



SOUTHERN PACIFIC
RESOURCE CORP.

Management's Discussion and Analysis for the

Six Months Ended December 31, 2008

February 25, 2009

OVERVIEW

Southern Pacific Resource Corp. (“Southern” or the “Company” or the “Corporation”) is a junior company engaged in the development, exploration and production of oil sands in Western Canada.

The following Management’s Discussion and Analysis (“MD&A”) is prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. It should be read in conjunction with the unaudited interim financial statements for the three months ended December 31, 2008 and audited financial statements for the year ended June 30, 2008. This MD&A is dated at February 25, 2009. The financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) in Canadian currency.

References to “second quarter 2008” in this document refer to the current three month financial period ended December 31, 2008; references to “second quarter 2007” in this document refer to the comparative prior year three month financial period ended December 31, 2007.

Additional information relating to the Corporation including the Company’s Annual Information Form can also be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of such statements under applicable securities law. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate” and other similar words, or statements that certain events or conditions “may” or “will” occur.

Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the risks discussed in the Company’s Annual Information Form for the year ended June 30, 2008 which include without limitation, the inherent risks involved in a development stage oil sands mining and extraction enterprise.

The Company faces uncertainties, including those associated with resource definition, the timeline to production, the possibility of cost overruns or unanticipated costs and expenses, regulatory approvals, changes to royalty regimes, fluctuating commodity prices and currency exchange rates, and the ability to access sufficient capital from external sources to finance future development. As a consequence, actual results may differ, and may differ materially from those anticipated in the forward-looking statements. The reader is cautioned not to place undue reliance on 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 the MD&A and states no obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

SUBSEQUENT EVENT AND PROPOSED TRANSACTIONS

On December 17, 2008, the Company signed a binding arrangement agreement whereby it will issue 10 million shares to acquire all the currently issued and outstanding shares of Rochester Energy Corp. ("Rochester"). This equals an exchange ratio of 0.19 Southern Pacific shares for each Rochester share (the "Exchange Ratio"). As of December 15, 2008, there were 50,575,645 Rochester shares outstanding and a total of 34,629,187 Rochester shares issuable upon the exercise of Rochester convertible securities. Each outstanding Rochester warrant and option to acquire Rochester shares will be exercisable into Southern Pacific shares in lieu of one common share of Rochester on the same terms and conditions as the original warrant, option or other right after taking into consideration the Exchange Ratio. Rochester's board has unanimously approved the terms of the agreement and recommends that its shareholders support the transaction.

This transaction is conditional upon the receipt of shareholder, Court of Queen's Bench and regulatory approval, and receipt of third-party consents and other conditions customary in a transaction of this nature. The acquisition is expected to close on March 4, 2009. Rochester has agreed to pay a break fee of \$500,000 to Southern Pacific if Rochester terminates the transaction.

Rochester holds 50 sections of 100% working interest oil sands leases at Long Lake and MacKenzie. The 32 sections at Long Lake are adjoining to the Companies Long Lake leases and the 18 sections at Mackenzie form another exploration block. Also included, are 9 sections of conventional oil & gas leases with an average working interest of 19% that are currently producing approximately about 38 boe/day.

OPERATIONAL SUMMARY

Oil sands lease acquisitions

The Company has not completed any land acquisitions this year. The Corporation presently holds an 80% working interest in a total of 219 sections of land (112,128 net acres) in five core areas in Alberta which is detailed in the following table:

Area	Working Interest	Gross Acres	Net Acres
McKay	77%	37,760	29,075
Hangingstone West	80%	42,240	33,792
Kirby	80%	9,600	7,680
Leismer	80%	23,040	18,432
Long Lake	80%	27,520	22,016
Total	80%	140,160	110,995

After the Rochester closes on March 4, 2009, the Corporation will increase its oil sand lease acreage to 269 gross sections with an average working interest of 83 percent on its lands.

Exploration

The Company continues to review and analyze its oil sands leases from a technical perspective. In August 2008, Southern shot and acquired 50 km of ERT (Electrical Resistivity Tomography) data across its McKay and Long Lake leases. This data has

been used to further define the prospectivity of these areas and has assisted in the selection of additional test well locations in the McKay project area.

