



SOUTHERN PACIFIC
RESOURCE CORP.

**Management's Discussion and Analysis for the
Three and Nine Months Ended March 31, 2010**

OVERVIEW

The following Management's Discussion and Analysis ("MD&A") is a review of the operations, current financial position and outlook for Southern Pacific Resource Corp (the "Company" or "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, 2009, the MD&A for the year ended June 30, 2009 and the interim consolidated financial statements for the three and nine months ended March 31, 2010. The financial statements and financial data contained in this MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") in Canadian currency. This MD&A is dated May 25, 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 period ended include the following:

- Averaged 4,217 barrels of oil equivalent per day (boe/day) of production in the three months ended March 31, 2010 and April's production is estimated at 4,650 boe/day;
- Delivered operating netbacks of \$39.97 per boe on overall Company production year to date;
- Achieved record funds from operations (cash flow) of \$13.0 million and net income of \$3.1 million for the quarter and cash flow of \$23.9 million and net income of \$9.5 million for the nine months year to date;
- Closed a \$100.8 million bought equity deal on May 18, 2010, with the proceeds being used to fund the equity component of the STP-McKay Thermal Project;
- Continued on track with the STP-McKay Thermal Project, including the completion of the Front End Engineering Design (FEED) study and a detailed wellbore design on budget and on time;
- Completed a successful 31 core-hole exploration program over the past winter under budget, and identified exploitable bitumen resources to support an additional 24,000 barrels per day (bbls/day) of incremental bitumen processing capacity on the McKay block; and
- Signed a definitive agreement to purchase the remaining 20% working interest in its McKay block and a 20% working interest in lands adjacent and near to its Mackenzie block for \$33 million on March 19, 2010.

OUTLOOK

The STP-Senlac Thermal Project acquired in November 2009 for \$89.7 million after closing adjustments has been successfully integrated into the Company. Plans are now being finalized to begin the drilling and construction of the next two phases of infill and steam assisted gravity drainage (SAGD) wells commencing in May 2010.

The STP-McKay project has been further advanced with the completion of the FEED study in March 2010 on budget and on time. Additional resource delineation drilling and geo-technical work on the proposed road were completed this winter. In December 2009 the Energy Resources Conservation Board (ERCB) and Alberta Environment (AENV) issued a routine series of Supplementary Information Requests (SIRs) to Southern Pacific regarding its STP-McKay

project application. Responses to these requests have all been completed and submitted back to the ERCB and AENV.

The finalization of the remaining funding requirements for STP-McKay remains a top priority for the Company. Southern Pacific continues to expect construction to commence on the STP-McKay Thermal Project in the fall of 2010. Once the project receives regulatory approval, the Company expects to fund the remaining portion of the STP-McKay Thermal Project through public and private market debt. The Company has commenced the initial phase of securing these debt facilities.

RESULTS OF OPERATIONS

Production

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Heavy oil (bbls/day)	4,063	-	2,400	-
Oil and NGLs (bbls/day)	28	-	32	-
Natural gas (mcf/day)	756	57	684	19
Total (boe/day)	4,217	10	2,546	3

Production for the three months ended March 31, 2010 averaged 4,217 boe/day compared to 10 boe/day in the comparative period in 2009. Production in the quarter was restricted by about 400 boe/day due to bottom hole pump repairs. Production returned to an average estimated rate of 4,650 boe/day in April 2010. Production for the nine months ended March 31, 2010 averaged 2,546 boe/day compared to 3 boe/day in the comparative period in 2009. The heavy oil production increase was a result of the Senlac acquisition. The oil, natural gas liquids (NGLs) and natural gas production increases were a result of the acquisitions of Rochester Energy and Saxony Petroleum in the prior year.

Product Prices

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Heavy oil (\$ per bbl)	62.75	-	60.83	-
Oil and NGLs (\$ per bbl)	72.29	-	68.59	-
Natural gas (\$ per mcf)	4.02	4.38	4.12	4.38
Combined average (\$ per boe)	61.66	26.28	59.31	26.28

Heavy oil prices received by the Company were \$62.75 per bbl for the three months ended March 31, 2010 and \$60.83 per bbl for the nine months ended March 31, 2010. The Company's heavy oil is a heavier gravity than the referenced WTI. Consequently, the market price realized by the Company is lower than WTI. The difference is known as the heavy oil differential.

Oil and NGL prices received were \$72.29 per bbl for the three month period ended March 31, 2010 and \$68.59 for the nine months ended March 31, 2010. Natural gas prices received were \$4.02 per thousand cubic feet (mcf) for the three months ended March 31, 2010 and \$4.12 per

mcf for the nine months ended March 31, 2010. On a combined average, the Company received \$61.66 per boe for the three months ended March 31, 2010 and \$59.31 per boe for the nine months ended March 31, 2010.

Operating Netbacks

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Combined average (\$ per boe)	61.66	26.28	59.31	26.28
Royalties (\$ per boe)	(11.10)	(9.86)	(9.35)	(9.86)
Operating costs (\$ per boe)	(11.45)	(15.08)	(9.89)	(15.08)
Transportation costs (\$ per boe)	(0.05)	-	(0.10)	-
Operating netback (\$ per boe)	39.06	1.34	39.97	1.34

Operating netbacks for the three month period ended March 31, 2010 were \$39.06 per boe, which is consistent with \$39.97 per boe for the nine months ended March 31, 2010.

