



North Peace Energy Announces Operations Update and First Quarter Financial Results

Calgary, Alberta, May 27, 2009 North Peace Energy Corp. (“North Peace” or the “Company”) releases operating and financial results for the three months ended March 31, 2009.

First Quarter Operations and Financial Update:

- ◆ Working capital of \$5.8 million and no debt as at March 31, 2009
- ◆ Capital expenditures of \$3.4 million in the first quarter

CSS Pilot Project Operations Update:

L1 Horizontal Pilot Well

- ◆ The first steam injection stage was completed in April with a slug size of approximately 75,000 barrels of steam (cold water equivalent)
- ◆ The first production stage was initiated in May
 - Flowed the well without pumping until the well was de-pressurized
 - Installed pumping equipment and commenced pumping operations
 - As expected, the early period has been dominated by water production
 - Indications of increasing oil cuts have been observed
 - To date approximately 4,700 barrels of water and 300 barrels of oil has been produced
 - Approximately 6% of the injected steam has been produced
 - Production has been on an intermittent basis to accommodate, soak periods, the installation of the down-hole pump, and gather pilot information such as a horizontal temperature survey
- ◆ Continuing to monitor production information from the L1 well
 - During the summer, after peak production has been reached, North Peace expects to be in a position to properly model the decline rate and estimate full first cycle production information and steam-oil ratios

L2 Horizontal Pilot Well

- ◆ The first steam injection stage is underway
 - Approximately 1/3 of the anticipated 140,000 barrel steam slug has been injected to date
 - Steam injection is expected to continue until July
 - Steaming will be followed by the production stage of the cycle

Future Development:

- ◆ Work continues on engineering for the 3,000 bbl/d pilot expansion project
 - Process design is nearing completion

Louis Dufresne, President of North Peace, commented “North Peace has achieved a significant milestone by initiating bitumen production from its pilot project. This milestone combined with recent improvements in the capital markets and the strengthening of commodity prices has put North Peace in an enviable position to capture market momentum and continue to advance development of the Company.”

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 three month period ended March 31, 2009. The following information should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2009 and the audited financial statements for the year ended December 31, 2008.

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

Date of Report May 26, 2009

Overview

North Peace has an early stage in-situ oil sands play in northern Alberta with an estimated 2 to 3.1 billion barrels of Discovered Petroleum Initially-In-Place. The Company has a 100% working interest in 86,400 acres of Crown oil sands leases in the Peace River area. The lands have the benefit of over 300 legacy logs and are surrounded by accessible oil and gas production infrastructure. The target Bluesky zone is a regional sand, deposited in a near shore marine environment at approximately 400 metres in depth. The initial focus area has approximately 22 sections with 10 to 16 metres of oil bearing thickness, expected to be 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 operating.

Company and Project Overview

During the three months ended March 31, 2009 the Company has completed the following significant milestones:

- ◆ Completed construction on the pilot project
- ◆ Commenced steam injection of the first horizontal pilot well (L1)

Subsequent to March 31, 2009 the Company has completed the following:

- ◆ Completed Steam injection on the L1 well at the pilot project
- ◆ Initiated steaming on the second horizontal pilot well (L2)
- ◆ Commenced bitumen production from the first horizontal pilot well (L1)
- ◆ Converted the first well (L1) to conventional pumping production

Financial Results

Quarterly Financial Information

	2009	2008	2008	2008	2008	2007	2007	2007
	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)
Revenues	26,752	150,963	120,028	39,045	87,905	117,197	128,821	67,297
Net Loss and Comprehensive loss Basic and diluted	658,380	30,100	571,983	486,924	399,290	448,481	282,614	363,906
Net Loss Per share	0.012	0.001	0.012	0.013	0.010	0.012	0.007	0.012

The majority of the increase in the first quarter net loss is due to a future tax reduction relating to the tax effect of the \$6 million of flow through shares that were issued in August 2008 and stock based compensation expense.

Results of Operations

Interest Income

	2009	2008	2008
	Q1	Q4	Q1
Interest Income	26,752	150,963	87,905

Interest income was \$26,752 for the first three months of 2009, with the majority from redeemable term deposits bearing interest at 0.50%. Interest income was \$150,963 in the fourth quarter of 2008 and \$87,905 in the same period last year. The decrease in interest income from 2008 is due to lower amounts of cash on deposit following the completion of pilot construction coupled with lower interest rates.