Mckay SAGD Application Process

The Company has completed an analysis and interpretation of all technical data collected this past winter, prioritizing its potential project areas and is in the process of preparing a SAGD (steam assisted gravity drainage) application for a 12,000 barrels per day (bbls/day) project on the McKay block. In order to facilitate this plan, the Company has engaged a team of consultants specializing in SAGD project development to work with our internal staff to coordinate the overall efforts required to prepare an application for the SAGD project.

This application is planned to be submitted in the second quarter of 2009. Over the 2008/2009 winter, Southern Pacific will complete the remaining field work necessary to meet the requirements of an application to be submitted jointly to the ERCB and Alberta Environment. Southern has adequate working capital on hand to complete this work. The project team is engaged and work is well underway. Southern anticipates being able to book probable reserves at McKay at the end of its next fiscal year at June 30, 2009.

CURRENT YEAR CAPITAL PROGRAM

The Company's net exploration budget is approximately \$5.5 million for the current fiscal year which will be spent primarily on the SAGD application in the McKay area, net of the farmout to Rochester of \$7 million.

On December 17, 2008 Rochester Energy Corp. ("Rochester") and the Company entered into a farmin agreement whereby Rochester will expend \$7.0 million to earn a 3.2% interest in the STP McKay Project lands. In conjunction with this farmin, the companies have entered into a loan and security package in regards to \$7 million that was advanced to Rochester. The loan bears interest at 10% per annum is secured by a general security agreement under which the borrower has granted the lender a security interest over all its present and after acquired property. The loan is repayable upon April 17, 2009 or upon a change of control.

The following table summarizes the capital expenditures on oil sands activities made by the Company for the six months ended December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
Land acquisition	1,147	\$16,453,324
Drilling	100,311	4,525,635
Seismic	985,604	14,408,350
SAGD project development	574,188	Nil
Total	\$1,661,250	\$35,387,309

At December 31, 2008, the Company has spent \$1.0 million on the summer ERT program at McKay and Long Lake, \$0.6 million on its SAGD application at McKay and \$0.1 million for the preparation of its upcoming core hole drilling program and some costs incurred from the prior year program. The Company is planning to spend approximately \$3.8 million over the next two fiscal quarters.

SELECTED FINANCIAL INFORMATION

The following table discloses selected financial information from the six month period ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Revenue	\$379,327	\$312,132	\$2,798
Net loss and comprehensive loss	\$(1,918,909)	\$(4,379,571)	\$(853,669)
Net loss per share basic and fully diluted	\$(0.02)	\$(0.07)	\$(0.05)
Total assets	\$126,581,110	\$124,598,259	\$13,191,895
Working capital	\$16,803,810	\$52,073,880	\$1,338,802
Long term debt	Nil	Nil	Nil
Capital expenditures on oil sands	\$1,661,250	\$35,387,309	\$11,823,755
Capital expenditures on capital assets	\$6,195	Nil	Nil
Weighted average common shares outstanding-basic	97,612,377	65,981,546	15,295,489
Weighted average common shares outstanding-diluted	98,945,207	68,331,392	16,277,058
Common shares outstanding	97,612,377	97,603,977	35,743,409
Stock options outstanding	9,711,700	3,925,100	3,203,334
Warrants outstanding	Nil	7,489,334	9,727,273

SUMMARY OF QUARTERLY RESULTS

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			
	Dec. 31 2008	Sept. 30 2008	June 30 2008	March 31 2008
Revenue	\$128,326	\$251,001	\$243,461	\$429,211
Net loss	\$(966,693)	\$(952,216)	\$(1,767,457)	\$(40,857)
Net loss per share (basic and diluted)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.00)

	For the three month period ended			
	Dec. 31 2007	Sept. 30 2007	June 31 2007	March. 31 2007
Revenue	\$200,205	\$111,927	\$19,649	\$ nil
Net loss	\$(2,809,399)	\$(1,570,172)	\$(2,146,292)	\$(834,145)
Net loss per share (basic and diluted)	\$(0.04)	\$(0.03)	\$(0.07)	\$(0.02)

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2008

Revenue

Revenue for second quarter 2008 was \$0.1 million compared to \$0.2 million in second quarter 2007. The decrease is from the Company having a smaller amount of cash and short term investments that earn interest income compared to the prior year. The Company is in the exploration stage and therefore has no production.

Year to date, revenue was \$0.4 million versus \$0.3 million in the same period last year.

General and Administrative Expenses

General and administrative expenses for second quarter 2008 were \$0.5 million which compared to \$0.5 million for second quarter 2007. Year to date, general and administrative expenses were \$1.2 million compared to \$1.0 million in the same period last year. The increase is due to the Company having a higher number of employees and consultants during the quarter compared to the same quarter in the prior year.

