



SXR

Southern Cross Resources Inc.

2005 Second Quarter Report to Shareholders

Highlights

- Southern Cross Resources and Aflase Gold and Uranium Resources to merge
- Drilling resumed at Goulds Dam
- Drilling contract signed by Pitchstone
- Uranium spot price increased to US\$29/lb and the term price to US\$30 by end of Quarter.
- \$5.2 million in Proceeds from Warrants and \$6 million in Proceeds from Private Placement
- \$14.25 million cash in treasury and no debt at time of writing this report

Southern Cross Resources to merge with Aflase Gold and Uranium Resources

Just after quarter end, on July 5, Southern Cross Resources Inc (“the Company” or “SXR”) announced that Aflase Gold and Uranium Resources Limited (“AFL”) and SXR signed a definitive Pre-Merger Agreement providing for the merger of the two companies. Under the terms of the Pre-Merger Agreement, the holders of AFL ordinary shares will receive 0.90 of a common share of SXR for each AFL ordinary share.

The combined entity, to be named SXR Uranium One Inc. (“SXR Uranium One”), will unite AFL’s South African uranium and gold assets with the Australian and Canadian uranium properties of SXR. The new company will be focused on the growth and development of its uranium business, as well as on realizing value from its existing gold assets. SXR Uranium One expects to commence uranium production in the first quarter of 2007, and expects to produce at least 4 million pounds per year of uranium and at least 90,000 ounces of gold as by-product from current projects by 2011.

Resource Capital Fund L.P. and Resource Capital Fund II L.P., owning approximately 15% of SXR shares on a fully-diluted basis, have agreed, subject to fiduciary obligations, to vote their shares in favour of the merger.

SXR Uranium One’s primary listing will be on The Toronto Stock Exchange, with a secondary listing on the JSE Securities Exchange (South Africa).

The Boards of Directors of both AFL and SXR have approved the merger. The merger is subject to confirmatory due diligence, the negotiation of a definitive merger agreement and regulatory and shareholder approvals. The parties anticipate that, subject to the receipt of all required regulatory and shareholder approvals, the merger will be completed by the end of October. The news release announcing the merger and the Pre-Merger Agreement are available under the filings of SXR on www.sedar.com

AFL owns the Dominion and Rietkuil uranium properties, and the Bonanza South gold mine, located near Klerksdorp, South Africa, as well as the Modder East gold project located east of Johannesburg. AFL’s Board of Directors has approved the development and construction of the Dominion Uranium mine. The Dominion Uranium asset was previously owned and operated by Anglo American. This brownfield project has significant infrastructure

in place and a substantial information database of both geological and metallurgical information. Core from over 250 boreholes is available and the geological structure is well understood as a result of previous mining and seismic surveys. Current process test work has confirmed the use of pressure leaching resulting in high recoveries. The Directors of AFL have approved the expenditure of US\$2.16 million to complete a bankable feasibility study. Completion of this document is expected by April 2006 and production of uranium is expected to commence in early 2007. From 2011, annual production from the mine is expected to be 4 million pounds per year.

AFL recently announced a SAMREC-compliant uranium resource at its Dominion, Rietkuil and Bonanza South properties, comprising total inferred resources of 113.3 million pounds of contained U_3O_8 , at an average grade of 0.064%, and total measured and indicated resources of 9.8 million pounds of contained U_3O_8 , at an average grade of 0.066%.

In addition, the Bonanza South property has a measured and indicated resource of 723,000 pounds U_3O_8 , at an average grade of 0.009% as a gold by-product. AFL’s gold assets consist of in excess of 400,000 ounces of proven & probable reserves, at an average grade of 5.5 grams/tonne, at Bonanza, and in excess of 1 million ounces of proven & probable reserves, at an average grade of 5.2 grams/tonne, at Modder East. On June 29, 2005 AFL announced its first gold pour from Bonanza.