Stock-based Compensation

	2009	2008	2008
	Q1	Q4	Q1
Stock-based Compensation	304,870	241,945	166,376

Stock-based compensation in the first quarter of 2009 was \$304,870. The amount in 2009 consists of additional option grants in the year and amortization of older option grants. \$95,035 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 during 2009 was \$0.17 per option (2008 - \$0.82) assuming an average volatility of 80% (2008 - 80%) on the underlying shares, a weighted average exercise price of \$0.28 (2008 - \$1.46), a risk-free interest rate of 2.11% (2007 - 2.81% - 3.35%), an expected life of 4 years (2008 - 4 years), and an expected dividend rate of 0% (2008 - 0%).

Administrative Expenses

	2009	2008	2008
	Q1	Q4	Q1
G&A expense			
Salaries, Benefits and Consulting Fees	201,595	302,266	176,891
Legal, Accounting and Audit Fees	45,269	33,985	53,621
Office rent	64,891	27,297	27,297
Other G&A	126,680	193,305	53,074
Administrative Expenses	438,435	556,853	310,883

Salaries, Benefits and Consulting Fees

The decrease from the fourth quarter is a result of the year-end bonuses that were included in the fourth quarter amount. The increase from the first quarter from last year is due to increased staffing associated with the pilot project.

Legal, Accounting and Audit Fees

The increase from the fourth quarter 2008 is due to increased legal costs related to year-end regulatory filings.

Office Rent

Office rent for the first quarter of 2009 has increased from fourth quarter of 2008 and from the same period last year as the Company relocated to larger office on January 1, 2009.

Depreciation and Accretion

	2009	2008	2008
	Q1	Q4	Q1
Depreciation and Accretion	17,742	10,935	9,936

The Company had depreciation expense of \$17,742 for the first three months of 2009 compared to \$10,935 for the fourth quarter of 2008 and \$9,936 for the same period in 2008. The increase is due to additional expense on other assets and increased accretion expense resulting from additional asset retirement obligations being recognized and subsequently accreted.

Future Income Taxes

The future tax impact related to the tax-effect of the flow-through shares that were issued in August 2008 was recognized in the quarter. \$1,500,000 was recorded in share capital and \$75,915 was recognized on the income statement as a future income tax reduction. This was offset against the future tax asset of \$557,477 and resulted in a future tax liability of \$898,286 as at March 31, 2009.

Liquidity and Capital Resources

As at March 31, 2009 the Company had working capital of \$5.8 million and no debt

The Company has deferred the remainder of its capital budget including \$6 million of costs related to the delineation program. Current working capital 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	144,648
2010	192,864
2011	192,864
Thereafter	Nil

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

As at March 31, 2009 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. As at March 31, 2009 the Company had spent \$400,000 on CEE towards this commitment.

Capital expenditures were as follows:

(Cdn \$)	2009	2008	2008
	Q1	Q4	Q1
Land & Lease rentals	74,984	122,674	120,735
Drilling and Completion	204,157	1,490,428	3,538,738
Geological costs	14,626	4,810	40,393
Pilot facilities			
Construction, equipment and engineering	3,253,690	6,320,998	215,803
Capitalized plant overhead and operations	410,220	289,005	-
Other	191,035	321,775	-
Total	4,148,712	8,549,690	3,915,669

The Company is a development stage enterprise and therefore capitalizes revenue, operating costs and depreciation until the Company commences its planned commercial operations. The Company has capitalized \$410,220 for operating costs and \$62,235 and depreciation expense for the three months ended March 31, 2009.

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 March 31, 2009:

	March 31, 2009
Common shares outstanding	55,070,800
Weighted average number of shares outstanding during the quarter	55,070,800
Stock options outstanding	4,110,000
Performance warrants outstanding	6,300,000
\$2.00 Warrants outstanding	6,666,650

As at May 26, 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 March 31, 2009, the Company accrued legal costs of \$30,000 payable to a firm in which a director is a partner. These costs were for general legal services and the majority was related to year-end reporting matters.

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)

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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The 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.

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 capital expenditures during 2009 or undertake expanded operations during 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 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 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 implemented the new Royalty Framework ("NRF") on January 1, 2009. 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.