Stock based compensation

The stock based compensation expense totaled \$0.6 million for second quarter 2008 compared to \$1.3 million for first quarter 2007; this was related to the options granted to the consultants, employees, officers and directors for both fiscal years. The decrease is a result of fewer new stock options being granted in the current quarter, compared to same quarter last year.

Year to date, the stock based compensation expense totaled \$1.3 million compared to \$2.5 million in the same period last year; this was related to the options granted to the consultants, employees, officers and directors for both fiscal years. The decrease is a result of fewer new stock options being granted, compared to same period last year

Future income taxes

For the second quarter ended, the Company had a recovery of future income tax of \$0.1 million compared to \$1.2 million in future tax expense in the second quarter 2007. The recovery is a result of non-capital losses and rate reduction in expected income tax rate for the current period. In the prior year second quarter and six months year to date, the Company incurred future income tax on the issuance of flow through shares from its financing resulting in the expense.

Net Loss

The net loss for the first quarter 2008 was \$1.0 million compared to \$2.8 million in first quarter 2007. Year to date, the net loss was \$2.0 million versus \$4.3 million in the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, the Company had working capital of \$16.8 million. Included within working capital is cash and cash equivalents balance of \$15.7 million.

The Company does not currently have any bank lines or other debt instruments at December 31, 2008.

The Company's working capital balance is sufficient to fund its capital budget and general & administrative expenses for the next four quarters. If the Company expands

its capital spending program for this fiscal year, then the Company will require additional equity or debt financing to finance its increased capital program.

COMMITMENTS

The Company signed a lease for its head office space on April 25, 2008 for a three year period. Under the terms of the lease, the Company is committed to annual lease payments of:

	Amount
2009	\$ 208,272
2010	208,272
2011	121,492
Total	\$ 538,036

The above commitment includes an estimate of the Company's share of operating expenses, utilities and taxes during the lease. The Company has no other commitments as of December 31, 2008.

OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company paid no consulting fees (2007 - \$285,468) to companies controlled by current officers of the Company which is included in general and administrative expenses.

The transactions in the past fiscal year occurred in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

FINANCIAL INSTRUMENTS

The Company invests its excess cash in short term bank guaranteed investment certificates (GICs).

OUTSTANDING SECURITIES

Common shares

At December 31, 2008 and February 25, 2009 there were 97,612,377 common shares outstanding. There were no common shares issued between December 31, 2008 and February 25, 2009.

Options and warrants outstanding

The following table details warrants and stock options outstanding as of February 25, 2009:

Security Type	Number	Exercise Price	Expiry Date
Options	200,000	\$0.30	3/9/2011
Options	1,581,700	\$0.50	11/22/2011
Options	50,000	\$0.90	12/6/2011
Options	1,125,000	\$3.15	6/8/2012
Options	100,000	\$3.15	6/16/2012
Options	50,000	\$3.80	27/7/2012
Options	25,000	\$3.15	17/9/2012
Options	225,000	\$3.15	9/10/2012
Options	2,665,000	\$1.90	7/1/2013
Options	50,000	\$1.90	17/1/2013
Options	1,240,000	\$1.05	8/5/2013
Options	250,000	\$1.05	1/06/2013
Options	250,000	\$1.05	19/06/2013
Options	1,900,000	\$0.10	18/12/2013
Total Options	9,711,700		
Total Warrants	nil		

Escrowed securities

The Company currently has 1,905,500 common shares under escrow pertaining to an escrow agreement dated November 22, 2006. The shares were releasable as to 10% on December 11, 2006 (the date of the Final Exchange Bulletin of the TSX Venture for the Leismer Asset Acquisition) and as to 15% on each 6, 12, 18, 24, 30, 36 month anniversaries of December 11, 2006. The Company will release 952,500 common shares on June 11, 2009 and December 11, 2009 under this escrow agreement.

ADOPTION OF NEW ACCOUNTING POLICIES

The Company adopted the following accounting policies during the period:

Capital Disclosures

On July 1, 2008, the Company prospectively adopted CICA Section 1535 the new Canadian accounting standard for Capital Disclosures which establishes standards for disclosing information about an entity's objectives, policies and processes for managing its capital structure.

