



North Peace Energy Updates Operational Progress and Provides Q3 Financial Results

Calgary, Alberta, November 25, 2009 North Peace Energy Corp. (“North Peace” or the “Company”) releases operating and financial results for the three and nine months ended September 30, 2009.

About North Peace Energy

North Peace has an early stage in-situ oil sands play in northern Alberta with an estimated 2 to 3.1 billion barrels of Discovered Petroleum Initially-In-Place. The Company has a 100% working interest in 86,400 acres of Crown oil sands leases at Red Earth 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 (86,400 acres) with oil bearing thickness ranging for 10 to 16 metres, 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 has been producing since May 2009.

Financial Update:

- Working capital of \$13.2 million and no debt as at September 30, 2009
- Capital expenditures of \$699,780 in the third quarter
- Planned capital expenditures of \$7.5 million in the fourth quarter of 2009

Corporate Update

- Front-end engineering has been completed on a 3,000 bbl/d pilot expansion. This is the first step of a potential 30,000 bbl/d commercial development
- Investigating potential joint venture partners on the Red Earth asset to secure additional capital

Delineation Update

- The delineation program focused in Block B South is now underway; drilling commenced in November
 - Eight vertical delineation wells are planned with additional contingent locations identified
- This round of delineation combined with existing delineation is expected to be sufficient to advance a commercial project

CSS Pilot Project Results:

North Peace’s CSS pilot is the first thermal recovery project in the Red Earth area and has now been producing bitumen continuously for seven months. At this early stage of operations, the piloting efforts have not yet demonstrated the production rates and Steam to Oil Ratios (“SOR”) required to advance full commercial development. Although initial results are encouraging, as expected several cycles will be required to demonstrate commerciality. In order to maximize production rates and reduce SORs, the Company is currently optimizing steaming strategies and is also investigating the use of alternate well types and configurations.

The L1 well has completed its first cycle

- Total cycle length of nine months: steam injection of three months and production of six months
- Cumulative oil production of 9,500 bbls
 - Peak oil production of 200 bbl/d, with average oil rates of 35 bbl/d over the cycle
 - Average oil cuts of 38%
- End of cycle SOR of 8.0 with an average 69% quality steam injected
 - Adjusted for heat content, this equates to an SOR of 6.8 in Steam Assisted Gravity Drainage (“SAGD”) projects where 100% quality steam is required
- Oil production at temperatures as low as approximately 20°C
- Average bitumen sales price of \$49.16/bbl, total sales of \$467,020
 - Gas purchases of 25,200 mcf at an average price of \$5.32/mcf for a total gas cost of \$134,064
- Indications are that minimal fracturing has occurred at the regulated injection pressure limitation
- Temperature logs show steam injected into the reservoir was concentrated at the toe of the well

The L1 well is now in its second cycle

- Steam injection commenced in October and was completed in mid November
- This steam slug size was smaller than the first cycle’s steam slug in an attempt to minimize SOR’s by keeping the injected heat closer to the well
- This cycle focused steam at the heel of the well in an effort to more evenly distribute the steam over the horizontal length of the well
- Production is expected to commence in December 2009

Production update on the L2 well

- The well has been producing for three months
- Peak oil production of 150 bbl/d was reached early in the cycle and has gradually declined to the current rate of 20 bbl/d
- Oil cuts have remained in the 5% - 15% range
- Similar to the L1 well, produced oil quality is as expected and no discernable sand production
- At this stage of production it is too early to determine full cycle SORs and production rates
 - This information will be provided at the end of the cycle

Operations Strategy Update

Data collected from the pilot is being used to optimize the commercial strategy. To accomplish this, the pilot needs to be operated for multiple cycles.

