



SXR

Southern Cross Resources Inc.

2005 First Quarter Report to Shareholders

Highlights

- Revised resource at Goulds Dam completed
- New unconformity style uranium project in South Australia announced
- Geophysical surveys at Athabasca properties refine and increase drilling targets
- Uranium spot price increased to \$ US 26.25/lb (the May 3 weekly increase was \$ US 2.25/lb)
- \$4.74M cash at quarter end and no debt

Goulds Dam

Just after quarter end, Southern Cross Resources Inc (“the Company or SXR”) announced a revised Indicated Mineral Resource estimate for its Goulds Dam Prospect of 1.7 million tonnes at 0.12% U₃O₈ for 2,000 tonnes U₃O₈ (4.4 M lbs). Goulds Dam is located on Exploration Licence 2956,75 kms northwest of Honeymoon and the aim of drilling in this area is to delineate resources that have potential to add mine life to the Honeymoon In Situ Leach (ISL) mining project.

The revised resource is based on drilling completed in November 2004 using Prompt Fission Neutron (PFN) logging to directly measure uranium grades and it supersedes the previous 2001 estimate of 5.6 million tonnes at 0.045%

U₃O₈ for 2,500 tonnes U₃O₈ (5.5 M lbs) which relied on historical drilling using less accurate gamma logging. The present estimate is based on a 0.03% U₃O₈ grade cut-off and 0.10 m% U₃O₈ grade-thickness (GT) secondary cut-off. Full details are set out in a NI43-101 technical report prepared by Ken Bampton dated 4 April 2005, a copy of which is available on www.sedar.com.

Despite a 20% reduction in contained uranium compared to the 2001 resource estimate, the new resource has greater economic potential, being more than double the grade in less than one third of the volume, thus providing an opportunity for better extraction efficiency and lower operating costs. The revised resource excludes very low grade and thin mineralisation.

The revised Goulds Dam resource is comparable in grade to the Honeymoon deposit. While Goulds Dam is too small to be mined on its own, any new discoveries in the under-explored region could potentially allow future development which would also be subject to EIS and other permitting requirements.

The recent drilling of the Goulds Dam deposit has focused solely on one kilometre of the known 100 linear kilometres of palaeodrainage currently held by SXR in three Tertiary uranium exploration licences covering 1,900 km². In the second quarter 2005, SXR plans to continue exploring the Billeroo and Curnamona Palaeodrainage systems testing new targets identified by recent geophysical surveys.

South Australian Unconformity-type Uranium Exploration

The Company also announced that, as part of its expansion strategy, it had signed a letter agreement to exclusively explore for unconformity (Athabasca) type uranium mineralisation on Exploration Licence (EL) 3214 “Karkarook” in South Australia. The agreement is with Olliver Geological Services Pty Ltd (OGS), an unlisted Australian company which retains the rights to gypsum and other near-surface industrial minerals.

This area has also attracted the interest of Cameco which has recently applied for several ELs on the Eyre Peninsula adjacent to EL 3214. The reason for interest in this region is that previous explorers, including Pancontinental Mining Ltd. and PNC Exploration Pty. Ltd. who were active prior to 1983, recognised that the geological setting was similar to that of the Athabasca Basin in Saskatchewan, Canada. Follow-up work was not undertaken because of the uranium development policies introduced by the former Federal Labour government during their term of office from 1983 to 1996 and, after 1996, as a result of record low uranium prices.

From execution of the OGC letter agreement and payment of \$A2,000, SXR has secured a 90% interest in, and exclusive right to explore for uranium and all minerals except gypsum and near surface industrial minerals on tenement EL 3214. The quantum and timing of exploration expenditure on the tenement is at the discretion of SXR. OGS will have a 10% free carry until SXR has expended \$A1 million. At that point, OGS must spend its 10% share of expenditure or be diluted to 1%. SXR must enter into a formal JV not later than 2 years after signing the letter agreement and during this time maintain the tenement in good standing. SXR can terminate the agreement with three months notice.

Work on the OGC joint venture area will initially include examination of all previous drill results and a complete interpretation of existing geophysical datasets. This evaluation work will be completed to identify targets and plan an exploration campaign.

Canadian Unconformity-type Uranium Exploration (SXR Earning 50% interest)

Moving to Canadian exploration activities under the operator-ship of Pitchstone Exploration Ltd. BHP Billiton's FALCON® high resolution airborne gravity-gradiometry system has been successfully flown over the Darby, Candle, and Waterfound properties. FALCON® measures very subtle changes in the earth's gravitational field while simultaneously collecting magnetic and radiometric data along close spaced flight lines. The data provide a detailed map of the density distribution of the rocks, allowing an improved interpretation of basement geology and structural architecture. The results show clearly defined gravity responses coinciding with significant electromagnetic (EM) conductors and magnetic lows, highlighting attractive locations for drilling. It is the first airborne gravity survey flown in the Athabasca Basin and the first time FALCON® has been used as an exploration tool for uranium deposits. An additional 2,430 ha of land contiguous with Waterfound was acquired by staking in order to provide increased protection around drill targets.