Goulds Dam Drilling

Planned drilling at Goulds Dam was delayed during the quarter because of excessive rainfall. The 90 to 100 hole program to test initial targets in this vast under-explored area recommenced just after quarter end and is still underway.

Pitchstone Drilling Contract Signed

In late May, Pitchstone Exploration Ltd. (“Pitchstone”) signed a contract with Peak Drilling Ltd. on behalf of the joint venture to complete a minimum 8,600 meters of core drilling. Signing on Peak Drilling Ltd. for core drilling is significant as there exists a very tight market for drill crews. Drilling will commence later in the year on the road-accessible Waterfound project and continue on Darby-Candle during the winter season. Recent staking has more than doubled the area of the Waterfound project.

In total, there are approximately 60 lineal kilometers of electromagnetic conductors on the various Pitchstone properties. Specific drill targets on these conductors have been identified through a combination of known graphitic-pyritic pelitic basement units, faulting, unconformity offsets and alteration zones, in addition to complimentary geophysical responses.

SXR and Pitchstone also acquired the services of Nick Andrade to assist in the Athabasca Basin exploration program. Mr. Andrade is recognized in the industry for his extensive experience throughout the Athabasca Basin, particularly with the Eldorado-Cameco organization. SXR/Pitchstone's 15,993 hectare Darby-Candle project is contiguous with the Cigar Lake property, with many geological similarities. Mr. Andrade's experience with Cigar Lake will be invaluable in his role of assisting the operator, Pitchstone, with exploration at Darby/Candle and all its properties.

Sales Contract Amendment

Progress was made in amending sales contracts. Agreement was reached on new terms for a second contract, with exposure to increasing uranium prices, subject to approval of a finalized amended contract. Indications are that the remaining and smallest contract can be amended in a similar way to support development of the Honeymoon Project.

Uranium Market

The U₃O₈ spot price moved up from \$US20.70 per lb at December 31, 2004 to \$US23.00 per lb at the end of the first quarter and then to \$29 at the end of June – a 40% increase over the year. During the same periods, the long-term price moved from \$US25.00 per lb to \$US27.00 per lb and then to \$30, representing a 20% increase over the year. Most industry experts expect uranium prices to continue climbing after slowing during the traditionally inactive summer period when little fuel buying occurs.

\$5.2 million in Proceeds from Warrants and \$6 million in Proceeds from Private Placement

After quarter end the Company raised C\$11.2m in cash through proceeds received from shareholders exercising warrants and from a private placement.

A total of 8,002,381 warrants were exercised at \$0.65, representing all the warrants which were due to expire on July 11 and August 8, 2005. The warrants that have been exercised include 4,857,143 held by Resource Capital Fund L.P. and 595,238 held by Resource Capital Fund II L.P. After exercise of the warrants, the two Resource Capital Funds collectively own 12,267,857 common shares in the Company (approximately 15% on a fully-diluted basis).

On August 11, 2005, the Company successfully completed the private placement announced on July 25, 2005, issuing 2,727,300 Flow Through Common Shares priced at \$1.10 raising C\$3,000,030 and issuing 3,157,895 Common Shares priced at \$0.95 raising C\$3,000,000 for total gross proceeds of C\$6,000,030. The proceeds from the sale of Flow-Through Common Shares will fund exploration under the Company's Joint Venture with Pitchstone. The proceeds of the Common Shares will be used to fund the management of the Pitchstone joint venture, and for Australian exploration and other corporate expenditures.

As at August 11, 2005, after giving effect to the private placement, SXR had 76,717,502 issued and outstanding common shares and 83,559,960 on a fully diluted basis.

SXR Strategy

The focus of Southern Cross over the next quarter will be to:

- > complete the merger with AFL.
- > commence detailed plan for development of Honeymoon project including resource evaluation work to finalize well field plan and perform additional metallurgical work to optimize recovery rates. This information, together with improving uranium prices and progress on amendment of sales contracts will be incorporated into a development proposal for this project.
- > continue the exploration program for Tertiary uranium in South Australia.
- > commence a substantial drilling campaign at Pitchstone's properties in the Athabasca.
- > plan and progress exploration on the new Australian unconformity-type uranium project.