Financial Instruments Disclosures and Presentation

On July 1, 2008 the Company prospectively adopted two new CICA Canadian accounting standards for Financial Instruments - Disclosures Section 3862 and Financial Instruments – Presentation Section 3863. The disclosures provide additional information on the risks associated with financial instruments and how to manage those risks. This replaces CICA Section 3861 Financial Instruments – Disclosure and Presentation.

Future Accounting Standards

New standards for, Goodwill and Intangible Assets and Financial Statement Concepts, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets are effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact that these sections will have on its results of operations and financial position.

In January 2006, the Accounting Standards Board (ASB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the ASB confirmed the effective date of the initial adoption of the IFRS. The impact of the transition to the Company's financial statements is currently being assessed.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Reserves Determination

The process of estimating reserves and contingent resource is complex. It requires significant judgements 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. The Company'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.

Asset Retirement Obligations

To date the Company has only drilled core holes that have been properly abandoned within the drilling program. Once an obligation exists, the Company is required to provide for future removal and restoration costs. The Company must estimate these costs in accordance with the existing laws, contracts or other policies. The fair value of the liability for the Company's asset retirement obligations is recorded in the period in which it is expected to be incurred, discounted to its present value using the Company's risk adjusted interest rate and expected inflation 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 the passage of time and 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.

Income Tax Accounting

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.

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 the Company'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.

OUTLOOK

The Company's working capital balance of \$16.8 million is sufficient to fund its capital budget and general & administrative expenses for the next four quarters. If the Company increases its capital spending program, then the Company will require additional equity or debt financing to finance its capital program.

RISK FACTORS

The Corporation's business consists of the exploration and development of oil and gas properties in Alberta. There are a number of inherent risks associated with the exploration, development and production of oil and gas reserves. Many of these risks are beyond the control of the Corporation. These risk factors are described in the Company's Annual Information Form filed on October 20, 2008 at www.sedar.com. Please refer to this document for more information.



**Financial Statements for the
Six months ended December 31, 2008
(Unaudited)**

SOUTHERN PACIFIC RESOURCE CORP.

Balance Sheets

	December 31, 2008 (unaudited)	June 30, 2008 (audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 15,701,879	\$ 21,270,243
Accounts receivable	1,291,940	631,061
Loan receivable (note 5)	7,000,000	-
Prepaid expenses	107,770	98,953
	24,101,589	22,000,257
Capital assets (note 4)	82,414	89,253
Petroleum and natural gas assets (note 5)	102,397,107	100,735,857
	\$ 126,581,110	\$ 122,825,367
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 7,297,779	\$ 2,711,751
Future income tax (note 9)	2,478,000	2,678,000
	9,775,779	5,389,751
Shareholders' equity		
Share capital (note 6)	117,613,836	117,613,836
Contributed surplus (note 7)	19,355,646	18,067,022
Deficit	(20,164,151)	(18,245,242)
	116,805,331	117,435,616
	\$ 126,581,110	\$ 122,825,367

Commitments (note 12)

Subsequent event (note 13)

See accompanying notes to financial statements.

On behalf of the Board:

Signed "David M. Antony"

Director

Signed "Tibor Fekete"

Director

SOUTHERN PACIFIC RESOURCE CORP.

Statements of Loss, Comprehensive Loss and Deficit
(Unaudited)

	Three months December 31,		Six months December 31,	
	2008	2007	2008	2007
Revenue				
Interest and other	\$ 128,326	\$ 200,205	\$ 379,327	\$ 312,132
Expenses				
Amortization	6,348	7,531	13,033	12,292
General and administrative	548,895	535,343	1,196,580	984,942
Stock based compensation	646,776	1,311,730	1,288,623	2,539,469
	1,202,019	1,854,604	2,498,236	3,536,703
Loss before taxes	(1,073,693)	(1,654,399)	(2,118,909)	(3,224,571)
(Recovery of) Future income taxes (note 9)	(107,000)	1,155,000	(200,000)	1,155,000
Net loss and comprehensive loss	(966,693)	(2,809,399)	(1,918,909)	(4,379,571)
Deficit, beginning of period	(19,197,458)	(13,627,529)	(18,245,242)	(12,057,357)
Deficit, end of period	\$ (20,164,151)	(16,436,928)	\$ (20,164,151)	\$ (16,436,928)
Loss per share				
Basic and diluted	\$ (0.01)	\$(0.04)	\$ (0.02)	\$(0.07)
Weighted average number of shares outstanding:				
Basic	97,612,377	74,393,600	97,612,377	65,981,546
Diluted	98,209,874 ⁽¹⁾	76,126,027 ⁽¹⁾	98,945,207 ⁽²⁾	68,331,392 ⁽²⁾

(1) The Company excluded 4,640,038 options (2007 –1,625,000) and no warrants (2007 – 5,517,500) from the calculation of the weighted average number of shares as they were anti-dilutive.