Also, Fugro Airborne Surveys MEGATEM® electromagnetic/magnetic system was flown over the Moon Lake and Lynx Lake properties with the aim of providing coverage for the total area of the claims and clarifying reported conductors. These deeply penetrating surveys were completed in January 2005 and the data is under analysis. Fixed-loop ground EM surveys have also been completed at Waterfound and Darby, and have extended known conductors. In addition, a surface gravity survey has been completed at Candle to better resolve a complex area where several conductors converge in proximity to a gravity high.

The operator, Pitchstone, is currently soliciting bids for 8,600 meters of diamond drilling and the drilling campaign is planned to commence in the second half of 2005.

Global Uranium Compilation/Project Generation

During the quarter, SXR began compiling a comprehensive global database of uranium deposits and occurrences. This database, which focuses on the technical aspects of the global distribution of uranium, is being used to identify the best projects to target for future expansion. In addition, the database is being used to develop new conceptual uranium

projects in areas with little historical exploration which possess the key ingredients seen in uranium provinces elsewhere.

SXR's recently acquired Karkarook Joint Venture is an example of this conceptual project generation. Karkarook is only part of a much larger project currently being generated in South Australia by applying principles adopted from the Athabasca and Northern Australian unconformity-style uranium deposits. Ongoing work includes applying for exploration licences, re-logging historical drill core, researching open file reports and reprocessing existing geophysical datasets.

Market Movements

The spot U₃O₈ uranium price has moved up from \$US20.70 per lb at December 31, 2004 to \$US23.00 per lb at the end of the quarter and, at the time of writing this report, to \$US26.25 per lb. Long Term prices have moved from \$US25.00 per lb to \$US27.00 per lb and are now \$US28.00 per lb.

Company Promotion

During the quarter the Company raised its presence at industry conferences with successful booths and presentations at the Vancouver Investment Conference and also the Prospectors and Developers Association of Canada (PDAC) annual conference in Toronto. At PDAC, SXR introduced its new logo (as above) and branding that is designed to complement the growth and diversification strategy that has generated new projects outside of Australia.

SXR Strategy

The focus of Southern Cross will be to:

- develop Honeymoon to provide sustaining cash flow when the economics are right. Current activity is to identify capital and operating cost savings.
- continue to explore for Tertiary uranium in South Australia.
- commence a substantial drilling campaign in the Athabasca.
- plan and progress exploration on the new Australian unconformity – type uranium project, and
- continue project generation efforts by way of staking claims, acquisition or merger.

management discussion and analysis

General The following discussion of performance, financial condition and future prospects should be read in conjunction with the consolidated financial statements of the Company and related notes thereto for the first quarter ended March 31, 2005, which have been prepared in accordance with Canadian generally accepted accounting principles. This discussion covers the last completed quarter ended March 31, 2005, and up to the date hereof. All dollar amounts are Canadian dollars unless otherwise indicated.

Overall Performance During the quarter ended March 31, 2005, the Company invested \$500,455 (Q1 2004: \$507,081) in exploration and development of its South Australian and Canadian uranium properties. In South Australia, activities focused on estimating the revised Mineral Resource for Goulds Dam based on drilling conducted during the fourth quarter of 2004 (refer news release dated April 7, 2005 filed on Sedar). In Canada, the focus was on analysing results from BHP Billiton's FALCON® high resolution airborne gravity-gradiometry survey flown over the Darby, Candle and Waterfound properties in the Athabasca Basin during the last quarter of 2004. Results clearly show defined gravity responses coinciding with electromagnetic conductors and magnetic lows, which has refined and identified additional drilling targets (refer news release dated February 28, 2005). In parallel, the Operator conducted ground preparations to prepare for drilling in the second half of 2005 and throughout 2006.

Summary of Deferred exploration and development expenditure for the quarter ended March 31, 2005:

	\$
Athabasca Basin: Gravity survey and ground preparation	251,686
Goulds Dam resource evaluation	85,365
Project Generation	26,752
Honeymoon Project: Landholding and Native Title	136,652
	<hr/> 500,455

Results of Operations During the first quarter ended March 31, 2005, revenue, which consisted of interest income, was \$54,584 (Q1 2004: \$89,670). The reduction in interest was due to a lower cash balance on deposit compared to the same period last year. Other income of \$14,354 (Q1 2004: \$45,834) was generated from the rental of equipment and camp facilities. Total expenses for the first quarter of 2005 of \$840,737 (Q1 2004: \$196,529) includes compensation expense of \$292,290 (Q1 2004: nil) in relation to the issuance of employee options, a foreign exchange loss of \$25,737 (Q1 2004: gain \$103,991) and an overall increase of \$222,190 in other general and administrative expenses. The company now has 11 effective full time and contract (or part time) employees, compared to 7 during the first quarter of 2004 which is the main contributor to the increase in expenses.

