



North Peace Announces Operations Update and Filing of First Quarter Financial Results

Calgary, Alberta, May 26, 2010 – North Peace Energy Corp. (“North Peace” or the “Company”) announces operations update and filing of first quarter financial results.

Operations Update

Production continues on the second cycle of the L1 well at the Red Earth Pilot. The cycle’s steam-to-oil Ratio (“SOR”), which continues to decrease as production is maintained, is now approximately 4.1 representing a 50% improvement over the initial cycle. For comparison purposes, our SOR when adjusted for heat content of injected steam equates to a Steam Assisted Gravity Drainage (“SAGD”) SOR of 3.5. This SOR compares favorably with the current industry average SOR of 3.7 for existing SAGD projects in commercial operations. The production rate to date for the cycle is 25 bbl/d over a period of 30 weeks which includes both steam injection time and production time.

The L2 well remains shut-in for a pump change and preparations are underway for conversion to steam circulation test.

First Quarter Financial Results

The Company's financial statements, notes to the financial statements, management's discussion and analysis are available on the Company’s website (www.northpec.com/investor/financial_reports.html) and have been filed on SEDAR (www.sedar.com).

First Quarter Highlights

- Working capital of \$3.5 million and no debt as at March 31, 2010
 - Current working capital of approximately \$ 3.1 million
- Capital expenditures of \$860,000 during the quarter, focused on the completion of drilling programs initiated in the fourth quarter of 2009
- Oil sales of \$208,387 from the Red Earth pilot and \$91,473 from the conventional assets
- Announced a review of strategic alternatives for the Company which is currently underway
- Sold a portion of the Company’s drilling royalty credits, which were earned as part of the conventional exploration program for \$450,000

Updated Corporate Presentation

Available on the Company’s website at:

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

Annual Meeting

The Company’s Annual General Meeting of Shareholders is scheduled for 10:00 AM on Thursday May 27, 2010 in Cardium Room at the Petroleum Club, 319 - 5 Avenue SW, Calgary, AB.

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, 2010. The following information should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2010 and the audited financial statements for the year ended December 31, 2009.

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

Date of Report May 26, 2010

Overview

North Peace has an early stage in-situ oil sands play in northern Alberta with an estimated 2.1 billion barrels of Discovered Bitumen Initially-In-Place. The Company has a 100% working interest in 86,400 acres of Crown oil sands leases in the Peace River area plus interests in other non-core areas. The oil sands leases have the benefit of over 300 legacy wells and are surrounded by accessible oil and natural gas production infrastructure. The target Bluesky zone is a regional sand, deposited in a near shore marine environment at approximately 400 metres in depth. Management estimates the initial area of focus has approximately 22 sections with 10 to 16 metres of oil-bearing thickness, technically sufficient to advance a 10,000 bbl/d commercial project with ultimate potential of 30,000 bbl/d. North Peace is currently advancing the development of its resource using Cyclic Steam Stimulation ("CSS"), a robust and proven in-situ thermal recovery process. The Company is currently operating a two well CSS pilot on its lands.

Company and Project Overview

During the three months ended March 31, 2010 the Company completed the following significant milestones:

- Announced a review of strategic alternatives for the Company
- Sold a portion of the Company's drilling royalty credits, which were earned as part of the conventional exploration program, for \$450,000
- Maintained working capital of \$3.5 million and no debt as at March 31, 2010
 - Current working capital of approximately \$3.1 million.
- Reached an Steam-to-oil Ratio ("SOR") of 4.4 on the second cycle of the L1 well at the pilot project
 - This SOR when adjusted for heat content of injected steam equates to a Steam Assisted Gravity Drainage ("SAGD") SOR of 3.7
 - The current SOR is 4.1 which equates to a Steam Assisted Gravity Drainage ("SAGD") SOR of 3.5
- Cumulative oil produced from the pilot project of over 22,000 barrels

Financial Results

Quarterly Financial Information

	2010	2009	2009	2009
	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)
Revenues	75,153	8,193	8,191	4,099
Net Loss	812,709	766,369	640,129	695,369
Basic and diluted Loss Per share	0.011	0.010	0.008	0.012

	2009	2008	2008	2008
	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)
Revenues	26,752	150,963	120,028	39,045
Net Loss	658,380	30,100	571,983	486,924
Basic and diluted Loss Per share	0.012	0.001	0.012	0.013

Red Earth CSS Pilot Results

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. 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.

