Southern Pacific Announces Review of Strategic Alternatives to Enhance Shareholder Value and Provides Operational Update

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CALGARY, ALBERTA--(Marketwired - Dec 11, 2013) - Southern Pacific Resource Corp. ("Southern Pacific" or the "Company") (TSX:STP) today announces that its Board of Directors has initiated a process to identify, examine and consider strategic and financial alternatives available to the Company with the ultimate view of enhancing shareholder value.

Strategic and financial alternatives may include, but are not limited to, the sale of the Company, merger or other business combination, recapitalization, sale of all or a portion of the Company's assets, or any combination thereof, and continued execution of its business plan, among all other alternatives. The Board of Directors has established a Special Committee comprised of independent directors to oversee the process and RBC Capital Markets have been retained to assist the Special Committee and the Company with this process.

It is the Company's current intention not to disclose developments with respect to the strategic review process until the Board of Directors has approved a specific transaction or otherwise determines that disclosure is necessary or appropriate. The Company will provide quarterly financial and material operational updates. The Company cautions that there are no assurances or guarantees that the process will result in a transaction or, if a transaction is undertaken, the terms or timing of such a transaction.

November Operational Update

For the month of November, total Company production, which included bitumen production from STP-McKay and heavy oil from STP-Senlac averaged 4,010 barrels per day ("bbl/d").

At STP-Senlac, production averaged 2,296 bbl/d for the month of November. All well pairs ran steady for the month including the recently worked over well pair, K3, which had been plugged back due to a liner failure in October. Phase L, which includes three additional well pairs has full regulatory approval, is in the design phase, with plans to spud the first well by the end of calendar Q1 2014.

At STP-McKay, production averaged 1,714 bbl/d for the month of November. Production for November was intentionally cut back as the Company elected to shut-in two of its best conformed well pairs for approximately six days each in order to run a fibre optic temperature measurement string into the producer and conduct temperature fall off tests. These tests were necessary in order to accurately determine the level of wellbore conformance that has been currently attained on both of these well pairs. This data has assisted in determining potential peak rates from the pairs, and determining the best courses of action to accelerate wellbore conformance on these and the remaining well pairs. On these two well pairs, which currently produce at rates in excess of 375 bbl/d each, it was determined the level of conformance ranged between 50% to 62% of the horizontal length. The results demonstrate that conformance has improved significantly over the past year. It also indicates that there is still further conformance required before these wells will reach their peak rates, and the Company believes that with additional time or the implementation of one of the acceleration techniques the Company is evaluating, each of these well pairs has the potential to achieve rates of 700 bbl/d or greater. The decrease in project production for the month of November to conduct these necessary tests was approximately 200 bbl/d and these well pairs have fully resumed their pre-shut in production rates.

Workovers remain ongoing on three of the well pairs as discussed in the previous operations update (November 14, 2013) and are expected to be complete by January 2014. On the first workover (well pair 1P2), a five centimetre liner failure was observed near the toe of the well pair when the tubulars were removed, indicating a steam short circuit had developed between the injector and producer. The well pair has been cleaned and will be left shut-in until the end of December, awaiting the arrival of a new completion string. The service rig is currently on the second workover (well pair 1P4), and has been experiencing some operational and weather related issues, however the workover is expected to be completed prior to December 31, 2013. The purpose of this workover was to place a packer between the heel and toe sections of the wellbore in order to accelerate wellbore conformance down the entire wellbore length. The final workover on 2P4 will involve the setting of an isolation packer to seal the short circuit on this well pair that was developed and patched back in January 2013.

Finally, Jeff Barefoot, Vice President Marketing and Transportation has left to pursue other opportunities effective December 6, 2013. We thank Jeff for his past contributions and wish him well in his new endeavors.

Outlook

November 2013, marked the end of the first year that meaningful bitumen production has been recovered from the STP-McKay project. Over that year, the longer than expected production ramp-up can be attributed to managing the issue of inadequate wellbore conformance and having to control well pair production rates when a localized section of the well pair develops a steam short circuit. We have gathered a strong understanding of the mechanics of how the short circuits have developed in certain well pairs and have implemented a number of different techniques to improve overall conformance while protecting well pair integrity. These techniques, such as controlling the production rate, High Pressure Steam Stimulation ("HPSS") and perforating have been completed on various wells and have all had certain levels of success in accelerating conformance. We continue to refine these techniques as we gain more experience in this field. A newer technique to the steam-assisted gravity drainage ("SAGD") industry is the implementation of inflow control devices ("ICD's") which are downhole devices that compartmentalize the producer of the well pair and effectively isolate steam short circuits while allowing the rest of the wellbore to be produced. Southern Pacific has extensively analyzed these tools and plans to implement them into a couple of existing well pairs early in 2014. All of these techniques are and will continue to be evaluated for use at STP-McKay, however, these are all acceleration techniques, and if given appropriate time, the Company expects that well pair conformance will develop on its own.