Operational information learned to date

- Steam injection rates are lower than anticipated
 - As a result, increased injection pressure limits may be required or modified steaming strategies will need to be developed
- First cycle production rates were lower than expected, resulting in higher SORs
 - As a result, we need to optimize steaming and production strategies and may need to consider additional pilot strategies
- Oil is nearly mobile at reservoir conditions
 - L1 well produced at temperatures significantly lower than expected

- Bitumen produced is of high quality as predicted
 - 10° API and 90,000 – 200,000 centipoises at 16°C
 - Water separation from the produced emulsion is easier than expected, which may be beneficial in commercial operations
- No discernable sand production
 - The current sand control strategy is sufficient

Future plans to further define operating strategy and maximize existing facility utilization

- Optimization Strategies
 - Target the steam injection at different areas along the horizontal well to achieve more uniform heat distribution in the reservoir
 - Vary steam injection rates, volumes and pressures to reduce SORs
 - Gather fracture orientation information on a vertical delineation well to help determine the orientation of commercial horizontal wells
- Additional Pilot Strategies under consideration (if optimization strategies do not meet expectations)
 - Convert L1 to a continuous injection and production process by converting its two vertical observation wells to steam injectors
 - Perform a CSS test on a vertical well
 - Enhance injectivity in wells with the use of radial drilling technology
 - Drill an additional horizontal well and perform a multi-stage fracture stimulation prior to steaming
 - Drill two additional horizontal wells to bound one of the existing horizontals in order to simulate a commercial well pad layout
 - Test the potential for high pressure SAGD recovery by converting an existing horizontal well to a well pair

Once we have optimized our strategy for commercial operations the detailed design of the commercial project will be finalized and the commercial application will be submitted.

Louis Dufresne, President of North Peace, commented “North Peace has remained focused and has executed; our pilot project has been on production since May. This simple but robust and cost-effective pilot facility is capturing the right data to develop an optimal commercial operations strategy. There is significant resource value waiting to be unlocked on our lands and our piloting efforts are a significant step towards realizing this value”

Updated Corporate Presentation

Available on the Company’s website at:

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

Conference Call

North Peace has scheduled a conference call to discuss the pilot project operations and recent corporate developments. The call is set for 9 a.m. Mountain Standard Time (11 a.m. Eastern Standard Time) on Thursday, November 26, 2009. To participate, please call 647-427-7450 or 1-888-231-8191. A discussion by Louis Dufresne, President & CEO of North Peace will be followed by a question and answer period. If you are unable to participate, a taped broadcast will be available until November 30, 2009. To access the replay, dial 416-849-0833 or 1-800-642-1687. The pass code is 42387828.

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Management's Discussion and Analysis of Financial Results

This Management's Discussion and Analysis (MD&A) for North Peace Energy Corp. ("North Peace" or the "Company") provides analysis of the Company's financial results for the three and nine month periods ended September 30, 2009. The following information should be read in conjunction with the unaudited interim financial statements for the three and nine months ended September 30, 2009 and the audited financial statements for the year ended December 31, 2008. See also "Forward looking Statements" below.

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

Date of Report November 25, 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 at Red Earth 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 (86,400 acres) with oil bearing thickness ranging for 10 to 16 metres, 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 has been producing since May 2009.

North Peace continues to advance its 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 September 30, 2009 North Peace has completed the following significant milestones:

- Capital expenditures of \$699,780 million during the quarter
- Oil Sales of \$332,649 for the three months ended September 30, 2009

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

- As at November 25, 2009, \$2 million has been spent towards the flow through commitment of \$6 million
 - The delineation program of approximately \$2.5 – \$3.0 million is now underway on our own lands
 - The remaining \$1.0 – \$1.5 million of flow through expenditures is being spent on other exploration locations prior to December 31, 2009

Financial Results

Quarterly Financial Information

	2009 Q3(\$)	2009 Q2(\$)	2009 Q1(\$)	2008 Q4(\$)	2008 Q3(\$)	2008 Q2(\$)	2008 Q1(\$)	2007 Q4(\$)
Revenues	8,191	4,099	26,752	150,963	120,028	39,045	87,905	117,197
Net Loss and Comprehensive loss Basic and diluted Net Loss Per share	640,129	695,369	658,380	30,100	571,983	486,924	399,290	448,481
	0.008	0.012	0.012	0.001	0.012	0.013	0.010	0.012

