SOUTHERN PACIFIC
RESOURCE CORP.

Management's Discussion and Analysis for the Three and Twelve Months ended June 30, 2014

This Management's Discussion and Analysis ("MD&A) for Southern Pacific Resource Corp. ("Southern Pacific" or the "Company") is dated September 25, 2014, and should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended June 30, 2014. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The terms "2014" and "2013" are used throughout this document and refer to the fiscal years ended June 30, 2014 and 2013, respectively.

Please refer to the Advisory section of the MD&A which provides information on Non-GAAP measures and Forward-Looking Statements. Additional information relating to Southern Pacific can be found on SEDAR at www.sedar.com and on Southern Pacific's website at www.shpacific.com.

OVERVIEW

Southern Pacific Resource Corp. is engaged in the thermal production of heavy oil in Senlac, Saskatchewan on a property known as STP-Senlac, thermal production of bitumen on a property located in the Athabasca region of Alberta known as STP-McKay and in the exploration for and development of in-situ oil sands in the Athabasca region of Alberta. The Company's head office is located in Calgary, Alberta, Canada. Southern Pacific's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "STP".

In November 2009 the Company acquired its STP-Senlac thermal property in west central Saskatchewan for $89.7 million. Since the acquisition, this property has produced an average of 3,362 barrels per day of heavy oil and contributed approximately $237 million in net operating income to June 30, 2014. The STP-Senlac property provides significant operating income to the Company while it focuses on development of its STP-McKay oil sands property.

Southern Pacific's STP-McKay property consists of oil sands leases totaling 37,760 acres (100% working interest), which have been independently assessed to contain 263 million barrels (MMbbls) of proved plus probable reserves plus 102 MMbbls of best estimate contingent resources as at June 30, 2014. The Company is currently focused on the ongoing development and production ramp-up of the STP-McKay in-situ project. Since inception, the Company has drilled 101 evaluation wells, a total of 12 steam assisted gravity drainage ("SAGD") well pairs, plus completed a central processing facility for a total investment of approximately $468 million, within 4% of original budget. Bitumen production from the STP-McKay project commenced October 2012 and achieved commerciality on July 1, 2013.

The Company holds 366 sections (321 net sections) of oil sands leases with an 89% working interest (205,880 net acres). These properties have 411 MMbbls of best estimate contingent resource for future exploration and development.

HIGHLIGHTS:

- Total Company production, which includes bitumen production from STP-McKay Phase 1 and heavy oil from STP-Senlac, averaged 4,173 barrels per day ("bbl/d") for the year ended June 30, 2014;
- The Company raised $150 million under a first lien term loan replacing the previous $100 million revolving credit facility on March 31, 2014, increasing liquidity extending maturity date enabling the Company to implement its near-term development plans;
- The Company sold its interest in its non-core Leismer property for $18.8 million closing on September 24, 2013; and

- The Company's updated reserves report, dated June 30, 2014, shows minimal changes to the reserves year over year, estimating proved plus probable volumes of 274 million barrels of oil equivalent with a net present value (discounted 10%) of $1.2 billion before tax. This compares with estimated proved plus probable volumes of 276 billion barrels in 2013 with a value of $1.5 billion.

OUTLOOK

Strategic Review

On December 11, 2013 Southern Pacific announced the initiation of a strategic review process ("SRP") aimed at identifying and considering all strategic and financial alternatives available to the Company. RBC Capital Markets were retained as a strategic advisor to Southern Pacific's Board of Directors throughout the SRP. In March 2014, as part of the SRP, the Company completed the addition of a new first lien debt facility, replacing the then existing facility which improved Southern Pacific's current liquidity. Other strategic alternatives aimed at maximizing stakeholder value were also explored. During the SRP, proposals were received and the SRP was extended longer than expected in order to fully explore the proposals. However, it was determined by the Company's Board of Directors that none of the proposals received were acceptable. It was further concluded that the current best alternative for all stakeholders is to continue with the development of the Company's existing assets, initially focused on increasing production rates at STP-McKay.

With the strategic process concluded, Southern Pacific has refocused its plans in the near term onto maximizing the throughput and value of the existing projects at Senlac and McKay. Longer term plans have been suspended until the Company is satisfied it is meeting its short term objectives.

STP-McKay Thermal Project

Improving STP-McKay's production rates and reducing operating costs will be the focus of the Company over the near term. Production rate improvement is the focus of a five well pair workover program which commenced in late August. The Company plans to install Inflow Control Devices ("ICD's") into four well pairs and a steam splitter into the injector of a fifth well pair. All of the planned workovers affect well pairs that have been rate restricted or shut-in throughout the SRP, in order to manage steam short circuits and protect the well pairs integrity prior to running the ICDs. The program is currently underway and is expected to be completed around the end of October. Once the fall program is completed, the Company expects to have installed ICDs into seven of its 12 well pairs. Pending results from those installations, an additional three well pairs may be equipped with ICDs later in the year. There are two well pairs that are not expected to require ICD installations; one has developed good conformance without ICDs and the other well pair will have a steam splitter installed in the injector as the method to improve conformance.

Earlier in 2014, Southern Pacific had successfully completed three workovers on its SAGD well pairs at STP-McKay, which involved ICDs into the existing producers of the well pairs (refer to press releases dated March 17 and June 17, 2014).

The ICD system is intended to improve wellbore conformance in a two part process. First, the horizontal producer length is segmented with isolation packers and second, the ICD devices are installed into the segments and are designed to restrict the inflow of steam from reservoir short circuits, thus promoting conformance in other sections of the wellbore. This allows production to

occur with less rate restriction on the entire well pair. The success of these ICDs is apparent as data is collected. To date, the Company has been pleased with the performance of the ICDs and with the configurations installed, has been able to improve well bore conformance and operate the well pairs with a reduced risk of steam short circuits damaging wellbore integrity.

Southern Pacific also has received regulatory approval to downspace the existing McKay well pads with additional SAGD well pairs. As first mentioned in the Company's December 11, 2013 press release, the Company believes additional well pairs will be required in order to fully utilize the available steam capacity at STP-McKay. Southern Pacific believes the most prudent strategy is to add them between the existing well pairs, which were originally spaced 100 m apart, allowing ample room for additional well pairs to be drilled. Southern Pacific filed its application with the Alberta Energy Regulator ("AER") to downspace Pads 101 and 102 in February 2014 and received approval in July 2014. The total Pad 102 downspace project cost is estimated at $51 million. This project's timing has also been affected by the Company's SRP. A revised timing estimate of first steam to the downspaced wells on Pad 102 would be mid 2015 or later, and this is dependent upon the Company obtaining sufficient liquidity to proceed with this project.