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 second quarter ended June 30, 2005, which have been prepared in accordance with Canadian generally accepted accounting principles. This discussion covers the quarter ended June 30, 2005, and up to the date hereof. All dollar amounts are Canadian dollars unless otherwise indicated.

Overall Performance During the quarter ended June 30, 2005, the Company invested \$210,517 (Q2 2004: \$409,630) in exploration and development of its South Australian and Canadian uranium properties. In South Australia, activities focused on drilling preparations for Goulds Dam, Katchiwilleroo and Ethiudna properties. Actual drilling commenced at Goulds Dam subsequent to the quarter end in early July 2005. This is later than expected because of poor weather conditions. In Canada, the focus was also on ground preparation and logistics for the drilling program scheduled to commence in September 2005 and extend throughout 2006.

Summary of Deferred exploration and development expenditure for the quarter and six months ended June 30, 2005:

	2005		
	Total	Q2	Q1
Athabasca Basin: Gravity survey and ground preparation	356,586	104,900	251,686
Goulds Dam, Katchiwilleroo and Ethiudna drilling preparation	181,510	96,145	85,365
Project Generation	33,769	7,017	26,752
Honeymoon Project: Landholder costs	139,107	2,455	136,652
	710,972	210,517	500,455

Results of Operations During the second quarter ended June 30, 2005, revenue, which consisted of interest income, was \$49,399 (Q2 2004: \$81,448). The reduction in interest was due to a lower cash balance on deposit compared to the same period last year. Other income of \$28,085 (Q2 2004: \$nil) was generated from the rental of equipment and camp facilities.

Total expenses for the second quarter of 2005 of \$1,358,996 (Q2 2004: \$1,033,441) includes non-cash compensation expense of \$414,914 (Q2 2004: \$171,088) in relation to the issuance of employee options, a foreign exchange loss of \$13,662 (Q2 2004: loss \$404,631) and an overall increase of \$472,698 in other general and corporate administrative expenses, including salaries, travel and use of consultants. The company now has 11 effective full time and contract (or part time) employees, compared to 7 during the second 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			Q3	2004		2003	
	Q2	Q1	Q4		Q2	Q1	Q4	Q3
Revenues	77,484	68,938	60,712	79,425	81,448	135,504	(1,232,735)	1,267,227
Net loss (profit) (985,850)	1,281,512	771,799	2,581,630	356,689	951,993	61,026	719,102	
Loss (earnings) / share	0.02	0.01	0.04	0.00	0.02	0.00	0.00	(0.02)

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

The net loss for the second quarter ended June 30, 2005 was \$1,281,512 compared to a loss of \$951,993 in the corresponding period of 2004. Planned increases in salaries, non cash compensation, administration, use of consultants and travel were partly offset by a reduction in foreign exchange losses. The same trend applies to the comparison of the six monthly results and reflects this year's expansion of the Company's activities in Australia and Canada.

The cash expenses for the first two quarters of 2005 are on budget.

Liquidity and Capital Resources

During the second quarter, the Company's cash and cash equivalents decreased by \$1,160,991 and at June 30, 2005, was \$3,579,777 (including \$625,000 in a short term investment), compared to \$5,953,247 at the end of the second quarter of 2004. Subsequent to the end of the second quarter, 3,145,238 Series C warrants and 4,857,143 conversion warrants (which were outstanding as at June 30, 2005) were exercised prior to their respective expiry dates for total proceeds of \$5.2 million. In addition, on August 11, 2005, the Company closed a private placement of 2,727,300 flow-through common shares at a price of \$1.10 per share and 3,157,900 common shares at a price of \$0.95 per share for aggregate gross proceeds of \$6 million. At the date of this report, the Company has a cash balance of \$14.25 million.

