SOUTHERN PACIFIC RESOURCE CORP.

Management's Discussion and Analysis for the

Three Months Ended September 30, 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 months ended September 30, 2010. This MD&A is dated November 9, 2010. 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.

The significant increase in revenues for the period ended September 30, 2010 (Q1 2011) as compared to the three months ended September 30, 2009 (Q1 2010) is primarily due to the acquisition of Senlac Oil Ltd. for $89.7 million ("the Senlac Acquisition"). The Senlac Acquisition closed on November 3, 2009. As such, a discussion comparing the results between for the period ended September 30, 2010 and for the period ended September 30, 2009 is not as meaningful as between September 30, 2010 and the three months ended June 30, 2010 (Q4 2010). The following discussion has been expanded to include a discussion between Q1 2011 and Q4 2010.

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 September 30, 2010 include the following:

- Averaged production of 4,123 barrels of oil equivalent per day ("boe/day") over the period;
- Drilled two infill horizontal wells at Senlac, which have been successfully brought on stream and have been performing better than expected, with a combined rate in excess of 700 barrels of heavy oil per day ("bbls/day");
- At Senlac, achieved estimated exit production for September 2010 of 4,600 bbls/day and averaged 4,700 bbls/day in October;
- Generated funds from operations of $12.3 million;
- Delivered overall operating netbacks of $37.08 per boe;
- Commenced construction on an all-season 29-km road for Southern Pacific's STP-McKay Thermal Project ("STP-McKay") on September 23, 2010;
- Received Order in Council approval from the Government of Alberta for STP-McKay on October 15, 2010, and subsequently received the Energy Resources Conservation Board ("ERCB") scheme approval;
- Announced the proposed acquisition of North Peace Energy on September 27, 2010 by the issuance of 14.1 million shares. The transaction is anticipated to close on November 23, 2010; and,

- With the approval of STP-McKay, the Company increased its Proven Reserves to 63.1 million barrels from 6.8 million barrels as of October 15, 2010.

OUTLOOK

The Company's STP-Senlac Thermal Project ("STP-Senlac") near Unity, Saskatchewan averaged 4,065 barrels of heavy oil per day of the corporate total of 4,123 boe/day in the first quarter of fiscal 2011. Southern Pacific's development strategy is to maintain the project's production levels between 4,000 and 5,000 bbls/day on a consistent basis over the next 10 to 15 years. In order to achieve this production target, the Company drilled, completed and equipped two infill production wells at STP-Senlac in May and June 2010 on schedule and under budget. These two wells have added approximately 700 bbls/day of production since they were placed on stream in late August. The next set of two Phase H steam-assisted gravity drainage ("SAGD") well pairs commenced drilling in October 2010. The Phase H well pairs are expected to add about 1,500 bbls/day of heavy crude to the project by January 2011.

Along with the success of Southern Pacific's heavy oil production and cash flow from Senlac, the Company has remained focused on its significant assets in Alberta's oil sands. STP-McKay is a 100% owned and operated SAGD project with a design capacity of 12,000 bbls/day of bitumen, located 45 km northwest of Fort McMurray, Alberta. On October 15, 2010 the Company received Order in Council approval from the Government of Alberta. The Order in Council authorized the ERCB to grant approval No. 11461 to Southern Pacific, which will allow the Company to proceed with the development of STP-McKay. Construction of a road to STP-McKay has already begun. Southern Pacific expects to commence construction on the project itself this December with completion expected by the end of 2011. The Company expects thermally recovered bitumen production to ramp up through 2012.

In June 2010, Southern Pacific closed a $108.4 million equity financing to partially fund the construction of STP-McKay. Concurrently, the Company announced its strategy to fund the remaining portion of STP-McKay through a combination of cash flow from operations and debt financing. Southern Pacific appointed a syndicate of financial advisors in August 2010 and the Company is presently working with the advisors to finalize and implement its debt financing strategy for STP-McKay by December 2010.