Revenue

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Heavy oil	\$22,939,788	-	\$39,996,344	-
Light oil and NGLs	184,764	-	601,241	-
Natural gas	273,738	22,661	772,487	22,661
Total oil and gas revenue	23,398,290	22,661	41,370,072	22,661
Unrealized (loss) on financial instruments	(590,524)	-	(1,132,708)	-
Interest and other	4,286	155,953	10,929	535,280
Total revenue	22,812,052	178,614	40,248,293	557,941

Revenue from oil and natural gas for the three months ended March 31, 2010 was \$23.4 million, compared to \$0.02 million in the same quarter of the previous fiscal year. Revenue from oil and natural gas for the nine months ended March 31, 2010 was \$41.4 million, compared to \$0.02 million in the same period of the previous fiscal year. The heavy oil revenue increase was a result of the Senlac acquisition. The oil, NGLs and natural gas revenue increases were a result of the acquisitions of Rochester Energy and Saxony Petroleum in the prior year.

For the three and nine months ended March 31, 2010, the Company recorded unrealized losses on financial instruments of \$0.6 million and \$1.1 million respectively (March 31, 2009 - \$nil). This represents the change in fair value of the commodity contracts held by Southern Pacific. The intent of these collars was not to speculate on future commodity prices, but rather to protect the downside risk to the Company's cash flow. The risk in implementing collars is that future commodity prices could escalate beyond the ceiling price, limiting the Company's revenue. Details of the contracts are listed in the Commitments section of this MD&A.

Royalties

Royalties for the quarter ended March 31, 2010 were \$4.2 million, compared to \$8,500 in the same quarter of last year. Royalties represented 18% of total petroleum and natural gas revenue. On a per boe basis, royalties were \$11.10 for the third quarter.

Royalties for the nine month period ended March 31, 2010 were \$6.5 million compared to \$8,500 in the same period of 2009. Royalties represented 15.8% of total petroleum and natural gas revenue. On a per boe basis, royalties were \$9.35 for the nine month period.

Operating Costs

Operating costs were \$4.3 million for the quarter ended March 31, 2010 compared to \$13,000 in same period in the prior year. On a per boe basis, operating costs were \$11.45 for the three month period.

Operating costs were \$6.9 million for the nine month period ended March 31, 2010 compared to \$13,000 in the same period of last year. On a per boe basis, operating costs were \$9.89 for the nine month period.

Transportation Costs

Transportation costs were \$18,865 for the quarter ended March 31, 2010, compared to no costs during the three months ended March 31, 2009. On a per boe basis, transportation costs were \$0.05 for the three months ended March 31, 2010.

For the nine months ended March 31, 2010, transportation costs were \$70,811, compared to no costs during the comparable period in 2009. On a per boe basis, transportation costs were \$0.10 for the nine months ended March 31, 2010.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2010 totaled \$1.2 million, or \$3.11 per boe, compared to \$0.4 million for same quarter of fiscal 2009. For the nine month period ended March 31, 2010, general and administrative costs were \$2.5 million, or \$3.65 per boe, compared to \$1.6 million in the same period of 2009. The increase in the general and administrative costs is associated with the Senlac acquisition and the general increase in costs due to the Company's increase in size.

Interest and Financing

Interest expense was \$0.4 million for the quarter ended March 31, 2010, or \$1.07 per boe, compared to \$nil for the same quarter of the previous year. Interest expense for the nine months ended March 31, 2010 was \$0.9 million, or \$1.24 per boe, compared to \$nil for the same period in fiscal 2009. Interest expense is related to borrowings on the \$55 million demand revolving operating credit facility the Company has in place. Included in interest and finance fees were \$0.3 million in initial loan arrangement fees.

Depletion, Depreciation, and Accretion

Depletion, depreciation and accretion expense (DD&A) was \$10.0 million for the quarter ended March 31, 2010, compared to \$12,507 for the same quarter in the previous fiscal year. DD&A for the nine month period ended March 31, 2010 was \$18.5 million, compared to \$25,540 for the same period in fiscal 2009. The increase is due to the acquisitions of Rochester, Saxony and Senlac over the year and the associated production and capital assets that are related to these acquisitions. DD&A for the quarter ended March 31, 2010 was \$26.46 per boe and \$26.54 for the nine month period ended March 31, 2010.

Stock-Based Compensation

During the quarter ended March 31, 2010 stock-based compensation was \$1.0 million, compared to \$0.2 million for the same quarter in the prior fiscal year. For the nine month period ended March 31, 2010, stock-based compensation was \$2.4 million, compared to \$1.5 million for the same period of fiscal 2009. The increase was a result of new stock options vesting and being issued in the current quarter.

Income Taxes

Current income taxes for the three and nine month period ended March 31, 2010 were \$0.2 million and \$0.5 million respectively, compared to no current taxes for the same periods of 2009. Current income tax is a result of Saskatchewan capital tax from the Senlac heavy oil revenue.