Overall expenditures on administrative and development activities were within budget and the Company has more than sufficient funds to undertake the 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, one of the inputs for for the Black-Scholes model, however the future volatility is uncertain and the model has its limitations.

MD&A

The Company's recoverability of the 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 subject to 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	Flow-Through Shares <p>The company financed a portion of its exploration activities through the issue of flow-through shares. Under the terms of the share issue, the tax attributes of the related expenditures are renounced to subscribers. At the time the Company renounces the tax attributes of the expenditures to the subscribers, share capital is reduced and future tax liabilities are increased by the estimated income tax benefits renounced by the Company to subscribers, except to the extent that the Company has unrecorded loss carryforwards and tax pools in excess of book value available for deduction then share capital is reduced and a future income tax recovery is recorded.</p>
Commitments	<p>During the second quarter ended June 30, 2005, the Company entered into an agreement for advisory services with RBC Capital Markets ("RBC") in respect of the proposed merger (the "Merger") between the Company and Alease Gold and Uranium Resources Limited ("Alease"), (refer to announcement on July 5, 2005 filed on www.sedar.com). A fee is payable to RBC, contingent on the successful completion of the Merger.</p> <p>As per the pre-merger agreement signed between the Company and Alease (the Pre-merger Agreement"), both parties have agreed that if the Pre-merger Agreement is terminated because a party accepts a superior proposal or its shareholders do not approve the Merger, such party would pay to the other party, a termination fee of \$1 million.</p> <p>There were no other material changes in the specified contractual obligations of the Company during the quarter.</p>
Related Parties	<p>During the past two years, the Company had financial transactions in relation to the provision of long term debt by Resource Capital Fund L.P. ("RCF") involving a former director, Mr. James McClements, who, during that period, was a senior partner of RCF Management L.L.C., the manager of 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 primary regulatory approvals required to proceed into commercial production at Honeymoon have been obtained based on the issuance of Mining Licence 6109. In the event the Company proceeds into commercial production, permits common to all site construction and commercial mining operations in South Australia are required to be obtained prior to commissioning.</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>

MD&A

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.

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.

In the event the Company proceeds with production at Honeymoon, additional financing will be required on commercially acceptable terms.

Future Prospects

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 an exclusive agreement to 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.

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 the second half of 2005 and continue through 2006.

On July 5, 2005, the Company announced the signing of the Pre-merger Agreement with Aflase providing for the merger of the two companies. The combined entity, to be named SXR Uranium One Inc. will unite Aflase's South African uranium and gold assets with the Australian and Canadian uranium properties of the Company.

Under the terms of the Pre-merger Agreement, the holders of Aflase ordinary shares will receive 0.90 of a common share of the Company for each Aflase ordinary share.

On completion of the merger, on a basic and fully diluted basis, shareholders of Aflase and the Company will own approximately 83% and 17%, respectively, of SXR Uranium One, based on the share capitalization of each company at June 30 2005.

The Company will also pursue the acquisition and/or mergers of new projects where value can be added and/or synergies exist.

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 August 11, 2005, the Company had 76,717,502 shares outstanding and 83,559,960 on a fully diluted basis (December 2004 – 61,908,989 and 74,553,098 respectively), which takes into consideration the closing of the \$6million private placement on that date. The major component of this increase in shares outstanding since December 31, 2004 was the exercise of 3,566,175 Series "C" warrants and 4,857,143 Compensation warrants by July 11, 2005, 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 and the private placement of 5,885,195 common shares on August 11, 2005. The net increase on a fully diluted basis is attributable to the issuance of 2,005,000 employee stock options, the cancellation of 133,333 stock options as a result of the departure of two employees and the issuance of 750,000 common share purchase warrants as per the Letter Agreement entered with Pitchstone Exploration Limited.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as at August 11, 2005	Weighted Avg Remaining Life (years)	Weighted Avg Exercise Price \$	Number Exercisable as at August 11, 2005	Weighted Avg Exercise Price \$
\$0.38 - 0.40	450,000	3.11	0.38	350,000	0.38
\$0.62	50,000	3.37	0.62	50,000	0.62
\$0.75 - 0.88	1,990,000	3.29	0.76	1,236,666	0.76
\$0.92 - 1.00	1,886,667	3.56	0.98	1,238,334	0.99
\$1.20	550,000	1.66	1.20	550,000	1.20
4,926,667	3.19	0.88		3,425,000	0.88