STP-Senlac Thermal Project

At STP-Senlac, the Company has full regulatory approval to drill the next pad of three well pairs, Phase L, at an estimated remaining cost of $18.8 million. The timing of initiating this project has also been delayed as a result of the SRP and the timing of the drilling will be dependent upon confirming the results of the ICD installations at STP-McKay as increasing volumes at STP-McKay is the near term focus for the Company. If the ICD results are as expected, and with approvals in place, Phase L drilling could commence on short notice, but the final timing has not been determined.

RESULTS OF OPERATIONS

Production Volumes

	Three Months Ended June 30,			Twelve Months Ended June 30,		
(bbl/day)	**2014**	2013	Change	**2014**	2013	Change
Heavy oil production	**1,661**	2,957	(44%)	**2,230**	2,778	(20%)
Bitumen production [(1)]	**2,035**	-	-	**1,943**	-	-
Total production	**3,696**	2,957	25%	**4,173**	2,778	50%

(1) Bitumen produced at oil sands projects is mixed with diluent and sold as "dilbit". Diluent volumes have been deducted in calculating bitumen production volumes.

Heavy oil production at STP-Senlac for the three months ended June 30, 2014 averaged 1,661 bbl/day, a decrease of 44% over the same period in 2013. For the twelve months ended June 30, 2014 heavy oil production averaged 2,230 bbl/day, a 20% decrease from the same period in 2013. The decrease in heavy oil production for the three and twelve months ended June 30, 2014 is due to natural declines and delays in drilling Phase L due to the strategic process.

Bitumen production from STP-McKay for the three and twelve months ended June 30, 2014 averaged 2,035 bbl/day and 1,943 bbl/day, respectively. Bitumen production from the STP-McKay project commenced October 2012. Initial sales, royalties and expenses were capitalized during the start up phase of the project. Effective July 1, 2013 the project achieved commerciality. The related sales, royalties, diluent, transportation, operating and interest

expenses together with depletion are now being recorded in the statement of comprehensive loss for the three and twelve months ending June 30, 2014.

Sales Volumes

(bbl/day)	Three Months Ended June 30, **2014**	2013	Change	Twelve Months Ended June 30, **2014**	2013	Change
Heavy oil sales	**1,661**	2,957	(44%)	**2,230**	2,778	(20%)
Realized bitumen sales [(1)]	**2,472**	-	-	**1,874**	-	-
Total sales volumes	**4,133**	2,957	40%	**4,104**	2,778	48%

(1) Bitumen produced at oil sands projects is mixed with diluent and sold as "dilbit". Diluent volumes have been deducted in calculating bitumen sales volumes.

At STP-Senlac, heavy oil sales volumes equal production volumes for the three and twelve months ended June 30, 2014.

At STP-McKay, bitumen is transported by truck and rail to Natchez, MS, which is one of the sales points for its bitumen. As a result, the Company records inventory until sales occur. For the three months ended June 30, 2014 sales volumes were 2,472 bbl/day compared to production volumes of 2,035 bbl/day. For the twelve months ended June 30, 2014 sales volumes were 1,874 bbl/day compared to production volumes of 1,943 bbl/day. The difference between the production and sales volumes for the three and twelve months ended June 30, 2014 is an adjustment to inventory balances.

Product Prices

($ per bbl)	Three Months Ended June 30, **2014**	2013	Change	Twelve Months Ended June 30, **2014**	2013	Change
Heavy oil	**83.14**	69.49	20%	**77.20**	60.73	27%
Realized bitumen [(1)]	**78.08**	-	-	**81.02**	-	-
Average price	**80.91**	69.49	16%	**80.04**	60.73	32%

(1) Actual realized bitumen price is calculated by deducting cost of the diluent from the dilbit sales price.

The 20% increase in the heavy oil price for the three months ended June 30, 2014 compared to the same period in 2013 is mainly attributable to the increase in the West Texas Intermediate ("WTI") price. For the twelve months ended June 30, 2014 the heavy oil price increased 27% compared to the same period in 2013 which is also mainly attributable to the increase in the WTI price.

The realized bitumen price for the three and twelve months ended June 30, 2014 was $78.08/bbl and $81.02/bbl, respectively. The bitumen price received is based off the Maya and Mars benchmark prices, depending on the marketing agreements, for the three and twelve months ended June 30, 2014.

Operating Netbacks

($ thousands)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Heavy oil and realized bitumen sales	**30,431**	18,699	63%	**119,877**	61,578	95%
Transportation	**(6,218)**	-	-	**(26,688)**	-	-
Royalties	**(3,348)**	(3,130)	7%	**(9,833)**	(10,580)	(7%)
Net heavy oil and bitumen revenues	**20,865**	15,569	34%	**83,356**	50,998	63%
Operating costs	**(17,785)**	(4,067)	337%	**(61,632)**	(15,333)	302%
Operating netback [(1)]	**3,080**	11,502	(73%)	**21,724**	35,665	(39%)

(1) Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The operating netback for the three months ended June 30, 2014 was $3.1 million, a 73% decrease compared to the three months ended June 30, 2013 of $11.5 million. The decrease is due to increased transportation and operating costs at STP-McKay offset by net bitumen revenue at STP-McKay. Approximately 15% of transportation costs and 70% of operating costs at STP-McKay are fixed in nature. As a result, operating netbacks will increase with increased production rates.

The operating netback for the twelve months ended June 30, 2014 was $21.7 million, a 39% decrease compared to $35.7 million for the twelve months ended June 30, 2013. The decrease is due to increased transportation and operating costs at STP-McKay offset by net bitumen revenue at STP-McKay.

