SOUTHERN PACIFIC RESOURCE CORP.

Management's Discussion and Analysis for the

Three and Six Months Ended December 31, 2010

OVERVIEW

Southern Pacific Resource Corp. ("Southern Pacific" or the "Company") is engaged in the exploration for and development and production of heavy oil in Saskatchewan and northern 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."

The following Management's Discussion and Analysis ("MD&A") is a review of the operations, current financial position and outlook for Southern Pacific and is prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2010, the MD&A for the year ended June 30, 2010 and the interim consolidated financial statements for the three and six months ended December 31, 2010. This MD&A is dated February 8, 2011. The financial statements and financial data contained in this MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian currency.

Additional information relating to Southern Pacific can also be found on SEDAR at www.sedar.com and on Southern Pacific's website at www.shpacific.com.

OVERALL PERFORMANCE

Highlights for the quarter ended December 31, 2010 include the following:

- Averaged production of 4,359 barrels of oil equivalent per day ("boe/day");
- Generated funds from operations of $12.3 million;
- Commenced the final financing arrangements for construction of Phase 1 of the STP-McKay Thermal Project ("STP-McKay"), including $172.5 million of unsecured convertible debentures, a US$275.0 million second lien term loan facility and a $30.0 million first lien revolving facility. All financing arrangements closed on January 7, 2011, resulting in full funding for Phase 1 of STP-McKay;
- Delivered overall operating netbacks of $37.72 per boe;
- Continued construction on an all-season 29-km road to STP-McKay, with 28 km cleared and 10.5 km fully completed;
- Closed the acquisition of North Peace Energy on November 23, 2010 by the issuance of 14.1 million shares. Acquired assets include 135 sections of land in the Peace River oil sands area at a 100% working interest, a 1,000 bbl/day cyclic steam stimulation (CSS) pilot project at Red Earth, and potential for a 10,000 bbl/day thermal project; and,
- Obtained all necessary approvals to initiate a 30-35 core hole drilling program within the STP-McKay application area, which will provide necessary delineation for a Phase 2 expansion application.

OUTLOOK

Southern Pacific is positioned for continued growth through thermal oil production on a number of fronts. The Company now has one project on production, one project under construction, one project in the pilot phase and one potential project in the process of application preparation.

Southern Pacific's STP-Senlac Thermal Project ("STP-Senlac") near Unity, Saskatchewan accounted for 4,325 barrels of heavy oil per day ("bbl/day") of the corporate total of 4,359 boe/day in the second quarter of fiscal 2011. The Company's development strategy is to maintain the STP-Senlac's production levels between 4,000 and 5,000 bbl/day annually over the next 10 to

15 years. During the second quarter, the Company placed two infill wells on production and drilled a set of steam-assisted gravity drainage ("SAGD") well pairs, which form Phase H. The Phase H well pairs encountered high quality reservoir with the total contacted net pay per well exceeding the wells that were drilled to the north in Phase G. The three wells in Phase G achieved over 1,400 bbl/day each of peak oil production and have produced over 500 thousand barrels ("Mbbl") apiece since being placed on production in June 2009. Eighteen months after start up all three Phase G wells are still producing at rates greater than 750 bbl/day, with expected ultimate recovery of over 1.2 millon barrels ("MMbbl") per well pair. The two Phase H well pairs are expected to add similar amounts of heavy crude to STP-Senlac by April 2011. Senlac netback prices were affected by an Enbridge downstream pipeline outage which caused heavy oil differentials to increase to about $25/bbl in October and partially through November. There was no curtailment of production and differentials appear to have recovered to the $15/bbl range moving into 2011.

Southern Pacific's Alberta based SAGD project, Phase 1 of STP-McKay, is under construction, with approximately 28 km of the total 29-km access road cleared and 10.5 km fully completed. The Company has also begun the plant site civil work, installed facilities for 196 camp rooms and placed orders for all long lead equipment. In total, approximately $52.0 million of capital has been committed on STP-McKay as of December 31, 2010. The total Phase 1 capital cost of STP-McKay is estimated at $450.0 million, which includes a $42.0 million contingency. All of the funding for Phase 1 is in place. First steam to the Project's SAGD well pairs is expected in the first quarter of 2012, with production ramping up through 2012. The facility is designed to process 12,000 bbl/day of bitumen and generate 33,600 bbl/day of dry steam. STP-McKay has an expected project life in excess of 35 years.