	Total Outstanding	Exercise Price \$	Expiry Date
<i>The table above summarizes information about the stock options outstanding as at August 11, 2005.</i>	Pitchstone warrants (note 4)	750,000	\$1.39
	Pitchstone warrants (note 4)	750,000	\$1.39
	Share Purchase Warrants	1,500,000	
	Broker warrants	315,790	\$1.15
	Broker warrants	100,000	\$1.35
	Compensation Warrants	415,790	
	TOTAL	1,915,790	

The table to the right summarizes information about the outstanding warrants as at August 11, 2005.

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.

Consolidated Balance Sheets

<i>As at June 30 (Canadian dollars)</i>		June 30, 2005	December 31, 2004
		(unaudited)	
Assets	Current		
	Cash and cash equivalent	2,954,777	4,362,557
	Short-term investments	625,000	1,000,000
	Accounts receivable and other	373,108	244,885
		3,952,885	5,607,442
Property, plant and equipment (note 4)		37,328,205	35,547,986
		41,281,090	41,155,428
Liabilities	Current		
	Accounts payable and accrued liabilities	484,192	412,282
Shareholders' Equity	Share capital (note 6(a))	49,151,503	48,485,894
	Warrants (note 6(c))	1,188,612	697,362
	Contributed Surplus (note 6(b))	1,174,477	467,273
	Deficit	(10,717,694)	(8,907,383)
		40,796,898	40,743,146
		41,281,090	41,155,428

Subsequent event – note 6(c) and 8

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Directors



Director

August 15, 2005



Director

Consolidated Statements of Operations and Deficit

<i>For the quarters and six months ended June 30 (Canadian dollars) (Unaudited)</i>		Quarter		Six months	
		2005	2004	2005	2004
Revenues	Interest income	49,399	81,448	103,983	169,691
	Other income	28,085	–	42,439	45,065
		77,484	81,448	146,422	214,756
Expenses	Salaries and benefits	345,189	196,998	559,299	350,944
	General and administration	258,893	148,018	442,926	262,388
	Compensation expense <i>(note 6(b))</i>	414,914	171,088	707,204	197,509
	Rent	29,451	24,133	58,648	55,772
	Consulting fees	124,976	–	124,976	6,543
	Travel	88,629	86,073	145,141	103,503
	Amortization	83,282	2,500	122,140	5,000
	Foreign exchange loss	13,662	404,631	39,399	246,116
	Total expenses	1,358,996	1,033,441	2,199,733	1,227,775
	Loss before income taxes	1,281,512	951,993	2,053,311	1,013,019
	Income tax recovery <i>(note 6(a))</i>	(243,000)	–	(243,000)	–
	Net loss for the period	1,038,512	951,993	1,810,311	1,013,019
	Deficit, beginning of the period	9,679,182	5,156,152	8,907,383	5,095,126
	Deficit, end of the period	10,717,694	6,108,145	10,717,694	6,108,145
	Basic and diluted loss per common share	\$0.02	\$0.02	\$0.03	\$0.02
	Weighted average number of basic common shares outstanding	62,829,926	59,804,308	62,693,293	57,772,652