(2) The Company excluded 4,840,038 options (2007 –1,625,000) and no warrants (2007 – 5,517,500) from the calculation of the weighted average number of shares as they were anti-dilutive.

See accompanying notes to financial statements.

SOUTHERN PACIFIC RESOURCE CORP.

Statements of Cash Flows (Unaudited)

	Three months December 31,		Six months December 31,	
	2008	2007	2008	2007
Cash provided by (used in)				
Operations:				
Net loss	\$ (966,693)	\$ (2,809,399)	\$ (1,918,909)	\$ (4,379,571)
Items not effecting cash				
(Recovery of) Future income taxes	(107,000)	1,155,000	(200,000)	1,155,000
Amortization	6,348	7,531	13,033	12,292
Stock based compensation	646,776	1,311,730	1,288,623	2,539,469
	(420,569)	(335,138)	(817,253)	(672,810)
Net change in non-cash operating working capital	(864,239)	(674,087)	(1,081,928)	(820,900)
	(1,284,808)	(1,009,225)	(1,899,181)	(1,493,710)
Financing:				
Issuance of common shares (net of share issuance costs)	-	63,355,663	-	64,739,487
Investments:				
Additions to petroleum and natural gas assets	(606,941)	(13,531,914)	(2,710,735)	(32,133,919)
Additions to capital assets	(1,977)	(40,250)	(6,195)	(110,208)
Loan receivable	(7,000,000)	-	(7,000,000)	-
Net change in non-cash investing working capital	6,047,747	(3,064,687)	6,047,747	(3,009,546)
	(1,561,171)	(16,636,851)	(3,669,183)	(35,253,673)
Net increase (decrease) in cash and cash equivalents	(2,845,979)	45,709,587	(5,568,364)	27,992,104
Cash and cash equivalents, beginning of period	18,547,858	5,445,521	21,270,243	23,163,004
Cash and cash equivalents, end of period	\$ 15,701,879	\$ 51,155,108	\$ 15,701,879	\$ 51,155,108
Cash and cash equivalents are comprised of:				
Balance with banks			\$ (298,121)	\$ 1,115,108
Term deposits			16,000,000	50,000,000
			\$ 15,701,879	\$ 51,155,108

See accompanying notes to the financial statements

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

1. Incorporation and nature of operations:

Southern Pacific Resource Corp. (the “Company”) was 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.

Due to long lead times and high capital costs with creating the SAGD (steam assisted gravity drainage) infrastructure necessary to bring oilsands to market, the success of the Company is heavily dependent on its ability to raise additional capital to identify and fund commercially productive resources and ultimately achieve profitable operations.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

2. Significant accounting policies:

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of the Company’s audited financial statements for the year ended June 30, 2008 except for the adoption of new accounting policies discussed below. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In management’s opinion, the financial statements have been prepared within reasonable limits of materiality.

These financial statements do not include all the note disclosures required for the annual financial statements and as a result these interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended June 30, 2008.

In addition to the accounting policies discussed in the June 30, 2008 audited financial statements, the Company adopted the following accounting policies during the period:

Capital Disclosures:

On July 1, 2008, the Company prospectively adopted CICA Section 1535 the new Canadian accounting standard for Capital Disclosures which establishes standards for disclosing information about an entity’s objectives, policies and processes for managing its capital structure. The disclosures have been included in Note 10.

Financial Instruments Disclosures and Presentation:

On July 1, 2008 the Company prospectively adopted two CICA new Canadian accounting standards for Financial Instruments - Disclosures Section 3862 and Financial Instruments –

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

Presentation Section 3863. The disclosures provide additional information on the risks associated with financial instruments and how to manage those risks. This replaces CICA Section 3861 Financial Instruments – Disclosure and Presentation. The additional disclosures required by these standards are provided in Note 11.

3. Future Accounting Standards:

New standards for, Goodwill and Intangible Assets and Financial Statement Concepts, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets are effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact that these sections will have on its results of operations and financial position.