Summary of Quarterly Results The following table provides selected consolidated financial information that should be read in conjunction with the consolidated financial statements of the Company. All dollar amounts are stated in Canadian dollars.

	2005	2004				2003		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	68,938	60,712	79,425	81,448	135,504	-1,232,735	1,267,227	3,949
Net loss (profit)	771,799	2,581,630	356,689	812,912	61,026	719,102	985,850	60,289
Loss (earnings) / share	0.01	0.04	0.00	0.02	0.00	0.00	-0.02	0.02

The above table shows amounts as published in the interim consolidated financial statements for the applicable period.

In 2005, the net loss presented in Q1 of \$771,799 includes non cash expenses of \$356,885 and cash expenses of \$414,914. The cash expenses for Q1, 2005, are on budget. The net loss of \$2,581,630 in Q4, 2004, included non-cash write-off and depreciation of \$2.2 million.

Liquidity and Capital Resources During the quarter, the Company received \$273,609 from parties exercising 420,937 share purchase warrants. Overall, the Company's cash and cash equivalents at the end of the first quarter was \$4,740,768 (Q1 2004: \$7,701,619). Overall expenditures on administrative and development activities were within budget and the Company is funded to perform planned exploration on its South Australian and Canadian properties beyond December 31, 2005.

Critical Accounting Estimates Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model, however the future volatility is uncertain and the model has its limitations.

The Company's recoverability of its recorded value of its mineral properties and associated deferred expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

Changes in Accounting Policies	<p>Stock Based Compensation</p> <p>In 2003, the Company adopted the recommendations for fair value accounting of employee stock option grants under section 3870 of Canadian Institute of Chartered Accountants Handbook. These recommendations require compensation costs, for stock options granted to employees, be recorded in earnings based on the fair value of the options on the grant date. Previously these costs were disclosed in the notes to the consolidated financial statements. This policy change was adopted on a prospective basis and an expense was recorded in 2003. The expense for the first quarter of 2005 recorded as a result of this policy is \$292,290.</p>
Commitments	<p>During the quarter ended March 31, 2005, there was no material changes in the specified contractual obligations detailed in the annual MD&A for the year ended December 31, 2004.</p>
Related Parties	<p>During the past two years, the Company had financial transactions involving some directors and officers in relation to the provision of long term debt from Resource Capital Fund L.P. (“RCF”). On February 17, 2004, this debt was extinguished. A former company director, Mr James McClements, is also a senior partner of RCF Management L.L.C., which manages RCF.</p>
Permit and Licensing Status	<p>On February 8, 2002, following resolution of Native Title agreements, the State Government of South Australia issued Mining Licence 6109. All regulatory approvals required to proceed into commercial production at Honeymoon have been obtained.</p>
Risks and Uncertainties	<p>The market price of uranium is influenced by a number of factors including demand from nuclear power reactors, inventory levels (including inventory made available under international agreements for the decommissioning of military weapons) and the production levels and operating and capital costs of mining companies.</p> <p>Most uranium is sold by producers under medium to long-term contracts with nuclear utilities. The Company has entered into agreements for the sale of uranium to customers in North America and Europe and the fulfilment of the contracts will depend on the Company being able to enter into commercial production.</p> <p>Currency fluctuations could significantly influence profitability of the Company as revenue from uranium sales will be received in US dollars while operating costs may be in other currencies.</p> <p>In the event the Company proceeds with production at Honeymoon, additional financing will be required on commercially acceptable terms.</p>
Future Prospects	<p>In South Australia, the Company will continue with drilling to assess the potential to expand resources at Goulds Dam. The company has also recently signed a letter agreement to exclusively explore for uranium mineralization on Exploration Licence 3214 “Karkarook”, which has a similar geological setting to the Athabasca Basin in Canada. Dependant on the outcome of further research of results from past explorers prior to 1983 and new geophysical surveys, drilling may commence during 2005.</p> <p>In Canada, the Company, through its joint venture partner and operator, Pitchstone Exploration Limited, started ground preparations for drilling its joint ventured properties in the Athabasca Basin. Drilling is scheduled to commence in second half of 2005 and continue throughout 2006. The Company will also pursue the acquisition and/or mergers of new projects where value can be added and/or synergies exist.</p>

Others General

The Company also discloses information related to its activities in the Annual Information Form. Additional information on the Company, including its Annual Information Form is available on SEDAR at www.sedar.com.