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

		Quarter		Six months	
		2005	2004	2005	2004
<i>For the quarters and six months ended June 30 (Canadian dollars) (Unaudited)</i>					
Operating Activities	Loss for the period	(1,038,512)	(951,993)	(1,810,311)	(1,013,019)
	Amortization	83,282	2,500	122,140	5,000
	Non-cash compensation expense	414,914	171,088	707,204	197,509
	Future income tax recovery	(243,000)	–	(243,000)	–
	Changes in non-cash working capital balances	(130,822)	(573,693)	(56,313)	(293,402)
	Cash used in operating activities	(914,138)	(1,352,098)	(1,280,280)	(1,103,912)
Financial Activities	Shares issued – net of issue costs	–	35,429	273,609	4,940,430
	Repayment of loan payable	–	–	–	(4,080,000)
	Cash provided by financing activities	–	35,429	273,609	860,430
Investing Activities	Redemption of short-term investments	–	–	375,000	–
	Mineral properties	(25,200)	–	(50,197)	–
	Deferred exploration and development costs	(210,517)	(409,630)	(710,972)	(916,711)
	Acquisition of plant and equipment	(11,136)	(22,073)	(14,940)	(198,768)
	Cash used in investing activities	(246,853)	(431,703)	(401,109)	(1,115,479)
	Decrease in cash and cash equivalents during the period	(1,160,991)	(1,748,372)	(1,407,780)	(1,358,961)
Cash and cash equivalents – beginning of the period	4,115,768	7,701,619	4,362,557	7,312,208	
Cash and cash equivalents – end of the period	2,954,777	5,953,247	2,954,777	5,953,247	
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	–	1,126,250	–

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

June 30, 2005

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 U₃O₈ 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 U₃O₈ and inferred resource of 3,600 tonnes (7.9 million pounds) of U₃O₈. 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. BASIS OF PREPARATION

These unaudited consolidated financial statements have been prepared using the disclosure standards appropriate for interim financial statements and do not contain all the explanatory notes, descriptions of accounting policies or other disclosures required by Canadian generally accepted accounting principles for annual financial statements. Such notes, descriptions of accounting policies and other disclosures are included in the company's audited annual consolidated financial statements included in the Company's annual report to shareholders for the year ended December 31, 2004. Accordingly, these consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for 2004.

3. ACCOUNTING POLICIES ADOPTED SINCE DECEMBER 31, 2004

The Company financed a portion of its exploration activities through the issue of flow-through shares. Under the terms of the share issue, the tax attributes of the related expenditures are renounced to subscribers. At the time the Company renounces the tax attributes of the expenditures to the subscribers, share capital is reduced and future tax liabilities are increased by the estimated income tax benefits renounced by the Company to the subscribers, except to the extent that the Company has recorded loss carry forwards and tax pools in excess of book value available for deduction when share capital is reduced and a future tax recovery is recorded.

4. PROPERTY, PLANT & EQUIPMENT

	As at June 30, 2005			As at December 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Mineral properties	9,028,593	–	9,028,593	7,852,146	–	7,852,146
Deferred exploration and development	27,182,275	–	27,182,275	26,471,304	–	26,471,304
Plant and equipment	2,673,771	1,672,268	1,001,503	2,658,831	1,555,128	1,103,703
Other assets	200,000	84,166	115,834	200,000	79,167	120,833
	39,084,639	1,756,434	37,328,205	37,182,281	1,634,295	35,547,986

	Mineral Properties		Deferred Exploration and Development	
	June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
Honeymoon, Australia	6,229,500	6,229,500	25,463,138	25,324,080
Goulds Dam, Australia	–	–	1,083,932	902,422
Karkarook, Australia	–	–	1,813	1,813
Project Generation	–	–	33,769	–
Athabasca, Canada	2,799,093	1,622,646	599,623	242,989
	9,028,593	7,852,146	27,182,275	26,471,304

5. 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. 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 shares and 750,000 warrants) issued in relation to the Joint Venture were valued at \$635,000 and \$491,250 respectively. The second tranche of shares and warrants (500,000 shares and 750,000 warrants) issued on January 4, 2005, were also valued at \$635,000 and \$491,000 respectively. As at June 30, 2005, the Company had incurred \$599,623 of qualifying earn-in exploration expenditure in connection with the Joint Venture.