In January 2006, the Accounting Standards Board (ASB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the ASB confirmed the effective date of the initial adoption of the IFRS. The impact of the transition to the Company's financial statements is currently being assessed.

4. Capital assets:

December 31, 2008	Cost	Accumulated Amortization	Net book Value
Computer equipment and software	\$ 76,380	\$ (25,885)	\$ 50,495
Office equipment	27,675	(8,181)	19,494
Leasehold Improvements	17,750	(5,325)	12,425
	\$ 121,805	\$ (39,391)	\$ 82,414

June 30, 2008	Cost	Accumulated Amortization	Net book Value
Computer equipment and software	\$ 72,860	\$ (17,661)	\$ 55,199
Office equipment	25,000	(5,146)	19,854
Leasehold Improvements	17,750	(3,550)	14,200
	\$ 115,610	\$ (26,357)	\$ 89,253

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

5. Petroleum and natural gas assets:

December 31, 2008	Cost	Accumulated Depletion and Amortization	Net book Value
Petroleum and natural gas assets	\$102,397,107	\$ —	\$102,397,107

June 30, 2008	Cost	Accumulated Depletion and Amortization	Net book Value
Petroleum and natural gas assets	\$100,735,857	\$ —	\$100,735,857

All costs to date have been excluded from the depletion calculation for they all relate to unproven properties. As at December 31, 2008 the total unproven costs were \$102,397,107 (June 30, 2008 - \$100,735,857).

On December 17, 2008 Rochester Energy Corp. ("Rochester") and the Company entered into a farmin agreement whereby Rochester will expend \$7,000,000 to earn a 3.2% interest in the STP McKay Project lands. In conjunction with this farmin, the companies have entered into a loan and security package in regard to \$7,000,000 that was advanced to Rochester. The loan bears interest at 10 percent per annum compounded monthly and is secured by a general security agreement under which the borrower has granted the lender a security interest over all its present and after acquired property. The loan is repayable on April 17, 2009 or upon a change of control.

Included in accounts payable and accrued liabilities at December 31, 2008, were additions to petroleum and natural gas assets of \$1,189,803 (June 30, 2008 - \$2,239,288) and a cash call payable of \$6,047,747 (June 30, 2008 - nil) relating to joint venture partners.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

6. Share capital:

(a) Authorized:

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

(b) Issued:

	Number of shares	Amount
Common shares:		
Balance, June 30 and December 31, 2008	97,612,377	\$ 117,613,836

On December 11, 2008, 952,500 shares were released from escrow. At December 31, 2008, a total of 1,905,000 common shares remain in escrow and 952,500 common shares are scheduled for release on June 11, 2009 and December 11, 2009.

(c) Stock options

The Company has implemented a stock option plan for Directors, Officers, employees and consultants. The exercise price of each option approximates the market price for the common shares on the date the option was granted. Options granted under the plan generally vest over an 18 month period and expire five years after the grant date. The maximum number of common shares to be issued upon the exercise of options granted under the plan is not to exceed 10% of the common shares issued. The details of this plan are as follows:

	Number	Weighted average exercise price
Balance, June 30, 2008	8,226,700	\$ 1.69
Exercised	—	—
Cancelled	(415,000)	2.91
Granted	1,900,000	0.10
Balance, December 31, 2008	9,711,700	\$ 1.33
Balance exercisable at December 31, 2008	6,740,038	\$ 1.49

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

6. Share capital (continued):

The following table summarizes information about the stock options outstanding at December 31, 2008:

Number	Weighted average remaining life	Weighted average exercise price
200,000	2.19 years	\$ 0.30
1,581,700	2.89 years	\$ 0.50
50,000	2.93 years	\$ 0.90
1,125,000	3.44 years	\$ 3.15
100,000	3.46 years	\$ 3.15
50,000	3.57 years	\$ 3.80
25,000	3.72 years	\$ 3.15
225,000	3.78 years	\$ 3.15
2,665,000	4.02 years	\$ 1.90
50,000	4.05 years	\$ 1.90
1,240,000	4.36 years	\$ 1.05
250,000	4.42 years	\$ 1.05
250,000	4.47 years	\$ 1.05
1,900,000	4.97 years	\$ 0.10
9,711,700		\$ 1.33

The Company recorded stock based compensation expense of \$1,288,623 (2007 – \$2,539,469) for the period. The Company granted 1,900,000 (2007 – 410,000) stock options during the period to Directors, Officers and consultants using the fair value method. The Company cancelled 415,000 (2007 – nil) stock options during the period.