In addition to current and imminent production, Southern Pacific is setting the stage for long-term growth through continued development and exploration of its leases. The Company is in the midst of its winter core hole program, which consists of continued development in the McKay area to collect the technical data required to prepare an application for the next phases of development. The application is expected to be completed and submitted by the end September, 2011.

Southern Pacific is also preparing exploration programs on certain portions of the six prospect areas within the Company's 436 gross sections (279,040 acres) of Alberta oil sands leases at an average working interest of 87% in Alberta.

NORTH PEACE ENERGY ACQUISITION

On November 23, 2010 the Company closed the acquisition of North Peace Energy for $20.2 million that was paid by issuance of approximately 14.1 million shares to North Peace shareholders. There were 2.0 million warrants assumed on acquisition that expired on December 23, 2010 and none of the warrants were exercised. North Peace's core asset, the 1,000 bbl/d fully approved Red Earth CSS Pilot Project has been renamed STP-Red Earth. Southern Pacific plans to invest approximately $2.5 million over 2011 in STP-Red Earth to obtain further technical field data on the existing wells within the pilot project. These results will assist the Company to formulate its ultimate strategy of developing a commercial scheme of at least 10,000 bbl/d of bitumen from the acreage.

SUBSEQUENT EVENTS

On January 7, 2011, the Company completed final financing arrangements for construction of Phase 1 of the STP-McKay Thermal Project from three sources. The Company completed a placement of $172.5 million principal amount of 6% convertible unsecured subordinated debentures through a syndicate of underwriters. The Company also completed a US$275 million senior secured second lien term loan facility that bears interest at the Eurodollar ("LIBOR") rate (with a floor of 2%) plus a margin of 8.5% and will be secured on a second priority basis by substantially all the assets of the Company and its subsidiaries. Finally, the Company entered into a new credit facility which replaced its existing credit facility. The new credit facility is a $30.0 million first lien secured revolving credit facility with a syndicate of financial institutions. The new credit facility will bear interest at a rate of Canadian dollar prime plus a margin. The Company will be required to comply with financial covenants under the first and second lien facilities.

RESULTS OF OPERATIONS

Production

	Three Months Ended December 31,			Six Months Ended December 31,		
	2010	2009	Change	**2010**	2009	Change
Heavy oil (bbl/day)	**4,325**	3,173	36%	**4,195**	1,586	165%
Oil and NGLs (bbl/day)	**12**	31	(61%)	**15**	34	(56%)
Natural gas (mcf/day)	**134**	563	(76%)	**190**	649	(71%)
Total (boe/day)	**4,359**	3,298	32%	**4,242**	1,728	145%

Production for the quarter ended December 31, 2010 averaged 4,359 boe/day, an increase of 32% over the same period in 2009. The increased production for the six months ended December 31, 2010 to 4,242 boe/day over the same period in 2009 was the result of the acquisition of the Senlac facility on November 3, 2009 (only 59 days of production from Senlac is included in the 1,728 boe/day for the six months ended December 31, 2009). The oil, natural gas liquids ("NGLs") and natural gas production decreases were a result of the sale of non-core conventional assets in the third quarter of fiscal 2010.

Product Prices

	Three Months Ended December 31,			Six Months Ended December 31,		
	2010	2009	Change	**2010**	2009	Change
Heavy oil ($ per bbl)	**58.75**	58.42	1%	**56.85**	59.26	(4%)
Oil and NGLs ($ per bbl)	**68.44**	75.50	(9%)	**69.71**	67.49	3%
Natural gas ($ per mcf)	**4.36**	5.62	(22%)	**4.04**	4.16	(3%)
Combined average ($ per boe)	**58.63**	57.88	1%	**56.66**	56.51	1%

The heavy oil price received by the Company was $58.75 per bbl for the quarter ended December 31, 2010, which is consistent with the same quarter in 2009. Although the WTI crude oil price has increased over the prior year, the heavy oil differential temporarily widened during the quarter due to a pipeline disruption. As a result, the heavy oil price for the quarter is relatively unchanged from the prior year at an increase of 1%. For the six months ended December 31, 2010 the heavy oil price decreased by 4% compared to the same period in 2009. The decrease was largely attributable to the temporary increase in heavy oil differentials offset by an increase in the WTI, as outlined above.

Oil and NGL prices received were $68.44 per bbl for the quarter ended December 31, 2010, representing a 9% decrease from the same quarter in 2009. Natural gas prices for the quarter ended December 31, 2010 also decreased from the prior year quarter by 22%. For the six months ended December 31, 2010, oil and NGL prices increased by 3% over the same period in 2009 and natural gas prices decreased by 4%. On a combined average, the prices received by the Company for both the quarter and the six months ended December 31, 2010 were relatively unchanged compared to the same periods in 2009.