($ per boe)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Heavy oil and realized bitumen sales	**80.91**	69.49	16%	**80.04**	60.73	32%
Transportation	**(16.53)**	-	-	**(17.82)**	-	-
Royalties	**(8.90)**	(11.63)	(23%)	**(6.57)**	(10.43)	(37%)
Net heavy oil and bitumen revenues	**55.48**	57.86	(4%)	**55.65**	50.30	11%
Operating costs	**(47.29)**	(15.11)	213%	**(41.15)**	(15.12)	172%
Operating netback [(1)]	**8.19**	42.75	(81%)	**14.50**	35.18	(59%)

(1) Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The operating netback per barrel for the three and twelve months ended June 30, 2014 decreased by 81% and 59%, respectively, over the same periods in the prior year. The decrease for the three and twelve months ended June 30, 2014 compared to the prior year is primarily related to higher transportation and operating costs per boe at STP-McKay offset by higher heavy oil and bitumen sales price and lower royalties per boe.

Petroleum Revenue

STP-McKay ($ thousands)	Three Months Ended June 30,			Twelve Months Ended June 30,		
	2014	2013[3]	Change	**2014**	2013[3]	Change
Realized bitumen revenue[1]	**17,867**	-	-	**57,071**	-	-
Diluent blended[2]	**8,321**	-	-	**25,239**	-	-
Dilbit (diluted bitumen) revenue	**26,188**	-	-	**82,310**	-	-

(1) Realized bitumen revenue is used to calculate realized bitumen price per barrel and operating netbacks.

(2) At STP-McKay purchased diluent was blended at a 21% volumetric rate with the produced bitumen for the three months ended June 30, 2014 and 22% volumetric rate for the twelve months ended June 30, 2014 as part of the production process in the oil sands and sold as "dilbit" blend product.

(3) Bitumen production from the STP-McKay project commenced October 2012. Initial sales, royalties and expenses were capitalized during the start up phase of the project. Effective July 1, 2013 the project achieved commerciality. The related sales, royalties, diluent, transportation, operating and interest expenses together with depletion are now being recorded in the statement of comprehensive loss for the three and twelve months ending June 30, 2014.

During the three and twelve months ended June 30, 2014, the Company's dilbit revenue was $26.2 million and $82.3 million, respectively. This is the fourth quarter for dilbit revenue from STP-McKay.

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Heavy oil revenue	**12,564**	18,699	(33%)	**62,806**	61,578	2%
Dilbit revenue	**26,188**	-	-	**82,310**	-	-
Petroleum revenue	**38,752**	18,699	107%	**145,116**	61,578	136%

The decrease in heavy oil revenue for the three months ended June 30, 2014 from STP-Senlac compared to the same period in 2013 is attributable to the 44% heavy oil production decrease, partially offset by a 20% heavy oil sales price increase. The increase in heavy oil revenue for the twelve months ended June 30, 2014 from STP-Senlac compared to the same period in 2013 is attributable to the 27% heavy oil sales price increase to $77.20/bbl compared to $60.73/bbl, partially offset by a 20% heavy oil production decrease.

The total petroleum revenue for the three and twelve months ended June 30, 2014 represents a 107% and 136% increase, respectively, over the same periods in the prior year. The increase in petroleum revenue is due to the dilbit revenue being recognized during the three and twelve months ended June 30, 2014.

The Company's marketing strategy at STP-Senlac is to access both the local WCS market and U.S. markets via rail. During the quarter, the company sold 49% of its volumes via pipeline to WCS markets and 51% of its volumes via rail to Gulf Coast markets.

At STP-McKay, the Company is accessing Gulf Coast markets via rail. During the quarter, the Company railed 100% of its bitumen sales volumes as dilbit. By shipping dilbit via rail, the Company saves additional diluent blend costs compared to shipping by pipeline.

Other Income

($ thousands)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Other Income	**182**	-	-	**1,538**	-	-

Other income was $0.2 million for the three months ended June 30, 2014 as a result of $0.2 million of third party terminal throughput revenue. For the twelve months ended June 30, 2014 other income was $1.5 million consisting of $0.8 million of third party terminal throughput revenue and $0.7 million of interest income from the sale of undeveloped oil sands leases to the Government of Alberta under the Lower Athabasca Regional Plan ("LARP").

Diluent Purchases

($ thousands)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Diluent	**8,321**	-	-	**25,239**	-	-

At STP-McKay diluent is blended with the bitumen as part of the production process to create dilbit blend product. For the three and twelve months ended June 30, 2014, the dilbit sold was blended at a cost of $8.3 million and $25.2 million, respectively.

Transportation

($ thousands)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Transportation	**6,218**	-	-	**26,688**	-	-
Per boe	**$16.53**	-	-	**$17.82**	-	-

Transportation costs consist of rail, terminal and trucking expenses. The Company previously shipped 100% of its sales volumes from STP-Senlac by pipeline. In order to access higher netback U.S. markets, the Company transports about 51% of its STP-Senlac heavy oil and 100% of its STP-McKay dilbit to sales points by rail. The Company has long-term rail transportation agreements in place to access the U.S. markets. Transportation for the three months ended June 30, 2014 at STP-McKay and STP-Senlac amounted to $5.7 million and $0.5 million, respectively, for the quarter, for a total of $6.2 million. Transportation for the twelve months ended June 30, 2014 at STP-McKay and STP-Senlac amounted to $24.4 million and $2.3 million, respectively, for the quarter, for a total of $26.7 million. The per boe transportation costs for the first twelve months of sales from STP-McKay are higher than the projected per boe cost when production ramps up as approximately 15% of the transportation costs at STP-McKay are fixed costs.

Royalties

($ thousands)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Royalties	**3,150**	2,816	12%	**8,730**	9,530	(8%)
Saskatchewan resource surcharge	**198**	314	(37%)	**1,103**	1,050	5%
	3,348	3,130	7%	**9,833**	10,580	(7%)
Percentage of heavy oil and realized bitumen sales	**11.0%**	16.7%	(34%)	**8.2%**	17.2%	(52%)
Per boe	**$8.90**	$11.63	(23%)	**$6.57**	$10.43	(37%)

The average royalty rate for the STP-Senlac property, including the Saskatchewan resource surcharge, for the three and twelve months ended June 30, 2014 was 21.0% and 12.5%, respectively, compared to 16.7% and 17.2%, respectively, during the same periods in 2013. The royalty rates at STP-Senlac are assessed on a sliding scale, based on the level of the Company's capital spending, revenue and operating costs. The decrease in the royalty rate for the twelve months ended June 30, 2014 from the previous periods in 2013 is due to a credit received in 2014 for $4.3 million as a result of a 13 month adjustment due to higher capital spending and lower revenue in 2013 at STP-Senlac which reduces the Crown royalty rate.

