SOUTHERN PACIFIC
RESOURCE CORP.

Interim Consolidated Financial Statements for the
Three and Six months ended December 31, 2010 and 2009
(Unaudited)

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Balance Sheets
(Unaudited)

(Stated in thousands of Canadian dollars)	**December 31, 2010**	June 30, 2010
Assets		
Current assets		
Cash and cash equivalents (note 11)	**$ 55,843**	$ 63,505
Accounts receivable	**12,346**	7,376
Prepaid expenses and deposits	**2,538**	233
Risk management contracts (note 13)	**-**	273
	70,727	71,387
Property, plant and equipment (note 5)	**341,033**	277,810
	$ 411,760	$ 349,197
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 49,041**	$ 11,362
Provincial taxes payable	**121**	96
Risk management contracts (note 13)	**729**	-
	49,891	11,458
Asset retirement obligations (note 7)	**7,751**	6,449
Future income tax (note 4)	**35,461**	39,770
	93,103	57,677
Shareholders' equity		
Share capital (note 8)	**302,084**	281,579
Contributed surplus (note 9)	**24,815**	23,221
Deficit	**(8,242)**	(13,280)
	318,657	291,520
	$ 411,760	$ 349,197

Commitments (note 14)
Subsequent events (note 15)

See accompanying notes to financial statements.

On behalf of the Board:

Signed *"David M. Antony"*
David M. Antony, Director

Signed *"Douglas Allen"*
Douglas Allen, Director

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Statements of Operations, Comprehensive Income and Deficit
(Unaudited)

(Stated in thousands of Canadian dollars, except per share amounts)	Three months ended December 31		Six months ended December 31	
	2010	2009	**2010**	2009
Revenue				
Petroleum and natural gas	**$ 23,514**	$ 17,561	**$ 44,215**	$ 17,979
Royalties	**(4,139)**	(2,235)	**(7,146)**	(2,308)
Loss on risk management contracts (note 13)	**(1,076)**	(542)	**(978)**	(542)
	18,299	14,784	**36,091**	15,129
Expenses				
Operating	**4,249**	2,411	**7,875**	2,604
General and administrative	**2,461**	767	**3,714**	1,366
Interest and financing	**94**	456	**149**	460
Depletion, depreciation and accretion	**9,078**	8,170	**19,116**	8,476
Stock based compensation	**632**	1,379	**1,790**	1,401
	16,514	13,183	**32,644**	14,307
Other				
Gain on acquisition (note 4)	**3,585**	-	**3,585**	-
Income before income taxes	**5,370**	1,601	**7,032**	822
Income taxes				
Provincial income taxes	**398**	306	**747**	306
Future expense (recovery)	**555**	(5,794)	**1,247**	(5,889)
	953	(5,488)	**1,994**	(5,583)
Net income and comprehensive income	**4,417**	7,089	**5,038**	6,405
Deficit, beginning of period	**(12,659)**	(22,161)	**(13,280)**	(21,477)
Deficit, end of period	**$ (8,242)**	$ (15,072)	**$ (8,242)**	$ (15,072)
Income per share - basic and diluted	**$ 0.01**	$ 0.04	**$ 0.02**	$ 0.04
Weighted average number of shares outstanding (Stated in thousands):				
Basic	**328,783**	187,190	**325,757**	154,404
Diluted (note 8)	**336,165**	189,400	**332,087**	156,203

See accompanying notes to financial statements.