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. In the current economic conditions, the 3,000 bbl/d expansion is considered to be a more economically attractive option than proceeding with the development of a 10,000 bbl/d first phase commercial project. 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)

	March 31, 2009	December 31, 2008
<hr/> (Cdn \$) <hr/>		
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 6,775,282	\$ 18,119,752
Accounts receivable	348,335	922,537
Prepaid expenses	61,759	86,290
	<hr/> 7,185,376	19,128,579
Oil and gas properties (note 5)	59,207,762	54,875,482
Other assets	52,579	48,097
Future income tax asset	-	557,477
	<hr/> \$ 66,445,717	\$ 74,609,635
<hr/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accruals	\$ 1,418,808	\$ 8,788,438
Asset retirement obligations (note 6)	509,465	442,303
Future income tax liability	898,286	-
	<hr/> 2,826,559	9,230,741
<hr/>		
Shareholders' equity		
Equity Instruments (note 7)	65,657,185	67,158,445
Contributed surplus (note 8)	3,213,826	2,813,922
Deficit	(5,251,853)	(4,593,473)
	<hr/> 63,619,158	65,378,894
	<hr/> \$ 66,445,717	\$ 74,609,635
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Future Operations (note 1)
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)

(Cdn \$)	Three months ended	
	2009	March 31, 2008
Revenue		
Interest income	\$ 26,752	\$ 87,905
	26,752	87,905
Operating expenses		
General and administrative	438,435	310,883
Stock-based compensation	304,870	166,376
Depletion, depreciation and accretion	17,742	9,936
	761,047	487,195
Net Loss before taxes	734,295	399,290
Future Income Tax Expense (reduction)	(75,915)	-
Net Loss and Comprehensive Loss	\$ 658,380	\$ 399,290
Deficit at beginning of period	4,593,473	3,105,176
Deficit at end of period	\$ 5,251,853	\$ 3,504,466
Net Loss per share (note 11)		
Basic and Diluted	\$ 0.012	\$ 0.010

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Cash Flows (unaudited)

(Cdn \$)	Three months ended March 31,	
	2009	2008
Cash provided by (used in):		
Operating Activities		
Net Loss	\$ (658,380)	\$ (399,290)
Non-cash charges to earnings		
Depletion, depreciation and accretion	17,742	9,936
Stock-based compensation	304,870	166,376
Future income tax expense(reduction)	(75,915)	-
	(411,683)	(222,978)
Net change in non cash working capital		
Accounts receivable	378,702	5,914
Prepaid expenses	24,531	12,236
Accounts payable and accruals	(126,947)	(90,967)
	(135,397)	(295,795)
Investing Activities		
Additions to oil and gas properties	(4,148,712)	(3,915,669)
Other assets	(11,918)	(4,974)
Net change in non cash working capital		
Accounts receivable	195,500	(71,449)
Accounts payable and accruals	(7,242,683)	1,197,272
	(11,207,813)	(2,794,820)
Financing Activities		
Net Proceeds on issue of common shares	(1,260)	-
Net change in non cash working capital		
Accounts payable and accruals	-	-
	(1,260)	-
Decrease in cash and cash equivalents	(11,344,470)	(3,090,615)
Cash and cash equivalents, beginning of period	18,119,752	9,964,393
Cash and cash equivalents, end of period	\$ 6,775,282	\$ 6,873,778
Supplemental disclosure:		
Interest received	\$ 101,297	\$ 62,138

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2009 (unaudited), as at December 31, 2008

1. Nature of operation 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. 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. Production from its pilot project has commenced 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 operating.

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. If the going concern assumption was not appropriate for these financial statements, adjustments might be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

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 March 31, 2009 the Company had working capital of \$5.8 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. The Company has a flow through commitment of \$6 million to be spent on Canadian Exploration Expenditures (“CEE”) prior to December 31, 2009. As at March 31, 2009 the Company had spent \$400,000 towards this commitment. 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.

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.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2009 (unaudited), as at December 31, 2008

1. Nature of operation and future operation (continued)

Liquidity Risk (continued)

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.

2. Adoption of new accounting policies

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. Basis of presentation

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, 2008 except as noted. These financial statements should be read in conjunction with the audited year-end financial statements for North Peace Energy Corp.

4. Cash and cash equivalents

Included in cash and cash equivalents is a redeemable term variable rate deposit totaling \$7.7 million 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.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2009 (unaudited), as at December 31, 2008

5. Oil and gas properties

(Cdn \$)		March 31, 2009		December 31, 2008
Oil and gas interests	\$	42,446,759	\$	42,442,785
Pilot Project				
Equipment and construction		15,903,285		12,432,697
Startup costs		125,002		-
Capitalized operations		732,716		-
	\$	59,207,762	\$	54,875,482

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 operating. At March 31, 2009, the Company has no reserves or production. Accordingly, no provision for depletion expense has been made.