Operating Netbacks

	Three Months Ended December 31,			Six Months Ended December 31,		
	2010	2009	Change	**2010**	2009	Change
Combined average ($ per boe)	**58.63**	57.88	1%	**56.66**	56.51	1%
Royalties ($ per boe)	**(10.32)**	(7.37)	40%	**(9.16)**	(7.26)	26%
Operating costs ($ per boe)	**(10.59)**	(7.95)	33%	**(10.09)**	(8.18)	23%
Operating netback ($ per boe)	**37.72**	42.56	(11%)	**37.41**	41.07	(9%)

Operating netbacks for the quarter and six months ended December 31, 2010 were both lower than the same period in the prior year. This decrease is due to the increases in royalties and operating costs (discussed in further detail below).

Oil and Gas Revenue

	Three Months Ended December 31,			Six Months Ended December 31,		
($ thousands)	**2010**	2009	Change	**2010**	2009	Change
Heavy oil	**23,381**	17,055	37%	**43,882**	17,059	157%
Light oil and NGLs	**76**	215	(65%)	**189**	423	(55%)
Natural gas	**57**	291	(80%)	**144**	497	(71%)
Total oil and gas revenue	**23,514**	17,561	34%	**44,215**	17,979	146%

Revenue from oil and natural gas sales for the quarter ended December 31, 2010 was $23.5 million, compared to $17.6 million in the same quarter of 2009. The heavy oil revenue increase was a result of higher production and realized heavy oil pricing. The oil, NGLs and natural gas revenue decreases were a result of dispositions of non-core conventional assets in the prior year.

Revenue from oil and natural gas sales for the six months ended December 31, 2010 was $44.2 million, compared to $18.0 million for the same period in 2009. Again, the significant revenue increase was the result of increased production over the prior year partially offset by a lower realized heavy oil price in 2010. The oil, NGLs and natural gas revenue decreases were a result of dispositions of non-core conventional assets in the prior year.

Risk Management Contracts

($ thousands)	Three Months Ended December 31, **2010**	2009	Change	Six Months Ended December 31, **2010**	2009	Change
Unrealized gain (loss)	**(1,171)**	(542)	116%	**(1,002)**	(542)	85%
Realized gain	**95**	-	100%	**24**	-	100%
Risk management contracts	**(1,076)**	(542)	99%	**(978)**	(542)	80%

For the three and six months ended December 31, 2010, the Company recorded an unrealized loss on risk management contracts of approximately $1.2 million and $1.0 million respectively, compared to an unrealized loss of $0.5 million for the same periods in 2009. For the three and six months ended December 31, 2010, the Company recorded a realized gain on risk management contracts of approximately $95,000 and $24,000 respectively, compared to no gains for the same periods in 2009. The risk management contracts represent the change in fair value of the commodity contracts held by Southern Pacific. The intent of these risk management contracts is to protect the downside risk to the Company's cash flow. Details of the contracts are listed in the Commitments section of this MD&A.

Royalties

($ thousands except for % and per boe)	Three Months Ended December 31, **2010**	2009	Change	Six Months Ended December 31, **2010**	2009	Change
Royalties	**4,139**	2,235	85%	**7,146**	2,308	210%
% of oil and gas revenue	**17.6%**	12.7%	38%	**16.2%**	12.8%	26%
Per boe	**$10.32**	$7.37	40%	**$9.16**	$7.26	26%

Royalties for the quarter ended December 31, 2010 were $4.1 million, compared to $2.2 million for the same quarter in 2009. The increase is due to production from the Senlac property for the full three month period in 2010 versus only 59 days in 2009. The Senlac property was acquired in the prior fiscal year on November 3, 2009. Royalties represented 18% of total petroleum and natural gas revenue for the quarter ended December 31, 2010, compared to 13% in the same quarter of 2009. On a per boe basis, royalties were $10.32 for the quarter ended December 31, 2010, compared to $7.37 for the quarter ended December 31, 2009. On a percentage basis, royalty rates have increased due to decreased capital spending in 2010 which increases royalty rates on the Senlac property. The royalty rates at Senlac are on a sliding scale dependent upon the level of capital and operating spending. An increase in capital and operating spending reduces the royalty rate and likewise a reduction in capital and operating will increase the royalty rate.