Results of Operations

Interest Income

	2009		2008	Nine months ended September 30,	
	Q3	Q2	Q3	2009	2008
Interest Income	8,191	4,099	120,028	39,042	246,978

Interest income for the three months ended September 30, 2009 was \$8,191 compared to \$39,042 for the same period in 2008 the decrease is due to lower amounts of cash on deposit following the completion of pilot construction coupled with lower interest rates. Interest income for the nine months ended September 30, 2009 was \$39,042 compared to \$246,978 from the same period in 2008 the decrease is due to interest rates which fell from 2.00% to 0.25%. The increase from the second quarter of 2009 is due to the increased cash on deposit following the equity financing completed in June 2009.

Stock-based Compensation

	2009		2008	Nine months ended September 30,	
	Q3	Q2	Q3	2009	2008
Stock-based Compensation	291,644	294,031	217,161	890,545	534,188

Stock-based compensation was \$291,644 for the three months ended September 30, 2009. The increase from the same period last year and in the year to date numbers is due to 2009 stock option grants. In addition, \$117,983 related to stock based compensation was capitalized during the nine month period relating to consultants working directly on the capital program and pilot project.

The average fair value of the options granted during the nine month ended September 31, 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	Nine months ended September 30,	
	Q3	Q2	Q3	2009	2008
G&A expense					
Salaries, Benefits and Consulting Fees	222,365	217,369	277,432	641,329	634,792
Legal, Accounting and Audit Fees	7,000	57,367	47,232	36,435	89,980
Office rent	64,891	64,282	27,578	194,064	82,174
Other G&A	163,283	165,667	112,017	413,831	333,314
Administrative Expenses	457,539	504,685	464,259	1,285,659	1,140,260

Salaries, Benefits and Consulting Fees

Salaries, benefits and consulting fees for the three months ended September 30, 2009 were \$222,365 compared to \$277,432 for the same period in 2008 the decrease is due to reduced consulting fees in 2009 as pilot construction was beginning in the third quarter 2008. Salaries, benefits and consulting fees for the nine months ended September 30, 2009 was \$641,329 compared to \$634,792 the increase from the same period in 2008 is due salary increases from 2008. The salaries, benefits and consulting fees are consistent with the second quarter in 2009.

Legal, Accounting and Audit Fees

Legal, accounting and audit fees for the three months ended September 30, 2009 were \$7,000 compared to \$47,232 for the same period in 2008 the decrease is due to reduced legal costs as no corporate legal work was completed during the quarter. Legal, accounting and audit fees for the nine months ended September 30, 2009 were \$36,435 compared to \$89,980 the decrease from the same period in 2008 is due reduced corporate legal working in 2009. Legal, accounting and audit fees decreased from the second quarter in 2009 due to is due to additional legal work during the second quarter related to the year-end regulatory filings completed that quarter.

Office Rent

Office rent has increased from the three month period and nine month period in the previous year because the Company relocated to larger office space on January 1, 2009. Office rent for the quarter is consistent with the second quarter 2009.

Depreciation and Accretion

	2009		2008	Nine months ended September 30,	
	Q3	Q2	Q3	2009	2008
Depletion, Depreciation and Accretion	18,110	17,780	10,591	53,632	30,727

The increase in depletion, depreciation and accretion increased from the three month period and nine month period in the previous year is due to the construction of the pilot project with its subsequent depreciation, from additional depreciation expense on other assets and increased accretion expense from new asset retirement obligations on the horizontal wells and the pilot project.