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	Six Months Ended June 30, 2005		Year Ended December 31, 2004	
	# of shares	\$	# of shares	\$
Balance, beginning of the period	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 Resource Capital Fund L.P. ("RCF") warrants	—	—	6,276,923	5,090,585
Issued for interest payable	—	—	—	—
Pitchstone Agreement (note 5)	500,000	635,000	500,000	635,000
Tax effect of flow through shares	—	(243,000)	—	—
Balance, end of the period	62,829,926	49,151,503	61,908,989	48,485,894

i) Share capital transactions for the six month period ended June 2005:

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

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

In February 2005, the Company renounced \$675,000 in Canadian Exploration Expenses which was raised in Flow-Through Shares in October 2004. The tax value of this renunciation has been recorded as a liability and charged against share capital. Since the Company has a valuation allowance which reduces income tax assets, the valuation allowance has been reduced and an income tax recovery has been recognized in the statement of operations.

(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 8, 2005. Before giving effect to the 2005 Plan increase (as described below), the maximum number of Common Shares which could be issued pursuant to the Plan was set as 5 million. The modification approved by shareholders on June 8, 2005, increased the maximum number of Common Shares which may be made issuable under the Plan to directors and/or senior officers of the Corporation, and their associates (collectively, "Related Persons", and individually, a "Related Person"), together with any other employer stock option plans or options for services, to a limit of 10% of the number of Common Shares outstanding at the time of grant.

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 $\frac{1}{3}$ on grant date, $\frac{1}{3}$ on the first anniversary of the grant date and the remainder on the second anniversary of the grant date.

During the quarter ended June 30, 2005, the Company issued 1,130,000 stock options to employees at a weighted average exercise price of \$0.88 and recorded stock-based compensation expense of \$414,914 (Q2 2004: \$171,088). With the departure of two employees during the quarter, 133,333 stock options with a weighted exercise price of \$0.97 were cancelled.

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: \$26,421).

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 118% (2004: 100%) and expected option life of 3.5 years (2004: five years). Under this method of calculation, the weighted average fair value of the stock options granted was \$0.71.

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

	Six Months Ended June 30, 2005		Year 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	2,005,000	0.93	560,000	0.91
Exercised	-	-	(390,000)	0.94
Cancelled	133,333	0.97		
Expired	-	-	(90,000)	0.77
Outstanding, end of period	4,926,667	0.88	3,055,000	0.86
Options exercisable at end of period	3,425,000	0.88	2,575,000	0.80

The following table summarizes information about the stock options outstanding as at June 30, 2005:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding as at August 11, 2005	Weighted Avg Remaining Life (years)	Weighted Avg Exercise Price \$	Number Exercisable as at August 11, 2005	Weighted Avg Exercise Price \$
\$0.38 - 0.40	450,000	3.11	0.38	350,000	0.38
\$0.62	50,000	3.37	0.62	50,000	0.62
\$0.75 - 0.88	1,990,000	3.29	0.76	1,236,666	0.76
\$0.92 - 1.00	1,886,667	3.56	0.98	1,238,334	0.99
\$1.20	550,000	1.66	1.20	550,000	1.20
	4,926,667	3.19	0.88	3,425,000	0.88

(c) Warrants

	Number of Warrants	Allocated Value	Average Exercise Price \$
Balance, January 1, 2004	16,385,219	1,281,706	0.66
Issued – Pitchstone (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 RCF	(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 (note 4)	750,000	491,250	1.39
Warrants exercised:			
Series C	(420,937)	-	0.65
Balance, June 30, 2005	9,918,172	1,188,612	0.92

At June 30, 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	July 11, 2005
Pitchstone warrants (note 4)	750,000	\$1.39	September 16, 2007
	750,000	\$1.39	January 4, 2008
Share Purchase Warrants	9,502,381		
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 six month period ended June 30, 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 on September 7, 2004 (note 5). 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.

ii) subsequent to June 30, 2005:

All 3,145,238 Series C warrants and 4,857,143 conversion warrants were exercised prior to their respective expiry dates for total proceeds of \$5.2 million.

