



2004 THIRD QUARTER REPORT TO SHAREHOLDERS

The third quarter of 2004 has been a busy one in all areas for Southern Cross Resources Inc (“the Company or SXR”).

After quarter end, the Company announced (see the Company’s November 1, 2004 press release filed with SEDAR) that it had completed analyzing development options for its Honeymoon project in South Australia. This analysis, based on drilling results over the last 2 quarters that confirmed resources on the mining license rather than increasing them, coupled with the need to complete the current drilling program at Goulds Dam and the surrounding region and the very positive outlook for uranium prices, has led to a decision to delay development of the project. The Honeymoon project is fully permitted to proceed into production and the mining license has a remaining life of 19 years. As time progresses, the uranium price is forecast to increase and Honeymoon can be brought on relatively quickly and in the context of the large regional exploration opportunity that is currently being explored. With this delay in development, the Company can make a production decision that is beneficial to shareholders in the medium term rather than pushing for production today.

As a precursor to the decision to delay development of the Honeymoon project, the Company also announced the completion of drill testing the zone of mineralisation between the Honeymoon Resource and Brooks Dam. Drilling was concentrated on Mining Lease ML 6109, where 52 rotary mud holes on an 80 metre spaced pattern were drilled. The results confirmed the presence of basal sand mineralisation downstream of the Honeymoon Resource as reported on May 26, 2004. However, the grades, thicknesses and continuity of the mineralisation were not sufficient to justify additional drilling at that time, as discussed in the Company’s detailed September 8, 2004 press release filed with SEDAR.

The new PFN tool is operating at a high level of accuracy and reliability.

A program of drill-testing at Goulds Dam and other prospects has commenced since quarter end. At Goulds Dam, drilling with the PFN tool will initially determine the extent and grade of the existing measured and indicated mineral resources, currently estimated at 5.5 million lbs and the additional inferred mineral resource of 7.9 million pounds. Testing will then move to the exploration targets identified by the recently conducted ground based gravity survey together with previous airborne electromagnetic surveys. These new exploration targets are north of Goulds Dam on EL 2956 within the Billeroo Palaeochannel and at Katchiwilleroo on EL 2978 within the Curnamona Palaeochannel, which is untested and has similar characteristics to known mineralisation at the Goulds Dam Prospect. In addition, SXR has entered a joint venture with Equinox Resources Ltd. which gives SXR access to EL 2896 “Ethiudna” which joins Goulds Dam to the south as discussed in the Company’s July 14, 2004 press release filed with SEDAR. Drill testing new targets identified from historical drilling on this licence will be undertaken in the first half of 2005.

The third quarter also saw SXR sign a Letter Agreement with Pitchstone Exploration Ltd. (“Pitchstone”) to earn a 50% interest and form a Joint Venture covering a number of Pitchstone’s Athabasca properties. The properties are located in the rich uranium producing region of the south-eastern Athabasca Basin of Canada’s northern Saskatchewan, in close proximity to the massive resources of McArthur River and Cigar Lake. The region accounts for over 30% of the world’s uranium production.

The Letter Agreement covers the properties of Darby/Candle, Waterfound, Moon Lake and Lynx Lake. Together, the properties cover an area of 23,551 hectares. Pitchstone holds a 100% interest in each of the Darby, Waterfound, Moon Lake and Lynx Lake mineral exploration properties, and an option to earn a 75% interest in the Candle property.

SXR has an option to earn 50% of Pitchstone’s interest in the properties through expenditures totaling C\$4.35 million over a nominal period of 3 years including aggregate expenditures of C\$4.00 million for exploration on the properties and committed cash payments to Pitchstone of C\$350,000. SXR will also issue Pitchstone with 1 million common shares in SXR and 1.5 million share purchase warrants, half now and half by January 1, 2005. Pitchstone will be the operator of the Joint Venture and be responsible for managing mutually agreed exploration programs on the properties.

