



North Peace Energy Updates Operational Progress and Provides Q2 Financial Results

Calgary, Alberta, August 27, 2009 North Peace Energy Corp. (“North Peace” or the “Company”) releases operating and financial results for the three months and six ended June 30, 2009.

CSS Pilot Project Operations Update:

Management continues to advance North Peace’s Red Earth asset to commercial production. The pilot facility has been operational since the start of 2009 with the principal objective of demonstrating the feasibility of producing economic quantities of bitumen from the Company’s resource and validating economic and technical parameters to optimize the design of future commercial development.

Steam Injection Update

- ◆ L1 Horizontal Pilot Well
 - Injection was completed in April 2009
 - 75,000 barrels of cold water equivalent were injected into the well over a period of 14 weeks at an average rate of 800 bbls/day
 - This represents 60% of the intended steam slug size
- ◆ L2 Horizontal Pilot Well
 - Injection was completed in July 2009 and an improved steam injection strategy was utilized compared to the L1 well
 - 146,000 barrels of cold water equivalent were injected into the well over a period of 12 weeks at an average rate of 1,700 bbls/day and a stabilized final rate of 2,100 bbls/day
 - This represents 100% of the intended steam slug size
- ◆ Injection pressures in both wells indicated fracturing occurred in the zone of interest and steam chamber containment was achieved
- ◆ The facility is not generating steam at the current time as both wells are on oil production
 - Steam injection into the L1 well will resume when its production ceases

Production Update

- ◆ L1 Horizontal Pilot Well
 - Converted to production operations in May 2009
 - Cumulative oil produced as at July 31, 2009 is 7,300 barrels and cumulative water produced is 21,000 barrels
 - Peak oil rate of over 200 bbls/day was reached after six weeks of production
 - Average oil production of 80 bbls/day (May – July)
 - Cumulative oil cut is 26%
 - Post peak oil rate, weekly oil cuts have ranged from 35% to 55%
 - Current oil production, based on field estimates, of approximately 35 bbls/day
 - Cumulative Steam to Oil Ratio (“SOR”) until the end of July 2009 is 10.3
 - The SOR continues to decrease as the well produces

- ◆ L2 Horizontal Pilot Well
 - Converted to production operations mid-August 2009
 - As expected, the early period has been dominated by water production
 - Indications of increasing oil cuts have been observed to date
 - Current oil cut is approximately 29% based on field estimates
 - Initial field estimates indicate oil production rates of approximately 150 bbls/day
 - Oil production rate continues to increase
 - Peak oil production is expected to occur within the next two months
- ◆ The production side of the pilot facility is currently handling production from both wells
- ◆ Oil production is being trucked and sold to third parties
- ◆ The average sales price was \$53.33 per barrel for June and \$44.97 per barrel for July
- ◆ No discernible sand production has been observed and produced oil quality is approximately 10° API with viscosity of 90,000 Centipoises at 16° Celsius

At this early stage of pilot operations, the Company cannot make any definitive conclusions on the anticipated commercial steam injectivity or production rates. Because only 60 percent of the target steam slug size was injected into the L1 well, the expected production period will likely be shorter than anticipated and will ultimately lead to a higher than expected first cycle SOR. A refined steam injection strategy augmented by the contained heat and voidage (vacant area remaining after oil is produced) now present in the L1 well should result in significantly higher steam injection and production profiles for the second cycle. The early production results from the L2 well are positive and the aggregate data gathered from both wells over several cycles will be used in commercial development planning.

Commercial Development Update:

- ◆ Work continues on engineering for a 3,000 bbl/d pilot expansion project
 - Process design is nearing completion
 - The commercial application to the ERCB should be ready for submission early 2010

Financial Update:

- ◆ Completed a \$11.6 million financing on June 23, 2009, issuing 21,109,000 common shares, 10,554,500 warrants to purchase common shares
- ◆ Working capital of \$14.3 million and no debt as at June 30, 2009
- ◆ Capital expenditures of \$1.8 million in the second quarter

Louis Dufresne, President of North Peace, commented “North Peace continues to operate its pilot wells, monitoring both steam injection and bitumen production. The L1 well has produced over 7,300 barrels of oil and continues to produce. Early production data from L2 is positive and we are encouraged by the significant improvement in the well’s injectivity which is likely the result of refinements in start-up procedures and steaming strategy. Operating the pilot permits us to learn a great deal about our resource and to optimize the application of CSS as a recovery process to our reservoir. We are encouraged by recent trends in oil prices and the economy, and consequently we believe the timing for us to advance our commercial development will be ideal.”

