President's Message
Southern Pacific Resource Annual General Meeting
Wednesday, November 19, 2014

Good afternoon. Thank you for attending Southern Pacific's annual general meeting. After I deliver a short message, I would be pleased to answer any questions.

Fiscal 2014 was an extremely challenging year, for the oil sands industry in general and more specifically for Southern Pacific.

Let me take you back a few years to recount the key developments that have occurred within our Company. In July 2012, the STP-McKay Thermal Project was officially commissioned and began delivering steam to its first 12 SAGD well pairs. Up until that point, the Company had delivered on its targets, building the STP-McKay project on time and only 4% over budget in a period of rapidly escalating costs. After 4 months of warming up the well pairs, we began to place our well pairs on stream and attempt to convert them to SAGD production. Then, in January of 2013, we experienced our first steam short circuit in one of the well pairs, and had to complete a repair on a hole in the producer liner that had been cut by steam and sand around the short circuit from the injector. This was the beginning of the wellbore conformance issues that have prevented us from ramping up several of the well pairs as originally planned. As we have gained operational experience in this new project, we have implemented several remedial techniques in an attempt to minimize the steam short circuits and improve overall SAGD well pair conformance. The most successful of these techniques to date has been the implementation of newer downhole SAGD technologies called 'inflow control devices' or ICD's. These devices are designed to minimize steam production across a steam short circuit, while allowing SAGD chamber development to occur in other sections of the well pair length, thus improving conformance. Another technology recently implemented into the McKay field is called a 'steam splitter' or 'steam segmentation'. With this downhole installation, we are able to direct steam in the injector away from sections where short circuiting is occurring and into sections where additional conformance is required. We are encouraged with the results of these installations to date. While we have to continue to exercise patience while ramping up the well pairs, we believe these configurations can provide each well pair the opportunity to reach their peak rates and develop the SAGD chamber as effectively as possible without compromising the well pair's physical integrity.

It's worth highlighting that we have some well pairs that have developed SAGD chamber and conformance without requiring remediation. One well pair, 2P3, has produced over 275,000 bbl to date and has averaged 500 bbl/d of raw bitumen for the past 6 months, and we do not think this well pair has peaked yet. Ultimately, we expect this well pair should produce over 1 million barrels of bitumen. It represents a target for what we think better conformed well pairs will be able to achieve at McKay and hence this is why we continue to implement the latest techniques to improve conformance on other well pairs.

As we announced in December last year, we came to the technical conclusion that the original 12 well pairs at McKay were not going to fill the processing facility to capacity and that additional well pairs were going to be needed. We believe that with the learnings we have gained from operating the initial well pairs, we can make subtle modifications to the overall well design that will minimize the risk of developing steam short circuits. Plus we have the benefit of ICD's, (a technology that was not widely utilized even two years ago), and steam splitters, that we can install promptly if a steam short circuit develops in a new well pair.

We have received regulatory approval to drill additional well pairs at both of our thermal projects. However, we estimate it will cost approximately $51 million to drill, equip and tie-in six well pairs on Pad 102, at McKay. An additional pad of three well pairs at Senlac is estimated to cost $19 million. The Company does not have the existing financial capacity to complete these projects. We did not have this financial capacity last December either, and, after careful deliberation, it was decided to place Southern Pacific into a Strategic Alternatives process, in order to evaluate all options available to maximize shareholder value, knowing that additional capital was going to be required to fill the two existing plants.

For 8 months your management and staff dedicated long and hard hours on this strategic review process as we explored all avenues of maximizing shareholder value. By the time we wrapped up the process in August, we had successfully refinanced our first lien debt, but we had not received a proposal that the Board believed would provide a more attractive alternative to the existing stakeholders as compared to executing our own business plan.

Today, we are moving forward with that business plan. This plan involved the installation of additional ICD's and a steam splitter into the McKay field, then monitoring results while exploring options to add additional capital to the balance sheet. This is where we are today. Based upon successful results we would like to raise additional capital next year in order to complete the drilling of six new well pairs at McKay and another pad of three well pairs at Senlac. Our plan includes actively seeking opportunities to divest of non-core assets, and this was evidenced by the announced sale of our Red Earth property for $19.5 million earlier this week. We will continue to work our business plan, but liquidity will be tight over the next few quarters, and with today's reduced commodity pricing, it is possible we may have to take more severe measures, such as a formal restructuring of our long term debt, as disclosed in our latest MDA under the Liquidity and Capital Resources section.

Let's face it, this has been a tough year for Alberta's oil sands. The lack of clarity on the ability to export Alberta's oil to tidewater has placed the investment community on edge with respect to Alberta's oil sands. The federal laws prohibiting foreign direct investment into the oil sands reduces the amount of potential investment opportunities into companies such as Southern Pacific, which in my opinion, would be an excellent candidate as an entry point for foreign state owned enterprises to invest in Canada's oil sands. The volatility in world oil prices and heavy oil differentials plus the overall cost escalation within the province have compounded the challenges for oil sands producers right now, even for the large multi-national integrated companies. All of the above issue have contributed, in my opinion, to frustrating our strategic alternatives process this past summer.

Given this tough environment, where does this leave Southern Pacific? Our key strengths are our people and assets. We continue to maintain a strong core staff and will continue to operate our projects safely. Despite a challenging year as a Company, we have been able to effectively recruit quality staff to replace those who have departed.

As far as our assets go, I believe our assets will ultimately provide years of commercial oil sands and heavy oil production. Look at our year over year reserves reports as an example. We had a less than 2% drop in our Proven reserves this year as compared to the previous year, despite the ramp up setbacks observed to date at McKay. When examining all of the technical detail that has been collected within the projects, the conclusion is that with new well pairs, these projects can be sustained and reserves recovered.

While we continue to evaluate our financial options, we will operate our project efficiently and safely, and continue managing the existing well pairs to their peak rates.

In conclusion, I want to thank our staff and Board of Directors. Your efforts and dedication to our Company and stakeholders are much appreciated. We are not out of the woods yet, but I in our people and our assets. With some hard work and perseverance, I believe we can have more positive looking fiscal years in the future.

Thanks very much. I am now pleased to answer a few questions.

Delivered by Byron Lutes, President and CEO, Southern Pacific Resource Corp.
November 19, 2014