	2010	2009	2009
	Q1	Q4	Q1
Production (bbls/day)	39	52	-
Average sales price (\$/bbl)	59.36	48.41	-
Revenue	208,387	233,774	-
Operating Costs & Royalties	(410,006)	(930,092)	-
Net operating revenues	(201,619)	(696,318)	-

The decrease in production is a result of the natural decline of the well as the second CSS cycle is nearing completion. Operating costs are lower as the well was on steaming during the fourth quarter and natural gas was purchased for the steam generation.

Results of Operations

Revenue (conventional assets only)

	2010	2009	2009
	Q1	Q4	Q1
Revenues	91,473	-	-
Average wellhead price (\$/bbl)	72.60	-	-
Sales volumes (boe/day)	14	-	-

Revenue recorded on the income statement is from outside the Company's Red Earth area asset as all operations from the Red Earth asset are capitalized. The exploration drilling program in the fourth quarter of 2009 resulted in two producing wells in the Beaton area and one producing well in the Vahalla area. North Peace has a 50% working interest in the Beaton area and a 60% working interest in the Valhalla area. All of the wells are operated by North Peace's partners. Production commenced in February 2010 for the three wells.

Royalties (conventional assets only)

	2010	2009	2009
	Q1	Q4	Q1
Royalty expenses	19,137	-	-
\$/boe	15.37	-	-
Royalty rate	21%	-	-

Conventional oil and gas crown royalties are paid in both the Beaton and Valhalla area. Production commenced in February in both areas. The oil sands royalties paid at the Red Earth pilot project are capitalized.

Operating Costs (conventional assets only)

	2010	2009	2009
	Q1	Q4	Q1
Operating costs	42,060	-	-
\$/boe	33.38	-	-

Operating costs are from the conventional wells in the Beaton and Valhalla areas. Total operating costs are not representative as the wells are just commencing production and operations have not stabilized. Operating costs per barrel reflect higher initial rates and will stabilize once the wells reach a consistent rate.

Interest Income

	2010	2009	2009
	Q1	Q4	Q1
Interest Income	2,817	8,193	26,752

Interest income was \$2,817 for the first three months of 2010, with the majority from redeemable term deposits bearing interest at 0.25%. Interest income was \$8,193 in the fourth quarter of 2009 and \$26,752 in the same period last year. The decrease in interest income from 2009 is due to lower amounts of cash on deposit during the first quarter coupled with significant decreases in interest rates.

Stock-based Compensation

	2010	2009	2009
	Q1	Q4	Q1
Stock-based Compensation	264,721	242,245	304,870

Stock-based compensation for the first three months of 2010 was \$264,721. This amount consists of the expense for existing stock options and the revaluation of stock options to consultants. A recovery of \$1,476 related to stock based compensation was capitalized during the year relating to consultants working directly on the capital program and pilot project. No options were granted in the first quarter of 2010.

Administrative Expenses

	2010	2009	2009
	Q1	Q4	Q1
G&A expense			
Salaries, Benefits and Consulting Fees	216,198	482,233	201,595
Legal, Accounting and Audit Fees	32,000	60,050	45,269
Office rent	66,188	64,890	64,891
Other G&A	366,483	127,446	126,680
Administrative Expenses	680,869	734,619	438,435

Salaries, Benefits and Consulting Fees

Salaries, benefits and consulting fees for the three months ended March 31, 2010 were \$216,198 compared to \$201,595 for the same period in 2009 the increase is due to salary increases for non-management employees. The salaries, benefits and consulting fees are lower than the fourth quarter in 2009 as year-end bonus amounts were included in the fourth quarter amounts.