Outstanding share data

As of April 18, 2005, the Company had 62,829,926 shares outstanding and 76,678,098 on a fully diluted basis (December 2004 – 61,908,989 and 74,553,098 respectively). The major component of this increase in shares outstanding was the exercise of 420,937 Series “C” warrants and the issuance on January 4, 2005, of the second tranche of 500,000 common shares as per the Letter Agreement entered with Pitchstone Exploration Limited on September 7, 2004. (see note 4). The increase on a fully diluted basis is attributable to the issuance of 875,000 employee stock options and 750,000 common share purchase warrants as per the Letter Agreement entered with Pitchstone Exploration Limited.

The table below summarizes information about the stock options outstanding as at April 18, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as at April 18, 2005	Weighted Avg Remaining Life (years)	Weighted Avg Exercise Price \$	Number Exercisable as at April 18, 2005	Weighted Avg Exercise Price \$
\$0.38 – 0.40	450,000	3.30	0.38	316,667	0.38
\$0.62	50,000	3.56	0.62	50,000	0.62
\$0.75 – 0.85	860,000	1.31	0.76	860,000	0.76
\$0.92 – 1.00	2,020,000	4.11	0.98	1,090,000	0.99
\$1.20	550,000	1.86	1.20	550,000	1.20
	3,930,000	3.13	0.89	2,866,667	0.89

The table to the right summarizes information about the outstanding warrants as at April 18, 2005:

	Total Outstanding	Exercise Price \$	Expiry Date
Series C warrants	2,895,239	0.65	July 11, 2005
Series C warrants	250,000	0.65	August 8, 2005
Conversion warrants	4,857,143	0.65	August 31, 2005
Pitchstone warrants (note 4)	750,000	1.39	September 16, 2007
	750,000	1.39	January 4, 2008
Share Purchase Warrants	9,502,382		
Broker warrants	315,790	1.15	December 16, 2005
Broker warrants	100,000	1.35	October 5, 2006
Compensation Warrants	415,790		
Total	9,918,172		

Forward-Looking Statements

This quarterly report contains certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

notice to reader

The accompanying unaudited interim consolidated financial statements and all information contained in the attached 2005 first quarter report have been prepared by and are the responsibility of the management of the Company.

The Audit Committee of the Board of Directors, consisting of three members, has reviewed the financial statements and related financial reporting matters.

The Company's independent auditors, KPMG LLP, Chartered Accountants, have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.



Mark Wheatley
Chief Executive Officer
May 3, 2005



Leigh Curyer
Chief Financial Officer

Consolidated Balance Sheets

<i>As at March 31 (Canadian dollars)</i>		2005	2004
Assets	Current		
	Cash and cash equivalents	4,115,768	4,362,557
	Short-term investments	625,000	1,000,000
	Accounts receivable and other	87,676	244,885
		4,828,444	5,607,442
	Property, plant and equipment (note 3)	37,164,634	35,547,986
		41,993,078	41,155,428
Liabilities	Current		
	Accounts payable and accrued liabilities	329,582	412,282
	Non-Current		
	Loan payable (note 5)	–	–
		329,582	412,282
Shareholders' Equity	Share capital (note 6(a))	49,394,503	48,485,894
	Warrants (note 6(c))	1,188,612	697,362
	Contributed surplus (note 6(b))	759,563	467,273
	Deficit	(9,679,182)	(8,907,383)
		41,663,496	40,743,146
		41,993,078	41,155,428

Basis of presentation (note 2)

Commitments (notes 4 and 9)

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Directors



Director
February 3, 2005



Director

Consolidated Statements of Operations and Deficit

<i>For the quarters ended March 31 (Canadian dollars)</i>		2005	2004
Revenues	Interest income	54,584	89,670
	Other income	14,354	45,834
		68,938	135,504
Expenses	Salaries and benefits	214,110	182,004
	General and administration	184,033	59,641
	Compensation expense <i>(note 6(b))</i>	292,290	–
	Rent	29,197	31,995
	Consulting fees	–	6,654
	Travel	56,512	17,726
	Depreciation	38,858	2,500
	Plant and equipment write-off	–	–
	Foreign exchange loss (gain)	25,737	(103,991)
	Total expenses	840,737	196,529
	Loss for the year	771,799	61,026
	Deficit, beginning of the period	8,907,383	5,095,126
	Deficit, end of the year	9,679,182	5,156,152
	Basic and diluted loss per common share	\$ 0.01	\$ 0.001
	Weighted average number of basic and diluted common shares outstanding	62,555,142	55,742,194