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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 and six month period ended June 30, 2009. The following information should be read in conjunction with the unaudited interim financial statements for the three and six months ended June 30, 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 August 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.

Management continues to advance North Peace's Red Earth asset to commercial production. The pilot CSS plant has been operational since the start of 2009 with the principal objective of demonstrating the feasibility of producing economic quantities of bitumen from the Company's resource and validating economic and technical parameters to optimize the design of future commercial development.

Company and Project Overview

During the three months ended June 30, 2009 North Peace has completed the following significant milestones:

- ◆ Completed a \$11.6 million financing on June 23, 2009, issuing 21,109,000 common shares, 10,554,500 warrants to purchase common shares

Subsequent to June 30, 2009 the Company has completed the following:

- ◆ Completed steam injection on the second horizontal well (L2) and commenced production operations

Financial Results

Quarterly Financial Information

	2009	2009	2008	2008	2008	2008	2007	2007
	Q2(\$)	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)	Q1(\$)	Q4(\$)	Q3(\$)
Revenues	4,099	26,752	150,963	120,028	39,045	87,905	117,197	128,821
Net Loss and Comprehensive loss Basic and diluted	695,369	658,380	30,100	571,983	486,924	399,290	448,481	282,614
Net Loss Per share	0.012	0.012	0.001	0.012	0.013	0.010	0.012	0.007

Results of Operations

Interest Income

	2009		2008	Six months ended June 30,	
	Q2	Q1	Q2	2009	2008
Interest Income	4,099	26,752	39,045	30,851	126,950

Interest income was \$4,099 for the second quarter of 2009, with the majority from redeemable term deposits bearing interest at 0.25%. The decrease in interest income from 2008 and the first quarter of 2009 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	Six months ended June 30,	
	Q2	Q1	Q2	2009	2008
Stock-based Compensation	294,031	304,870	150,651	598,901	317,027

Stock-based compensation was \$294,031 for the three months ended June 30, 2009. The increase from the same period last year and in the year to date numbers is due 2008 stock option grants. In addition, \$158,795 related to stock based compensation was capitalized during the six month period relating to consultants working directly on the capital program and pilot project.

The average fair value of the options granted during 2009 was \$0.33 per option (2008 - \$0.82) assuming an average volatility of 80% (2008 - 80%) on the underlying shares, a weighted average exercise price of \$0.54 (2008 - \$1.46), a risk-free interest rate of 2.11% – 2.23% (2007 - 2.81% - 3.35%), an expected life of 4 years (2008 - 4 years), and an expected dividend rate of nil (2008 - nil).

Administrative Expenses

	2009		2008	Six months ended June 30,	
	Q2	Q1	Q2	2009	2008
G&A expense					
Salaries, Benefits and Consulting Fees	217,369	201,595	170,976	418,964	347,867
Legal, Accounting and Audit Fees	57,367	45,269	23,112	102,636	42,748
Office rent	64,282	64,891	27,298	129,173	54,595
Other G&A	165,667	126,680	143,732	292,347	230,791
Administrative Expenses	504,685	438,435	365,118	943,120	676,001

Salaries, Benefits and Consulting Fees

The increase in salaries, benefits and consulting fees from the first quarter in 2009 and the same period in 2008 is due to increased staffing as the Company continues operating the pilot project and begins to advance work on commercial development of the Red Earth assets.

Legal, Accounting and Audit Fees

The increase from the first quarter 2009 is due to additional legal work during the quarter related to the year end regulatory filings and the increase from 2008 is related to growth of the Company in size and operations.

Office Rent

Office rent for the quarter is consistent with the first quarter of 2009 and has increased from the previous year because the Company relocated to a larger office space on January 1, 2009.