The other aspects of the project continue to perform well. Our Steam Oil Ratio ("SOR") for the project sits at 5.3 for November and is averaging about 3.8 on our five most conformed well pairs. Our monthly reservoir water losses are within acceptable limits, averaging 8%, indicating that no significant thief zones currently exist. Our surface facilities continue to run well, and we are producing on-spec dilbit which has been successfully marketed to the U.S. Gulf Coast by rail. Excess rail cars have been sub-leased on short term agreements.

With the conclusion of our recent fall off tests on our best wells, along with our technical data gathered on the remaining wells, Southern Pacific expects that these original twelve well pairs will have the potential to ramp in aggregate to a rate of approximately 7,000 bbl/d by the first calendar quarter of 2015. If conformance can be accelerated by the use of technology such as ICD's, the ramp-up timing may be accelerated. Steam generation is expected to be at about 60% of its design capacity, thus leaving the plant underutilized. At this expected production rate and current commodity prices, the project could be generating in excess of $14 million per quarter of net operating income.

The Company has elected to move forward with plans to drill additional SAGD well pairs which are expected to fill up the plant to the nameplate capacity of 12,000 bbl/d for Phase 1. It is anticipated that the most cost effective and efficient method to increase production rates is to proceed with a downspacing SAGD program on the current Pad 102. The existing well pairs on Pad 102 are spaced about 100 metres apart, and it is the Company's plan to drill six additional well pairs on this pad, effectively reducing spacing to 50 metres. Advantages to downspaced well pairs include low reservoir risk due to the existing delineation and decreased costs as it will not be necessary to construct additional emulsion and steam lines to these well pairs. There is adequate room on the existing pad to accommodate new well pairs, so no additional groundwork is anticipated. A detailed engineering study has been completed which estimates the cost of this program to be approximately $51 million. The Company will be required to file a routine amendment to its current project approval scheme, and approval would be expected to be obtained in three to six months. It is expected then that first steam to these new well pairs would commence in early 2015 with production commencing after a three to four month circulation phase. The well pairs will be drilled and completed in a manner that would incorporate all learnings from the first 12 well pairs and we would expect a more accelerated 12 to 18 month production ramp up on these wells.

The determination that additional capital will be required to fill the STP-McKay project to capacity, coupled with the understanding of the ramp-up rate on the existing 12 well pairs has resulted in the Company's Board of Directors electing to initiate a process of examining all options available to maximize shareholder value as the Company moves forward.

About Southern Pacific

Southern Pacific Resource Corp. is engaged in the exploration, development and production of in-situ thermal heavy oil and bitumen production in the Athabasca oil sands of Alberta and in Senlac, Saskatchewan. Southern Pacific trades on the TSX under the symbol "STP."

Advisory

This news release contains certain "forward-looking information" within the meaning of such statements under applicable securities law including estimates as to: future production, operations, operating costs, commodity prices, administrative costs, commodity price risk management activity, acquisitions and dispositions, capital spending, access to credit facilities and lending costs, income and oil taxes, regulatory changes, and other components of cash flow and earnings anticipated discovery of commercial volumes of bitumen, the timeline for the achievement of anticipated exploration, anticipated results from the current drilling program, workovers and any conformance acceleration techniques such as HPSS or the use of ICDs, and, subject to regulatory approval and commercial factors, the commencement or approval of any SAGD project, the potential results of the strategic alternative review process and enhancement of shareholder value, disclosure intentions with respect to the strategic alternative review process, and general economic outlook.

Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur. These statements are only predictions. Forward-looking information is 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, but are not limited to the inherent risks involved in the exploration and development of oil and gas properties and of oil sands properties, strategic alternatives, conformance acceleration techniques, delays in ramp-up operations, the uncertainties involved in interpreting drilling results and other geological data, fluctuating oil prices and discounts, the possibility of unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors including unforeseen delays. As an oil sands enterprise in the development stage, Southern Pacific faces risks including those associated with exploration, development, ramp-up, approvals and the continuing ability to access sufficient capital from external sources if required. Actual timelines associated may vary from those anticipated in this news release and such variations may be material. Industry related risks could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans, risks associated to the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of production, costs and expenses. For a description of the risks and uncertainties facing Southern Pacific and its business and affairs, readers should refer to Southern Pacific's most recent Annual Information Form. Southern Pacific undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, unless required by law.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as the factors are interdependent, and the Board's and management's future course of action would depend on its assessment of all information at the time.

The reader is cautioned not to place undue reliance on this forward-looking information.

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