The Darby/Candle property is the most advanced with electromagnetic (EM) surveys by Pitchstone and previous explorers identifying 53 km of conductors. Only 10 holes have been drilled, which indicate several offsets of the unconformity, a zone of discrete faulting, and numerous graphitic, pyritic pelite horizons in the basement. Waterfound contains a 5 km long EM conductor. Moon Lake is adjacent to Cameco’s Millenium deposit and covers a 5 km zone of conductors. Lynx Lake lies along strike from the McArthur River Mine and has a 1 km long untested EM conductor. All properties will benefit from the application of modern geophysical techniques and the comprehensive integration of all data sets to help refine and prioritise the many untested targets prior to drilling.

This Agreement provides a low risk entry into the world’s most prolific uranium area that will also expand and diversify the Company’s uranium exploration and development activities. The cost of the farm-in Joint Venture is affordable in the context of the Company’s other assets and activities. With Pitchstone as Operator, SXR’s involvement during the important formulation and interpretation of exploration programs will not be time consuming, therefore allowing SXR to continue its focus on development of its Australian assets (see the Company’s September 7, 2004 press release filed with SEDAR).

The spot price of uranium oxide continued to rise during the third quarter of 2004, reaching US\$20.00 per pound by the end of September 2004. This represents a US\$1.50 or 8.1% increase in the spot price of US\$18.50 per pound reached at the end of June, 2004, with \$0.75 or half of the increase occurring in September 2004. This very substantial price increase is the result of utility demand occurring in a market with scarce inventories and tight producer supplies. Spot prices are expected to continue their upward path in the next quarter as utilities look to fill remaining uncovered requirements for 2005 in a tight market. Longer-term, the supply/demand fundamentals are in place to continue strong upward pressure on spot and term contract prices.

The Company is adequately funded for current programs with cash of C\$5.3 million at the end of the quarter. On October 6, 2004, the Company announced that it had been successful in raising C\$1.225 million by the issuance of 500,000 flow-through common shares at \$1.35 per share and 500,000 common shares at \$1.10 per share to fund the Pitchstone Joint Venture through to December 31, 2005 (see the Company press release dated October 6, 2004 filed with SEDAR). After giving effect to this private placement and the Pitchstone Joint Venture, SXR will have 62,368,989 shares issued and outstanding (and 74,893,098 on a fully diluted basis).

The Company is now in the position of not only having an advanced project at Honeymoon and potential to add resources through regional exploration at Goulds Dam and the surrounding area, but now has an option to earn a 50% interest in a strategic and prospective landholding in the Athabasca Basin of Canada. The Company remains highly leveraged to the continuing strong uranium market and, with the Pitchstone joint venture, is now active in the two most important uranium producing areas, Australia and Canada.

A handwritten signature in black ink that reads "Mark Wheatley". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Mark Wheatley
Executive Chairman

A handwritten signature in black ink that reads "Leigh Curyer". The signature is written in a cursive style with a large loop at the end of the last name.

Leigh Curyer
Chief Financial Officer

November 5, 2004

Southern Cross Resources Inc.
Notice to Reader

The accompanying unaudited interim consolidated financial statements and all information contained in the attached 2004 third 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.

A handwritten signature in black ink, appearing to read "L R Curyer". The signature is written in a cursive style with a large, looped "y" at the end.

Leigh Curyer
Chief Financial Officer

Southern Cross Resources Inc.

Management's Discussion and Analysis

General

The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited consolidated financial statements of the Company and related notes thereto for the third quarter ended September 30, 2004, which have been prepared in accordance with Canadian generally accepted accounting principles. This discussion covers the last completed quarter ended September 30, 2004, and up to the date hereof. All dollar amounts are Canadian dollars unless otherwise indicated.

Overall Performance

During the third quarter ended September 30, 2004, revenue, which consisted of interest income, was \$78,484 compared to \$1,039 in the same period of 2003. The additional interest income was due to the increase in cash on deposit compared to the same period last year. Other income of \$44,938 which was earned mainly during the first quarter (as shown in the nine months to September 30, 2004 figures) is in relation to the rental of equipment and camp facilities. Australian administrative costs continue to be expensed during the quarter applying the treatment adopted in the 2003 Annual Report. (In February 2003, the Honeymoon project was placed on care and maintenance. As a result, Australian administrative costs which were previously capitalized are expensed from this date). For this reason total expenses for the third quarter of 2004 of \$436,114, which include a foreign exchange loss of \$61,961, were higher than the 2003 third quarter expenses of \$281,377. The foreign exchange loss relates to the appreciation of the Canadian dollar against the Australian dollar during the quarter. The Company's policy is to denominate funds in currencies proportionate to forecasted expenditures in those countries and given that most expenditures will be in Australia, cash funds at September 30, 2004, are A\$5.3million and C\$500,000. Discounting the effect of foreign exchange translation, the majority of other expenses for the third quarter are consistent with that incurred during the second quarter of 2004.