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. 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	Nine months ended September 30,	
	Q3	Q2	Q3	2009	2008
Production (bbls/day)	91	62	-	51	-
Average sales price (CDN\$/bbl)	47.13	53.33	-	49.16	-
Revenue	332,649	218,499	-	531,148	-
Operating Costs & Royalties	(634,119)	(838,490)	-	(1,811,133)	-
Net operating revenues	(301,470)	(619,991)	-	(1,279,985)	-

Liquidity and Capital Resources

As at September 30, 2009 the Company had working capital of \$13.2 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 \$2.5 to \$3.0 million of the drilling budget on 8 delineation wells (with additional locations identified) in the Red Earth area. The Red Earth delineation program commenced in November 2009. The remaining drilling capital will be allocated to other exploration locations to be determined during the fourth quarter. As at November 25, 2009 \$4.5 million has been spent as part of this exploration program. Current working capital is sufficient to fund this capital budget, pilot operations and G&A for 2009/2010.

Commitments

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

(Cdn \$)	
2009	48,216
2010	192,864
2011	192,864
Thereafter	Nil

The office lease expires 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 September 30, 2009 the Company had spent approximately \$540,000 on CEE towards this commitment.

Capital Expenditures

	2009		2008	Nine months ended September 30,	
	Q3	Q2	Q3	2009	2008
Land & Lease Rentals	96,764	8,512	56,356	180,260	196,961
Drilling and Completion	232,061	230,466	2,253,696	688,707	5,834,649
Geological Costs	35,031	41,845	13,301	91,502	69,601
Pilot Facilities					
Construction, equipment and engineering	-	691,392	4,123,684	3,923,060	7,208,080
Capitalized plant overhead and operations	301,470	548,295	-	1,259,986	-
Other	34,454	181,314	97,204	406,800	189,246
Total	699,780	1,701,824	6,544,231	6,550,315	13,498,537

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 \$1,259,986 for pilot operations in the nine months ended September 30, 2009.

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

Additional Disclosure for Venture Issuers without Significant Revenues

As at September 30, 2009, 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 September 30, 2009:

	September 30, 2009
Common shares outstanding	76,179,800
Weighted average number of shares outstanding during the period	62,725,712
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 November 24, 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 September 30, 2009, the Company accrued legal costs of \$70,000 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)

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for on December 31, 2009.

Financial Instruments and Other Instruments

The Company's carrying value of cash and cash equivalents, accounts receivable and accounts payable and accruals approximates its fair value due to the immediate or short-term maturity of these instruments.

Risks and Uncertainties

North Peace is exposed to operational and regulatory risks and uncertainties in the normal course of business that can influence its future financial performance. A summary of certain of these risks is set out below under "Forward-Looking Statements". Readers are cautioned that these descriptions are not exhaustive. Certain additional risks and uncertainties are discussed below.

Liquidity Risk

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

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.

Capital Markets

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. However, capital market conditions 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. 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's 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.

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 2009, the Company has been focused on pilot operations. The data collected from the pilot will be used in evaluating the feasibility of future commercial operations and be used to design any future commercial development.

In the fourth quarter of 2009, the Company plans to spend \$2.5 to \$3.0 million of its drilling budget on 8 delineation wells (with additional locations identified) in the Red Earth area. \$2.0 to \$2.5 million of drilling capital will be allocated to other exploration locations.

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 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 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 Petroleum Initially-In-Place; estimates of recovery factors; lack of diversification; and overall technical and economic feasibility of the Company's project. These statements speak only as of the date of this MD&A or as of the date specified in the documents accompanying this MD&A, as the case may be.