Depreciation and Accretion

	2009		2008	Six months ended June 30,	
	Q2	Q1	Q2	2009	2008
Depletion, Depreciation and Accretion	17,780	17,742	10,200	35,522	20,136

The Company had depreciation expense of \$17,780 for the three months ended June 30, 2009 compared to \$17,742 for the first quarter of 2009 and \$10,200 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.

Red Earth CSS Pilot

The Red Earth CSS pilot commenced production at the beginning of May 2009. All revenues and expenses from the pilot have been recorded as an adjustment to the capitalized costs of the project. The daily rate for the second quarter is calculated over the full 91 days in the quarter, however since the L1 well was only producing for 61 days, the reported number is not representative. The average daily production for the month of June only was 151 bbls/day. Operating costs were incurred starting January 2009. The majority of these operating costs relate to steam generation, which began in January 2009, and fixed facility costs. Well related operating costs were incurred with first production in May 2009.

	2009		2008	Six months ended June 30,	
	Q2	Q1	Q2	2009	2008
Production (bbls/day)	62	-	-	31	-
Average sales price (CDN\$/bbl)	53.33	-	-	53.33	-
Revenue	218,499	-	-	218,499	-
Operating Costs & Royalties	(838,490)	(472,455)	-	(1,310,945)	-
Net operating revenues	(619,991)	(472,455)	-	(1,092,446)	-

Liquidity and Capital Resources

As at June 30, 2009 the Company had working capital of \$14.3 million and no debt

On June 23, 2009 the Company completed a private placement equity offering, issuing a total of 21,109,000 units ("Units"), at a price of \$0.55 per Unit for gross proceeds of approximately \$11.6 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 \$0.75 per share until December 23, 2010.

The 2009 capital budget includes \$5.5 million of drilling capital. The Company will spend \$3.0 to \$3.5 million of the drilling budget on between nine and eleven delineation wells in the Red Earth area. The remaining drilling capital will be allocated to other exploration locations to be determined during the third and fourth quarters. This drilling budget will fully satisfy the Company's flow-through commitment prior to year end. The budget also allocates capital to advance the commercial application to the ERCB for a 3,000 bbl/d expansion to the Pilot on the Company's Red Earth lands; the application should be ready for submission early 2010. Current working capital is sufficient to fund this capital budget, pilot operations and G&A for 2009/2010.

As at June 30, 2009, the payments due under the office lease commitment are as follows:

(Cdn \$)	
2009	96,432
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 June 30, 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 June 30, 2009 the Company had spent approximately \$542,621 on CEE towards this commitment.

Capital Expenditures

	2009		2008	Six months ended June 30,	
	Q2	Q1	Q2	2009	2008
Land & Lease Rentals	8,512	74,984	19,880	83,496	140,615
Drilling and Completion	262,144	204,157	42,216	466,301	3,580,953
Geological Costs	41,845	14,626	15,906	56,471	56,299
Pilot Facilities					
Construction, equipment and engineering	691,392	3,253,691	2,895,907	3,945,083	3,084,396
Capitalized plant overhead and operations	619,991	472,455	-	1,092,446	-
Other	181,311	191,035	64,730	372,346	92,043
Total	1,805,195	4,210,948	3,038,639	6,016,143	6,954,306

The Company is a development stage enterprise and therefore capitalizes net revenue and depreciation until the Company commences its planned commercial operations. The Company has capitalized \$1,092,446 of net revenue for the six months ended June 30, 2009 related to pilot operations.

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 June 30, 2009:

	June 30, 2009
Common shares outstanding	76,179,800
Weighted average number of shares outstanding during the period	55,887,170
Stock options outstanding	6,065,000
Performance warrants outstanding	6,300,000
\$0.75 Warrants outstanding	10,554,500
\$2.00 Warrants outstanding	6,666,650

As at August 26, 2009, there were no changes to the amounts in the above table.

Off Balance Sheet Arrangements

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

Transactions with Related Parties

As at June 30, 2009, the Company accrued legal costs of \$125,000 payable to a firm in which a director is a partner. These costs were for general legal services and legal work for the equity financing in June 2009.