Southern Pacific recorded a \$1.7 million recovery of future taxes for the three months ended March 31, 2010.

Southern Pacific estimates it has approximately \$130 million in tax pools and non-capital tax losses at March 31, 2010.

Net Income (Loss)

The Company recorded net income of \$3.1 million, or \$0.01 per share, for the three months ended March 31, 2010, compared to a net loss of \$0.4 million, or \$0.00 per share for the three months ended March 31, 2009.

Southern Pacific recorded net income of \$9.5 million, or \$0.05 per share, for the nine months ended March 31, 2010, compared to a net loss of \$2.3 million, or (\$0.02) per share, for the nine months ended March 31, 2009.

FUNDS FROM OPERATIONS

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Funds from (used in) operations	\$13,000,503	\$(465,775)	\$23,935,871	\$(1,283,028)
Funds from (used in) operations per boe	\$34.25	\$(540.14)	\$34.31	\$(1,487.86)
Funds from (used in) operations basic and diluted per share	\$0.06	\$0.00	\$0.13	\$(0.01)

Funds from operations were \$13.0 million for the quarter ended March 31, 2010 versus funds used in operations of \$0.5 million in quarter ended March 31, 2009. On a per share basis, this equaled \$0.06 versus \$0.00.

Funds from operations were \$23.9 million for the nine months ended March 31, 2010 versus funds used in operations of \$1.3 million in the nine months ended March 31, 2009. On a per share basis, this equaled \$0.13 versus \$(0.01).

CAPITAL EXPENDITURES

The capital expenditures on petroleum and natural gas assets made by Southern Pacific for the nine months ended March 31, 2010 and 2009 are summarized as follows in the following table:

	March 31, 2010	March 31, 2009
Land	\$2,206,308	\$1,147
Seismic, drilling and completion	11,168,449	2,166,883
Equipment	208,273	-
Acquisitions of petroleum and natural gas assets	129,376,426	8,130,909
Dispositions of petroleum and natural gas assets	(2,772,705)	-
Capital assets	432,002	6,195
Total	\$140,618,753	\$10,305,134

During the quarter, the Company sold non-core properties that were producing approximately 54 boe/day of production for cash proceeds of \$2.8 million.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2010, Southern Pacific had working capital deficiency of \$24.5 million, of which \$21.6 million relates to the bank loan. In conjunction with the Senlac acquisition, the Company entered into a \$45 million demand revolving operating credit facility with a Canadian chartered bank which replaced its existing facility. On March 9, 2010 the borrowing base was increased to \$55 million. 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.

	March 31, 2010
Bank lines available	\$55,000,000
Working capital deficiency	(24,548,367)
Capital resources available	\$30,451,633

Southern Pacific believes its available capital resources of \$30.5 million, its bought deal equity offering that closed on May 21, 2010 of \$100.8 million and budgeted future cash flow are sufficient to fund its future capital at Senlac and on its conventional properties of \$6.2 million and the initial portion of its capital on STP-McKay of \$50 million.

In order to fully finance the STP-McKay Thermal Project, 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 such as joint ventures. The Company is not planning to raise additional equity to fund its STP-McKay Thermal Project. Southern Pacific will actively manage its capital structure to meet its financial obligations and to finance the Company's growth.

COMMITMENTS

At March 31, 2010 the Company is committed to annual lease payments, on a calendar year basis, under the terms of a lease for its head office space and other office space acquired:

	Amount
2010	\$ 320,346
2011	306,223
2012	68,478
Total	\$ 695,047

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 its other office space to another Company on a month-to-month basis at March 31, 2010.

Southern Pacific has entered into the following commodity contracts as of May 25, 2010:

Period	Volume	Type	Price
April 1, 2010 to Nov. 30, 2010	1,000 gj/day	Natural gas swap purchase (AECO)	\$4.48
Jan. 1, 2010 to Dec. 31, 2010	1,000 bbls/day	Oil collar (WTI)	US\$70.00-US\$90.00
March 1, 2010 to Dec. 31, 2010	500 bbls/day	Oil collar (WTI)	US\$70.00-US\$90.00

OFF BALANCE SHEET ARRANGEMENTS

Southern Pacific has not entered into any off balance sheet arrangements at March 31, 2010.

TRANSACTIONS WITH RELATED PARTIES

During the three and nine months ended March 31, 2010, the Company incurred legal costs of \$57,030 and \$276,836 respectively (March 31, 2009 - \$26,840 and \$100,646 respectively) with a law firm in which the Corporate secretary is a Partner. The legal costs incurred were in the normal course of operations and were based on the exchange value of the service provided which approximates consideration negotiated by third parties for the services provided. Of the legal services provided, \$105,294 were included in accounts payable at March 31, 2010 (March 31, 2009 - \$79,296).

SUBSEQUENT EVENTS

On March 19, 2010, the Company signed an agreement to acquire the remaining 20% working interest in its 59 section McKay block and 20% working interest in lands adjacent and near its Mackenzie block for \$33.0 million, consisting of \$26.4 million in cash and by the issuance of 6.47 million shares at a \$1.02 per share. The transaction is anticipated to close on June 1, 2010.