Legal, Accounting and Audit Fees

Legal, accounting and audit fees for the three months ended March 31, 2010 were \$32,000 compared to \$45,269 for the same period in 2009 the decrease is due to reduced legal costs as limited corporate legal work was completed during the quarter. Legal, accounting and audit fees decreased from the fourth quarter in 2009 due to the year-end audit work included in the fourth quarter amount.

Office Rent

Office rent for the three months ended March 31, 2010 was \$66,188 compared to \$64,891 for the same period in 2009. Office rent for the quarter is consistent for the same period in 2009 and the fourth quarter 2009 as there were no changes to our office lease arrangement.

Other G&A

The increase in other G&A for the three month period is due to costs related to the strategic alternative process initiated in February 2010 and a non-management staff retention program that was put in place to retain staff during the strategic alternative process that is payable on September 30, 2010 regardless of the conclusion of the process.

Depreciation, Depletion and Accretion

	2010	2009	2009
	Q1	Q4	Q1
Depreciation, Depletion and Accretion	80,240	17,821	17,742

The Company recorded depreciation, depletion and accretion expense of \$80,240 for the first three months of 2010 compared to \$17,821 for the fourth quarter of 2009 and \$17,742 for the same period in 2009. The increase is due to depletion expense incurred on the conventional oil and gas assets which commenced production during the quarter.

Liquidity and Capital Resources

As at March 31, 2010 the Company had working capital of \$3.5 million and no debt.

The Company has no significant capital expenditures planned for 2010, therefore current working capital will be sufficient to fund certain capital requirements, pilot operations and general corporate requirements.

On February 4, 2010, North Peace's Board of Directors initiated a process to explore strategic alternatives with a view to enhancing shareholder value. The Company engaged CIBC World Markets Inc. ("CIBC") to provide financial advisory services to assist in this strategic review. Strategic alternatives may include, but are not limited to, a corporate sale, merger or other business combination, joint venturing with an interested party, a major financing or any other combination. The Board established a Special Committee of independent directors to work with management and the Company's external advisors and to supervise the strategic review process.

As at March 31, 2010, the payments due under the office lease commitment are as follows:

(Cdn \$)	
2010	144,648
2011	192,864
2012	Nil
2013	Nil
2014	Nil
Thereafter	Nil

Capital expenditures were as follows:

(Cdn \$)	2010	2009	2009
	Q1	Q4	Q1
Land & Lease rentals	83,884	191,955	74,984
Drilling and Completion	451,177	6,312,200	204,157
Geological costs	4,797	105,378	14,626
Pilot facilities			
Construction, equipment and engineering	-	-	3,253,690
Capitalized plant overhead and operations	201,619	696,319	410,220
Other	118,946	3,855	191,035
Total	860,423	7,309,707	4,148,712

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 27 delineation wells, the drilling of 5 conventional wells outside our core area and the related geological assessments. Capitalized development costs relate to the construction of the Company's CSS pilot project, the drilling of two horizontal production wells and the completions on three conventional production wells outside of Red Earth.

Share Capitalization

The following table shows the common shares, stock options, purchase warrants and performance warrants issued and outstanding at March 31, 2010:

	As at March 31, 2010
Common shares outstanding	76,179,800
Weighted average number of shares outstanding during the period	76,179,800
Stock options outstanding	6,065,000
Performance warrants outstanding	6,300,000
\$0.75 Warrants outstanding	10,554,500

As at May 26, 2010, there were 76,179,800 common shares, 6,065,000 stock options, 6,300,000 performance warrants and 10,554,500 \$0.75 warrants outstanding.

Off Balance Sheet Arrangements

There were no off balance sheet arrangements, other than the office lease commitment which is accounted for as an operating lease.

Transactions with Related Parties

As at March 31, 2010, the Company has accrued legal costs of \$87,772 (2009 - \$125,000) payable to a firm in which a director is a partner. All related party transactions are in the normal course of operations. Related party transactions entered into by the Company have been measured at the exchange amount established and agreed to by the related parties.

Project and Company Outlook

During the remainder of 2010, the Company will focus on pilot operations, running a third steam cycle on the L1 well and circulating steam into the L2 well.