The royalty rate at STP-McKay is based on price-sensitive royalty rates set by the Government of Alberta. The current royalty rate at STP-McKay is based on pre-payout oil sands operations and starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above $55 per barrel, to a maximum of 9% when the WTI crude oil price is $120 per barrel or higher. The average royalty rate for STP-McKay property for the three and twelve months ended June 30, 2014 was 3.9% and 3.6%, respectively.

The Company's average royalty rate for the three and twelve months ended June 30, 2014 was 11.0% and 8.2%, respectively, compared to 16.7% and 17.2%, respectively for the same periods in 2013. The decrease in the average royalty rate from the prior periods is due to a credit of $4.3 million for STP-Senlac royalties and a lower royalty rate at STP-McKay.

Operating Costs

($ thousands)	Three Months Ended June 30, 2014	2013	Change	Twelve Months Ended June 30, 2014	2013	Change
Other operating costs	**13,645**	2,867	376%	**46,382**	9,878	370%
Natural gas costs	**4,140**	1,200	245%	**15,250**	5,455	180%
Operating costs	**17,785**	4,067	337%	**61,632**	15,333	302%
Per boe	**$47.29**	$15.11	213%	**$41.15**	$15.12	172%

Operating costs at STP-Senlac for the three and twelve months ended June 30, 2014 averaged $24.86 per boe and $18.88 per boe, respectively, compared to the same periods in 2013 of $15.11 per boe and $15.12 per boe. The increase from the prior periods is due to increased work over costs and lower production as approximately 60% of the operating costs at STP-Senlac are fixed costs.

Operating costs at STP-McKay for the three and twelve months ended June 30, 2014 averaged $62.34 per boe and $65.68 per boe, respectively. The per boe operating costs for the first twelve

months of sales from STP-McKay are higher than the projected per boe cost when production ramps up as approximately 70% of the operating costs at STP-McKay are fixed costs.

General and Administrative Expenses

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
General and administrative expenses	**3,573**	3,801	(6%)	**13,351**	13,165	1%
Per boe	**$9.50**	$14.13	(33%)	**$8.91**	$12.98	(31%)

General and administrative expenses for the three and twelve months ended June 30, 2014 were 6% lower and 1% higher, respectively, than the same periods in 2013. The general and administrative costs for the three months ended June 30, 2014 were lower compared to the prior year due to lower salaries and wages. For the twelve months ended June 30, 2014 the increase from the prior period is due to a portion of the general and administrative expenses (corporate project employees) being capitalized during the start up phase of the STP-McKay project during 2013.

Finance Costs

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Interest and financing costs	**15,906**	264	5,925%	**52,436**	1,004	5,123%
Accretion	**251**	235	7%	**1,047**	945	11%
Finance costs	**16,157**	499	3,138%	**53,483**	1,949	2,644%
Per boe	**$42.96**	$1.85	2,222%	**$35.71**	$1.92	1,758%

The Company capitalized interest costs related to STP-McKay Phase 1 prior to completing the start up phase July 1, 2013. For the three and twelve months ended June 30, 2013, this amounted to $8.8 million and $37.3 million, respectively. For the three months ended June 30, 2014, all interest was expensed and included $12.4 million for long term debt, $0.7 million for finance lease and $2.8 million for amortization of financing costs. For the twelve months ended June 30, 2014, all interest was expensed and included $3.2 million for bank debt, $37.2 million for long term debt, $1.3 million for finance lease and $10.7 million non-cash amortization of financing costs.

Stock Based Compensation

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Stock based compensation	**492**	1,077	(54%)	**2,832**	4,234	(33%)
Per boe	**$1.31**	$4.00	(67%)	**$1.89**	$4.18	(55%)

Stock-based compensation expense is the amortization of the non-cash fair value of stock options issued to directors, officers and employees of Southern Pacific over the vesting period of the related options. The estimated fair value of stock options awarded is calculated using the Black-Scholes option pricing model. The value of the award is then recognized as an expense over the period from grant date to the vesting date of the award.

During the three and twelve months ended June 30, 2014, stock-based compensation expense was $0.5 million and $2.8 million, respectively, compared to $1.1 million and $4.2 million,

respectively, for the same periods in 2013. The decrease over the prior periods is due to officer and employee stock options being forfeited during 2014.

Risk Management Contracts

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Unrealized gain (loss)	**-**	(529)	(100%)	**(153)**	(7,331)	(98%)
Realized gain (loss)	**-**	49	(100%)	**(639)**	1,534	(142%)
	-	(480)	(100%)	**(792)**	(5,797)	(86%)

The Company enters into certain financial derivative or risk management contracts in order to reduce its exposure to market risks from fluctuations in commodity prices, foreign currency and interest rates. For the three and twelve months ended June 30, 2014 the Company recorded an unrealized loss of nil and $0.2 million, respectively, compared to an unrealized loss of $0.5 and $7.3 million, respectively, for the same periods in 2013.

For the three and twelve months ended June 30, 2014 the Company recorded nil and a realized loss of $0.6 million, respectively, compared to a realized gain of $0.1 million and $1.5 million, respectively, for the same periods in 2013. The realized loss for the twelve months ended June 30, 2014 is mainly attributable to the weakening Canadian dollar on the Company's foreign exchange contracts.

Depletion, Depreciation, Decommissioning and Impairment

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Depletion, depreciation and decommissioning	**8,355**	5,081	64%	**33,111**	21,030	57%
Impairment	**394,910**	-	100%	**394,910**	-	100%
Depletion, depreciation, decommissioning and impairment	**403,265**	5,081	-	**428,021**	21,030	-
Per boe	**$1072.23**	18.88	-	**$285.78**	$20.74	-

The Company commenced recording depletion of the STP-McKay Phase 1 assets in the statement of comprehensive loss for the three and twelve months ended June 30, 2014. As at June 30, 2013, STP-McKay Phase 1 assets of $793.7 million were not being depleted as the project was in the start up phase.

In determining the unit-of-production depletion charge on recoverable reserves, future development costs of $4.9 billion (June 30, 2013 $4.7 billion) were included in property, plant and equipment.

As at June 30, 2014, the Company determined that the carrying amount of the STP-McKay Phase 1 exceeded its recoverable amount as a result of delayed reserve recovery. The full amount of the impairment was attributed to PP&E and, as a result, an impairment loss of $394.9 million was recorded as a component of depletion, depreciation, decommissioning and impairment expense.