On April 27, 2010 the Company entered into an agreement with a syndicate of underwriters to sell, on a bought deal basis, 84 million common shares of the Company at a price of \$1.20 per common share for total gross proceeds of \$100.8 million. In addition, the Company has granted the underwriters an over-allotment option to acquire an additional 12.6 million common shares at a price of \$1.20 per common share. The offering closed on May 18, 2010.

OUTSTANDING SECURITIES

Common Shares

There were 80,000 common shares issued during the nine month period at a weighted average exercise price of \$0.39 per share from the exercise of stock options. On November 3, 2009, 104,000,000 common shares were issued at \$0.50 resulting in 225,691,307 common shares outstanding as at March 31, 2010. There were 26,333 common shares issued between April 1, 2010 and May 25, 2010 from the exercise of stock options resulting in 225,717,640 common shares outstanding as at May 25, 2010.

Options and Warrants Outstanding

The following tables summarize information about the stock options and warrants outstanding at May 25, 2010:

Number of options	Exercise Price	Expiry Date
200,000	\$0.30	03/09/2011
1,581,700	\$0.50	11/22/2011
50,000	\$0.90	12/06/2011
1,125,000	\$3.15	06/08/2012
100,000	\$3.15	16/06/2012
25,000	\$3.15	17/09/2012
225,000	\$3.15	09/10/2012
2,565,000	\$1.90	07/01/2013
50,000	\$1.90	17/01/2013
1,210,000	\$1.05	08/05/2013
190,000	\$1.05	01/06/2013
250,000	\$1.05	19/06/2013
1,860,000	\$0.10	18/12/2013
50,000	\$0.51	27/05/2014
5,763,667	\$0.56	3/11/2014
900,000	\$0.77	26/11/2014
250,000	\$1.00	07/01/2015
75,000	\$1.17	31/03/2015
16,470,367		

Number of Warrants	Exercise Price	Expiry Date
242,677	\$2.02	18/07/2010
128,505	\$2.02	26/09/2010
1,566,278	\$2.02	23/03/2011
189,347	\$1.01	13/03/2012
2,126,807		

Escrowed Securities

Under a escrow agreement from the acquisition of Rochester, 172,053 common shares remain in escrow at March 31, 2010. During the period, 344,120 were released from escrow.

Also, 706,534 warrants are subject to an escrow agreement from the Rochester acquisition at March 31, 2010.

SELECTED FINANCIAL INFORMATION

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

	March 31	For the three month period ended		
	2010	December 31	September 30	June 30
		2009	2009	2009
Net revenue	\$18,598,936	\$14,784,488	\$343,676	\$472,831
Net income (loss)	\$3,104,044	\$7,088,932	\$(683,768)	\$(885,417)
Net income (loss) per share (basic and diluted)	\$0.01	\$0.04	\$(0.01)	\$(0.01)

	March 31	For the three month period ended		
	2009	December 31	September 30	June 30
		2008	2008	2008
Net revenue	\$170,114	\$128,326	\$251,001	\$243,461
Net income (loss)	\$(427,640)	\$(966,693)	\$(952,216)	\$(1,767,457)
Net income (loss) per share (basic and diluted)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.01)

ADOPTION OF NEW ACCOUNTING POLICIES

Effective July 1, 2009, the Company adopted CICA Section 3064 - Goodwill and Intangible Assets. This section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets other than the initial recognition of goodwill or intangible assets acquired in a business combination. The adoption of this new standard did not have an impact on Southern Pacific's financial statements.

Effective July 1, 2009, the Company prospectively adopted the CICA amendments to section 3855, "Financial Instruments – Recognition and Measurement." Amendments to this section have prohibited the reclassification of a financial asset out of the held for trading category when the fair value of the embedded derivative in a combined contract cannot be reasonably measured. The adoption of the amendments to this standard did not have impact the Company's financial statements.

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities." This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in

interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not have a significant impact on the Company's financial statements.

In June 2009, the CICA amended Section 3862 “Financial Instruments – Disclosures” to include additional disclosure requirements about fair value measurement for financial instruments and liquidity disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs in making the fair value measurements. Fair value of assets and liabilities included in Level One are determined by reference to quoted prices in active markets for assets and liabilities. Fair value of assets in Level Two include valuations using inputs other than quoted prices for which all significant outputs are unobservable, either directly or indirectly. Fair values in Level Three are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments were effective for the Company’s interim and annual financial statements beginning in January 1, 2010. The adoption of this standard did not have a material impact on the financial statements of the Company.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

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. The Company has met with its IT consultants to determine what changes need to be made to its information systems and is working internally and with its external auditors to identify the impacts on all other matters. The audit committee receives regular progress reports on the IFRS conversion.

Business Combinations

In January 2009, the CICA issued Section 1582 – Business Combinations. This section is 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 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 conventional oil and gas assets. Southern Pacific estimated these costs in accordance with the 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 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.