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended December 31		Six months ended December 31	
(Stated in thousands of Canadian dollars)	**2010**	2009	**2010**	2009
Cash provided by (used in)				
Operations				
Net income (loss)	**$ 4,417**	$ 7,089	**$ 5,038**	$ 6,405
Items not effecting cash				
Depletion, depreciation and accretion	**9,078**	8,170	**19,116**	8,476
Future income taxes expense (recovery)	**555**	(5,794)	**1,247**	(5,889)
Unrealized loss (gain) on risk management contracts	**1,171**	542	**1,002**	542
Stock based compensation	**632**	1,379	**1,790**	1,401
Gain on acquisition (note 4)	**(3,585)**	-	**(3,585)**	-
	12,268	11,386	**24,608**	10,935
Change in non-cash working capital	**(8,933)**	(5,288)	**(11,153)**	(5,091)
Cash abandonment expenditures	**(50)**	(9)	**(52)**	(10)
	3,285	6,089	**13,403**	5,834
Financing				
Issuance of common shares, net of share issuance costs (note 8)	**52**	48,683	**154**	48,684
Increase in bank debt	-	31,112	-	31,112
Repayment of bank debt	-	-	-	(1,730)
	52	79,795	**154**	78,066
Investments				
Petroleum and natural gas expenditures	**(54,854)**	(1,566)	**(62,156)**	(2,067)
Corporate acquisitions, net of cash acquired (note 4)	**72**	(89,248)	**72**	(89,248)
Net change in non-cash working capital	**40,715**	1,066	**40,865**	827
	(14,067)	(89,748)	**(21,219)**	(90,488)
Net (decrease) in cash and cash equivalents	**(10,730)**	(3,864)	**(7,662)**	(6,588)
Cash and cash equivalents, beginning of period	**66,573**	3,864	**63,505**	6,588
Cash and cash equivalents, end of period	**$ 55,843**	$ -	**$ 55,843**	$ -

Supplementary cash flow information (note 11)

See accompanying notes to the financial statements.

1. Incorporation and nature of operations:

Southern Pacific Resource Corp., its subsidiaries and partnerships; Southern Pacific Energy Ltd., Senlac Oil Ltd., Southern Pacific Resource Partnership, Southern Pacific Dover Partnership, Southern Pacific McKay River Partnership, 1539148 Alberta Ltd. and North Peace Energy Corp. (collectively the "Company") were incorporated under the Business Corporation Act of Alberta.

The Company is involved in the exploration of in-situ oilsands properties located in northern Alberta, Canada and develops and produces heavy oil, conventional petroleum and natural gas in Western Canada.

These interim consolidated financial statements were prepared using accounting policies consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended June 30, 2010, except as indicated in Note 2 below. The preparation of interim consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates. In management's opinion, the interim consolidated financial statements have been prepared within reasonable limits of materiality.

These interim consolidated financial statements do not include all the note disclosures required for the annual consolidated financial statements and as a result these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2010. All dollar amounts in text and tabular format are stated in Canadian funds unless otherwise noted.

2. Changes in accounting policies:

(a) 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 (see note 4).

Under the previous accounting policy (CICA Handbook section 1581, "Business combinations"), no gain would have been recognized in the statement of operations (versus a gain of $3.6 million recognized according to CICA Handbook section 1582, see note 4), as the excess of the amounts assigned to assets acquired and liabilities assumed over the cost of the purchase would have been eliminated by allocating it as a pro rata reduction of the amounts that otherwise would be assigned to the acquired assets. The transaction costs of the business combination $0.2 million would have not been recorded in the statement of operations as they would have been included in the cost of the purchase.

(b) Consolidated Financial Statements and Non-controlling Interests:

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 these standards has not had a significant impact on the Company's financial statements.

3. Future accounting pronouncements - International Financial Reporting Standards:

In October 2009, CICA confirmed that publicly accountable enterprises in Canada will be required to apply International Financial Reporting Standards "IFRS" beginning on or after January 1, 2011. The Company's expected IFRS transition date of July 1, 2011 will require the restatement, for comparative purposes of amounts reported by the Company for its year ended June 30, 2010 and of the opening balance sheet as at July 1, 2010. In July 2009, CICA Handbook Section 1506, Accounting Changes, was modified such that it does not apply to changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The requirement for all publicly accountable enterprises in Canada to apply IFRS beginning January 1, 2011 represents a complete replacement of the Company's primary basis of accounting and accordingly, Section 1506 does not apply to the adoption of IFRS. The Company is continuing to assess the financial reporting impacts of adopting IFRS. The impact of adopting IFRS on the Company's consolidated financial statements has not been determined at this time.