Southern Pacific is also preparing for its winter program, which will consist primarily of continued development in the McKay area to collect technical data required to prepare an application for the next phases of development. Southern Pacific is also preparing exploration programs on certain portions of the five additional prospect areas within the Company's 301 gross sections (244 net) of oil sands leases in the Athabasca region of Alberta.

With the proposed acquisition of North Peace Energy, anticipated to close in late November of 2010, the Company expects to issue approximately 14.1 million shares to North Peace shareholders. Southern Pacific plans to invest approximately $2.5 million over the next nine months to demonstrate commerciality of North Peace's Red Earth CSS Pilot Project. Upon success, Southern Pacific has plans within Phase 1 of development to use the existing facilities and fill the plant on a stabilized basis to its licensed capacity of 1,000 bbls/day of production. Phase 2, the larger potential prize, is located about 1.5 miles southeast of the existing pilot project. This is where Southern Pacific believes there is enough bitumen resource already delineated with existing well control to support at least a 10,000 bbls/day thermal facility.

RESULTS OF OPERATIONS

Production

	Three Months Ended September 30, 2010	2009	Three Months Ended June 30, 2010
Heavy oil (bbls/day)	**4,065**	-	4,104
Oil and NGLs (bbls/day)	**17**	37	25
Natural gas (mcf/day)	**245**	735	373
Total (boe/day)	**4,123**	159	4,191

Production for the quarter ended September 30, 2010 averaged 4,123 boe/day, compared to 159 boe/day in the same period of 2009. The heavy oil production increase was a result of the Senlac acquisition on November 3, 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.

Production for the quarter ended September 30, 2010 is consistent with the production for the three months ended June 30, 2010.

Product Prices

Realized product prices	Three Months Ended September 30, 2010	2009	Three Months Ended June 30, 2010
Heavy oil ($ per bbl)	**54.83**	-	54.64
Oil and NGLs ($ per bbl)	**74.14**	61.89	71.61
Natural gas ($ per mcf)	**3.87**	3.04	3.16
Combined average ($ per boe)	**54.57**	28.25	54.21

Heavy oil prices received by the Company were $54.83 per bbl for the quarter ended September 30, 2010. The heavy oil differential increased during the later part of the quarter due to a pipeline disruption. The heavy oil price for the quarter ended September 30, 2010 is comparable to the price received for the quarter ended June 30, 2010.

Oil and NGL prices received were $74.14 per bbl for the quarter ended September 30, 2010. Oil and NGL prices were higher than the prior year by 20%. Natural gas prices received were $3.87 per thousand cubic feet ("mcf") for the quarter ended September 30, 2010, an increase of 27% from the prior year. On a combined average, the Company received $54.57 per boe for the quarter ended September 30, 2010 compared to $28.25 in the prior year and $54.21 for the three months ended June 30, 2010.

Operating Netbacks

	Three Months Ended September 30, 2010	2009	Three Months Ended June 30, 2010
Combined average ($ per boe)	**54.57**	28.25	54.21
Royalties ($ per boe)	**(7.93)**	(4.99)	(8.18)
Operating costs ($ per boe)	**(9.56)**	(13.16)	(9.67)
Operating netback ($ per boe)	**37.08**	10.10	36.36

Operating netbacks for the quarter ended September 30, 2010 were $37.08 per boe, which is higher than the $10.10 per boe in the prior year. The increase is mainly due to the increase in the combined average revenue.

Operating netbacks for the quarter ended September 30, 2010 were also higher than the $36.36 received during the quarter ended June 30, 2010. This is due to a higher combined average price, complemented by lower royalty and operating costs. Royalties decreased as Crown royalty credits were received during the quarter ended September 30, 2010. Operating costs decreased as workover expenses at Senlac were lower compared to the prior quarter ended June 30, 2010.