Royalties for the six months ended December 31, 2010 were $7.1 million, compared to $2.3 million for the same period in 2009 which represented 16% and 13% respectively of total petroleum and natural gas revenue. Again, the increase is due to production from the Senlac property for the full three month period in 2010 versus only 59 days in 2009. On a percentage basis, royalty rates have increased due to decreased capital spending in 2010 which increases royalty rates on the Senlac property.

Operating Costs

($ thousands except for per boe)	Three Months Ended December 31, **2010**	2009	Change	Six Months Ended December 31, **2010**	2009	Change
Operating costs	**4,249**	2,411	76%	**7,875**	2,604	202%
Per boe	**$10.59**	$7.95	33%	**$10.09**	$8.18	23%

A significant component of the operating costs is the purchase of natural gas, which is used to create steam for the thermal recovery of heavy oil. The Company manages this risk by selectively hedging a portion of its natural gas purchases throughout the year.

Operating costs were $4.2 million for the quarter ended December 31, 2010 compared to $2.4 million for the same quarter of 2009. On a per boe basis, operating costs were $10.59 for the three month period in 2010 compared to $7.95 in 2009. Operating costs in the quarter were higher in the previous year's quarter due to increased workover costs at Senlac.

Operating costs were $7.9 million for the six months ended December 31, 2010, compared to $2.6 million for the same period of 2009. On a per boe basis, operating costs were $10.09 for the six month period in 2010 compared to $8.18 in the same period of 2009. Operating costs in the six month period were higher than in the previous year's period due to increased workover costs at Senlac.

General and Administrative Expenses

($ thousands except for per boe)	Three Months Ended December 31, **2010**	2009	Change	Six Months Ended December 31, **2010**	2009	Change
General and administrative expenses	**2,461**	767	221%	**3,714**	1,366	172%
Per boe	**$6.14**	$2.53	143%	**$4.76**	$4.30	11%

General and administrative expenses for the quarter and six months ended December 31, 2010 of $2.5 million and $3.7 million respectively are higher, compared to $0.8 million and $1.4 million for the same period of 2009. The increase is due to additional personnel hired and administration costs required for the STP-McKay project that is under construction, yearly bonuses paid to employees and transaction costs of approximately $0.2 million for the acquisition of North Peace that were expensed.

Interest and Financing

($ thousands except for per boe)	Three Months Ended December 31, **2010**	2009	Change	Six Months Ended December 31, **2010**	2009	Change
Interest and financing	**94**	456	(79%)	**149**	460	(68%)
Per boe	**$0.23**	$1.50	(85%)	**$0.19**	$1.45	(87%)

Interest and financing expenses for the three and six months ended December 31, 2010 are significantly less than the comparable periods in 2009. The decreases were a result of the Company not having any amounts drawn on its facility for the first six months of fiscal 2011.

Interest and financing expenses for the quarter and six months ended December 31, 2010 consist of bank loan arrangement fees and standby fees.

Depletion, Depreciation and Accretion

($ thousands except for per boe)	Three Months Ended December 31, 2010	2009	Change	Six Months Ended December 31, 2010	2009	Change
Depletion and depreciation	**8,990**	8,052	12%	**18,941**	8,338	127%
Accretion	**88**	118	(25%)	**175**	138	27%
Total	**9,078**	8,170	11%	**19,116**	8,476	126%
Per boe	**$22.63**	$26.93	(16%)	**$24.50**	$26.66	(8%)

Depletion, depreciation and accretion expense ("DD&A") of $9.1 million and $19.1 million for the three and six months ended December 31, 2010 increased over the prior period in 2009 by 12% and 127% respectively, on an absolute basis. However, on a per barrel basis the DD&A decreased from the prior periods by 16% and 8%. The decrease in the DD&A rate is a result of increases in reserves at Senlac.

The depletion on petroleum and natural gas properties is booked on a quarterly basis. For the quarter ended December 31, 2010, $242.8 million in oil sands properties and unproven costs have been excluded from the depletion calculation, and $57.9 million of future development costs were added.

The Company's asset retirement obligation ("ARO") represents the present value of estimated future costs to be incurred to abandon and reclaim the Company's wells and facilities. The ARO may be increased over time based on new obligations (wells drilled), constructing facilities, acquiring operations, or adjusting future estimates related to timing and dollar amounts. Similarly, the ARO obligation can be reduced as actual abandonment costs are undertaken reducing future obligations. The accretion charge of $0.1 million for the quarter ended December 31, 2010 and $0.2 million for the six months ended December 31, 2010 represents the change in the estimated time value of the ARO. Currently the discounted ARO liability is estimated at $7.8 million and will be accreted up to the estimated undiscounted ARO liability of $16.8 million over the remaining economic life of the Company's oil sands assets and conventional crude oil and natural gas properties.