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:1 barrel is based on a 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 (used in) from 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:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Cash provided by (used in) operations	\$13,806,176	\$228,341	\$21,294,967	\$(1,670,841)
Change in non-cash working capital	(814,393)	(694,116)	2,621,727	387,813
Cash abandonment expenditures	8,720	-	19,177	-
Funds (used in) from operations	\$13,000,503	\$(465,775)	\$23,935,871	\$(1,283,028)

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, 2009, 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 its STP McKay Thermal Project, 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 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 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 Company. These risk factors are described in the Company's Annual Information Form filed on December 22, 2009 at www.sedar.com. Please refer to this document for more information.



**Consolidated Financial Statements for the
Three and Nine months ended March 31, 2010 and 2009
(Unaudited)**

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Balance Sheets

(Unaudited)

	March 31, 2010	June 30, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ -	\$ 6,587,696
Accounts receivable	9,770,871	724,868
Prepaid expenses and deposits	371,364	207,268
	10,142,235	7,519,832
Petroleum and natural gas properties (note 5)	240,316,880	117,911,405
	\$ 250,459,115	\$ 125,431,237
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,513,341	\$ 1,156,779
Taxes payable	448,622	-
Fair value of financial instruments (note 13)	1,132,708	-
Bank loan (note 6)	21,595,931	1,730,000
	34,690,602	2,886,779
Asset retirement obligations (note 7)	8,939,409	1,000,799
Future income tax	26,609,362	2,265,000
	70,239,373	6,152,578
Shareholders' equity		
Share capital (note 8)	169,749,541	120,993,836
Contributed surplus (note 9)	22,438,201	19,762,031
Deficit	(11,968,000)	(21,477,208)
	180,219,742	119,278,659
	\$ 250,459,115	\$ 125,431,237

Commitments (note 14)

Subsequent events (note 15)

See accompanying notes to financial statements.

On behalf of the Board:

Signed "David M. Antony"

Director

Signed "Douglas Allen"

Director

SOUTHERN PACIFIC RESOURCE CORP.

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

	Three months March 31,		Nine months March 31,	
	2010	2009	2010	2009
Revenue				
Petroleum and natural gas	\$ 23,398,290	\$ 22,661	\$ 41,370,072	\$ 22,661
Royalties	(4,213,116)	(8,500)	(6,521,193)	(8,500)
Unrealized (loss) on financial instruments	(590,524)	-	(1,132,708)	-
Interest and other	4,286	155,953	10,929	535,280
	18,598,936	170,114	33,727,100	549,441
Expenses				
Operating	4,345,743	13,000	6,897,708	13,000
Transportation	18,865	-	70,811	-
General and administrative	1,178,501	445,337	2,544,806	1,641,917
Interest and financing	405,122	-	864,032	-
Depletion, depreciation and accretion	10,041,099	12,507	18,516,610	25,540
Stock based compensation	981,573	206,910	2,382,983	1,495,533
	16,970,903	677,754	31,276,950	3,175,990
Income (loss) before income taxes	1,628,033	(507,640)	2,450,150	(2,626,549)
Income taxes				
Current expense	240,726	-	546,580	-
Future expense (recovery)	(1,716,737)	(80,000)	(7,605,638)	(280,000)
	(1,476,011)	(80,000)	(7,059,058)	(280,000)
Net income (loss) and comprehensive income (loss)	3,104,044	(427,640)	9,509,208	(2,346,549)
Deficit, beginning of period	(15,072,044)	(20,164,151)	(21,477,208)	(18,245,242)
Deficit, end of period	\$ (11,968,000)	\$ (20,591,791)	\$ (11,968,000)	\$ (20,591,791)
Income (loss) per share - basic and diluted	\$ 0.01	\$ (0.00)	\$ 0.05	\$ (0.02)
Weighted average number of shares outstanding:				
Basic	225,642,862	100,737,889	177,803,424	98,634,153
Diluted	231,054,124⁽¹⁾	101,324,329 ⁽¹⁾	181,167,787⁽¹⁾	99,821,605 ⁽¹⁾

See accompanying notes to financial statements.

(1) The Company excluded 6,990,000 options for the nine months ended and 5,740,000 for the three months ended (2009 – 5,808,941) and 2,126,807 warrants (2009 – nil) from the calculation of the weighted average number of shares as they were anti-dilutive.

SOUTHERN PACIFIC RESOURCE CORP.

Consolidated Statements of Cash Flows
(Unaudited)