Revenue

(In $ thousands)	Three Months Ended September 30, 2010	2009	Three Months Ended June 30, 2010
Heavy oil	**$20,503**	$-	$20,405
Light oil and NGLs	**111**	202	164
Natural gas	**87**	214	108
Total oil and gas revenue	**20,701**	416	20,677
Risk management contracts	**98**	-	1,330
Total revenue	**$20,799**	$416	$22,007

Revenue from oil and natural gas sales for the quarter ended September 30, 2010 was $20.7 million, compared to $0.4 million in the same quarter of 2009 and $20.7 million during the quarter ended June 30, 2010. The heavy oil revenue increase was a result of the Senlac acquisition. The oil, NGLs and natural gas revenue decreases were a result of dispositions of non-core conventional assets in the prior year.

For the three months ended September 30, 2010, the Company recorded a gain on risk management contracts of $0.1 million (September 30, 2009 - $nil), and $1.3 million for the quarter ended June 30, 2010. This represents 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

Royalties for the quarter ended September 30, 2010 were $3.0 million, compared to $0.1 million for the same quarter in 2009 and $3.1 million for the quarter ended June 30, 2010. Royalties represented 14.5% of total petroleum and natural gas revenue for the quarter ended September 2010, compared to 17.6% in the same quarter of 2009 and 15.1% for the quarter ended June 30, 2010. The decrease from September 30, 2009 is largely attributable to the increase in heavy oil production, which attracts a lower royalty rate, resulting from the Senlac acquisition. On a per boe basis, royalties were $7.93 for the quarter ended September 30, 2010, $4.99 for the quarter ended September 30, 2009 and $8.18 for the fourth quarter of 2010.

Operating Costs

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 $3.6 million for the quarter ended September 30, 2010, compared to $0.2 million for the first quarter of 2009 and $3.7 million for the quarter ended June 30, 2010. On a per boe basis, operating costs were $9.56 for the three month period in 2010, $13.16 in 2009 and $9.67 for the fourth quarter of 2010. Operating costs in the quarter were slightly lower than in previous quarter due to reduced workover costs at Senlac.

General and Administrative Expenses

General and administrative expenses for the quarter ended September 30, 2010 were $1.3 million, or $3.30 per boe, compared to $0.6 million in the same period of 2009 and $1.5 million in the fourth quarter of 2010. The increase in general and administrative expenses compared to the quarter ended September 30, 2009 is due to additional personnel to continue the development of STP-McKay and Southern Pacific's overall growth. The decrease in general and administrative expenses from the fourth quarter of 2010 is due to higher costs associated with the year end, which are booked in for the fourth quarter of 2010.

Interest and Financing

Interest and financing expense was $55,000 for the quarter ended September 30, 2010, or $0.14 per boe, compared to $2,000 for the same period in fiscal 2009 and $83,000 in the fourth quarter of 2010. Interest and financing for the quarter ended September 30, 2010 is related to only standby fees on the $55.0 million demand revolving operating credit facility the Company has in place. In the first quarter of fiscal 2011, the Company had no amounts drawn on its facility as the loan was repaid in full during the fourth quarter of 2010.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense ("DD&A") was $10.0 million for the quarter ended September 30, 2010 compared to $0.3 million for the same period in fiscal 2009 and $10.1 million for the quarter ended June 30, 2010. The increase from the quarter ended September 30, 2009 is due to the acquisition of STP-Senlac in November 2009 and the associated production and capital assets related to this acquisition. DD&A for the quarter ended September 30, 2010 was $26.47 per boe, which is consistent with the $26.43 per boe booked in the quarter ended June 30, 2010.

On October 15, 2010, significant additional proved reserves were added upon the regulatory approval of STP-McKay. The reserves were not included in the depletion calculation at the quarter end, due to the lack of sufficient economic data to assess the future development costs associated with the added reserves.

The depletion on petroleum and natural gas properties is booked on a quarterly basis. For the quarter ended September 30, 2010, $179.0 million in oil sands properties and unproven costs have been excluded from the depletion calculation, and $74.7 million of future development costs were added to the depletion calculation.

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 September 30, 2010 represents the change in the estimated time value of the ARO. Currently the discounted ARO liability is estimated at $6.5 million and will be accreted up to the currently estimated undiscounted ARO liability of $14.3 million over the remaining economic life of the Company's oil sands assets and conventional crude oil and natural gas properties.