4. Acquisition of North Peace Energy Corp.:

On November 23, 2010, the Company acquired all of the outstanding common shares of North Peace Energy Corp. ("North Peace") for total consideration of $20.2 million which was paid by the issuance of 14.1 million common shares. Additionally, $0.2 million of transaction costs were included in general and administrative expense for the three and six months ended December 31, 2010. The gain on acquisition is attributable to the excess of the fair value of assets acquired over the purchase price. The business combination was accounted for using the acquisition method of accounting.

As part of the acquisition, the Company was also obligated to issue shares upon exercise of share purchase warrants issued by North Peace. The warrants were convertible into shares of the Company at an exchange ratio of 0.185, which resulted in 1,952,582 warrants outstanding at an exercise price of $4.05 that expired on December 23, 2010. No fair value was attributable to these warrants. The purchase price was allocated to the estimated fair values of the assets (except for the future income tax asset determined in accordance with CICA Handbook section 3465) and liabilities acquired as follows:

(All tabular amounts stated in thousands except per share amounts)

Allocation of purchase price	
Petroleum and natural gas assets	$19,462
Working capital including cash of $72	(647)
Future income tax	5,555
Asset retirement obligation	(632)
	$23,738

Calculation of purchase price	
Shares issued (14,093,263 shares)	$20,153
Gain on acquisition	3,585
	$23,738

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on the information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

5. Property, plant and equipment:

December 31, 2010	Cost	Accumulated Depletion/ Amortization	Net book value
Petroleum and natural gas assets	$387,477	$(47,262)	$340,215
Capital assets	1,068	(250)	818
	$388,545	$(47,512)	$341,033

June 30, 2010	Cost	Accumulated Depletion/ Amortization	Net book value
Petroleum and natural gas assets	$305,813	$(28,411)	$277,402
Capital assets	568	(160)	408
	$306,381	$(28,571)	$277,810

Costs related to development of oilsands properties and undeveloped lands have been excluded from the depletion calculation. As at December 31, 2010, the total unproven costs were $244.8 million (June 30, 2010 - $172.5 million). Future development costs on proven undeveloped conventional oil and gas reserves of $57.9 million (June 30, 2010 - $74.7 million) are included in the depletion calculation.

(All tabular amounts stated in thousands except per share amounts)

6. Bank debt:

The Company has a $55 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 that ranges from 1.75% to 3.75% plus standby fees. 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 scheduled review to be completed prior to April 30, 2011. Interest and finance costs for the three and six month period ended December 31, 2010 relate to standby fees. Under the loan agreement, the Company is subject to certain restrictive covenants which require the Company to obtain bank approval before undertaking certain actions. The Company is in compliance with all covenants at December 31, 2010. As at June 30, 2010, December 31, 2010 and during the three and six months ended December 31, 2010, no amount was drawn on the credit facility.

7. Asset retirement obligations:

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of petroleum and natural gas properties and equipment, including well sites, gathering systems and processing facilities.

	December 31, 2010	June 30, 2010
Balance, beginning of period	$6,449	$1,001
Liabilities assumed on acquisition	632	7,655
Additions and dispositions	201	(111)
Effect of change in estimates	346	(2,468)
Abandonment costs	(52)	(49)
Accretion expense	175	421
Balance, end of period	$7,751	$6,449

The total undiscounted amount of estimated cash flows required to settle the obligation is $16.8 million (June 30, 2010 - $14.4 million), which has been discounted using a credit adjusted risk free rate of 8% (June 30, 2010 – 8%) and an inflation rate of 2.5% (June 30, 2010 – 2.5%). Settlements will be funded from general corporate resources at the time of the properties' retirement and removal during the next 2 to 16 years.

(All tabular amounts stated in thousands except per share amounts)

8. Share capital:

(a) Authorized:

Unlimited common shares without par value
Unlimited first preferred shares without par value

(b) Issued:

	Number of shares	Amount
Balance, June 30, 2010	322,695	$281,579
Exercise of options	323	376
Share issue costs	-	(24)
Acquisition of North Peace (Note 4)	14,093	20,153
Balance, December 31, 2010	337,111	$302,084

At December 31, 2010, no (June 30, 2010 - 172) common shares remain in escrow.