Stock-based compensation for consultants of \$95,034 was capitalized during the months ended March 31, 2009 (2008 – \$93,864 recovery).

Deposits with the Energy Resources and Conservation Board of \$365,982 (2008 – \$126,782) were included in oil and gas properties as at March 31, 2009.

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 \$)		March 31, 2009		December 31, 2008
Asset retirement obligations, beginning of period	\$	442,303	\$	215,820
Additions		64,506		212,296
Accretion		10,306		17,120
Change in estimates		(7,650)		(2,933)
Asset retirement obligations, end of period	\$	509,465	\$	442,303

The total undiscounted amount of cash flows required to settle the obligations as measured at March 31, 2009 is estimated to be \$1,273,486 (2008 - \$1,121,365). 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 8-10% (2008 - 8%) and the estimated inflation rate used to project future costs was 2% (2008 - 2%).

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As at March 31, 2009 (unaudited), as at December 31, 2008

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
Common Shares			
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 (i)	16,969,660		22,999,951
Share issue costs (ii)	-		(1,774,667)
Tax effect of share issue costs	-		479,736
Balance December 31, 2008	55,070,800	\$	64,158,452
Adjustment to share issue costs	-		(1,260)
Tax effect of flow through shares	-		(1,500,000)
Balance March 31, 2009	55,070,800	\$	62,657,192
	Number of Warrants		Amount
\$2.00 Share Purchase Warrants			
Balance December 31, 2007	-	\$	-
Equity financing (i)	6,666,650		2,999,993
Balance December 31, 2008 and March 31, 2009	6,666,650	\$	2,999,993
Total Equity Instruments		\$	65,657,185

- i. 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%.

- ii. 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, 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
Option Granted	50,000		0.28		0.28
Balance, March 31, 2009	4,110,000	\$	0.28 – 2.62	\$	1.44

The average fair value of the options granted during 2009 was \$0.17 per option (2008 - \$0.82) assuming an average volatility of 80% (2008 - 80%) on the underlying shares, a weighted average exercise price of \$0.28 (2008 - \$1.46), a risk-free interest rate of 2.11% (2007 - 2.81% - 3.35%), an expected life of 4 years (2008 - 4 years), and an expected dividend rate of 0% (2008 - 0%).

Stock options issued to employees 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 \$304,870 during the three months ended March 31, 2009 and \$95,034 was capitalized to oil and gas properties.

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.

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As at March 31, 2009 (unaudited), as at December 31, 2008

7. Share Capital (continued)

(c) Stock Options (continued)

The following table sets forth information about stock options outstanding as at March 31, 2009.

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
\$0.28 – 1.00	1,465,000	\$0.98	2.90	876,668	\$1.00
\$1.01 – \$2.00	2,245,000	\$1.53	4.18	165,000	\$1.76
\$2.00 – \$3.00	400,000	\$2.62	3.17	150,001	\$2.62
	4,110,000	\$1.44	3.57	1,191,669	\$1.31

(d) Performance Warrants

	Number of Warrants	Exercise Price
Balance, December 31, 2007	6,300,000	\$ 0.50
Balance, December 31, 2008 and March 31, 2009	6,300,000	\$ 0.50
Exercisable, March 31, 2009	-	\$ -

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.

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7. Share Capital (continued)

(d) Performance Warrants (continued)

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 March 31, 2009 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 1.75 years.

8. Contributed surplus

(Cdn \$)	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 2,813,922	\$ 2,131,653
Stock-based compensation		
Expensed	259,793	794,233
Capitalized	61,477	183,983
Increase/(Decrease) in fair value of non-employee options		
Expensed	45,077	(18,100)
Capitalized	33,557	(277,847)
Balance, end of period	\$ 3,213,826	\$ 2,813,922

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As at March 31, 2009 (unaudited), as at December 31, 2008

9. Related party transactions

As at March 31, 2009, the Company accrued legal costs of \$30,000 payable to a firm in which a director is a partner. These costs were for general legal services and the majority was related to year-end reporting matters. 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 January 1, 2009, 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.

The Company has a flow through share commitment of \$6 million which is to be spent on Canadian Exploration Expenditures ("CEE") prior to December 31, 2009. As at March 31, 2009 the Company had spent \$400,000 of CEE towards this commitment.

11. Loss per Share

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

	Three months ended March 31,	
	2009	2008
Net Loss (Cdn \$)	\$ 658,380	399,290
Weighted average number of shares outstanding	55,070,800	38,050,640
Basic and Diluted loss per share	\$ 0.012	0.010

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.