	Three months March 31,		Nine months March 31,	
	2010	2009	2010	2009
Cash provided by (used in)				
Operations:				
Net income (loss)	\$ 3,104,044	\$ (427,640)	\$ 9,509,208	\$ (2,346,549)
Items not effecting cash				
Depletion, depreciation and accretion	10,041,099	12,507	18,516,610	25,540
Future income taxes recovery	(1,716,737)	(80,000)	(7,605,638)	(280,000)
Unrealized loss on financial instruments	590,524	-	1,132,708	-
Non-cash interest income	-	(177,552)	-	(177,552)
Stock based compensation	981,573	206,910	2,382,983	1,495,533
	13,000,503	(465,775)	23,935,871	(1,283,028)
Change in non-cash working capital	814,393	694,116	(2,621,727)	(387,813)
Cash abandonment expenditures	(8,720)	-	(19,177)	-
	13,806,176	228,341	21,294,967	(1,670,841)
Financing:				
Issuance of common shares, net of share issuance costs (note 8)	45,159	-	48,728,737	-
Repayment of bank loan	-	-	(1,730,000)	-
Increase (decrease) of bank loan	(9,516,388)	-	21,595,931	-
	(9,471,229)	-	68,594,668	-
Investments:				
Petroleum and natural gas expenditures	(11,947,880)	(153,771)	(14,015,032)	(2,870,700)
Corporate acquisitions, net of cash acquired (note 4)	(82,736)	(70,976)	(89,330,548)	(70,976)
Petroleum and natural gas dispositions	2,772,705	-	2,772,705	-
Loan receivable	-	-	-	(7,000,000)
Net change in non-cash working capital	4,922,964	(6,047,747)	4,095,544	-
	(4,334,947)	(6,272,494)	(96,477,331)	(9,941,676)
Net (decrease) in cash and cash equivalents	-	(6,044,153)	(6,587,696)	(11,612,517)
Cash and cash equivalents, beginning of period	-	15,701,879	6,587,696	21,270,243
Cash and cash equivalents, end of period	\$ -	\$ 9,657,726	\$ -	\$ 9,657,726

See accompanying notes to the financial statements

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

1. Incorporation and nature of operations:

Southern Pacific Resource Corp. and its subsidiaries Southern Pacific Energy Ltd., Senlac Oil Ltd. and Southern Pacific Resource Partnership (collectively the "Company") were incorporated under the Business Corporation Act of Alberta.

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

These interim consolidated financial statements were prepared using accounting policies consistent with those used in the preparation of the Company's consolidated audited financial statements for the year ended June 30, 2009, except for the adoption of new accounting policies as discussed below in note 2. The preparation of consolidated interim financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated interim financial statements and accompanying notes. Actual results could differ from these estimates. In management's opinion, the consolidated interim financial statements have been prepared within reasonable limits of materiality.

These interim consolidated financial statements do not include all the note disclosures required for the annual consolidated financial statements and as a result these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2009. All dollar amounts are stated in Canadian funds unless otherwise noted and certain comparative figures may have been reclassified to conform to the current year's presentation.

2. Changes in accounting policies:

- (a) The Company adopted Section 3064, "Goodwill and Intangible Assets" and amended Section 1000, "Financial Statement Concepts", clarifying the criteria for recognizing assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The adoption of this section did not have a material impact on the results of operations or financial position of the Company.
- (b) On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract, EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not have a significant impact on the Company's financial statements.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

- (c) In July 2009, the CICA amended section 3855, "Financial Instruments - Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective October 1, 2009. The adoption of this standard did not have any impact on the financial statements of the Company.
- (d) In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company adopted this standard prospectively effective January 1, 2010. The adoption of this standard did not have a material impact on the financial statements of the Company.

3. Future accounting pronouncements:

- (a) In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the impact of the adoption of this section.
- (b) 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 of the sections.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

4. Acquisition of Senlac Oil Ltd.:

On November 3, 2009, the Company acquired all of the outstanding common shares of Senlac Oil Ltd. ("Senlac"). The Senlac acquisition was accounted for by the purchase method and the shares were acquired for \$89,661,539. At the date of acquisition income taxes payable were estimated at \$1,095,604. Subsequently, income taxes payable were finalized and determined to be \$1,423,041, which has been reflected in the purchase price allocation. The purchase price was allocated to the estimated fair values of the assets and liabilities acquired as follows:

Allocation of purchase price	
Petroleum and natural gas assets	\$ 129,376,426
Working capital including cash of \$10,112	1,311,883
Income taxes payable	(1,423,041)
Asset retirement obligation	(7,653,729)
Future tax liability	(31,950,000)
	<u>\$ 89,661,539</u>

Calculation of purchase price	
Cash	\$ 88,946,258
Transaction costs including non-cash stock based compensation of \$320,154 ₍₁₎ (note 9)	715,281
	<u>\$ 89,661,539</u>

(1) Stock based compensation on 654,999 stock options issued to Senlac employees was fair valued at \$0.49 per share and attributed to the purchase. The exercise price of the stock options issued was \$0.56.

5. Petroleum and natural gas properties:

March 31, 2010		Accumulated Depletion/ Amortization	Net book value
	Cost		
Petroleum and natural gas assets	\$258,367,157	\$ (18,494,100)	\$239,873,057
Capital assets	553,806	(109,983)	443,823
	<u>\$258,920,963</u>	<u>\$ (18,604,083)</u>	<u>\$240,316,880</u>

June 30, 2009		Accumulated Depletion/ Amortization	Net book value
	Cost		
Petroleum and natural gas assets	\$118,185,103	\$ (331,500)	\$117,853,603
Capital assets	121,805	(64,003)	57,802
	<u>\$118,306,908</u>	<u>\$ (395,503)</u>	<u>\$117,911,405</u>

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

Costs primarily related to development of oilsands properties and undeveloped lands have been excluded from the depletion calculation. As at March 31, 2010, the total unproven costs were \$124,306,270 (March 31, 2009 - \$110,034,796). Future development costs on proven undeveloped conventional oil and gas reserves of \$17,051,100 (March 31, 2009 - \$Nil) are included in the depletion calculation.