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 credit-adjusted risk free 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 representative trading history and the risk-free rate is obtained from the Bank of Canada.

Changes in Accounting Policies (including initial adoption)

See section on International Financial Reporting Standards ("IFRS") below.

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.

Although in certain cases capital markets have improved since the significant downturn experienced in 2008, capital market conditions may limit the Company's ability to raise the capital necessary to undertake or complete projected capital expenditures after 2010. In addition, 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.

Based on the current working capital balance, the Company's budget indicates that the Company currently has sufficient capital to fund corporate and operational expenses until the end of 2010. The Company has flexibility in timing future capital expenditures related to further 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 been volatile. The Company currently intends to operate its CSS pilot project notwithstanding the prevailing commodity price environment as the purpose of the pilot project is to validate the economic and technical parameters of the commercial project. Crude oil prices, while a significant factor, are only 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.

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 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 the 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 first half of 2010.

Discovered Petroleum Initially-In-Place

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

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

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

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

No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. Actual results could differ materially as a result of changes in North Peace's plans, changes in commodity prices, regulatory changes, general economic, market and business conditions as well as production, development and operating performance and other risks associated with oil and gas operations including anticipated success of resource prospects and the expected characteristics of resource prospects; anticipated capital requirements, project rates of return and estimated project life; estimates of original discovered resource; estimates of recovery factors; lack of diversification; and overall technical and economic feasibility of the Company's project. These statements speak only as of the date of this MD&A or as of the date specified in the documents accompanying this MD&A, as the case may be.

The Company undertakes no obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities laws.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Balance Sheets, as at
(unaudited)

(Cdn \$)	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents (note 3)	\$ 3,652,044	\$ 8,716,278
Accounts receivable	818,494	678,815
Prepaid expenses	64,630	102,914
	4,535,168	9,498,007
Oil and gas properties (note 4)	69,794,696	68,987,750
Other assets	26,069	33,953
	\$ 74,355,933	\$ 78,519,710
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accruals	\$ 889,575	\$ 4,344,217
Current Portion of asset retirement obligations (note 5)	179,703	161,940
	1,069,278	4,506,157
Asset retirement obligations (note 5)	452,324	449,269
Future income tax liability	50,807	231,296
	1,572,409	5,186,722
Shareholders' equity		
Equity Instruments (note 6)	73,644,612	76,644,605
Contributed surplus (note 7)	7,305,341	4,042,103
Deficit	(8,166,429)	(7,353,720)
	72,783,524	73,332,988
	\$ 74,355,933	\$ 78,519,710

Future Operations (note 1)

Commitments (note 9)

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Loss, Comprehensive Loss and Deficit (unaudited)

(Cdn \$)	Three Months ended March 31,	
	2010	2009
Revenue		
Oil and gas sales	\$ 91,473	\$ -
Royalties	(19,137)	-
Interest income	2,817	26,752
	75,153	26,752
Operating expenses		
Production	42,060	-
General and administrative	680,869	438,435
Stock-based compensation (note 7)	264,721	304,870
Depletion, depreciation and accretion	80,240	17,742
	1,067,890	761,047
Net Loss before taxes	992,737	734,295
Future Income Tax Reduction	(180,028)	(75,915)
Net Loss and Comprehensive Loss	\$ 812,709	\$ 658,380
Deficit at beginning of period	7,353,720	4,593,473
Deficit at end of period	\$ 8,166,429	\$ 5,251,853
Net Loss per share (note 11)		
Basic and Diluted	\$ 0.011	\$ 0.012

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Cash Flows (unaudited)