Results of Operations

The Company's operations involve exploration and development of its uranium properties in South Australia with the focus in 2004 on expanding resources and developing the Honeymoon Project. During the nine month period to September 30, 2004, \$1.91 million has been spent and capitalized, including \$236,537 to purchase specialized exploration equipment. On a year to date basis, this compares to \$1,212,582 for the same period in 2003. Of the total spent in 2004 to September 30, \$792,979 (Q3 2003: \$686,485) was capitalized during the second quarter. The additional expenditure compared to the same period last year is reflective of the increase in exploration and development activities at the Company's projects in South Australia.

Liquidity and Capital Resources

During the quarter, the Company received \$367,043 from parties exercising 564,681 share purchase warrants. Overall, the Company's cash and cash equivalents at the end of the third quarter is \$5,343,362 (Q3 2003: \$2,328,767). Overall expenditures on administrative and development activities are within budget and the Company is fully funded to perform planned exploration on all its properties and expand development activities beyond 2004.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the unaudited 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.

Future Prospects

In South Australia, the Company is focusing its efforts on testing the potential to expand resources at Goulds Dam / Billeroo and on the Equinox JV tenement. A decision to commence production at Honeymoon is now dependent on higher uranium prices and/or exploration success leading to the integration of Honeymoon with other projects. The aim is to make a production decision at Honeymoon that is beneficial to shareholders in the medium term rather than pushing for production today.

In Canada, the Pitchstone joint ventured properties in the Athabasca Basin will benefit from the application of modern geophysical techniques during the fourth quarter and the comprehensive integration of all data sets will refine and prioritise the many untested drill targets.

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.

SOUTHERN CROSS RESOURCES INC.**Consolidated Balance Sheets**

As at (Canadian dollars)	September 30, 2004	December 31, 2003
ASSETS		
Current		
Cash and cash equivalent	5,343,362	7,312,208
Accounts receivable and other	89,785	186,684
	5,433,147	7,498,892
Capital Assets (note 3)	38,026,096	33,872,638
	43,459,243	41,371,530
LIABILITIES		
Current		
Accounts payable and accrued liabilities	417,940	691,415
Non-Current		
Loan payable (note 4)	-	4,080,000
	417,940	4,771,415
SHAREHOLDERS' EQUITY		
Share capital (note 5)	46,864,825	40,287,352
Contributed Surplus (note 5d)	2,502,231	1,407,889
Deficit	(6,325,753)	(5,095,126)
	43,041,303	36,600,115
	43,459,243	41,371,530

See accompanying notes to the Consolidated Financial Statements

SOUTHERN CROSS RESOURCES INC.**Consolidated Statements of Operations and Deficit**

	QUARTER		NINE MONTHS	
For the quarters and nine months ended September 30 (Canadian dollars)	2004	2003	2004	2003
Revenue :				
Interest income	78,484	1,039	243,451	3,711
Realised Foreign exchange gain	-	1,247,369	-	1,247,369
Other income	941	18,819	44,938	58,263
	79,425	1,267,227	288,389	1,309,343
Expenses :				
Salaries and benefits ⁽¹⁾	212,737	128,148	614,166	167,423
General and administration	109,558	120,907	365,587	185,938
Rent	26,753	13,580	81,262	52,704
Consulting fees	2,067	-	8,409	-
Travel	20,538	-	124,660	4,762
Amortization	2,500	-	7,500	4,167
Foreign exchange loss (gain)	61,961	18,742	317,432	(83,806)
Total expenses	436,114	281,377	1,519,016	331,188
Loss (profit) for the period	356,689	(985,850)	1,230,627	(978,155)
Deficit, beginning of the period	5,969,064	4,843,767	5,095,126	4,836,072
Deficit, end of the period	6,325,753	3,857,917	6,325,753	3,857,917