6. Bank Loan:

In conjunction with the acquisition of Senlac on November 3, 2009, the Company entered into a \$45,000,000 demand revolving operating credit facility with a Canadian chartered bank which replaced its existing facility. On March 9, 2010 the facility was increased to \$55,000,000. The facility is secured by a first ranking floating debenture over all the assets of the Company. The facility bears interest at the bank's prime rate plus an applicable margin that ranges from 1.75% to 3.75%. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The borrowing base is subject to a semi-annual review by the bank with the next scheduled review to be completed prior to October 31, 2010. The effective interest rate before loan arrangement fees was 4.6% for the nine months ended March 31, 2010. Interest and finance costs for the nine months ended March 31, 2010 include loan arrangement fees of \$325,000. Under the loan agreement, the Company is subject to certain restrictive covenants which require the Company to obtain bank approval before undertaking certain actions. The Company is in compliance with all covenants at March 31, 2010.

7. Asset retirement obligations:

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

	March 31, 2010	June 30, 2009
Balance, beginning of period	\$8,773,493	\$ -
Liabilities assumed on acquisitions	-	880,565
Effect of change in estimates	4,114	107,724
Abandonment costs	(8,720)	(499)
Accretion expense	170,522	13,009
Balance, end of period	\$8,939,409	\$ 1,000,799

The total undiscounted amount of estimated cash flows required to settle the obligation is \$14,694,635 (June 30, 2009 - \$1,585,825), which has been discounted using a credit adjusted risk free rate of 8% and an inflation rate of 2.5%. Settlements will be funded from general corporate resources at the time of the properties' retirement and removal during the next 2 to 14 years.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

8. Share capital:

(a) Issued:

	Number of shares	Amount
Balance, June 30, 2009	121,611,307	\$120,993,836
Exercise of options	80,000	57,967
Issued for cash	104,000,000	52,000,000
Share issue costs	-	(3,302,262)
Balance, March 31, 2010	225,691,307	\$169,749,541

During the period, the Company closed a private placement of subscription receipts. On November 3, 2009, gross proceeds of \$52,000,000 were released from escrow. This was based on the proceeds of 104,000,000 subscription receipts issued at \$0.50 per subscription receipt. Common shares of the Company were issued to the holders of the subscription receipts on the basis of one underlying common share for each subscription receipt. As a result, the subscription receipts were cancelled, null and void.

At March 31, 2010, 172,053 common shares remain in escrow. During the period, 344,120 were released from escrow.

(b) Stock options:

The Company has implemented a stock option plan for Directors, Officers, employees and consultants.

	Number of options	Weighted Average Exercise Price
Balance, June 30, 2009	9,761,700	\$1.32
Granted	7,090,000	\$0.61
Forfeited	(275,000)	\$1.78
Exercised	(80,000)	\$0.39
Balance, March 31, 2010	16,496,700	\$1.01
Balance exercisable at March 31, 2010	11,745,030	\$1.18

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

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

Number of options	Weighted average remaining life (in years)	Weighted Average Exercise Price
200,000	0.94	\$0.30
1,581,700	1.65	\$0.50
50,000	1.68	\$0.90
1,125,000	2.19	\$3.15
100,000	2.21	\$3.15
25,000	2.47	\$3.15
225,000	2.53	\$3.15
2,565,000	2.78	\$1.90
50,000	2.80	\$1.90
1,210,000	3.08	\$1.05
190,000	3.18	\$1.05
250,000	3.22	\$1.05
1,860,000	3.72	\$0.10
50,000	4.16	\$0.51
5,790,000	4.60	\$0.56
900,000	4.66	\$0.77
250,000	4.78	\$1.00
75,000	5.00	\$1.17
16,496,700	3.51	\$1.01

The weighted average fair value of the options granted is estimated at \$0.68 (2009 – \$0.08) on the dates of grant using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk free interest rate	2.5%	2.1%
Expected life in years	5	5
Expected volatility	129%	124%
Dividend yield	0%	0%

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

(c) Broker options:

Broker option transactions are summarized as follows:

	Number of Broker Options	Weighted Average Exercise Price
Balance, June 30, 2009	255,182	\$ 4.12
Expired	(255,182)	4.12
Balance, March 31, 2010	-	-

(d) Warrants:

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2009	3,444,164	\$ 2.70
Expired	(1,317,357)	3.95
Balance, March 31, 2010	2,126,807	\$ 1.93
Balance exercisable at March 31, 2010	2,126,807	\$ 1.93

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

Number of Shares	Exercise Price	Expiry Date
242,677	\$ 2.02	July 18, 2010
128,505	\$ 2.02	September 26, 2010
1,566,278	\$ 2.02	March 23, 2011
189,347	\$ 1.01	March 13, 2012
2,126,807	\$ 1.93	

At March 31, 2010, 706,534 warrants are subject to an escrow agreement.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

9. Contributed surplus:

	March 31, 2010	June 30, 2009
Balance, beginning of period	\$19,762,031	\$ 18,067,022
Options exercised	(26,967)	-
Acquisitions (Note 4)	320,154	25,000
Stock-based compensation	2,382,983	1,670,009
Balance, end of period	\$22,438,201	\$19,762,031

10. Related party transactions:

During the three and nine months ended March 31, 2010, the Company incurred legal costs of \$57,030 and \$276,836 respectively (March 31, 2009 - \$26,840 and \$100,646 respectively) with a law firm in which the Corporate secretary is a Partner. The legal costs incurred were in the normal course of operations and were based on the exchange value which approximates consideration negotiated by third parties for the service provided. Of the legal services provided, \$105,294 were included in accounts payable at March 31, 2010 (March 31, 2009 - \$79,296).