Stock-Based Compensation

During the quarter ended September 30, 2010, stock-based compensation was $1.2 million compared to $22,000 for the same period in 2009 and $0.8 million for the quarter ended June 30, 2010. The increase was the result of new stock options being issued during the quarter.

Income Taxes

Provincial income taxes for the quarter ended September 30, 2010 were $0.3 million, compared to no provincial income taxes for the same period of 2009 and $0.4 million for the quarter ended June 30, 2010. The provincial income taxes are Saskatchewan Resource Surcharges that are calculated on a percentage of the Company's resource sales in the province of Saskatchewan.

Southern Pacific recorded a $0.7 million future tax expense for the quarter ended September 30, 2010, compared to a $0.1 million future tax recovery for the same quarter in 2009 and $3.7 million for the quarter ended June 30, 2010.

The Company estimates it has approximately $127.8 million in tax pools before the deferred partnership income allocation as at September 30, 2010. Deferred partnership income is estimated to be $8.6 million which would reduce the tax pools to $119.2 million. Both balances include $33.7 million in non-capital tax losses which expire over time from 2014 to 2030 as at September 30, 2010.

Net Income (Loss)

Southern Pacific recorded net income of $0.6 million, or $0.00 per share, for the quarter ended September 30, 2010, compared to a net loss of $(0.7 million), or $(0.01) per share, in the same quarter of the prior year. For the quarter ended June 30, 2010 the Company recorded a net loss of $1.3 million, or $(0.00) per share.

FUNDS FROM OPERATIONS

(In $ thousands)	Three Months Ended September 30, **2010**	2009	Three Months Ended June 30, 2010
Funds from (used in) operations	**$12,340**	$(452)	$11,837
Funds from (used in) operations per boe	**$32.53**	$(30.79)	$31.04
Funds from (used in) operations basic and diluted per share	**$0.04**	$(0.00)	$0.04

Funds from operations (cash flow) were $12.3 million for the quarter ended September 30, 2010 versus funds used in operations of $0.5 million in quarter ended September 30, 2009 and funds from operations of $11.8 million for the quarter ended June 30, 2009. On a per share basis, this equaled $0.04 versus $(0.00) and $0.04 respectively.

CAPITAL EXPENDITURES

The capital expenditures on petroleum and natural gas assets made by Southern Pacific for the quarters ended September 30, 2010 and 2009 are summarized in the following table:

(In $ thousands)	Three Months Ended September 30, **2010**	2009
Land	**$205**	$-
Seismic, drilling and completion	**1,136**	263
Equipment	**435**	-
Facilities	**5,479**	-
Capital assets	**47**	-
Total	**$7,302**	$263

For the quarter ending September 30, 2010, the Company incurred $7.3 million in capital expenditures, including $6.6 million at STP-McKay and $0.7 million at Senlac for Phase H costs, which relates to additional well pairs.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2010, Southern Pacific had working capital of $65.2 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 2010.

(In $ thousands)	**September 30, 2010**
Bank lines available	**$55,000**
Working capital	**65,237**
Capital resources available	**$120,237**

Southern Pacific believes its available capital resources of $120.2 million and budgeted future cash flow are sufficient to fund its future capital on its conventional properties and Senlac.

Southern Pacific also expects to have sufficient capital to advance STP-McKay for the following quarter. In order to fully finance STP-McKay, the Company will have to raise additional capital. This capital may be in the form of debt from private and public sources or other methods. Southern Pacific will actively manage its capital structure to meet its financial obligations and to finance the Company's growth.

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 November 9, 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
July 1, 2011 to Dec 31, 2011	Natural gas swap purchase (AECO)	1,000 gj/day	$3.86
Jan 1, 2011 to June 30, 2011	Natural gas swap purchase (AECO)	1,000 gj/day	$3.585
July 1, 2011 to Dec 31, 2011	Natural gas swap purchase (AECO)	1,000 gj/day	$3.84
Sept 1, 2010 to Dec 31, 2010	FX contract (US$)	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

Leases

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:

(In $ thousands)	**Amount**
2011	**$578**
2012	**391**
Total	**$969**

The above commitment includes an estimate of Southern Pacific's share of operating expenses, utilities and taxes during the term of the lease. The Company is also subleasing one of its other office spaces to another company on a month-to-month basis at September 30, 2010.