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 amendment to IFRS 1 “Additional Exemptions for First-time Adopters”. Included in the amendment issued in July 2009 by the IASB are transition exemptions for oil and gas companies following full cost accounting. The transition exemptions allow full cost companies to allocate their existing full cost PP&E balances using reserve values or volumes to IFRS compliant units of account without requiring retroactive adjustment, subject to an initial impairment test. The Company intends to adopt the transition exemptions.

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 after 2010 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.

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 2010. However, the recent downturn in the capital markets may limit the Company's ability to raise the capital necessary to undertake expanded operations after 2010 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. The Company has flexibility in timing future capital expenditures related to commercial development 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 will continue to operate 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 was focused on pilot operations. The data collected from the pilot will be used in evaluating the feasibility of future commercial operations. Data will be collected continuously over the life of the pilot horizontal wells and used to design future commercial development.

In the second half of 2009, the Company will spend \$3.0 to \$3.5 million of the drilling budget on between nine and eleven delineation wells in the Red Earth area. \$2.0 to \$2.5 million of drilling capital will be allocated to other exploration locations to be determined during the third and fourth quarter. The Company is also investigating the possibility of adding additional development horizontal 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. With 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.

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 International Accounting Standards Board ("IASB") issued an amendment to IFRS 1 "Additional Exemptions for First-time Adopters" in July 2009 for oil and gas companies following full cost accounting. This amendment will enable an entity to measure exploration and evaluation assets at the amount determined under the entity's previous accounting principles and it also provides for the measurement of oil and gas assets in the development or production phase, among other things, by allocating the amount determined by the entity's previous accounting principles to the underlying assets on a pro rata basis using reserve volumes or reserve values at the date of transition. 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 in the fourth quarter of 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)

	June 30, 2009	December 31, 2008
<hr/> (Cdn \$) <hr/>		
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 14,828,094	\$ 18,119,752
Accounts receivable	431,180	922,537
Prepaid expenses	37,170	86,290
	<hr/> 15,296,444	19,128,579
Oil and gas properties (note 5)	60,994,347	54,875,482
Other assets	45,105	48,097
Future income tax asset	-	557,477
	<hr/> \$ 76,335,896	\$ 74,609,635
<hr/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accruals	\$ 949,856	\$ 8,788,438
Asset retirement obligations (note 6)	519,771	442,303
Future income tax liability	584,520	-
	<hr/> 2,054,147	9,230,741
<hr/>		
Shareholders' equity		
Equity Instruments (note 7)	76,657,353	67,158,445
Contributed surplus (note 8)	3,571,618	2,813,922
Deficit	(5,947,222)	(4,593,473)
	<hr/> 74,281,749	65,378,894
	<hr/> \$ 76,335,896	\$ 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)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenue				
Interest Income	\$ 4,099	\$ 39,045	\$ 30,851	\$ 126,950
	4,099	39,045	30,851	126,950
Operating expenses				
General and administrative	504,685	365,118	943,120	676,001
Stock-based compensation	294,031	150,651	598,901	317,027
Depletion, depreciation and accretion	17,780	10,200	35,522	20,136
	816,496	525,969	1,577,543	1,013,164
Net Loss before taxes	\$ 812,397	\$ 486,924	\$ 1,546,692	\$ 886,214
Future Income Tax reduction	(117,028)	-	(192,943)	-
Net Loss and Comprehensive Loss	695,369	486,924	1,353,749	886,214
Deficit at beginning of period	5,251,853	3,504,466	4,593,473	3,105,176
Deficit at end of period	\$ 5,947,222	\$ 3,991,390	\$ 5,947,222	\$ 3,991,390
Net Loss per share (note 11)				
Basic and Diluted	\$ 0.012	\$ 0.013	\$ 0.024	\$ 0.023

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Cash Flows
(unaudited)