7. COMPARATIVE FINANCIAL STATEMENTS

Certain numbers in the comparative financial statements have been reclassified to adopt presentation as at June 30, 2005.

8. SUBSEQUENT EVENTS

i) As per note 6, all 3,145,238 Series C warrants and 4,857,143 conversion warrants were exercised prior to their respective expiry dates for total proceeds of \$5.2 million.

ii) On July 5 the Company announced it had signed a definitive pre-merger agreement with Aflac Gold and Uranium Resources Limited ("AFL") providing for the merger of the two companies. The combined entity to be named SXR Uranium One Inc. will unite AFL's South African uranium and gold assets with the Australian and Canadian uranium properties of SXR. Under the terms of the Pre-Merger Agreement, the holders of AFL ordinary shares will receive 0.90 of a common share of SXR for each AFL ordinary share. On completion of the merger, on both a basic and fully diluted basis, AFL and SXR shareholders will own approximately 83% and 17% respectively of SXR Uranium One based on the June 30, 2005 share capitalization of each company.

As per the pre-merger agreement signed between the Company and Aflac Gold and Uranium Resources Limited both parties have agreed to pay a termination fee of \$1m if it terminates the pre-merger agreement to accept a superior proposal or its shareholders do not approve the merger.

The Company also has an agreement with RBC Capital Markets who are lead advisors on the SXR Uranium One merger. A fee is contingent and payable on completion of the merger.

iii) On August 11, 2005, the company closed a private placement of 2,727,300 flow-through common shares at a price of \$1.10 per share and 3,157,900 common shares at a price of \$0.95 per share for aggregate gross proceeds of \$6 million. The proceeds from the issue of flow-through shares will fund exploration of the Company's Joint Venture with Pitchstone. The proceeds of the common shares will be used to fund the management of the Pitchstone joint venture, and for Australian exploration and other corporate expenditures.

company information

Directors

Mark Wheatley

Executive Chairman

Southern Cross Resources Inc.
Adelaide, 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

Russ Cranswick

Principal

Resource Capital Fund L.P.
RCF Management L.L.C.
Denver, Colorado

Don Robinson

President & Chief Executive Officer

Eastmain Resources Inc.
R. R. 1, Orangeville, Ontario

John Hick

Chief Executive Officer

Rio Narcea Gold Mines, Ltd.
Toronto, Ontario

Officers and Senior Management

Mark Wheatley

Executive Chairman

Leigh Curyer

Chief Financial Officer

Donald Falconer

*Vice-President, Corporate Development
and Corporate Secretary*

Corporate Office

Southern Cross Resources Inc.

26 Wellington Street East, Suite 820

Toronto, Ontario M5E 1S2

Telephone: (416) 350-3657

Facsimile: (416) 363-6806

E-mail: info@southerncrossres.com

Website: www.southerncrossres.com

Australian Office

Southern Cross Resources

Australia Pty. Ltd.

P.O. Box 2119, Kent Town, SA 5071

Telephone: (61-8) 8363-7006

Facsimile: (61-8) 8363-7009

E-mail: adelaide@southerncrossres.com.au

Registrar and Transfer Agent

Computershare Investor Services

100 University Avenue, 8th Floor

Toronto, Ontario M5J 2Y1

Telephone: (416) 981-9500

Facsimile: (416) 981-9800

Auditors

KPMG LLP

Suite 3300 Commerce Court West

199 Bay Street

Toronto, Ontario M5L 1B2

Telephone: (416) 777 8500

Facsimile: (416) 777 8818

Legal Counsel

Beach, Hepburn LLP

36 Toronto Street, Suite 1000

Toronto, Ontario M5C 2C5

Telephone: (416) 350-3501

Facsimile: (416) 350-3510

Stock Exchange Listing

The Toronto Stock Exchange

Trading Symbol: SXR

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