The weighted average fair value of the options granted is estimated at \$0.10 (2007 – \$1.97) on the dates of grant using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Risk free interest rate	2.1%	4.4%
Expected life in years	5.0	5.0
Expected volatility	124%	114% -119%
Dividend yield	0%	0%

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

7. Contributed surplus:

	2008
Balance, June 30, 2008	\$ 18,067,022
Stock-based compensation	1,288,623
Balance, December 31, 2008	\$ 19,355,646

8. Related party transactions:

Included in general and administrative expenses for the period ended December 31, 2008 are no consulting fees (2007 - \$285,468) paid to companies controlled by officers of the Company. The transactions in the prior period occurred in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

9. Income taxes:

The income tax provision differs from income taxes which would result from applying the expected tax rate to net loss before income taxes. The differences between the "expected" income tax expense and the actual income tax provision for the period ended December 31 are summarized as follows:

	2008	2007
Net loss before income taxes	(2,118,909)	\$ (3,224,571)
Expected income tax rate	29.25%	32.12%
Expected income tax recovery	(620,000)	(1,036,000)
Differences resulting from:		
Stock-based compensation	377,000	815,000
Rate adjustments	35,000	(15,000)
Other	1,000	19,000
Tax effect of loss expiry	7,000	-
Change in valuation allowance	-	1,372,000
Recovery of future income taxes	\$ (200,000)	\$ 1,155,000

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

9. Income taxes (continued):

The components of the future income liability are as follows:

	December 31, 2008	June 30, 2008
Future income tax assets (liabilities):		
Book value in excess of tax basis of assets	\$(4,963,000)	\$ (4,966,000)
Non-capital losses	1,486,000	1,159,000
Share issue costs	999,000	1,129,000
	<hr/>	<hr/>
	\$ (2,478,000)	\$ (2,678,000)

As at December 31, 2008, the Company has Canadian non-capital losses available to carry forward to future years of approximately \$5,944,000 (June 30, 2008 - \$4,517,000).

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.

The Company considers its capital structure to include shareholders equity at this point. The Company's properties require significant capital investment prior to cash flow generation. At this early stage of its oil sands development the Company's access to debt is limited and it relies on equity issuances to fund capital investments.

The Company monitors capital to maintain sufficient working capital to fund general & administrative expenses and capital investments. The Company prepares monthly rolling twelve month budgets which are updated as varying factors including internal Company matters and varying external industry conditions.

The Company's share capital is not subject to external restrictions. The Company has not paid or declared dividends since reorganization, nor are any contemplated in the foreseeable future.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

11. Financial Instruments:

Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

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 counterparty will fail to perform its obligations. The Company is exposed to credit risk from its joint interest partners.

(b) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, loan receivable and accounts payable and accrued liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

12. Commitments:

At December 31, 2008 the Company is committed to annual lease payments under the terms of a lease for its office space of:

	Amount
2009	208,272
2010	208,272
2011	121,492
2012	-
2013	-
Thereafter	-
Total	\$ 538,036

The above commitment includes an estimate of the Company's share of operating expenses, utilities and taxes during the lease.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Financial Statements
(Unaudited)

Period ended December 31, 2008

13. Subsequent event:

On December 17, 2008, the Company signed a binding arrangement agreement whereby it will issue 10,000,000 shares to acquire all the currently issued and outstanding shares of Rochester Energy Corp. ("Rochester") or at an exchange ratio of 0.19 Southern Pacific shares for each Rochester share (the "Exchange Ratio"). As of December 15, 2008, there were 50,575,645 Rochester shares outstanding and a total of 34,629,187 Rochester shares issuable upon the exercise of Rochester convertible securities. Each outstanding Rochester warrant and option to acquire Rochester shares will be exercisable into Southern Pacific shares in lieu of one common share of Rochester on the same terms and conditions as the original warrant, option or other right after taking into consideration the Exchange Ratio. Rochester's board has unanimously approved the terms of the agreement and recommends that its shareholders support the transaction.

This transaction is conditional upon the receipt of shareholder, Court of Queen's Bench and regulatory approval, and receipt of third-party consents and other conditions customary in a transaction of this nature. The acquisition is anticipated to close on March 4, 2009. Rochester has agreed to pay a break fee of \$500,000 to Southern Pacific if Rochester terminates the transaction.