Interim Consolidated Financial Statements for the Three months ended September 30, 2010 and 2009 (Unaudited)

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Balance Sheets
(Unaudited)

(Stated in thousands of Canadian dollars)	**September 30, 2010**	June 30, 2010
Assets		
Current assets		
Cash and cash equivalents	**$ 66,573**	$ 63,505
Accounts receivable	**7,184**	7,376
Prepaid expenses and deposits	**870**	233
Risk management contracts (note 11)	**442**	273
	75,069	71,387
Property, plant and equipment (note 3)	**275,161**	277,810
	$ 350,230	$ 349,197
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 9,739**	$ 11,362
Provincial taxes payable	**93**	96
	9,832	11,458
Asset retirement obligations (note 5)	**6,535**	6,449
Future income tax	**40,462**	39,770
	56,829	57,677
Shareholders' equity		
Share capital (note 6)	**281,807**	281,579
Contributed surplus (note 7)	**24,253**	23,221
Deficit	**(12,659)**	(13,280)
	293,401	291,520
	$ 350,230	$ 349,197

Commitments (note 12)
Subsequent events (note 13)

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 (Loss) and Deficit
(Unaudited)

	Three months ended September 30	
(Stated in thousands of Canadian dollars, except per share amounts)	**2010**	2009
Revenue		
Petroleum and natural gas	**$ 20,701**	$ 416
Royalties	**(3,007)**	(73)
Gain on risk management contracts	**98**	-
	17,792	343
Expenses		
Operating	**3,626**	193
General and administrative	**1,253**	600
Interest and financing	**55**	2
Depletion, depreciation and accretion	**10,038**	305
Stock based compensation	**1,158**	22
	16,130	1,122
Income (loss) before income taxes	**1,662**	(779)
Income taxes		
Provincial income taxes	**349**	-
Future expense (recovery)	**692**	(95)
	1,041	(95)
Net income (loss) and comprehensive income (loss)	**621**	(684)
Deficit, beginning of period	**(13,280)**	(21,477)
Deficit, end of period	**$ (12,659)**	$ (22,161)
Income (loss) per share - basic and diluted	**$0.00**	$(0.01)
Weighted average number of shares outstanding:		
Basic	**322,730**	121,617
Diluted	**327,996**	121,617

See accompanying notes to financial statements.

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended September 30	
(Stated in thousands of Canadian dollars)	**2010**	2009
Cash provided by (used in)		
Operations		
Net income (loss)	**$ 621**	$ (684)
Items not effecting cash		
Depletion, depreciation and accretion	**10,038**	305
Future income taxes expense (recovery)	**692**	(95)
Unrealized gain on risk management contracts	**(169)**	-
Stock based compensation	**1,158**	22
	12,340	(452)
Change in non-cash working capital	**(2,220)**	(41)
Cash abandonment expenditures	**(2)**	(1)
	10,118	(494)
Financing		
Issuance of common shares, net of share issuance costs (note 6)	**102**	1
Repayment of bank debt	**-**	(1,730)
	102	(1,729)
Investments		
Petroleum and natural gas expenditures	**(7,302)**	(501)
Net change in non-cash working capital	**150**	**-**
	(7,152)	(501)
Net (decrease) in cash and cash equivalents	**3,068**	(2,724)
Cash and cash equivalents, beginning of period	**63,505**	6,588
Cash and cash equivalents, end of period	**$ 66,573**	$ 3,864

Supplementary cash flow information (note 9)

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 and 1539148 Alberta Ltd. (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. 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 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 are stated in Canadian funds unless otherwise noted and certain comparative figures may have been reclassified to conform to the current year's presentation.

2. Future accounting pronouncements:

(a) Business Combinations:

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011, with earlier application permitted. The adoption of this standard may have an impact on the Company's accounting for future business combinations.

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

In January 2009, the CICA issued 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. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The adoption of this standard may have an impact on the Company's accounting for future business combinations.

(c) International Financial Reporting Standards ("IFRS"):

In October 2009, CICA confirmed that publicly accountable enterprises in Canada will be required to apply 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.

3. Property, plant and equipment:

September 30, 2010	Cost	Accumulated Depletion/ Amortization	Net book value
Petroleum and natural gas assets	$313,069	$(38,327)	$274,742
Capital assets	615	(196)	419
	$313,684	$(38,523)	$275,161

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 September 30, 2010, the total unproven costs were $179.0 million (June 30, 2010 - $172.5 million). Future development costs on proven undeveloped conventional oil and gas reserves of $74.7 million (June 30, 2010 - $74.7 million) are included in the depletion calculation.

4. Bank debt:

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 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 period ended September 30, 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 September 30, 2010. As at September 30, 2010 and during the three months ended September 30, 2010, no amount was drawn on the credit facility.

5. 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.

	September 30, 2010	June 30, 2010
Balance, beginning of period	$6,449	$1,001
Liabilities assumed on acquisition	-	7,655
Additions / Dispositions	-	(111)
Effect of change in estimates	-	(2,468)
Abandonment costs	-	(49)
Accretion expense	86	421
Balance, end of period	$6,535	$6,449

The total undiscounted amount of estimated cash flows required to settle the obligation is $14.3 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.