(c) Stock options:

The Company has implemented a stock option plan for directors, officers, employees and consultants.

	Number of options	Weighted Average Exercise Price
Balance, June 30, 2010	19,395	$1.05
Granted	1,321	1.22
Exercised	(323)	0.56
Forfeited	(256)	2.20
Balance, December 31, 2010	20,137	$1.05

(All tabular amounts stated in thousands except per share amounts)

The following table summarizes information about the stock options outstanding at December 31, 2010:

	Outstanding			**Exercisable**		
		Weighted average			Weighted average	
Range of exercise price (per share)	Options	exercise price ($)	remaining life (years)	Options	exercise price($)	remaining life (years)
$0.10 - $0.15	1,575	$0.10	2.96	1,575	$0.10	2.96
$0.30 - $0.45	200	0.30	0.19	200	0.30	0.19
$0.50 - $0.75	7,245	0.55	3.22	7,245	0.55	3.22
$0.77 - $1.15	3,876	0.97	3.47	2,990	0.96	3.16
$1.17 - $1.75	3,391	1.25	4.57	50	1.17	4.25
$1.76 - $1.90	2,450	1.90	2.02	2,450	1.90	2.02
$3.15 - $3.15	1,400	3.15	1.49	1,400	3.15	1.49
	20,137	$1.05	3.18	15,910	$1.02	2.81

The weighted average fair value of the options granted is estimated at $0.71 (June 30, 2010 – $0.70) on the dates of grant using a Black-Scholes option pricing model with the following assumptions:

September 30,	2010	2009
Risk free interest rate	2.4%	2.5%
Expected life in years	4.4	4.2
Expected volatility	127.0%	129.0%
Dividend yield	0.0%	0.0%

(d) Warrants:

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2010	2,127	$1.93
Expired	(2,324)	3.73
Warrants acquired on acquisition (Note 4)	1,953[(1)]	4.05
Balance, December 31, 2010	1,756[(2)]	$1.91

(All tabular amounts stated in thousands except per share amounts)

At December 31, 2010, warrants were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,567	2.02	March 23, 2011
189	1.01	March 13, 2012
1,756	$1.91	

(1) The warrants expired on December 23, 2010 and were unexercised.
(2) At December 31, 2010, 1,756 warrants are exercisable.

(e) Per share amounts:

The Company excluded 4,535 options (2009 – 12,765) and 1,567 warrants (2009 – 2,127) for the six months ended December 31, 2010 and 4,050 options (2009 – 12,765) and 1,567 warrants (2009 – 2,127) for the three months ended December 31, 2010, from the calculation of the diluted weighted average number of shares as they were anti-dilutive.

9. Contributed surplus:

	December 31, 2010	June 30, 2010
Balance, beginning of period	$23,221	$19,762
Options exercised	(196)	(64)
Acquisitions	-	320
Stock-based compensation	1,790	3,203
Balance, end of period	$24,815	$23,221

10. Related party transactions:

During the three months 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).

(All tabular amounts stated in thousands except per share amounts)

11. Supplemental cash flow information:

	Three months ended December 31		Six months ended December 31	
	2010	2009	2010	2009
Interest and finance fees paid	$60	$327	$115	$327
Provincial income taxes paid	$277	$161	$626	$161

	December 31	
	2010	2009
Cash	$55,843	$998
Term deposits	Nil	2,866
Cash and cash equivalents	$55,843	$3,864

12. Capital management:

The Company's objective for managing its capital structure is to ensure it has the financial capacity, liquidity and flexibility to fund investment in its in-situ oilsands resources and development of its existing producing properties.

The Company considers its capital structure to include shareholders' equity and long term debt less net working capital which totals $299.3 million at December 31, 2010 (June 30, 2010 - $231.6 million). The Company's in-situ oilsands properties require significant capital investment prior to cash flow generation. In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels in light of changes in economic conditions. The Company monitors its bank debt level and working capital in order to assess capital and operating efficiency.

The Company's share capital and cash flow is not subject to external restrictions except for certain financial covenants under the banking facility (note 6). The Company has not paid or declared dividends since its reorganization of management and change in principal business on March 2, 2006.