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

<i>For the quarters ended March 31 (Canadian dollars)</i>		2005	2004
Operating Activities	Loss for the period	(771,779)	(61,026)
	Amortization	38,858	2,500
	Non-cash compensation expense	292,290	26,421
	Write-off of capital assets	–	–
	Foreign exchange gain	–	–
	Changes in non-cash working capital balances	74,509	280,291
	Cash used in operating activities	(366,142)	248,186
Financial Activities	Shares issued – net of issue costs	273,609	4,905,001
	Repayment of loan payable	–	(4,080,000)
	Cash provided by financing activities	273,609	825,001
Investing Activities	Redemption of short-term investments	375,000	–
	Mineral properties	(24,997)	–
	Deferred exploration and development costs	(500,455)	(507,081)
	Acquisition of plant and equipment	(3,804)	(176,695)
	Cash used in investing activities	(154,256)	(683,776)
Increase (decrease) in cash and cash equivalents during the period		(246,789)	389,410
Cash and cash equivalents – beginning of the period		4,362,557	7,312,208
Cash and cash equivalents – end of the period		4,115,768	7,701,618
Supplemental cash flow information			
Interest paid		–	10,368
Supplemental disclosure of non-cash investing and financing activities			
Common shares and warrants issued in connection with the investment in joint venture with Pitchstone Exploration Ltd.		1,126,250	–

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

December 31, 2004

1. NATURE OF OPERATIONS

Southern Cross Resources Inc. (the "Company") is a Canadian corporation engaged in the acquisition, exploration and development of properties for production of uranium. The Company has a fully permitted project in South Australia on Honeymoon Mining Lease 6109 with an indicated resource of 4,200 tonnes (9.3 million pounds) of U_3O_8 and its exploration activities are ongoing at its Goulds Dam project which has an indicated resource of 2,000 tonnes (4.4 million pounds) of U_3O_8 and inferred resource of 3,600 tonnes (7.9 million pounds) of U_3O_8 . The Company also has an exploration project in the Eyre Peninsula region of South Australia called Karkarook, which has a similar geological setting to the Athabasca Basin. In Canada, the Company's activities are located on properties Waterfound, Darby/Candle, Moon Lake and Lynx Lake in Northern Saskatchewan in the Athabasca Basin and managed by its joint venture partner, Pitchstone Exploration Ltd.

The exploration and development of mineral properties involves significant financial risk. In the event these properties are determined to be commercially viable, additional financing will be required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

a) Going concern

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful financings, which management believes will mitigate the conditions and events which would otherwise raise doubts about the going concern assumption used in preparing these financial statements. As such, these consolidated financial statements do not reflect any adjustments which may be necessary should the Company not be able to continue normal operations, in which case amounts realized for assets maybe materially less than the amounts appearing in the balance sheet.

b) Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the amounts of the Company and all of its subsidiaries. All significant intercompany balances and transactions are eliminated on consolidation.

Use of estimates

The preparation of these unaudited consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the unaudited consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those reported.

Foreign currency translation

The Company's transactions and integrated operations denominated in foreign currencies are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date; non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates; revenues and expenses are translated at average rates prevailing during the year; and translation gains and losses for the year are reflected in the consolidated statements of operations and deficit.

Financial instruments

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable and other and accounts payable and accrued liabilities approximate fair value due to the short maturities of these instruments.

Mineral properties and deferred exploration and development

The Company considers its exploration costs to have the characteristics of property, plant, and equipment, and as such, all costs related to the mineral exploration are capitalized on a property-by-property basis. Such costs include acquisition, exploration and development net of recoveries. Until the mineral properties are explored to a point where it has been determined that the mineral properties are or are not capable of being economically developed through assessable exploration results or measurable reserves, in management's opinion, it is impractical to assess the realization of the exploration and development costs capitalized to the mineral properties. These costs will be depreciated over the estimated useful life of the mineral properties following commencement of commercial operations. Deferred costs relating to mineral properties sold or abandoned are

written-off and the net gain or loss is reflected in the consolidated statement of operations.

Administrative costs incurred in Australia since the removal of the yellowcake in February 2003 that was produced during the field leach trial and administrative costs in Canada are expensed in the year incurred along with the cost of care and maintenance associated with maintaining its Australian properties.

The recoverability of amounts shown as mineral properties is dependent on the identification and determination of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable operation.

Plant and equipment

Plant and equipment, which includes office furniture and equipment, are recorded at acquisition cost. Depreciation of office furniture and equipment is provided on straight-line basis over a three year period. The cost of plant and equipment relating to operations will be depreciated straight line over their estimated useful lives of 2 1/2 to 4 years following commencement of commercial production.

Capitalization of interest

Net interest costs incurred during the development, construction and start-up phase of major projects are capitalized.

Other assets

The Company's interest in process technology is carried at acquisition cost and is being amortized on a straight-line basis over a twenty year period.

Asset retirement obligations

On January 1, 2004, the Company adopted the new CICA accounting standard for asset retirement obligations. Under this new standard, the Company recognizes the fair value of a future asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the long-lived asset that is depreciated over the remaining life of the asset.