6. Share capital:

(a) Authorized:

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

(b) Issued:

	Number of shares (000's)	Amount
Balance, June 30, 2010	322,695	$281,579
Exercise of options	147	240
Share issue costs	-	(12)
Balance, September 30, 2010	322,842	281,807

At September 30, 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 (000's)	Weighted Average Exercise Price
Balance, June 30, 2010	19,395	$1.05
Granted	636	1.00
Exercised	(147)	0.77
Balance, September 30, 2010	19,884	$1.05

The following table summarizes information about the stock options outstanding at September 30, 2010:

	Outstanding			Exercisable		
		Weighted average			Weighted average	
Range of exercise price (per share)	Options (000's)	exercise price ($)	remaining life (years)	Options (000's)	exercise price($)	remaining life (years)
$0.10 - $0.15	1,670	$0.10	3.21	1,670	$0.10	3.21
$0.30 - $0.45	200	0.30	0.44	200	0.30	0.44
$0.50 - $0.75	7,303	0.55	3.46	5,365	0.54	3.23
$0.77 - $1.15	3,906	0.97	3.72	2,553	0.98	3.23
$1.17 - $1.75	2,715	1.20	4.74	50	1.17	4.50
$1.90 - $2.85	2,615	1.90	2.27	2,615	1.90	2.27
$3.15 - $3.15	1,475	3.15	1.75	1,475	3.15	1.75
	19,884	$1.05	3.35	13,928	$1.10	2.85

The weighted average fair value of the options granted is estimated at $0.70 (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%	2.3%
Expected life in years	4.3	3.7
Expected volatility	128.0%	126.0%
Dividend yield	0.0%	0.0%

(d) Warrants:

Warrant transactions are summarized as follows:

	Number of Warrants (000's)	Weighted Average Exercise Price
Balance, June 30, 2010	2,127	$1.93
Expired	(371)	2.02
Balance, September 30, 2010	1,756[1]	$1.91

At September 30, 2010, warrants were outstanding enabling holders to acquire shares as follows:

Number of Shares (000's)	Exercise Price	Expiry Date
1,567	2.02	March 23, 2011
189	1.01	March 13, 2012
1,756	$1.91	

(1) At September 30, 2010, 1,756 warrants are exercisable.

(e) Per share amounts:

The Company excluded 15,613 options (2009 – 9,752) and 1,747 warrants (2009 – 2,609) from the calculation of the weighted average number of shares as they were anti-dilutive.

7. Contributed surplus:

	September 30, 2010	June 30, 2010
Balance, beginning of period	$23,221	$19,762
Options exercised	(126)	(64)
Acquisitions	-	320
Stock-based compensation	1,158	3,203
Balance, end of period	$24,253	$23,221

8. Related party transactions:

During the period, the Company incurred legal costs of $81 (2009 - $19) 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, $20 were included in accounts payable at September 30, 2010 (June 30, 2010 - $242).

9. Supplemental cash flow information:

Three Months Ended September 30,	2010	2009
Interest and finance fees paid	$21	$2
Provincial income taxes paid	$256	$Nil

September 30,	2010	2009
Cash	$66,573	$998
Term deposits	Nil	2,866
Cash and cash equivalents	$66,573	$3,864

10. 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 $228.2 million at September 30, 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 and 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 restrictive covenants under the banking facility. The Company has not paid or declared dividends since its reorganization of management and change in principal business on March 2, 2006.

11. 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, 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 in the event of non-payment.

As at September 30, 2010, accounts receivable includes a balance of $484 (June 30, 2010 - $452) over 90 days, which is considered to be past due.

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 September 30, 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.

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 September 30, 2010 the fair value is estimated to be an unrealized gain of $442 (June 30, 2010 - $ 273).

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

	September 30, 2010	June 30, 2010
Balance, beginning of period	$273	**$ -**
Unrealized gain during the period	169	273
Balance, end of period	$442	$273

The Company has the following outstanding contracts as of September 30, 2010:

Contract Term	Type	Volume	Price
Apr 1, 2010 to Dec 31, 2010	Natural gas swap purchase (AECO)	1,000 gj/day	$4.48
Jan 1, 2010 to Dec 31, 2010	Oil collar (WTI)	1,000 bbls/day	US$70.00- $90.00
Mar 1, 2010 to Dec 31, 2010	Oil collar (WTI)	500 bbls/day	US$70.00- $90.00
Jan 1, 2011 to Dec 31, 2011	Oil collar (WTI)	1,500 bbls/day	US$70.00- $100.00
Sept 1, 2010 to Dec 31, 2010	Natural gas swap purchase (AECO)	2,000 gj/day	$3.59
Jan 1, 2011 to Jun 30, 2011	Natural gas swap purchase (AECO)	2,000 gj/day	$3.93
Sept 1, 2010 to Dec 31, 2010	FX contract (US$)	750 bbl/day	US$70 WTI, at 1.0605 USD/CAD
Jan 1, 2011 to Dec 31, 2011	FX contract (US$)	750 bbl/day	US$70 WTI, at 1.0620 USD/CAD

(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 11b.

(e) Interest rate risk

The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest (Note 4).

12. Commitments:

At September 30, 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	$578
2012	391
Total	$969

The Company is also subleasing one of its other offices to another company on a month-to-month basis at September 30, 2010.

13. Subsequent event:

On September 27, 2010 the Company entered into an agreement to acquire all the issued and outstanding shares of North Peace Energy Corp. ("North Peace") by issuing 14,093,262 shares of the Company. This represents an exchange ratio of 0.185 Southern Pacific shares for each North Peace share (the "Exchange Ratio"). As of September 27, 2010 there were 76,179,800 North Peace shares outstanding. The final closing of this transaction is subject to shareholder and Court of Queen's Bench of Alberta approval. The final closing of this is anticipated on November 23, 2010.