OFF BALANCE SHEET ARRANGEMENTS

Southern Pacific has not entered into any off balance sheet arrangements at September 30, 2010.

TRANSACTIONS WITH RELATED PARTIES

During the period, the Company incurred legal costs of $81,000 (2009 - $19,000) 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, $20,000 were included in accounts payable at September 30, 2010 (June 30, 2010 - $242,000).

OUTSTANDING SECURITIES

Common Shares, Options and Warrants

There were 0.1 million common shares issued during the quarter at a weighted average exercise price of $0.77 per share from the exercise of stock options.

As at September 30, 2010, 19.9 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 November 9, 2010, the Company has 323.0 million common shares outstanding, 19.8 million stock options outstanding and 1.8 million warrants outstanding.

Escrowed Securities

No common shares remain in escrow at September 30, 2010. During the period, 0.2 million shares were released from escrow.

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 14.1 million 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 76.2 million North Peace shares outstanding.

North Peace has outstanding warrants, stock options and performance warrants. Upon completion of the transaction the North Peace warrants expiring December 23, 2010, will entitle the holder to acquire Southern Pacific common shares adjusted for the Exchange Ratio resulting in an exercise price of $4.05 per Southern Pacific common share. In regards to stock options and performance warrants, it is a condition to the completion of the transaction that all outstanding North Peace stock options and performance warrants, entitling the holder to acquire North Peace common shares will be exercised or cancelled at closing.

The transaction is conditional upon final shareholder, Court of Queen's Bench of Alberta approval and the satisfaction of a number of standard conditions customary with transactions of this nature. North Peace management, directors and shareholders holding approximately 8.3% of the shares of North Peace have entered into lockup agreements pursuant to which they have agreed to vote in favour of the transaction. North Peace has agreed not to solicit or initiate discussions or negotiations with third parties for any business combination involving North

Peace, that Southern Pacific has the right to match any superior proposal, and under defined circumstances has agreed to pay Southern Pacific a non-completion fee. Southern Pacific has also agreed to pay North Peace a break fee in certain circumstances. The transaction is anticipated to close on November 23, 2010.

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

	For the three month period ended			
(In $ thousands)	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**
Net revenue	**$17,792**	**$18,887**	**$18,599**	**$14,784**
Net income (loss)	**$621**	**$(1,312)**	**$3,104**	**$7,089**
Net income (loss) per share (basic and diluted)	**$0.00**	**$(0.00)**	**$0.01**	**$0.04**

	For the three month period ended			
(In $ thousands)	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Net revenue	$343	$473	$170	$128
Net income (loss)	$(684)	$(885)	$(428)	$(967)
Net income (loss) per share (basic and diluted)	$(0.01)	$(0.01)	$(0.00)	$(0.01)

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.

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 pervious 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 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 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 is anticipated to commence in the second quarter of 2010 and 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 2010.

Business Combinations

In January 2009, the CICA issued Section 1582 – Business Combinations. This section will be effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period, beginning on or after January 1, 2011 for the Company. Early adoption is permitted. The Company is still assessing the impact of this new standard on its financial statements.

Consolidated Financial Statements

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. Management is currently assessing the impact of the adoption on the results of operations or financial position.

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 becomes 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, 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 following: 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:

(In $ thousands)	Three Months Ended September 30, **2010**	Three Months Ended September 30, 2009	Three Months Ended June 30, 2010
Cash provided by (used in) operations	**$10,118**	$(494)	$12,420
Change in non-cash working capital	**2,220**	41	(613)
Cash abandonment expenditures	**2**	1	30
Funds from (used in) operations	**$12,340**	$(452)	$11,837

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 orunanticipated 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.