	Three months ended June 30, 2009		Six months ended June 30, 2009	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating Activities				
Net Loss	\$ (695,369)	\$ (486,924)	\$ (1,353,749)	\$ (886,214)
Non-cash charges to earnings				
Depletion, depreciation and accretion	17,780	10,200	35,522	20,136
Stock-based compensation	294,031	150,651	598,901	317,027
Future income tax reduction	(117,028)	-	(192,943)	-
	(500,586)	(326,073)	(912,269)	(549,051)
Net change in non cash working capital				
Accounts receivable	146,579	204,557	525,281	210,471
Prepaid expenses	24,589	(13,479)	49,120	(1,243)
Accounts payable and accruals	27,014	14,332	(99,933)	(76,636)
	(302,404)	(120,663)	(437,801)	(416,459)
Investing Activities				
Additions to oil and gas properties	(1,701,824)	(3,038,639)	(5,850,535)	(6,954,306)
Other assets	-	(3,537)	(11,919)	(8,512)
Net change in non cash working capital				
Accounts receivable	(229,424)	(52,600)	(33,924)	(124,049)
Accounts payable and accruals	(582,571)	809,039	(7,825,254)	2,006,311
	(2,513,819)	(2,285,737)	(13,721,632)	(5,080,556)
Financing Activities				
Proceeds on issue of common shares, net of share issue costs	10,782,430	50,500	10,781,170	50,500
Net change in non cash working capital				
Accounts payable and accruals	86,605	-	86,605	-
	10,869,035	50,500	10,867,775	50,500
Increase (Decrease) in cash and cash equivalents	8,052,812	(2,355,900)	(3,291,658)	(5,446,515)
Cash and cash equivalents, beginning of period	6,775,282	6,873,778	18,119,752	9,964,393
Cash and cash equivalents, end of period	\$ 14,828,094	\$ 4,517,878	\$ 14,828,094	\$ 4,517,878
Supplemental disclosure:				
Interest received	\$ 49,396	\$ 246,413	\$ 150,673	\$ 308,551

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended June 30, 2009 and 2008 (unaudited)

1. Nature of operation and future operations

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 two to three years.

The Company’s Red Earth project contains 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 June 30, 2009 the Company had working capital of \$14.3 million and no debt. 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 June 30, 2009 the Company had spent \$542,621 towards this commitment. The Company has sufficient working capital to satisfy its flow through commitment.

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 and for the periods ended June 30, 2009 and 2008 (unaudited)

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 commercial development capital expenditures after 2010 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.

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 amendment to IFRS 1 "Additional Exemptions for First-time Adopters". Included in the amendment issued in July 2009 by the IASB are transition exemptions for oil and gas companies following full cost accounting. The transition exemptions allow full cost companies to allocate their existing full cost PP&E balances using reserve values or volumes to IFRS compliant units of account without requiring retroactive adjustment, subject to an initial impairment test. The Company intends to adopt the transition exemptions.

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 \$13.5 million which currently bears interest at 0.25 % 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 and for the periods ended June 30, 2009 and 2008 (unaudited)

5. Oil and gas properties

(Cdn \$)		June 30, 2009		December 31, 2008
Oil and gas interests	\$	42,969,406	\$	42,442,785
Pilot Project				
Equipment and construction		16,415,000		12,432,697
Startup costs		195,000		-
Capitalized operations		1,414,941		-
	\$	60,994,347	\$	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 June 30, 2009, the Company has no reserves or commercial production. Accordingly, no provision for depletion expense has been made.

Stock-based compensation for consultants of \$158,795 was capitalized during the six months ended June 30, 2009 (2008 – \$93,864 recovery).

Deposits with the Energy Resources and Conservation Board of \$495,382 (2008 – \$126,782) were included in oil and gas properties as at June 30, 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 \$)		June 30, 2009		December 31, 2008
Asset retirement obligations, beginning of period	\$	442,303	\$	215,820
Additions		64,507		212,296
Accretion		20,611		17,120
Change in estimates		(7,650)		(2,933)
Asset retirement obligations, end of period	\$	519,771	\$	442,303

The total undiscounted amount of cash flows required to settle the obligations as measured at June 30, 2009 is estimated to be \$1,273,466 (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%).