⁽¹⁾ includes non-cash compensation expense in relation to the vesting of employee stock options

See accompanying notes to the Consolidated Financial Statements

SOUTHERN CROSS RESOURCES INC.**Consolidated Statements of Cash Flows**

	QUARTER		NINE MONTHS	
For the quarters and nine months ended September 30 (Canadian dollars)	2004	2003	2004	2003
Operating activities :				
Profit (loss) for the period	(356,689)	985,850	(1,230,627)	978,155
Amortization	2,500	-	7,500	4,167
Non-cash compensation expense	53,414	-	111,842	-
Foreign exchange (gain)/loss on loan payable	-	-	-	-
Changes in non-cash working capital balances	116,826	(476,867)	(176,576)	(46,741)
Cash provided by operating activities	(183,949)	508,983	(1,287,861)	935,581
Financing activities :				
Shares issued	367,043	6,009,948	5,307,473	6,009,948
Debt repayment	-	(3,804,760)	(4,080,000)	(3,804,760)
Cash provided by financing activities	367,043	2,205,188	1,227,473	2,205,188
Investing activities :				
Mineral properties	(87,500)	-	(87,500)	-
Deferred exploration and development costs	(667,710)	(502,935)	(1,584,421)	(1,027,291)
Acquisition of plant and equipment	(37,769)	(183,550)	(236,537)	(185,291)
Cash used in investing activities	(792,979)	(686,485)	(1,908,458)	(1,212,582)
Increase (decrease) in cash and cash equivalents				
during the period	(609,885)	2,027,686	(1,968,846)	1,928,187
Cash and cash equivalents - beginning of the period	5,953,247	301,081	7,312,208	400,580
Cash and cash equivalents - end of the period	5,343,362	2,328,767	5,343,362	2,328,767

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

September 30, 2004

1. NATURE OF OPERATIONS

Southern Cross Resources Inc. is a Canadian corporation engaged in the acquisition, exploration and development of properties for production of uranium in Australia and Canada.

In Australia, through its wholly owned subsidiary Southern Cross Resources Australia Pty Ltd (“SCRA”), the Company is in the process of developing the Honeymoon project where all permits to proceed into production have been granted. A decision to commence production is now dependent on higher uranium prices and/or the integration of the Honeymoon project with other properties. At Goulds Dam and the surrounding region, the Company is conducting drilling programs on both existing and newly identified exploration targets based on the results of geophysical surveys and existing data sets. The Company is also actively looking to expand its exploration activities in Australia through mergers and acquisitions.

In Canada, SXR through its option to earn a 50% interest and form a Joint Venture covering a number of Pitchstone’s Athabasca properties, has commenced exploration. The properties are located in the rich uranium producing region of the south-eastern Athabasca Basin of northern Saskatchewan in close proximity to the massive resources of McArthur River and Cigar Lake. The region accounts for over 30% of the world’s uranium production.

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.

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis. As such, these unaudited 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 may be materially less than the amounts appearing in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

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 loss and deficit.

Financial instruments

The carrying amounts for cash, short term investments, accounts payable and accrued liabilities on the balance sheet approximate fair value due to the short maturities of these instruments.

Mineral properties and exploration and development

The cost of mineral properties and related exploration and development costs are deferred until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the estimated useful life of the properties following commencement of commercial production. 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.

Plant and equipment

Plant and equipment, which includes office furniture and equipment, are recorded at acquisition cost. Amortization 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 amortized over their estimated useful lives 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 asset

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.

Stock options

The Company has a stock option plan, which is described in Note 5. Effective January 1, 2003, the Company adopted the new recommendations in the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, on a prospective basis, as permitted by the standard. This Section requires a fair value based method of accounting to be applied to all stock-based payments. Effective January 1, 2003, the Company accounts for vested employee stock options by measuring compensation costs for options granted on or after January 1, 2003 under the fair value based method of accounting, using the Black-Scholes option pricing model. Consideration paid on the exercise of stock options and warrants is credited to share capital.