Stock-Based Compensation

($ thousands except for per boe)	Three Months Ended December 31, 2010	2009	Change	Six Months Ended December 31, 2010	2009	Change
Stock-based compensation	**632**	1,379	(54%)	**1,790**	1,401	28%
Per boe	**$1.58**	$4.55	(65%)	**$2.29**	$4.41	(48%)

Stock-based compensation costs recognize the non-cash fair value of stock options issued to directors, officers and employees of Southern Pacific. The estimated fair value of the 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 date of vesting of the award.

During the quarter ended December 31, 2010 stock-based compensation was $0.6 million compared to $1.4 million for the same period in 2009. The decrease was the result of new stock options being issued in November of 2009 that vested over one year. During the six months ended December 31, 2010 stock-based compensation was $1.8 million, compared to $1.4 million booked for the same period in 2009.

Income Taxes

Provincial income taxes for the three and six months ended December 31, 2010 were $0.4 million and $0.7 million compared to $0.3 million for the three and six months in 2009. The provincial income taxes are Saskatchewan Resource Surcharges calculated on a percentage of the Company's resource sales in the province of Saskatchewan.

Southern Pacific recorded a $0.6 million and $1.2 million future tax expense for the quarter and six months ended December 31, 2010, compared to a $5.8 million and $5.9 million future tax recovery for the same quarter and six months ended December 31, 2009.

The Company estimates it has approximately $224.4 million in tax pools before the deferred partnership income allocation as at December 31, 2010. Deferred partnership income is estimated to be $23.2 million, which would reduce the tax pools to $201.2 million. Both balances include $47.5 million in non-capital tax losses which expire over time from 2014 to 2030. The Company is not currently taxable and does not expect to pay taxes in fiscal 2011 except for Saskatchewan Resource Surcharges as discussed above.

Net Income (Loss)

Southern Pacific recorded net income of $4.4 million, or $0.01 per share, for the quarter ended December 31, 2010, compared to net income of $7.1 million, or $0.04 per share, in the same quarter of the prior year.

For the six months ended December 31, 2010 the Company recorded net income of $5.0 million, or $0.02 per share, compared to $6.4 million, or $0.04 per share, in the prior year's comparable period.

FUNDS FROM OPERATIONS

($ thousands except for per boe and per share)	Three Months Ended December 31, 2010	2009	Change	Six Months Ended December 31, 2010	2009	Change
Funds from operations	**12,268**	11,386	8%	**24,608**	10,935	125%
Funds from operations per boe	**$30.59**	$37.53	(18%)	**$31.53**	$34.39	(8%)
Funds from operations basic and diluted per share	**$0.04**	$0.06	(33%)	**$0.07**	$0.07	0%

Funds from operations were $12.3 million for the quarter ended December 31, 2010 which is comparable to $11.4 million in the quarter ended December 31, 2009. On a per share basis, this equaled $0.04 versus $0.06 respectively. Funds from operations were $24.6 million for the six months ended December 31, 2010, compared to $10.9 million in the same period of the previous year. On a per share basis, this equaled $0.07 in both periods. The increase in funds from operations for the six months ended December 31, 2010 was attributable to the Senlac acquisition in November of 2009.

CAPITAL EXPENDITURES

The capital expenditures on petroleum and natural gas assets made by Southern Pacific for the six months ended December 31, 2010 and 2009 are summarized in the following table:

($ thousands)	Six Months Ended December 31, **2010**	2009
Land	**$317**	$109
Seismic, drilling and completion	**19,454**	1,538
Equipment	**3,020**	22
Facilities	**38,866**	-
Acquisitions	**19,462**	89,248
Capital assets	**500**	398
Total	**$81,619**	$91,315

For the six months ended December 31, 2010 the Company incurred $81.6 million in capital expenditures, including $54.1 million at STP-McKay and $8.3 million at Senlac for Phase H costs. The capital expenditures of $81.6 million also included the North Peace acquisition of $19.5 million.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010 Southern Pacific had working capital of $20.8 million. The Company has a $55.0 million demand revolving operating credit facility with a Canadian chartered bank. The facility is secured by a first ranking floating debenture over all the assets of the Company. The facility bears interest at the bank's prime rate plus an applicable margin. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The borrowing base is subject to a semi-annual review by the bank, with the next review scheduled for April 2011.