11. Supplemental cash flow information:

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Interest paid	\$484,547	\$ Nil	\$811,508	\$ Nil
Income taxes paid	\$264,842	\$ Nil	\$425,394	\$ Nil

12. Capital management:

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

The Company considers its capital structure to include shareholders equity and bank debt which totals \$201,815,673 at March 31, 2010 (June 30, 2009 - \$121,008,659). The Company's in-situ oilsands properties require significant capital investment prior to cash flow generation. In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels and in light of changes in economic conditions. The Company monitors its bank debt level and working capital in order to assess capital and operating efficiency.

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

The Company's share capital and cash flow is not subject to external restrictions, however, the bank debt facility is based on petroleum and natural gas reserves and certain financial covenants (Note 6). The Company has not paid or declared dividends since its reorganization of management and change in principal business on March 2, 2006.

13. Financial instruments:

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

(a) Credit risk

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

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

As at March 31, 2010, accounts receivable includes a balance of \$418,167 over 90 days.

(b) Market risk

Market risk is the risk that results from changes in market prices such as commodity prices of its crude oil and natural gas and natural gas liquids, foreign exchange rates and interest rates which will affect the Company's net earnings or the value of its financial instruments which will fluctuate due to changes in the market prices.

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

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

The Company recognizes the fair value of its financial instruments on the balance sheet each reporting period with the change in fair value recognized as an unrealized gain or loss on the statement of earnings. The fair value is at a Level 2 based on quoted market prices. At March 31, 2010 the fair value is estimated to be a net liability of \$1,132,708.

Southern Pacific has entered into the following contracts as of March 31, 2010:

Period	Volume	Type	Price	Unrealized gain (loss) for the	
				three months ended Mar 31, 2010	nine months ended March 31, 2010
Nov 1, 2009 to Mar. 31, 2010	400 gj/day	Natural gas collar (AECO)	\$4.00 - \$5.85	2,435	-
Apr. 1 2010 to Nov 30, 2010	1000 gj/day	Natural gas swap purchase (AECO)	\$4.48	(179,728)	(179,728)
Jan. 1, 2010 to Dec. 31, 2010	1,000 bbls/day	Oil collar (WTI)	US \$70.00 – US \$90.00	(95,571)	(635,320)
Mar. 1, 2010 to Dec. 31, 2010	500 bbls/day	Oil collar (WTI)	US \$70.00 – US \$90.00	(317,660)	(317,660)
				(590,524)	(1,132,708)

(c) Liquidity risk

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

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

The following are the contractual maturities of financial liabilities as at March 31, 2010:

Financial Liability	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	\$ 11,513,341	\$ -	\$ 11,513,341
Financial Instruments	1,132,708	-	1,132,708
Bank Loan	\$ 21,595,931	\$ -	\$ 21,595,931

SOUTHERN PACIFIC RESOURCE CORP.

Notes to the Consolidated Financial Statements
(Unaudited)

Three and nine months ended March 31, 2010 and 2009

(d) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank loan approximates its fair value due to the immediate or short term maturity of these instruments. The fair value of financial instruments is recognized on the balance sheet and is discussed above in note 13b.

(e) Interest rate risk

The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest (Note 6). At March 31, 2010, the Company had no exchange rate contracts or interest swap contracts in place. At March 31, 2010 the Company's bank debt of \$21,595,931 is subject to movements in floating interest rates. An increase or decrease of 1 percent in interest rates would impact the net earnings for the nine months ended March 31, 2010 by approximately \$215,000.

14. Commitments:

At March 31, 2010 the Company is committed to annual lease payments, on a calendar year basis, under the terms of a lease for its head office space and other office space acquired:

	Amount
2010	\$ 320,346
2011	306,223
2012	68,478
Total	\$ 695,047

The above commitment includes an estimate of the Company's share of operating expenses, utilities and taxes during the term of the lease. The Company is also subleasing its other office space to another company on a month-to-month basis at March 31, 2010.

15. Subsequent events:

On March 19, 2010, the Company signed an agreement to acquire the remaining 20% working interest in its 59 section McKay block and 20% working interest in lands adjacent and near its Mackenzie block for \$33,000,000 consisting of \$26,400,000 in cash and by the issuance of 6,470,000 shares at a \$1.02 per share. The transaction is anticipated to close on June 1, 2010.

On April 27, 2010 the Company entered into an agreement with a syndicate of underwriters to sell, on a bought deal basis, 84,000,000 common shares of the Company at a price of \$1.20 per common share for total gross proceeds of \$100,800,000. In addition, the Company has granted the underwriters an over-allotment option to acquire an additional 12,600,000 common shares at a price of \$1.20 per common share. The offering closed on May 18, 2010.