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended June 30, 2009 and 2008 (unaudited)

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
Equity financing (iii)	21,109,000		9,393,505
Share issue costs (iv)	-		(828,780)
Tax effect of share issue costs	-		217,738
Tax effect of flow through shares	-		(1,500,000)
Balance June 30, 2009	76,179,800	\$	71,440,915
	Number of Warrants		Amount
\$0.75 Share Purchase Warrants			
Balance December 31, 2008	-	\$	-
Equity financing (iii)	10,554,500		2,216,445
Balance June 30, 2009	10,554,500		2,216,445
\$2.00 Share Purchase Warrants			
Balance December 31, 2007	-	\$	-
Equity financing (i)	6,666,650		2,999,993
Balance December 31, 2008 and June 30, 2009	6,666,650	\$	2,999,993
Total Equity Instruments		\$	76,657,353

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended June 30, 2009 and 2008 (unaudited)

7. Share Capital (continued)

(b) Issued (continued)

- 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.

- iii. On June 23, 2009 the Company completed a private placement equity offering, issuing a total of 21,109,000 units ("Units"), at a price of \$0.55 per Unit for gross proceeds of approximately \$11.6 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 \$0.75 per share until December 23, 2010.

The fair value of the warrants is \$0.21 per warrant assuming a volatility of 80% on the underlying shares, a risk-free interest rate of 2.23%, an expected life of 1.5 years and an expected dividend rate of 0%.

- iv. Share issue costs relate to the costs incurred for the equity issuance on June 23, 2009

(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
Options granted	1,830,000	1.18 – 1.50	1.46
Balance, December 31, 2008	4,060,000	\$ 1.00 – 2.62	\$ 1.45
Options granted	2,455,000	0.28 – 0.55	0.54
Options forfeited	(450,000)	1.00 – 1.50	1.17
Balance, June 30, 2009	6,065,000	\$ 0.28 – 2.62	\$ 1.10

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended June 30, 2009 and 2008 (unaudited)

7. Share Capital (continued)

(c) Stock Options (continued)

The average fair value of the options granted during 2009 was \$0.33 per option (2008 - \$0.82) assuming an average volatility of 80% (2008 - 80%) on the underlying shares, a weighted average exercise price of \$0.54 (2008 - \$1.46), a risk-free interest rate of 2.11% – 2.23% (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 \$757,696 during the six months ended June 30, 2009 and \$158,795 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.

The following table sets forth information about stock options outstanding as at June 30, 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 – \$0.50	50,000	\$0.28	4.64	-	-
\$0.51 – \$1.00	3,520,000	\$0.70	2.42	756,667	\$1.00
\$1.01 – \$2.00	2,095,000	\$1.53	3.92	165,000	\$1.76
\$2.00 – \$3.00	400,000	\$2.62	2.92	266,667	\$2.62
	6,065,000	\$1.11	3.12	1,188,334	\$1.47

(d) Performance Warrants

	Number of Warrants	Exercise Price
Balance, December 31, 2007	6,300,000	\$ 0.50
Balance, December 31, 2008 and June 30, 2009	6,300,000	\$ 0.50
Exercisable, June 30, 2009	-	\$ -

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended June 30, 2009 and 2008 (unaudited)

7. Share Capital (continued)

(d) Performance Warrants (continued)

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 June 30, 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 1.50 years.

8. Contributed surplus

(Cdn \$)	June 30, 2009	December 31, 2008
Balance, beginning of period	\$ 2,813,922	\$ 2,131,653
Stock-based compensation		
Expensed	526,806	794,233
Capitalized	58,768	183,983
Increase/(Decrease) in fair value of non-employee options		
Expensed	72,095	(18,100)
Capitalized	100,027	(277,847)
Balance, end of period	\$ 3,571,618	\$ 2,813,922

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended June 30, 2009 and 2008 (unaudited)

9. Related party transactions

As at June 30, 2009, the Company accrued legal costs of \$125,000 payable to a firm in which a director is a partner. These costs were for general legal services and legal work for the equity financing in June 2009. 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 June 30, 2009 the Company had spent \$542,621 of CEE towards this commitment.

11. Loss per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net loss (Cdn \$)	\$ (695,369)	\$ (486,924)	\$ (1,353,749)	\$ (886,214)
Weighted average number of shares outstanding	56,694,569	38,067,473	55,887,170	38,059,057
Basic loss per share	\$ 0.012	\$ 0.013	\$ 0.024	\$ 0.023
Diluted loss per share	\$ 0.012	\$ 0.013	\$ 0.024	\$ 0.023

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