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

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Balance Sheets, as at
(unaudited)

	September 30, 2009	December 31, 2008
<hr/> (Cdn \$) <hr/>		
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 13,404,841	\$ 18,119,752
Accounts receivable	288,974	922,537
Prepaid expenses	139,858	86,290
	<hr/> 13,833,673	19,128,579
Oil and gas properties (note 5)	61,639,964	54,875,482
Other assets	40,029	48,097
Future income tax asset	-	557,477
	<hr/> \$ 75,513,666	\$ 74,609,635
<hr/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accruals	\$ 641,880	\$ 8,788,438
Asset retirement obligations (note 6)	530,077	442,303
Future income tax liability	452,197	-
	<hr/> 1,624,154	9,230,741
<hr/>		
Shareholders' equity		
Equity Instruments (note 7)	76,654,413	67,158,445
Contributed surplus (note 8)	3,822,450	2,813,922
Deficit	(6,587,351)	(4,593,473)
	<hr/> 73,889,512	65,378,894
	<hr/> \$ 75,513,666	\$ 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue				
Interest Income	\$ 8,191	\$ 120,028	\$ 39,042	\$ 246,978
	8,191	120,028	39,042	246,978
Operating expenses				
General and administrative	457,539	464,259	1,400,659	1,140,260
Stock-based compensation	291,644	217,161	890,545	534,188
Depletion, depreciation and accretion	18,110	10,591	53,632	30,727
	767,293	692,011	2,344,836	1,705,175
Net Loss before taxes	\$ 759,102	\$ 571,983	\$ 2,305,794	\$ 1,458,197
Future Income Tax reduction	(118,973)	-	(311,916)	-
Net Loss and Comprehensive Loss	640,129	571,983	1,993,878	1,458,197
Deficit at beginning of period	5,947,222	3,991,390	4,593,473	3,105,176
Deficit at end of period	\$ 6,587,351	\$ 4,563,373	\$ 6,587,351	\$ 4,563,373
Net Loss per share (note 11)				
Basic and Diluted	\$ 0.008	\$ 0.012	\$ 0.032	\$ 0.035

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Statements of Cash Flows
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating Activities				
Net Loss	\$ (640,129)	\$ (571,983)	\$ (1,993,878)	\$ (1,458,197)
Non-cash charges to earnings				
Depletion, depreciation and accretion	18,110	10,591	53,632	30,727
Stock-based compensation	291,644	217,161	890,545	534,188
Future income tax reduction	(118,973)	-	(311,916)	-
	(449,348)	(344,231)	(1,361,617)	(893,282)
Net change in non cash working capital				
Accounts receivable	85,285	(186,679)	610,566	23,791
Prepaid expenses	(102,688)	(57,346)	(53,568)	(58,589)
Accounts payable and accruals	47,703	47,065	(52,230)	(29,569)
	(419,048)	(541,191)	(856,849)	(957,649)
Investing Activities				
Additions to oil and gas properties	(699,780)	(6,544,231)	(6,550,315)	(13,498,538)
Other assets	(2,729)	(4,854)	(14,646)	(13,366)
Net change in non cash working capital				
Accounts receivable	56,921	-	22,997	(124,049)
Accounts payable and accruals	(359,318)	3,835,383	(8,184,574)	5,841,694
	(1,004,906)	(2,713,702)	(14,726,538)	(7,794,259)
Financing Activities				
Proceeds on issue of common shares, net of share issue costs	(2,940)	24,226,918	10,778,230	24,277,418
Net change in non cash working capital				
Accounts payable and accruals	3,641	80,000	90,246	80,000
	701	24,306,918	10,868,476	24,357,418
Increase (Decrease) in cash and cash equivalents	(1,423,253)	21,052,025	(4,714,911)	15,605,510
Cash and cash equivalents, beginning of period	14,828,094	4,517,878	18,119,752	9,964,393
Cash and cash equivalents, end of period	\$ 13,404,841	\$ 25,569,903	\$ 13,404,841	\$ 25,569,903
Supplemental disclosure:				
Interest received	\$ 44,104	\$ 12,930	\$ 194,777	\$ 321,481

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended September 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 September 30, 2009 the Company had working capital of \$13.2 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 September 30, 2009 the Company had spent approximately \$540,000 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 September 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.

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for on December 31, 2009.