The impact of this change in accounting policy was not material.

Impairment of long-lived assets

Long-lived assets, including property and equipment and other assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Loss per share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that that denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares. As a result of the loss for each of the reporting years, the potential effect of exercising stock options and warrants has not been included in the calculation of diluted loss per share as to do so would be anti-dilutive.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and certificate of deposits with a remaining maturity of three months or less.

Future income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases reduced by a valuation allowance to reflect the recoverability of any future income tax asset. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that enactment or substantive enactment occurs.

Stock based compensation

The Company has a stock option plan, which is described in Note 6. The Company accounts for stock based compensation using the fair value method. Under the fair value method, stock-based payments are measured at the fair value of equity instruments and are amortized over the vesting period. The offset to the recorded cost is contributed surplus.

3. PROPERTY, PLANT & EQUIPMENT

	As at March 31, 2005			As at March 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Mineral properties	9,003,393	–	9,003,393	7,852,146	–	7,852,146
Deferred exploration and development	26,971,758	–	26,971,758	26,471,304	–	26,471,304
Plant and equipment	2,662,635	1,591,486	1,071,149	2,658,831	1,555,128	1,103,703
Other assets	200,000	81,666	118,334	200,000	79,167	120,833
	38,837,786	1,673,152	37,164,634	37,182,281	1,634,295	35,547,986

	Mineral Properties		Deferred Exploration and Development	
	March 31, 2005	March 31 2004	March 31, 2005	March 31, 2004
Honeymoon, Australia	6,229,500	6,229,500	25,460,731	25,324,080
Goulds Dam, Australia	–	–	987,787	902,422
Karkarook, Australia	–	–	1,813	1,813
Project Generation	–	–	26,752	–
Athabasca, Canada	2,773,893	1,622,646	494,675	242,989
	9,003,393	7,852,146	26,971,758	26,471,304

4. JOINT VENTURE AGREEMENT

On September 7, 2004, the Company entered into a Letter Agreement, (the “Joint Venture”) with Pitchstone Exploration Ltd. (“Pitchstone”). The Company has an option to earn a 50% interest in the four properties located in the Athabasca Basin of Northern Saskatchewan for \$4.35 million over a period of 3 years. The Company must invest \$4 million in exploration on the properties and make cash payments to Pitchstone of \$350,000 to acquire the 50% interest. The Company will invest \$3 million over the first 3 years with a maximum of \$1 million during the first year, a minimum of \$1 million in the second year and the balance in the third year. The remaining \$1 million is expected to be spent during the third year but the Company and Pitchstone can negotiate and mutually agree on an extension. If the Company terminates the 50% option prior to exercising, it will be required to pay the balance of \$3 million dollars less expenditures incurred to the date of termination. The terms of the Joint Venture included the issuance of 1 million common shares and 1.5 million share purchase warrants, half upon TSX approval and the balance by January 10, 2005. Pitchstone is the operator of the Joint Venture and is responsible for managing exploration programs on the properties as jointly agreed. The Company has the right to become operator under a number of conditions including if its interest in the Joint Venture increases to over 50%. The first tranche of shares and warrants (500,000 and 750,000 warrants respectively) issued in relation to the Joint Venture were valued at \$635,000 and \$491,250 respectively. The second tranche of shares and warrants issued on January 4, 2005, were valued on the same basis as the first tranche (note 6c). As at March 31, 2004, the Company had incurred \$494,723 of qualifying exploration expenses in connection with the Joint Venture.

5. LOAN PAYABLE

On February 17, 2004, after the expiry of a 30 trading day period during which the Company’s share price averaged greater than \$1.14 per share, being 175% of the \$0.65 exercise price of the share purchase warrants granted to Resource Capital Fund L.P. (“RCF”), the Company exercised its right to require RCF to exercise its 6,276,923 share purchase compensation warrants (the “RCF Warrants”). The \$4.08 million of proceeds received from the exercise of the RCF Warrants was then used to repay the \$4.08 million long term debt owed to RCF.

Interest of \$10,368 was incurred and capitalized for the period ended March 31, 2004, representing interest expense for the period January 1, 2004 to February 17, 2004.

A former company’s director, Mr. James McClements, is also a senior partner of the management company for RCF and therefore this loan represents a related party transaction.

On July 1, 2003, the Company renegotiated its US\$5 million loan facility with RCF. RCF converted US\$2 million of the US\$5 million loan into 6,476,190 units at a conversion price of \$0.42 per unit, with each unit consisting of one common share and three-quarters of a common share purchase warrant. Each whole warrant is exercisable at \$0.65 until July 11, 2005. The term of the remaining US\$3 million of the loan was extended from December 31, 2003 to August 31, 2005 and was redenominated into \$4.08 million, which has since been repaid. In consideration of such extension, the Company issued 6,276,923 common share purchase warrants, exercisable at \$0.65 until August 31, 2005.