3. CAPITAL ASSETS

	As at September 30, 2004			As at December 31, 2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Mineral properties	8,382,000	-	8,382,000	6,042,000	-	6,042,000
Deferred exploration and development	25,865,947	-	25,865,947	24,281,526	-	24,281,526
Plant and equipment	3,986,764	331,949	3,654,815	3,750,227	331,949	3,418,278
Other assets	200,000	76,666	123,334	200,000	69,166	130,834
	<u>38,434,711</u>	<u>408,615</u>	<u>38,026,096</u>	<u>34,273,753</u>	<u>401,115</u>	<u>33,872,638</u>

4. 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 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 proceeds received from the exercise of the RCF Warrants was immediately used to repay the \$4.08 million long term debt owed to RCF. After this repayment, the Company became debt free.

5. 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	Period Ended September 30, 2004		Year Ended December 31, 2003	
	# of shares	\$	# of shares	\$
Opening balance	52,372,879	40,287,352	30,452,487	29,113,371
Issued for cash during the period	1,719,187	1,227,473	14,823,151	8,278,539
Issued for RCF warrants / loan repayment (note 4)	6,276,923	4,080,000	6,476,190	2,720,000
Issued for interest payable (note 4)	-	-	621,051	175,442
Pending Issuance – Pitchstone Agreement ⁽¹⁾	1,000,000	1,270,000		
Total common shares	61,368,989	46,864,825	52,372,879	40,287,352

⁽¹⁾ 500,000 issued October 6, 2004 and 500,000 to be issued January 1, 2005

During the first quarter of 2004, the Company exercised its right to require RCF to exercise its 6,276,923 share purchase warrants and used the proceeds from this conversion to repay the RCF loan payable (see note 4). Also \$1,227,473 was received from combination of exercise of warrants and stock options (1,369,187 and 350,000 units respectively).

(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.

The purpose of the Plan is to attract, retain and motivate management, staff and consultants by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and benefit from its growth. 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. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 5,000,000 shares.

A total of 3,145,000 stock options are issued and outstanding under the Plan as of September 30, 2004, with exercise prices ranging from \$0.38 to \$1.25 per share. A former employee who left the company in April 2003 exercised 350,000 options during the first quarter of 2004. For the nine months ended September 30, 2004, the Compensation expense totaled \$111,842. A total of 520,000 additional stock options were granted on June 9, 2004.

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

	Period Ended September 30, 2004		Year Ended December 31, 2003	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Opening balance	2,975,000	0.86	2,485,000	0.98
Granted	560,000	0.91	690,000	0.52
Exercised	(350,000)	0.96	-	-
Cancelled	-	-	-	-
Expired	(40,000)	1.25	(200,000)	1.25
Outstanding, end of period	<u>3,145,000</u>	0.85	<u>2,975,000</u>	0.86
Options exercisable at end of period	<u>2,615,000</u>		<u>2,508,333</u>	

The following table summarizes information about the stock options outstanding as at September 30, 2004.

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding As at September 30, 2004	Weighted Avg Remaining Life (years)	Weighted Avg Exercise Price \$	Number Exercisable As at September 30, 2004	Weighted Avg Exercise Price \$
\$ 0.38 - 0.40	500,000	3.86	0.38	316,667	0.39
\$0.62	50,000	4.12	0.62	50,000	0.62
\$0.75 - 0.85	900,000	1.83	0.76	900,000	0.76
\$0.92-\$1.00	1,145,000	3.30	0.96	798,333	0.98
\$1.20	<u>550,000</u>	<u>2.41</u>	<u>1.20</u>	<u>550,000</u>	<u>1.20</u>
	<u>3,145,000</u>	<u>2.82</u>	<u>0.85</u>	<u>2,615,000</u>	<u>0.81</u>

(c) Warrants

At September 30, 2004 outstanding warrants to purchase common shares were as follows:

	<u>Total Outstanding</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Series C warrants	3,316,176	\$0.65	July 11, 2005
Conversion warrants	4,857,143	\$0.65	July 11, 2005
Series C warrants	250,000	\$0.65	August 8, 2005
Share Purchase Warrants	<u>8,423,319</u>		
Option Payment Warrants	1,500,000*	\$1.39	September 3, 2007
Option Payment Warrants	<u>1,500,000</u>		
Broker warrants	315,790	\$1.15	December 16, 2005
Compensation Warrants	<u>315,790</u>		
TOTAL	<u>10,239,109</u>		

During the nine month period ended September 30, 6,276,923 compensation warrants were exercised by RCF for proceeds of \$4,080,000 (see note 4). 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.