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

3. Basis of presentation

These interim financial statements have been prepared following the same accounting policies and methods used in the financial statements for the year ended December 31, 2008 except as noted. These financial statements should be read in conjunction with the audited year-end financial statements for North Peace Energy Corp.

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

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

4. Cash and cash equivalents

Included in cash and cash equivalents is a redeemable term variable rate deposit totaling \$11 million 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 are therefore classified as cash and cash equivalents.

5. Oil and gas properties

(Cdn \$)	September 30, 2009	December 31, 2008
Oil and gas interests	\$ 43,269,455	\$ 42,442,785
Pilot Project		
Equipment and construction	16,401,285	12,432,697
Startup costs	183,416	-
Capitalized operations	1,785,807	-
	\$ 61,639,963	\$ 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 September 30, 2009, the Company has no economic reserves or commercial production. Accordingly, no provision for depletion expense has been made.

Stock-based compensation recovery for consultants of \$40,812 was capitalized during the nine months ended September 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 September 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 \$)	September 30, 2009	December 31, 2008
Asset retirement obligations, beginning of period	\$ 442,303	\$ 215,820
Additions	64,506	212,296
Accretion	30,918	17,120
Change in estimates	(7,650)	(2,933)
Asset retirement obligations, end of period	\$ 530,077	\$ 442,303

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

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

6. Asset retirement obligations (continued)

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

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)	-		(831,720)
Tax effect of share issue costs	-		217,738
Tax effect of flow through shares	-		(1,500,000)
Balance September 30, 2009	76,179,800	\$	71,437,975
	Number of Warrants		Amount
\$0.75 Share Purchase Warrants			
Balance December 31, 2008	-	\$	-
Equity financing (iii)	10,554,500		2,216,445
Balance September 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 September 30, 2009	6,666,650	\$	2,999,993
Total Equity Instruments		\$	76,654,413

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended September 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 nil.

- 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 nil.

- 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, September 30, 2009	6,065,000	\$ 0.28 – 2.62	\$ 1.11

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended September 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 nil (2008 - nil).

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 expense of \$890,545 during the nine months ended September 30, 2009 and \$117,983 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 became exercisable when the Company's previously announced cyclic steam pilot project demonstrated 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 September 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	4.39	16,667	\$0.28
\$0.51 – \$1.00	3,520,000	\$0.70	2.17	790,000	\$1.00
\$1.01 – \$2.00	2,095,000	\$1.53	3.67	836,666	\$1.58
\$2.00 – \$3.00	400,000	\$2.62	2.67	266,667	\$2.62
	6,065,000	\$1.11	2.74	1,910,000	\$1.47

(d) Performance Warrants

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

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

As at and for the periods ended September 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 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 September 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 1.25 years.

8. Contributed surplus

(Cdn \$)	September 30, 2009	December 31, 2008
Balance, beginning of period	\$ 2,813,922	\$ 2,131,653
Stock-based compensation		
Expensed	852,547	794,233
Capitalized	99,731	183,983
Increase/(Decrease) in fair value of non-employee options		
Expensed	37,998	(18,100)
Capitalized	18,252	(277,847)
Balance, end of period	\$ 3,822,450	\$ 2,813,922

NORTH PEACE ENERGY CORP.

(A Development Stage Company)

Notes to Financial Statements

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

9. Related party transactions

As at September 30, 2009, the Company accrued legal costs of \$70,000 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 September 30, 2009 the Company had spent approximately \$540,000 of CEE towards this commitment.

11. Loss per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net loss (Cdn \$)	\$ (640,129)	\$ (571,983)	\$ (1,993,878)	\$ (1,458,197)
Weighted average number of shares outstanding	76,179,800	49,414,247	62,725,712	41,844,120
Basic loss per share	\$ 0.008	\$ 0.012	\$ 0.032	\$ 0.035
Diluted loss per share	\$ 0.008	\$ 0.012	\$ 0.032	\$ 0.035

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.