6. SHARE CAPITAL

a) Authorized and issued

The Company is authorized to issue an unlimited number of common shares.

The following table summarizes the movements in the Company's outstanding issued shares:

Share Capital	Quarter Ended March 31, 2005		Quarter Ended March 31, 2004	
	Number of Shares	\$	Number of Shares	\$
Balance, beginning of the year	61,908,989	48,485,894	52,372,879	40,287,352
Issued for cash during the period	420,937	273,609	2,759,187	2,472,957
Issued on exercise of RCF warrants (<i>note 5</i>)	—	—	6,276,923	5,090,585
Issued for interest payable (<i>note 5</i>)	—	—	—	—
Pitchstone Agreement (<i>note 4</i>)	500,000	635,000	500,000	635,000
Balance, end of the year	62,829,926	49,394,503	52,372,879	48,485,894

i) Share capital transactions in first quarter 2005:

On January 4, 2005, the Company issued the second tranche of 500,000 common shares as per the Letter Agreement entered with Pitchstone Exploration Limited on September 7, 2004 (see note 4)

Series "C" warrants totaling 420,937 were exercised at a price of \$0.65 for proceeds totaling \$273,609.

ii) Share capital transactions in 2004:

Shares issued for cash in 2004 includes the conversion of 1,369,187 warrants at a price of \$0.65 combined with the exercise of 390,000 employee stock options at an average price of \$0.94.

On October 6, 2004, the Company completed a private placement consisting of 500,000 common shares at a price of \$1.10 and 500,000 flow-through shares at a price of \$1.35. Net proceeds from this private placement amounted \$1,150,475, net of cash issue cost of \$74,525.

b) Stock options

The Company has a stock option plan (the "Plan") which was approved by shareholders on January 3, 1997 and modified by shareholders on June 10, 2002.

Options granted under the Plan are non-assignable and may be granted for a term not exceeding ten years. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and any vesting period which is generally 1/3 on grant date, 1/3 on the first anniversary of the grant date and the remainder on the second anniversary of the grant date. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 5,000,000 shares.

During the quarter ended March 31, 2005, the Company issued 875,000 stock options to employees at a weighted average exercise price of \$1.00 and recorded stock-based compensation expense of \$292,290 (Q1 2004: nil).

The fair value of the stock options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.47% (2004: 3.47%), expected dividend yield of nil (2004: nil), expected volatility of 100% (2004: 100%) and expected option life of five years (2004: five years). Under this method of calculation, the weighted average fair value of the stock options granted was \$1.00.

Options to purchase common shares of the Company have been granted in accordance with the Plan, as follows:

	Quarter Ended March 31, 2005		Quarter Ended December 31, 2004	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Opening balance	3,055,000	0.86	2,975,000	0.86
Granted	875,000	1.00	560,000	0.91
Exercised	—	—	(390,000)	0.94
Expired	—	—	(90,000)	0.77
Outstanding, end of period	3,930,000	0.89	3,055,000	0.86
Options exercisable at end of period	2,866,667	0.89	2,575,000	0.80

Notes

The following table summarizes information about the stock options outstanding as at March 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as at March 31, 2005	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable as at March 31, 2005	Weighted Average Exercise Price \$
\$0.38 – 0.40	450,000	3.60	0.38	316,667	0.38
\$0.62	50,000	3.86	0.62	50,000	0.62
\$0.75 – 0.85	860,000	1.61	0.76	860,000	0.76
\$0.92 – 1.00	2,020,000	4.11	0.98	1,090,000	0.99
\$1.20	550,000	2.16	1.20	550,000	1.20
	3,930,000	3.23	0.89	2,866,667	0.89

c) Warrants

	Number of Warrants	Allocated Value	Average Exercise Price \$
Balance, January 1, 2004	16,385,219	1,281,706	0.66
Issued – Pitchstone Joint Venture (note 4)	750,000	491,250	1.39
Issued on private placement to brokers	100,000	55,100	1.35
Warrants exercised:			
Extension warrants issued to RFC	(6,276,923)	(1,010,585)	0.65
Other	(1,369,187)	(120,109)	0.65
Balance, December 31, 2004	9,589,109	697,362	0.73
Issued – Pitchstone Joint Venture (note 4)	750,000	491,250	1.39
Warrants exercised:			
Series C	(420,937)	–	0.65
Balance, March 31, 2005	9,918,172	1,188,612	0.92

At March 31, 2005 outstanding warrants to purchase common shares were as follows:

	Total Outstanding	Exercise Price \$	Expiry Date
Series C warrants	2,895,239	0.65	July 11, 2005
Series C warrants	250,000	0.65	August 8, 2005
Conversion warrants	4,857,143	0.65	August 31, 2005
Pitchstone warrants (note 4)	750,000	1.39	September 16, 2007
	750,000	1.39	January 4, 2008
Share Purchase Warrants	9,502,382		
Broker warrants	315,790	1.15	December 16, 2005
Broker warrants	100,000	1.35	October 5, 2006
Compensation Warrants	415,790		
TOTAL	9,918,172		

i) For the quarter ended March 31, 2005:

On January 4, 2005, the Company issued the second tranche of 750,000 common share purchase warrants as per the Letter Agreement entered with Pitchstone Exploration Limited on September 7, 2004 (see note 4). The fair value of the compensation warrants granted was estimated to be \$491,250 at the grant date.