For the purposes of determining whether impairment of assets has occurred, and the extent of any impairment or its reversal, management exercises their judgment in estimating future cash flows

for the recoverable amount, being the higher of fair value less cost of disposal and value in use. These key judgments include estimates about recoverable reserves, forecast benchmark commodity prices, royalties, operating costs and discount rates.

The fair value less costs of disposal was calculated at June 30, 2014 using the following benchmark references prices adjusted for commodity differentials specific to the Company:

Year	2014	2015	2016	2017	2018	2019	2020	2021+
WTI ($USD/bbl)	102.50	97.50	97.50	97.50	97.50	97.50	98.54	+2%
Mars Blend ($CAD/bbl)	112.37	110.03	107.61	105.19	105.19	105.19	105.31	+2%

This data is combined with assumptions relating to long-term prices, inflation rates and exchange rates. The Company's estimated future net cash flows associated with proved and probable reserves were discounted at 15%.

Foreign Exchange

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Foreign exchange (gain) loss	**(3,140)**	(139)	2,159%	**(3,563)**	(3,937)	(9%)

For the three and twelve months ended June 30, 2014, the Company had a foreign exchange gain of $3.1 million and $3.6 million, respectively, related to the Company's U.S. denominated cash, accounts payable, accounts receivable and long term debt. The majority of the foreign exchange gain for the three and twelve months ended June 30, 2014 is attributable to the $136.2 million U.S. dollar first lien term loan facility raised on March 31, 2014 and the resulting impact of the Canadian dollar strengthening from 1.1008 CDN/USD at March 31, 2014 to $1.0676 CDN/USD at June 30, 2014.

For the three months ended June 30, 2013, the foreign exchange gain of $0.1 million was primarily related to the Company's U.S. denominated receivables. For the twelve months ended June 30, 2013 the foreign exchange gain of $3.9 million related to the $270 million U.S. dollar term loan facility (which was paid out on January 25, 2013) and the resulting impact of the Canadian dollar strengthening from $1.0191 CDN/USD at June 30, 2012 to $1.0041 CDN/USD at January 25, 2013, when the U.S. denominated debt was paid out.

Loss on Disposition of Assets

The Company disposed of an undeveloped oil sands property during the twelve months ended June 30, 2014 for total cash consideration of $18.8 million. The sale resulted in a loss recognized in earnings of $1.4 million.

Income Taxes

Southern Pacific recorded deferred tax recovery of $34.8 million and $48.8 million for the three and twelve months ended June 30, 2014, respectively, compared to a deferred tax recovery of $0.8 million and $5.0 million for the comparative three and twelve months ended June 30, 2013.

Net Loss

Southern Pacific recorded a net loss of $382.3 million, or ($0.96) per share, for the quarter ended June 30, 2014, compared to a net income of $1.5 million, or nil per share, for the same quarter in 2013. For the twelve months ended June 30, 2014 the Company recorded a net loss of $424.3 million, or ($1.07) per share, compared to net loss of $12.6 million, or ($0.03) per share, in the prior period. The major reason for the current period loss is due to non-cash impairment expense of $394.9 million. Also, increased finance, operating, transportation, diluent and depletion expenses contributed to the current period loss due to the cessation of capitalization of STP-McKay Phase 1 at the end of the start up phase.

FUNDS FROM OPERATIONS

	Three Months Ended June 30,			Twelve Months Ended June 30,		
($ thousands)	**2014**	2013	Change	**2014**	2013	Change
Funds from operations[1]	**(13,567)**	7,739	(275%)	**(31,943)**	20,696	(254%)
Per boe	**($36.07)**	$28.76	(225%)	**($21.33)**	$20.41	(204%)
Per share - basic	**($0.03)**	$0.02	(250%)	**($0.08)**	$0.05	(260%)
Per share - diluted	**($0.03)**	$0.02	(250%)	**($0.08)**	$0.05	(260%)

(1) Funds from operations is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The funds from operations decreased to a use of funds of $13.6 million compared to funds from operations of $7.7 million, respectively, for the quarters ended June 30, 2014 and 2013. For the twelve months ended June 30, 2014 the funds used in operations was $31.9 million compared to funds from operations of $20.7 million for the same period in 2013. The STP-McKay property decreased funds from operations after deducting its net operating and interest costs in the three and twelve months ended June 30, 2014. Cash from operating activities are expected to increase as initial production from the STP-McKay property is ramped up.

CAPITAL EXPENDITURES

Capital expenditures made on exploration and evaluation assets and property, plant and equipment for the three and twelve months ended June 30, 2014 and 2013 are summarized by area in the following table:

	Three Months Ended June 30,		Twelve Months Ended June 30,	
($ thousands)	**2014**	2013	**2014**	2013
STP-McKay	**2,164**	23,404	**13,206**	113,388
STP-Senlac	**345**	2,400	**6,503**	25,519
Leased facilities	**4,451**	-	**26,829**	-
Other properties	**53**	164	**(514)**	1,984
Corporate	**69**	492	**222**	2,233
Dispositions	**-**	-	**(22,277)**	(2,410)
Total	**7,082**	26,460	**23,969**	140,714

For the three and twelve months ended June 30, 2014, the Company incurred $7.1 million and $24.0 million in capital expenditures net of dispositions, respectively.

STP-McKay capital expenditures were $2.2 million and $13.2 million, respectively, for the three and twelve months ending June 30, 2014 for workovers on existing well pairs, sustaining capital expenditures and installation of ICDs at STP-McKay.

STP-Senlac capital expenditures were $0.3 million and $6.5 million for the three and twelve months ending June 30, 2014, respectively, relating to Phase K expansion, STP-Senlac K3 well pair, as well as workover costs and pump upgrades on Phase K.

Leased facility expenditures are non-cash and were $4.4 million and $26.8 million, respectively for the three and twelve months ended June 30, 2014, as the Company entered into a five year finance lease for $22.4 million on January 6, 2014 in relation to an oil loading facility for STP-McKay at Lynton, Alberta. The finance lease was adjusted by $4.4 million in the current quarter, due to adjustments in estimates for expenditures for a total of $26.8 million.

The disposition for the twelve months ending June 30, 2014 was $22.3 million and relates to the sale of 36 sections of non-core land (80% working interest) for net cash proceeds of $18.8 million, which resulted in the Company recording a $1.4 million loss on disposition and the LARP disposition of $2.1 million.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2014, Southern Pacific had capital resources available of $34.1 million.