($ thousands)	**December 31, 2010**
Bank lines available	**$55,000**
Working capital	**20,836**
Capital resources available	**$75,836**

Southern Pacific believes it has sufficient capital to complete its STP-McKay Project, fund budgeted capital expenditures at STP-Senlac and STP-Red Earth, fund other project development at McKay and exploration in its other areas from its available capital resources of $75.8 million, its proceeds from two financings that closed on January 7, 2011 of approximately $447.5 million and budgeted funds from operations over the next twelve months.

COMMITMENTS

Risk Management Activities

Oil and gas producers are exposed to fluctuations in commodity prices that are beyond the control of management. To protect cash flow for future capital programs, Southern Pacific has entered into the following commodity contracts to reduce the risk of realized oil prices and gas purchases as of February 8, 2011:

Contract Term	Type	Volume	Price
Jan 1, 2011 to Dec 31, 2011	Oil collar (WTI)	1,500 bbl/day	US$70.00- $100.00
Feb 1, 2011 to Dec 31, 2011	Oil collar (WTI)	300 bbl/day	US$85.00- $105.00
Jan 1, 2011 to June 30, 2011	Natural gas swap purchase (AECO)	1,000 gj/day	$3.585
Jan 1, 2011 to Jun 30, 2011	Natural gas swap purchase (AECO)	2,000 gj/day	$3.93
July 1, 2011 to Dec 31, 2011	Natural gas swap purchase (AECO)	1,000 gj/day	$3.86
July 1, 2011 to Dec 31, 2011	Natural gas swap purchase (AECO)	1,000 gj/day	$3.84
Jan 1, 2011 to Dec 31, 2011	FX contract (US$)	750 bbl/day	US$70 WTI, at 1.0620 USD/CAD

Leases

At December 31, 2010 the Company is committed to annual lease payments under the terms of a lease for its head office space and other office spaces acquired:

($ thousands)	Amount
2011	$396
2012	407
Total	$803

OFF BALANCE SHEET ARRANGEMENTS

Southern Pacific has not entered into any off balance sheet arrangements at December 31, 2010.

TRANSACTIONS WITH RELATED PARTIES

During the three and six months ended December 31, 2010 the Company incurred legal costs of $0.2 million and $0.2 million respectively (2009 - $0.1 million and $0.1 million respectively) with a law firm in which the 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 with third parties. Of the legal services provided, none were included in accounts payable at December 31, 2010 (June 30, 2010 - $0.2 million).

OUTSTANDING SECURITIES

Common Shares, Options and Warrants

There were 0.3 million common shares issued during the six month period ended December 31, 2010 at a weighted average exercise price of $0.56 per share from the exercise of stock options. Additionally, 14.1 million common shares were issued for the acquisition of North Peace and 2.0 million warrants were assumed at an exercise price of $4.05. These warrants expired on December 23, 2010 and none of them were exercised.

As at December 31, 2010, 20.7 million stock options were outstanding with an average exercise price of $1.05 and 1.8 million warrants were outstanding with an average exercise price of $1.91.

At February 8, 2011, the Company has 337.2 million common shares outstanding, 20.3 million stock options outstanding and 1.8 million warrants outstanding.

Escrowed Securities

No common shares remain in escrow at December 31, 2010. During the six months ended December 31, 2010, 0.2 million shares were released from escrow.

SELECTED QUARTERLY INFORMATION

The following information summarizes the financial results of the Company for each quarter ended during the past two years:

($ thousands except for per share)	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	For the three month period ended			
Net revenue	**$18,299**	**$17,792**	**$18,887**	**$18,599**
Net income (loss)	**$4,417**	**$621**	**$(1,312)**	**$3,104**
Net income (loss) per share (basic and diluted)	**$0.01**	**$0.00**	**$(0.00)**	**$0.01**

($ thousands except for per share)	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	For the three month period ended			
Net revenue	$14,784	$343	$473	$170
Net income (loss)	$7,089	$(684)	$(885)	$(428)
Net income (loss) per share (basic and diluted)	$0.04	$(0.01)	$(0.01)	$(0.00)

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company’s disclosure controls and procedures are believed to provide reasonable, but not absolute, assurance that the objectives of the control systems are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Company has as its requirement under National Instrument 52-109 to evaluate design effectiveness and then test the effectiveness of its control environment during fiscal 2011, and has retained expert advisors to assist in the process. The audit committee of the Board of Directors carefully monitors all aspects of the Company's control environment.