On February 23, 2005 420,937 Series “C” warrants were exercised for total proceeds of \$273,609. At the original date these warrants were granted, the application of the standard which attributes a fair value to the warrant was not applicable.

Notes

ii) For the year ended December 31, 2004:

During the year ended December 31, 2004, 6,276,923 compensation warrants were exercised by RCF for proceeds of \$4.08 million (note 5). 687,500 Series C warrants were also exercised as well as 681,687 broker warrants at \$0.65. All proceeds were credited to share capital. A total of 850,000 warrants were issued in 2004, 750,000 to Pitchstone (note 4) and 100,000 as broker warrants in relation to the October private placement.

7. INCOME TAX

The tax calculation is only performed on an annual basis.

As at December 31, 2004:

The provision for income taxes differs from the amount that would result by applying Canadian statutory income tax rates of approximately 36% (2003: 36%) to earnings as described in the table below

	2004	2003
	\$	\$
Net loss for year	(3,812,257)	(259,054)
Expected recovery	(1,372,000)	(93,000)
Non-deductible compensation expense	123,000	45,000
Non-deductible/taxable foreign exchange loss (gain)	89,000	(590,000)
Losses not tax benefited	1,160,000	638,000
	-	-

The components of the Company's Canadian future income tax assets are as follows:

	2004	2003
	\$	\$
Non-capital losses	1,790,000	1,847,000
Share issuance costs	282,000	363,000
Property, plant and equipment	110,000	116,000
Future income tax asset	2,182,000	2,326,000
Valuation allowance	(2,182,000)	(2,326,000)
Net future income tax asset	-	-

As at December 31, 2004, the Company had \$5,245,000 of non-capital losses to be carried forward and applied against taxable income of future years. The benefit of these loss carry-forwards has not been recognized for accounting purposes. The non-capital losses have expiry dates as follows:

2005	761,000
2006	258,000
2007	578,000
2008	808,000
2009	877,000
2010	1,156,000
2011	807,000
	5,245,000

In Australia, the Company has loss carry-forwards for income tax purposes of approximately \$24 million which may be used to reduce future taxable income. These losses may be carried forward indefinitely.

Management reviews the valuation allowance of the future income taxes on an ongoing basis and adjusts the valuation allowance, as necessary, to reflect its anticipated realization.

8. SEGMENTED INFORMATION

Substantially all of the Company's working capital balances and capital assets are situated in Australia.

9. COMMITMENTS

The Company has several non-cancellable lease obligations primarily for general office facilities that expire over the next three years. Future minimum payments under these leases are as follows:

Less than 1 year	\$103,459
More than one year but less than two	\$52,218
More than two years but less than three	\$54,991

10. NATIVE TITLE CLAIMS

The Company's interests in the Honeymoon and Goulds Dam properties are subject to two Native Title claims. Agreements have been secured with both groups, whereby the Company pays annual administration fees to each claimant group.

11. COMPARATIVE FINANCIAL STATEMENTS

Certain numbers in the comparative financial statements have been reclassified to adopt presentation as at March 31, 2005.

company information

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Sydney, Australia

George Bell

President and Chief Executive Officer

Hornby Bay Exploration Ltd.
Toronto, Ontario

Donald Falconer

*Vice-President, Corporate Development
and Corporate Secretary*

Southern Cross Resources Inc.
Toronto, Ontario

John Hick

Chief Executive Officer

Rio Narcea Gold Mines, Ltd.
Toronto, Ontario

Russ Cranswick

Principal

Resource Capital Fund L.P.
Denver, Colorado

Don Robinson

President & Chief Executive Officer

Eastmain Resources Inc.
Orangeville, Ontario

Officers and Senior Management

Mark Wheatley

Executive Chairman

Leigh Curyer

Chief Financial Officer

Donald Falconer

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Stock Exchange Listing

The Toronto Stock Exchange

Trading Symbol: SXR

Annual Meeting

The Annual and Special Meeting of Shareholders will be held on June 08, 2005 at 4:15 pm in the Tudor Room, The National Club, 303 Bay Street, Toronto, Ontario

The Toronto Stock Exchange Trading Symbol: **SXR**
www.southerncrossres.com