($ thousands)	**June 30, 2014**
Cash	**48,210**
Restricted cash	**2,375**
Non-cash working capital	**(16,472)**
Capital resource available	**34,113**

On March 31, 2014, the Company raised US$136.2 million under a first lien term loan ("term loan"). The term loan was used to repay and replace the Company's previous $100 million revolving credit facility and letters of credit. The term loan bears interest on a floating basis at either the LIBOR rate plus a margin of 10% with a LIBOR floor of 1% or the U.S. base rate plus a margin of 9% with a U.S. base rate floor of 2%, depending on whether a Euro loan or a U.S. prime loan is drawn. The term loan requires scheduled quarterly payments of accrued interest and a principal amount of 0.25% of the initial term loan amount with the remaining balance of the term loan due on March 31, 2019. Transaction costs in relation to the issuance of the term loan were $14.0 million which includes an original issue discount, legal fees, administrative fees and advisory fees. The term loan is secured by a first ranking security interest on all present and future assets of the Company and is guaranteed by all of its subsidiaries.

The term loan contains various non-financial covenants that, among other things, restrict the Company with respect to issuing additional debt, making investments and loans, paying dividends and altering the nature of the business. The Company is also not allowed to have a qualification on its audit report for the years ending on or after June 30, 2015. The term loan has certain financial covenants that require:

- To have a minimum 2P PV-10 Value to Total Debt ratio that cannot be less than 1.80:1 on a quarterly basis beginning on June 30, 2014; and
- Total consolidated cash balances cannot be less than $2,000,000 for more than five consecutive days.

The Company is in compliance will all covenants under the term loan as of June 30, 2014.

At any time prior to the maturity date the Company may prepay all or part of the term loan. Prior to the March 31, 2015 the prepayment shall be accompanied by a make whole payment. From April 1, 2015 to March 31 2016, the prepayment option is 103%, is 102% from April 1, 2016 to March 31, 2017, and is 101% from April 1, 2017 to March 31, 2018 and par thereafter. Upon change of control of the Company, the prepayment option is 102% if the change of control is prior to March 31, 2017. No value was ascribed to the prepayment option as the fair value of this option was not significant at March 31, 2014.

The term loan is translated into Canadian dollars at the period end exchange rate of $1 US = $1.0676 CDN.

On December 11, 2013 the Company initiated a process to identify, examine and consider strategic and financial alternatives available to the Company with the ultimate view of enhancing shareholder value. As part of this process the Company obtained a first lien term loan on March 31, 2014. On August 21, 2014 the Company announced that the strategic review process had ended. The Company's Board of Directors determined that none of the proposals received were acceptable and further concluded that the current best alternative for all stakeholders is to continue with the development of the Company's existing assets.

The consolidated financial statements (the "financial statements") are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at June 30, 2014 the Company has not yet achieved profitable operations from STP-McKay Phase 1. For the year ended June 30, 2014, the Company reported a net loss of $424.3 million, which included an impairment charge of $394.9 million, related to STP-McKay Phase 1, and generated insufficient cash flows from operating activities to cover interest paid in the year. The above factors result in a material uncertainty which casts significant doubt upon the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon, among other things, achieving profitable operations, completing additional debt or equity financings, entering into a joint venture or sale of a portion of the Company's assets in order to have sufficient funding to meet its obligations as they come due. There can be no assurance that the Company will be able to complete any of these matters under terms favorable to the Company.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

The Company enters into contractual obligations and commitments in the normal course of business including debt agreements, marketing agreements, risk management contracts, capital commitments and office and equipment leases. These obligations are of a recurring nature and impact cash flows in an ongoing manner. The information presented in the table which follows sets out these obligations as at June 30, 2014 and the expected timing for funding these obligations.

($ thousands)	Less than one year	1-3 years	4-6 years	Total
Finance Lease	7,258	21,774	3,629	32,661
Rail marketing agreements	5,376	25,728	6,857	37,961
Current portion of long term debt	1,454	-	-	1,454
Long term debt	-	432,500	143,590	576,090
Office, equipment leases	529	686	-	1,215
Total	14,617	480,688	154,076	649,381

The Company has subleased unutilized rail cars, under is marketing agreements, from July 1, 2014 to June 30, 2015, in an aggregate amount of $3.8 million. These amounts have been offset in the above commitment table.

The Company is in dispute over the final amount of its finance lease in relation to the construction of its oil loading facility. The Company believes that the best estimate of the total amount of the finance lease is $26.8 million. The amount that is in dispute is an additional $7.2 million. Once the dispute is resolved the Company will update the finance lease liability and leased asset cost (if necessary).

Subsequent to June 30, 2014, the Company was served with a statement of claim in the amount of $8.0 million relating to its operations at STP-Senlac. The Company believes that the claim is without merit, has filed a counterclaim in the amount of $3.5 million and intends to vigorously defend the statement of claim.

The Company also has ongoing obligations related to the abandonment and reclamation of well sites and facilities which have reached the end of their economic lives. Programs to abandon and reclaim them are undertaken in accordance with applicable legislative requirements.

Fixed Price Contracts

The Company enters into fixed price natural gas purchase contracts to reduce the risk of gas price uncertainty, as natural gas is a significant input cost for Southern Pacific's SAGD operations. The Company has the following fixed price natural gas contracts outstanding as at September 25, 2014:

Type	Contract Term	Volume	Price
Natural gas fixed purchase (AECO)	Jan 1, 2014 to Dec 31, 2014	2,000 GJ/day	$3.68
Natural gas fixed purchase (AECO)	Jan 1, 2014 to Dec 31, 2014	1,000 GJ/day	$3.43
Natural gas fixed purchase (AECO)	July 1, 2014 to Dec 31, 2014	1,000 GJ/day	$4.33
Natural gas fixed purchase (AECO)	Aug 1, 2014 to Mar 31, 2015	1,000 GJ/day	$3.95
Natural gas fixed purchase (AECO)	Jan 1, 2015 to Mar 31, 2015	1,000 GJ/day	$4.11

OFF BALANCE SHEET ITEMS

Southern Pacific has not entered into any off balance sheet arrangements as at June 30, 2014.