The Company's internal controls over financial reporting may not prevent or detect all errors, misstatements and fraud. The design of internal controls must also take into account resource constraints. A control system, including the Company's internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

CHANGES IN ACCOUNTING POLICIES

Business Combinations

Effective July 1, 2010, the Company adopted CICA Handbook section 1582, "Business Combinations", which replaces the previous business combination standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. The adoption of this standard impacts the accounting treatment of business combinations entered into after July 1, 2010.

Consolidated Financial Statements

Effective July 1, 2010, the Company adopted CICA Handbook sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of this standard impacts the accounting treatment of business combinations entered into after July 1, 2010.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

In 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The adoption date of July 1, 2011 will require the restatement of comparative amounts beginning in July 2010, including an opening balance sheet as at July 1, 2010.

Management is currently evaluating the effects of all current and pending pronouncements of the International Accounting Standards Board on the financial statements of the Company and is developing a plan for implementation. The Company's implementation is anticipated to have three components:

1. Scoping and diagnostic phase – This phase includes an analysis, on a high level, of the areas of the Company's financial statements and systems that will be impacted by the conversion to IFRS.

2. Impact analysis and evaluation phase – This phase includes a detailed analysis of each item identified in scoping and diagnostic phase to determine the impacts on the financial statements, accounting policies and procedures, internal control procedures and external agreements.

3. Implementation phase – This phase involves the implementation of all changes in the information systems and business processes approved in the impact analysis and evaluation phase. It also includes training of staff, management and the audit committee.

Management is currently completing the scoping and diagnostic phase. Therefore, Management has not yet finalized its accounting policies and as such, is unable to quantify the impact on the financial statements of adopting IFRS.

The Company considers the following to be key differences between Canadian GAAP and IFRS that may impact the consolidated financial statements:

a) Transition Decisions

IFRS 1 "First Time Adoption of IFRS" provides certain optional exemptions for entities adopting IFRS for the first time. IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. The Company currently anticipates that it will use this exemption.

b) Exploration and Evaluation ("E&E") Expenditures

On transition to IFRS all E&E expenditures that are currently included in the Property, Plant and Equipment ("PP&E") balance on the Consolidated Balance Sheet will be re-classified. This will consist of the book value for the undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.

c) Property, Plant and Equipment

Oil and gas assets in the development and production phases, excluding the IFRS 1 adjustment, are also subject to additional and significant changes from current GAAP accounting. Such differences include items that may be expensed or capitalized, number of depletable bases and cash generating units, determination of significant components or parts within an asset, as well as the accounting treatment for disposition of assets.

d) Depletion Expense

On transition to IFRS, Management has the option to base the depletion calculation using either proved reserves or proved and probable reserves. The Company has not concluded at this time which method it will use.

e) Impairment of PP&E Assets

Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E as opposed to the entire PP&E balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves.

f) ARO Liability

There may also be significant differences in the calculation of the ARO liability between IFRS and Canadian GAAP. The Company has not determined the impact of the IFRS changes on the ARO liability including the appropriate discount rate to use.

g) Income Taxes
The exposure draft on income taxes was withdrawn in November 2009 and the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets was issued in January 2010. The impact of the revised standards on the transition to IFRS still needs to be determined by Management.

The Company will be determining the impact of IFRS on internal controls over financial reporting ("ICOFR"). An assessment and review of ICOFR will be required to deal with the anticipated changes in accounting policies. This assessment will be ongoing throughout 2011 to ensure all changes in accounting policies include appropriate additional controls and procedures for future IFRS reporting requirements.

In regards to disclosure controls and procedures, the Company will be assessing stakeholder's information requirements and will ensure that appropriate and timely information is provided once available. At this time, specific changes to disclosure controls and procedures have not been determined as accounting policies have not been finalized.

The Company has identified resource requirements that will be necessary for the development of IFRS expertise within the organization. Training of key operational and financial staff will be ongoing until full adoption in 2011. The Company has held a preliminary IFRS information session with the Board of Directors, which included the audit committee members. During this session, management and external consultants provided a review of the timeline for implementation and significant changes as a result of the new IFRS accounting standards. The audit committee will receive regular progress reports on the IFRS conversion.

