) Performance Warrants

	Number of Warrants		Exercise Price
Balance, December 31, 2006	6,300,000	$	0.50
Balance, December 31, 2007 and December 31, 2008	6,300,000	$	0.50
Exercisable, December 31, 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 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 December 31, 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 years.

11. Contributed surplus

(Cdn $)		**December 31, 2008**		December 31, 2007
Balance, beginning of year	$	**2,131,653**	$	1,500,050
Stock-based compensation				
Expensed		**794,233**		451,430
Capitalized		**183,983**		120,394
Decrease/Increase in fair value of non-employee options				
Expensed		**(18,100)**		-
Capitalized		**(277,847)**		59,779
Balance, end of year	$	**2,813,922**	$	2,131,653

12. Related party transactions

As at December 31, 2008, the Company accrued legal costs of $10,000 (2007 - $30,000) payable to a firm in which a director is a partner. During 2008 $146,354 (2007 - $432,125) of legal costs were paid to the same law firm. All related party transactions are in the normal course of operations, related party transactions entered into by the Company have been measured at the exchange amount established and agreed to by the related parties.

13. Commitments

As at December 31, 2008, the Company was committed under a lease for office premises, requiring future minimum rental payments of $192,864 per annum (2007 - $82,246), expiring December 31, 2011.

As at December 31, 2008 the Company had a flow through share commitment of $6 million that is to be spent on Canadian Exploration Expenditures ("CEE") prior to December 31, 2009. During the year ended December 31, 2008 the Company spent $385,888 of CEE towards this commitment.

14. Financial instruments

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 December 31, 2008, the Company's accounts receivable relates to interest income and GST refunds. The amount outstanding is the Company's maximum credit exposure.

14. Financial instruments (continued)

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.

Based on the current working capital balance the Company currently has sufficient capital to fund corporate and operational expenses 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 capital expenditures during 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.

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 year ended December 31, 2008.

14. Financial instruments (continued)

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 December 31, 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 0.50% and 4.50%. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 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.

15. 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.

In order to maintain or adjust its capital structure, the Company may from time-to-time issue additional common shares. As a result of the economic global downturn, access to its capital markets may be limited. The Company will adjust its capital spending if access to external capital sources is unavailable. In the future the Company may consider adding debt to its capital structure, the form and amount of potential debt will be dependent on future capital requirements and the resulting debt to equity ratios.

There have been no changes to capital management in the year ended December 31, 2008.

16. Loss per Share

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

		Three months ended December 31,		Twelve months ended December 31,	
		2008	2007	**2008**	2007
Net Loss (Cdn $)	$	**30,100**	448,481	**1,488,297**	1,228,325
Weighted average number of shares outstanding		**55,070,800**	38,050,640	**47,219,898**	30,992,790
Basic loss per share		**0.001**	0.012	**0.032**	0.040
Diluted gainloss per share		**0.001**	0.012	**0.032**	0.040

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