TRANSACTIONS WITH RELATED PARTIES

The Company had transactions with its related parties, which include key management personnel. Key management personnel include directors and executive officers of the Company:

($ thousands)	Twelve Months Ended June 30, **2014**	2013	Change
Salaries and benefits	**2,512**	3,312	(24%)
Share-based compensation	**1,327**	2,482	(47%)
Total compensations paid	**3,839**	5,794	(34%)

During the twelve months ended June 30, 2014, the Company incurred legal costs of $0.3 million (2013 - $0.5 million) with a law firm in which the Company's corporate secretary is a partner. The legal costs incurred were in the normal course of operations and were based on the exchange value of the service provided, which approximates those amounts of consideration paid to third parties for similar services. Of the legal services provided, nil were included in accounts payable at June 30, 2014 (2013 – nil)

OUTSTANDING SECURITIES

Common Shares and Options

There were nil and 105,000 common shares issued during the three and twelve months ended June 30, 2014, respectively. As at June 30, 2014, 26.8 million stock options were outstanding with a weighted average exercise price of $0.91. As at September 25, 2014, the Company has 398.0 million common shares outstanding and 37.1 million stock options outstanding.

To the knowledge of the directors and the executive officers of the Company, as at the date hereof, no person or company beneficially owns, directly or indirectly, or controls or directs, voting securities carrying 10% or more of the Common Shares, except for the following shareholders:

Name[1]	**Number of Common Shares Owned or Controlled**	**Percent of Outstanding Common Shares**
Sageview Capital L.P.	44,097,300	11.24%

(1) Based on information disclosed in the public filings of the applicable parties.

SUMMARY OF QUARTERLY RESULTS

During the past eight quarters fluctuations in results are primarily due to changes in oil prices as well as changes in production and sales volumes combined with the addition of STP-McKay related sales, royalties, diluent, transportation, operating, depletion and interest expenses effective July 1, 2013.

($ thousands except per boe and per share)	06/30/14	03/31/14	12/31/13	09/30/13	06/30/13	03/31/13	12/31/12	09/30/12
Production (boe/d)[1]	3,696	4,071	4,148	4,767	2,957	2,557	2,542	3,054
Sales (boe/d)[2]	4,133	3,920	4,029	4,324	2,957	2,557	2,542	3,054
Petroleum sales net of diluent	30,431	28,670	25,341	35,437	18,699	11,558	14,291	17,030
Average price ($/boe)	80.91	81.27	68.36	87.88	69.49	50.24	61.11	60.61
Royalties ($/boe)	8.90	(4.33)	7.83	12.85	11.63	10.67	9.27	10.07
Transportation ($/boe)	16.53	21.49	19.66	14.08	-	-	-	-
Operating costs ($/boe)	47.29	44.35	40.59	33.07	15.11	16.21	17.09	12.60
Operating netback ($/boe)[3]	8.19	19.76	0.28	27.88	42.75	23.36	34.75	37.94
G&A expense ($/boe)	9.50	9.04	8.95	8.22	14.13	11.89	18.31	8.35
Funds from operations[4]	(13,567)	(4,524)	(12,453)	(1,399)	7,739	(234)	4,035	9,156
Per share - basic	(0.03)	(0.01)	(0.03)	(0.00)	0.02	(0.00)	0.01	0.03
- diluted	(0.03)	(0.01)	(0.03)	(0.00)	0.02	(0.00)	0.01	0.03
Net income (loss)	(382,283)	(13,173)	(16,871)	(11,937)	1,483	(16,350)	(5,600)	7,887
Per share - basic	(0.96)	(0.03)	(0.04)	(0.03)	0.00	(0.04)	(0.01)	0.02
- diluted	(0.96)	(0.03)	(0.04)	(0.03)	0.00	(0.04)	(0.01)	0.02
Capital expenditures	7,082	24,681	8,594	(16,388)	26,460	42,013	31,390	40,851

(1) Capitalized production at STP-McKay is excluded from October 2013 to June 30, 2013.

(2) Bitumen sales volumes differ from production volumes due to changes in inventory.

(3) Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A

(4) Funds from operations is a non-GAAP measure which is defined in the Advisory section of the MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The CEO and CFO have designed, or caused to be designed under their direct supervision, the Company's DC&P to provide reasonable assurance that:

(i) material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and

(ii) information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported on a timely basis.

The CEO and CFO have also designed, or caused to be designed under their direct supervision, the Company's ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The ICFR have been designed using the control framework established in Internal Control – Integrated Framework (1992) published by the Committee of Sponsoring Organizations of the Treadway Commission.

The CEO and CFO have evaluated the design and operating effectiveness of the Company's DC&P and ICFR and concluded that the Company's DC&P and ICFR were effective as at June 30, 2014. While the Company’s CEO and CFO believe that the Company’s internal controls and procedures provide a reasonable level of assurance that such controls and procedures are reliable, an internal control system cannot prevent all errors and fraud. It is management’s belief that any control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in the Company's ICFR during the three months and year ended on June 30, 2014 that have materially affected, or are reasonably likely to materially affect the Company’s ICFR.

CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND POLICIES

The timely preparation of the financial statements requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ materially from estimated amounts as future confirming events occur.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company’s ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

Estimates of the stage of completion of capital projects at the financial statement date affect the calculation of additions to property, plant and equipment and the related accrued liability. In addition, judgments regarding the timing of when major development projects are ready for their planned use affect the amounts recorded in property, plant and equipment, exploration and evaluation assets or intangible assets and the related depletion.

Amounts recorded for depletion, impairment calculations and amounts used in the determination of deferred taxes are based on estimates of petroleum, natural gas and bitumen reserves and future costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs and the related future cash flows are subject to measurement uncertainty.

Amounts recorded for depreciation of major facilities and equipment and pipeline transportation equipment are based on management's best estimate of their useful lives.

Amounts recorded for decommissioning obligations are based on management's best estimate of expenditures required to settle the present obligation as well as changes in the discount rate and inflation rate. In addition, judgments regarding the timing of the settlement of the obligation may affect the present obligation.

Amounts recorded for stock based compensation are based on management’s best estimate of expected volatility of the Company's share price, which may not be indicative of future volatility.

The estimated fair value of certain of the Company’s financial assets and liabilities are determined based on valuation models where the significant inputs such as commodity prices and interest rates are based on available information for similar financial instruments and information regarding the specific assets or liabilities held, which may not be indicative of the value of the actual financial instruments held by the Company.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in net earnings (loss) both in the period of change, which would include any impact on cumulative provisions, and in future periods. Management's estimate of taxes payable and related tax provisions are based on professional judgments and interpretation of enacted tax laws and regulations. Such judgments and interpretations may be subject to challenge by taxation authorities.