(Cdn \$)	Three Months ended March 31,	
	2010	2009
Cash provided by (used in):		
Operating Activities		
Net Loss	\$ (812,709)	\$ (658,380)
Non-cash charges to earnings		
Depletion, depreciation and accretion	80,240	17,742
Stock-based compensation	264,721	304,870
Future income tax recovery	(180,028)	(75,915)
	(647,776)	(411,683)
Net change in non cash working capital		
Accounts receivable	(162,723)	378,702
Prepaid expenses	38,284	24,531
Accounts payable and accruals	111,093	(126,947)
	(661,122)	(135,397)
Investing Activities		
Additions to oil and gas properties	(860,422)	(4,148,712)
Other assets	-	(11,918)
Net change in non cash working capital		
Accounts receivable	23,045	195,500
Accounts payable and accruals	(3,565,735)	(7,242,683)
	(4,403,112)	(11,207,813)
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	(5,064,234)	(11,344,470)
Cash and cash equivalents, beginning of period	8,716,278	18,119,752
Cash and cash equivalents, end of period	\$ 3,652,044	\$ 6,775,282
Supplemental disclosure:		
Interest received	\$ 7,277	\$ 101,297

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2010 (unaudited), as at December 31, 2009

1. Nature of operations 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 one to two years.

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 reducing ability to complete equity and debt financings. These matters cast doubt on the ability of the Company to continue to meet its obligations. As at March 31, 2010 the Company had working capital of \$3.5 million and no debt which will be sufficient to fund pilot operations, general and administration expenses and retain all oil and gas assets for the next twelve months.

2. 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, 2009 except as noted. These financial statements should be read in conjunction with the audited year-end financial statements for North Peace Energy Corp.

3. Cash and cash equivalents

Included in cash and cash equivalents is a redeemable term variable rate deposit totaling \$3,923,918 which currently bears interest at 0.25% and matures on June 23, 2010. 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, 2010 (unaudited), as at December 31, 2009

4. Oil and gas properties

(Cdn \$)	March 31, 2010	December 31, 2009
Red Earth Assets		
Oil and gas interests	\$ 46,848,043	\$ 46,752,135
Pilot facilities		
Equipment and construction	16,255,708	16,255,708
Startup costs	185,459	185,459
Capitalized operations	2,822,106	2,551,306
Accumulated DD&A	(341,688)	(272,506)
Conventional Assets		
Oil and gas interests	4,084,272	3,515,648
Accumulated DD&A	(59,204)	-
	\$ 69,794,696	\$ 68,987,750

The Company is advancing a Cyclic Steam Stimulation (“CSS”) project on its Red Earth land holdings. A pilot project consisting initially of two horizontal CSS wells has been built and is currently operating. At March 31, 2010, the Company has no proved or probable reserves on its Red Earth lands. Accordingly, no provision for depletion expense has been made.

In 2009, the company drilled five conventional wells outside of the Red Earth area as part of its exploration program, these wells results in booked reserves as at December 31, 2009 and depletion commenced on these wells starting January 1, 2010.

A recovery for Stock-based compensation costs of \$1,476 was capitalized during the three months ended March 31, 2010 (2009 – \$95,391). Deposits with the Energy Resources and Conservation Board of \$497,494 (2009 – \$497,494) were included in oil and gas properties as at March 31, 2010.

5. 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, 2010	December 31, 2009
Asset retirement obligations, beginning of period	\$ 611,209	\$ 442,303
Increase in liabilities	-	141,160
Accretion	13,154	40,791
Change in estimates	7,664	(13,045)
Asset retirement obligations, end of period	\$ 632,027	\$ 611,209
Current portion	\$ 179,703	\$ 161,940

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2010 (unaudited), as at December 31, 2009

5. Asset retirement obligations (continued)

The total undiscounted amount of cash flows required to settle the obligations as measured at March 31, 2010 is estimated to be \$1,470,248 (2009 - \$1,470,248). 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 10% (2009 - 10%) and the estimated inflation rate used to project future costs was 2% (2009 - 2%).