13. Financial instruments:

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, risk management contracts and bank debt. The Company is exposed to the following risks in respect of certain financial instruments held:

(a) Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations and cause a financial loss to the Company. The Company is exposed to credit risk from the Company's receivables from purchasers of the Company's natural gas, crude oil and natural gas liquids and from its joint venture partners. Receivables from purchases of the Company's natural gas, crude oil and natural gas liquids are normally collected the 25th day of the month following the production. The Company's policy to mitigate credit risk is establishing marketing relationships with large and reputable companies. The Company has not experienced any material credit loss in the collection of accounts receivable.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the commencement of the project. The Company does not typically obtain collateral from joint venture partners, however, the Company has the ability to withhold future production from joint venture partners where the company is the operator, in the event of non-payment.

As at December 31, 2010, accounts receivable includes a balance of $419 (June 30, 2010 - $452) over 90 days, which is considered to be past due. No allowance for doubtful accounts has been recorded.

The Company is potentially exposed to a risk with respect to cash amounts held in individual banking institutions for balances that are in excess of nominal guaranteed amounts. Cash balances at December 31, 2010 were held with one banking institution in Canada. The Corporation periodically monitors published and available credit information of all its banking institutions.

(b) Market risk

Market risk is the risk that results from changes in market prices such as commodity prices of its crude oil and natural gas and natural gas liquids, foreign exchange rates and interest rates which will affect the Company's net earnings or the value of its financial instruments which will fluctuate due to changes in the market prices. The market risk from the Company's risk management contracts is not significant.

The Company has utilized petroleum commodity contracts, price swaps and collars to reduce the exposure to price fluctuations associated with the sales of natural gas and crude oil sales volumes. The intent of these instruments was not to speculate on future commodity prices, but rather to protect the downside risk of the Company's cash flow. The risk in implementing these instruments is that future commodity prices could escalate beyond the ceiling price, limiting the Company's revenue.

(All tabular amounts stated in thousands except per share amounts)

The Company recognizes the fair value of its risk management contracts on the balance sheet each reporting period with the change in fair value recognized as a gain or loss on the statement of operations. The fair value is at a Level 2 based on quoted market prices. At December 31, 2010 the fair value is estimated to be an unrealized loss of $729 (Unrealized gain at June 30, 2010 - $ 273).

The following table summarizes the change in fair value of the Company's risk management contracts:

	December 31, 2010	June 30, 2010
Balance, beginning of period	$273	**$ -**
Unrealized gain (loss) during the period	(1,002)	273
Balance, end of period	$(729)	$273

The Company has the following outstanding contracts as of December 31, 2010:

Contract Term	Type	Volume	Price
Jan 1, 2011 to Dec 31, 2011	Oil collar (WTI)	1,500 bbl/day	US$70.00- $100.00
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

The following table summarizes the consolidated statement of operations effects of the Company's risk management contracts:

	Three months ended December 31		Six months ended December 31	
	2010	2009	2010	2009
Unrealized gain (loss)	$(1,171)	$(542)	$(1,002)	$(542)
Realized gain (loss)	95	-	24	-
	$(1,076)	$(542)	$(978)	$(542)

(c) Liquidity risk

Liquidity risk is that risk that the Company will not have sufficient funds to repay its debts and fulfill its obligations. To manage this risk, the Company follows a conservative financing philosophy, prefunds major development projects, monitors budgets to control costs, and monitors its operating cash flow and working capital.

The bank debt is based on petroleum and natural gas reserves and included in current liabilities as it is due on demand with a semi-annual renewal. Management fully expects the term of the facility to be extended on a year over year basis.

(d) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt approximates their fair value due to the immediate or short term maturity of these instruments. The risk management contracts are recognized on the balance sheet at a Level 2 fair value which is discussed above in note 13(b).

(e) Interest rate risk

The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest (Note 6).

14. Commitments:

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:

	Amount
2011	$396
2012	407
Total	$803

15. Subsequent events:

On January 7, 2011, 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 placement of 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 the existing credit facility (see note 6). The new credit facility is a $30 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.