An assessment of the Company's infrastructure, primarily information technology and data systems, indicated that significant changes were necessary. As a result, the Company initiated the transition to update its systems and completed full conversion in the second quarter of fiscal 2011.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Reserves

The process of estimating reserves and contingent resources is complex. It requires significant judgments and decisions based on geological, geophysical, engineering and economic data. Reserve and contingent resource estimates are based on current production forecasts, prices and economic conditions. These estimates may change substantially as additional data from ongoing development and production activities become available and as economic conditions impact oil and gas prices and costs. Southern Pacific's properties are evaluated annually by independent petroleum engineering consultants.

Impairment of Property and Equipment

The Company is required to review the carrying value of all property and equipment, including petroleum and natural gas assets, for potential impairment. Impairment is indicated if the carrying amount of the property and equipment is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property and equipment is charged to earnings. The assessment of impairment is dependent on estimates of future cash flows, reserves, production rates, prices, future costs and other relevant assumptions.

Withheld Costs

Certain costs related to unproved properties and major project developments related to the Company's oil sands assets may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation and in the ceiling test for impairment for which any write-down would be charged to a depletion and depreciation expense.

Asset Retirement Obligations

When Southern Pacific has drilled core holes, it has properly abandoned them within the drilling program and therefore, no asset retirement obligation has been booked on its core hole program. The Company is required to provide for future removal and restoration costs on its oil and gas assets. Southern Pacific estimated these costs in accordance with existing laws, contracts or other policies. The fair value of the liability for the asset retirement obligations is recorded in the period in which it is to be incurred and discounted to its present value using the Company's credit adjusted risk free 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.

Depletion Expense

Depletion and depreciation of petroleum and natural gas properties is calculated using the unit of production method based upon the production volumes, before royalties, in relation to the total proved petroleum and natural gas reserves as estimated by independent engineers. In determining costs subject to depletion, Southern Pacific includes estimated future costs to be incurred in developing proved reserves and excludes salvage value. The costs of undeveloped properties are excluded from the costs subject to depletion until it is determined that proved reserves are attributable to the property or impairment has occurred.

Stock-Based Compensation

The Company uses the fair value method for valuing stock option grants. The fair value of each option is estimated on the date of the grant using the Black-Scholes option pricing model. This model requires Southern Pacific's management to make estimates and assumptions for the expected volatility and risk-free rate. A zero dividend is used as the Company does not issue dividends. The volatility is a calculation based on the past trading history of the Company's shares and the risk-free rate is obtained from the Bank of Canada. An increase in dividends would decrease the option expense and an increase in the volatility or risk-free rate would increase the option expense.

Income Tax

The determination of the Company's income tax and other liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual liability may differ from that estimated and recorded by management.

BOE PRESENTATION

The use of barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 barrel 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.

NOTE REGARDING NON-GAAP MEASURES

This MD&A includes references to certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. Because these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The Company uses these measures to evaluate its performance. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to the measures calculated in accordance with GAAP as, given their non-standardized meanings, they are unlikely to be comparable to similar measures presented by other issuers. The term "operating netback" is defined as petroleum and natural gas sales less royalties and less operating and transportation costs. The term "funds from (used in) operations" is defined as the cash flow from operating activities before the change in non-cash working capital and abandonment expenditures and should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with GAAP as an indicator of performance. The Company's determination of funds from operations may not be comparable to that reported by other companies. A summary of this reconciliation is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
($ thousands)	**2010**	2009	**2010**	2009
Cash provided by (used in) operations	**$3,285**	$6,089	**$13,403**	$5,834
Change in non-cash working capital	**8,933**	5,288	**11,153**	5,091
Cash abandonment expenditures	**50**	9	**52**	10
Funds from (used in) operations	**$12,268**	$11,386	**$24,608**	$10,935

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; and,
- the Company's ability to obtain additional financing on satisfactory terms.

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. These factors include the risks discussed in the Company’s Annual Information Form for the year ended June 30, 2010, which include, without limitation, the inherent risks involved in a developmental stage oil sands mining and extraction enterprise.

Southern Pacific faces uncertainties, including those associated with resource definition, the timeline to production of STP-McKay, the possibility of cost overruns or unanticipated costs and expenses, regulatory approvals, changes to royalty regimes, fluctuating commodity prices and currency exchange rates and the ability to access sufficient capital from external sources to finance future development. As a consequence, actual results may differ, and may differ materially, from those anticipated in the forward-looking statements. 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, unless so required by applicable securities laws.

RISK FACTORS

The Company's business consists of the exploration 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 22, 2010 at www.sedar.com and available on Southern Pacific's website at www.shpacific.com. Please refer to this document for more information.