6. 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, 2008	55,070,800	\$ 64,158,452
Equity financing	21,109,000	9,921,230
Share issue costs	-	(831,720)
Tax effect of share issue costs	-	207,930
Tax effect of flow through shares	-	(1,500,000)
Balance December 31, 2009 and March 31, 2010	76,179,800	\$ 71,955,892

	Number of Warrants	Amount
\$0.75 Share Purchase Warrants (ii)		
Balance December 31, 2008	-	\$ -
Equity financing	10,554,500	1,688,720
Balance December 31, 2009 and March 31, 2010	10,554,500	1,688,720

\$2.00 Share Purchase Warrants

Balance December 31, 2008 & December 31, 2009	6,666,650	\$ 2,999,993
Expiry (i)	(6,666,650)	(2,999,993)
Balance March 31, 2010	-	\$ -

Total Equity Instruments		\$ 73,644,612
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NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2010 (unaudited), as at December 31, 2009

6. Share Capital (continued)

(b) Issued (continued)

- i. On February 7, 2010, the purchase warrants that entitled the holder to acquire one common share at an exercise price of \$2.00 expired unexercised.
- ii. The \$0.75 purchase warrants expire on December 23, 2010.

(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, 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, December 31, 2009 and March 31, 2010	6,065,000	\$ 0.28 – 2.62	\$ 1.11

No stock options were issued in the three months ended March 31, 2010. The average fair value of the options granted during 2009 was \$0.33 per option assuming an average volatility of 80% on the underlying shares, a weighted average exercise price of \$0.54, a risk-free interest rate of 2.11% – 2.23%, an expected life of 4 years, and an expected dividend rate of nil.

The majority of the options vest 1/3 per year on the first, second and third anniversary of the date of the grant. Options issued to consultants vest at equal amounts at 6 months, 18 months and 30 months after the date of grant. All options expire 5 years after the initial grant date.

The following table sets forth information about stock options outstanding as at March 31, 2010.

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	3.89	16,667	\$0.28
\$0.51 – \$1.00	3,520,000	\$0.69	3.30	1,145,000	\$0.99
\$1.01 – \$2.00	2,095,000	\$1.53	3.17	863,333	\$1.58
\$2.00 – \$3.00	400,000	\$2.62	2.17	283,333	\$2.62
	6,065,000	\$1.11	3.19	2,308,333	\$1.41

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2010 (unaudited), as at December 31, 2009

6. Share Capital (continued)

(d) Performance Warrants

	Number of Warrants	Exercise Price
Balance, December 31, 2008	6,300,000	\$ 0.50
Balance, December 31, 2009 and March 31, 2010	6,300,000	\$ 0.50
Exercisable, March 31, 2010	-	\$ -

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 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 March 31, 2010 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 9 months.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2010 (unaudited), as at December 31, 2009

7. Contributed surplus

(Cdn \$)	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 4,042,103	\$ 2,813,922
Expiry of \$2.00 purchase warrants	2,999,993	-
Stock-based compensation		
Expensed	280,006	1,144,826
Capitalized	36,021	165,039
Decrease/Increase in fair value of non-employee options		
Expensed	(15,285)	(12,036)
Capitalized	(37,497)	(69,648)
Balance, end of Period	\$ 7,305,341	\$ 4,042,103

8. Related party transactions

As at March 31, 2010, the Company has accrued legal costs of \$87,772 (2009 - \$125,000) payable to a firm in which a director is a partner. All related party transactions are in the normal course of operations. Related party transactions entered into by the Company have been measured at the exchange amount established and agreed to by the related parties.

9. Commitments

As at March 31, 2010, the Company was committed under a lease for office premises, requiring future minimum rental payments of \$192,864 per annum (2009 - \$192,864), expiring December 31, 2011.

10. Financial instruments

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. At March 31, 2010, the Company's accounts receivable relates to interest income and GST refunds. The amount outstanding is the Company's maximum credit exposure. All outstanding accounts receivable are less than 30 days old.

The term deposits are fully redeemable, without penalty, 30 days after the date of investment and therefore classified as cash and cash equivalents. When applicable, the Company manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure, as far as possible, a stable return. The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at March 31, 2010 (unaudited), as at December 31, 2009

10. Financial instruments (continued)

Liquidity risk

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

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 or complete projects capital expenditures during 2010 or undertake expanded operations in 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.

11. Loss per Share

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

	Three months ended March 31,	
	2010	2009
Net Loss (Cdn \$)	812,709	658,380
Weighted average number of shares outstanding	76,179,800	55,070,800
Basic loss per share	0.011	0.012
Diluted loss per share	0.011	0.012

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.