* As per the Letter Agreement between SXR and Pitchstone, 750,000 Option Payment Warrants were issued following acceptance by the Toronto Stock Exchange of the terms of the Letter Agreement with the remaining 750,000 to be issued on or before January 1, 2005.

(d) Contributed Surplus

The following table summarizes contributed surplus as at September 30, 2004:

<u>Valuation of</u>	<u>Fair Value \$</u>	<u>Expensed To</u>
Stock options	238,025	Compensation Expense
Agent compensation warrants	271,121	Issue cost
Pitchstone Agreement	982,500	Mineral Properties
RCF debt extension warrants	1,010,585	Capital assets
Contributed Surplus	<u>2,502,231</u>	

6. INCOME TAX

At present, the tax calculation is performed on an annual basis.

The Company's income tax provision (recovery) as at December 31, 2003, has been calculated as follows:

	2003
	\$
Loss for the year	<u>(259,054)</u>
Income tax recovery at Canadian federal and provincial statutory rates	(95,000)
Effect of income tax rates of Australia compared to Canadian rates	80,000
Unrecorded benefit of income tax losses in Canada	(349,000)
Unrecorded benefit of income tax losses in Australia	<u>364,000</u>
Provision for (recovery of) income taxes	<u>-</u>
Future income tax asset	
Non-capital losses carried forward	2,460,000
Less: Valuation allowance	<u>(2,460,000)</u>
Future income tax asset recorded	<u>-</u>

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.

In Canada, the Company has loss carry forwards for income tax purposes of approximately \$2.9 million which may be used to reduce future taxable income. These losses expire in 2005 through 2009.

In Australia, the Company has loss carry forwards for income tax purposes of approximately \$22.3 million which may be used to reduce future taxable income. These losses may be carried forward indefinitely.

7. LOSS PER SHARE

The loss per share for the first nine months of 2004 has been calculated using the weighted average number of shares outstanding at the end of the period of 58,507,506 common shares being a loss of \$0.02 per share (2003: profit \$0.02). In 2004 and 2003, all stock options and warrants were excluded from the loss per share calculation as their effect was anti-dilutive.

8. LEASE COMMITMENTS

The Company has future net obligations under operating leasing agreements of \$100,048.

9. RELATED PARTY TRANSACTIONS

Mr. James McClements, a director of the Company, is the Senior Partner of Resources Capital Fund L.P., a former provider of long term debt to the Company (see note 4).

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. SEGMENTED INFORMATION

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

12. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	Period Ended September 30, 2004 \$	Year Ended December 31, 2003 \$
Accounts receivable and other	(96,899)	42,834
Accounts payable and accrued liabilities	<u>273,475</u>	<u>234,938</u>
	<u>(176,576)</u>	<u>277,772</u>

13. SUBSEQUENT EVENT

On October 6, 2004, the Company announced that it had been successful in raising C\$1.225 million by the issuance of 500,000 flow-through common shares at \$1.35 per share and 500,000 common shares at \$1.10 per share to fund the first phase of exploration under the Company's Joint Venture with Pitchstone Exploration Ltd through to December 31, 2005.

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
Southern Cross Resources Inc.
Toronto, Ontario

James McClements
Senior Partner
Resource Capital Fund L. P.
Denver, Colorado

Don Robinson
President & Chief Executive Officer
Eastmain Resources Inc.
R.R. 1, Orangeville, Ontario

John Hick
Vice Chairman
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: amunroe@southerncrossres.com
Web site: 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
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto, Ontario M2P 2H3
Telephone: (416) 228-7000
Facsimile: (416) 228-7123

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