Oil and natural gas assets are grouped into cash generating units (CGU's) that have been identified as being the smallest identifiable group of assets that generate cash flows, which are independent of cash flows of other assets or groups of assets. The determination of these CGU's is based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposures to market risk and materiality.

Changes in Accounting Policies

Effective July 1, 2013, the Company adopted the following standards and amendments as issued by the by International Accounting Standards Board. The adoption of the following standards did not have a material impact on the Company's financial statements.

IFRS 7 "Financial Instruments: Disclosures" – This amendment provides disclosure requirements for the offsetting of a financial asset and financial liability when offsetting is permitted under IFRS.

IFRS 10 "Consolidated Financial Statements" – issued in May 2011. This standard replaces the consolidation requirements in SIC-12 "Consolidation - Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establishes control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements" – issued in May 2011. This standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 "Disclosure of Interests in Other Entities" – issued in May 2011. This is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" – issued in May 2011. This standard applies to other IFRSs that require fair value measurement and sets out a single IFRS framework for measuring fair value and also requires disclosures about fair value measurements.

IAS 28 "Investments in Associates and Joint Ventures" – establishes the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures.

Recent Accounting Pronouncements Issued but not yet Effective

The following standards have been issued but are not yet effective. They may result in future changes to accounting policies and other note disclosures.

IFRS 9 "Financial Instruments*"* – issued in November 2009 and revised in November 2013. Portions of this standard are still in the process of development and the standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and is effective for

annual periods on or after January 1, 2018. The full impact of the standard will not be known until the project is complete.

IFRS Interpretations Committee ("IFRIC") 21 "Levies" – IFRIC clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is assessing the impact of this interpretation on its consolidated financial statements.

The following existing standards have been amended:

IAS 32 "Financial Instruments: Presentation" – This amendment addresses the inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain of the criteria required to be met in order to permit offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for periods beginning January 1, 2014.

IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" – Amendments to IAS 36 will expand and clarify the requirements to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. The amendments apply retrospectively for annual periods beginning on or after January 1, 2014.

Management is assessing the impact of these new standards and amendments but they are not expected to have a material impact on the Company's financial statements.

ADVISORY SECTION

BOE Presentation

The use of boe may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf of natural gas to one barrel of oil is based on an energy equivalent conversion method primarily applicable at the burner tip and is not intended to represent a value equivalency at the wellhead.

Non-GAAP Measures

This MD&A includes references to certain measures which do not have a standardized meaning as prescribed by IFRS, such as "operating netbacks" and "funds from operations", and therefore are considered non-GAAP measures. These non-GAAP measures are commonly used in the oil and gas industry and the Company believes including such measures is useful to investors. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to measures calculated in accordance with IFRS as, given the non-standardized meanings, these measures may not be comparable to similar measures presented by other issuers.

The term "operating netback" is defined as petroleum revenue, net of royalties less diluent costs, less operating costs and less transportation costs. The following provides a reconciliation from the nearest IFRS measurement:

($ thousands)	Three Months Ended June30, 2014	2013	Twelve Months Ended June 30, 2014	2013
Petroleum revenue, net of royalties	**35,404**	15,569	**135,282**	50,998
Diluent costs	**(8,321)**	-	**(25,239)**	-
Operating costs	**(17,785)**	(4,067)	**(61,632)**	(15,333)
Transportation costs	**(6,218)**	-	**(26,688)**	-
Operating netback	**3,080**	11,502	**21,723**	35,665

The term "funds from operations" is defined as cash flow from operating activities less changes in non-cash working capital, less decommissioning liabilities settled and less interest paid. The following provides a reconciliation from the nearest IFRS measurement:

($ thousands)	Three Months Ended June30, 2014	2013	Twelve Months Ended June 30, 2014	2013
Cash flow from operating activities	**10,712**	38,523	**21,255**	22,633
Change in non-cash working capital	**(11,213)**	(30,726)	**(12,082)**	(3,756)
Decommissioning liabilities settled	**8**	122	**607**	2,694
Cash from operating activities before net changes in non-cash working capital and decommissioning costs	**(493)**	7,919	**9,780**	21,571
Interest paid [(1)]	**(13,074)**	(180)	**(41,723)**	(875)
Funds from operations	**(13,567)**	7,739	**(31,943)**	20,696

(1) In the three and twelve months ending June 30, 2013, interest paid of $8.8 million and $37.3 million respectively, was capitalized and was included in property, plant and equipment expenditures under investing activities in the statement of cash flows.

Forward-Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or Southern Pacific's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements 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. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. Forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- capital expenditure programs;
- development of resources;
- treatment under governmental regulatory and taxation regimes;
- expectations regarding the Company's ability to raise capital;
- expenditures to be made by the Company to meet certain work commitments; and,
- work plans to be conducted by the Company.

With respect to the forward-looking statements listed above and contained in this MD&A, the Company has made assumptions regarding, among other things:

- the legislative and regulatory environment;
- the impact of increasing competition;
- unpredictable changes to the market prices for oil and natural gas;
- costs related to the development of the Company's oil and gas properties (that they will remain consistent with historical experience);
- the anticipated results of exploration activities;
- the Company's ability to obtain additional financing on satisfactory terms; and,
- the Company's ability to continue as a going concern.

Southern Pacific's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in the market prices for oil and natural gas;
- uncertainties associated with estimating resources;
- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in currency and interest rates;
- incorrect assessments of the value of acquisitions;
- unanticipated results of exploration activities;
- competition for, among other things, capital, reserves, undeveloped lands and skilled personnel; and,
- unpredictable weather conditions.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above. The reader is cautioned not to place undue reliance on these forward-looking statements as there can be no assurance that such plans, intentions or expectations upon which they are based will occur. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and state no obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise, except as required by applicable securities laws.

Risk Factors

The Company's business consists of the exploration for and development of oil and gas properties in Western Canada. There are a number of inherent risks associated with the exploration for and development and production of oil and gas reserves. Many of these risks are beyond the control of the Company. These risk factors are described in the Company's Annual Information Form filed on SEDAR on September 25, 2014 at www.sedar.com and available on Southern Pacific's website at www.shpacific.com.