

SOUTHERN ARC MINERALS INC.

**FINANCIAL STATEMENTS
(Unaudited)**

SEPTEMBER 30, 2005

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company disclosed that its auditors have not reviewed the unaudited financial statements for the period ended September 30, 2005.

SOUTHERN ARC MINERALS INC.
BALANCE SHEETS
(Unaudited)

	September 30, 2005	June 30, 2005
ASSETS		
Current		
Cash	\$ 397,627	\$ 1,013,447
Receivables	<u>20,276</u>	<u>29,672</u>
	417,903	1,043,119
Resource properties (Note 3)	<u>3,154,781</u>	<u>2,683,876</u>
	<u>\$ 3,572,684</u>	<u>\$ 3,726,995</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 168,631	\$ 225,640
Shareholders' equity		
Capital stock (Note 4)	3,756,768	3,703,212
Contributed surplus (Note 4)	369,417	379,461
Deficit	<u>(722,132)</u>	<u>(581,318)</u>
	<u>3,404,053</u>	<u>3,501,355</u>
	<u>\$ 3,572,684</u>	<u>\$ 3,726,995</u>

Nature and continuance of operations (Note 1)

Commitment (Note 8)

Subsequent events (Note 9)

On behalf of the Board:

“John G. Proust”

Director

“Douglas A. Leishman”

Director

The accompanying notes are an integral part of these financial statements.

SOUTHERN ARC MINERALS INC.
STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

	Three Month Period Ended September 30, 2005	Period From Incorporation on August 19, 2004 to September 30, 2004
EXPENSES		
Consulting fees	\$ 46,518	\$ 8,000
Office and miscellaneous	30,724	1,143
Professional fees	34,750	4,143
Rent	7,050	1,600
Stock-based compensation (Note 4)	2,944	-
Travel	18,828	-
Loss for the period	(140,814)	(14,886)
Deficit, beginning of period	(581,318)	-
Deficit, end of period	\$ (722,132)	\$ (14,886)
Basic and diluted loss per share	\$ (0.00)	
Weighted average number of shares outstanding	34,607,358	

The accompanying notes are an integral part of these financial statements.

SOUTHERN ARC MINERALS INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Month Period Ended September 30, 2005	Period From Incorporation on August 19, 2004 to September 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (140,814)	\$ (14,886)
Item not affecting cash:		
Stock-based compensation	2,944	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	9,396	(127)
Increase (decrease) in accounts payable and accrued liabilities	<u>(57,009)</u>	<u>8,000</u>
Net cash used in operating activities	<u>(185,483)</u>	<u>(7,013)</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Additions to resource properties	<u>(470,905)</u>	<u>(91,357)</u>
Net cash used in investing activity	<u>(470,905)</u>	<u>(91,357)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	41,625	296,250
Share issue costs	<u>(1,057)</u>	<u>-</u>
Net cash provided by financing activities	<u>40,568</u>	<u>296,250</u>
Change in cash during period	(615,820)	197,880
Cash, beginning of period	<u>1,013,447</u>	<u>-</u>
Cash, end of period	<u>\$ 397,627</u>	<u>\$ 197,880</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in British Columbia on August 19, 2004. To date, the Company has not generated significant revenues from operations and is considered to be in the development stage. The Company initially entered into an agreement with Sunda Mining Corporation ("Sunda") pursuant to which Sunda assigned its option to acquire an interest in certain mineral properties located in Indonesia from Indotan Inc. ("Indotan") (Note 3).

The Company completed an Initial Public Offering ("IPO") on June 2, 2005 and its common shares commenced trading on the TSX Venture Exchange ("TSX-V") on June 30, 2005.

The Company's continuing operations, as intended, are dependent on its ability to secure equity financing with which it intends to identify and evaluate opportunities for the acquisition of an interest in properties, corporations, assets or businesses, and once identified and evaluated, to negotiate an acquisition thereof or participation therein subject to receipt of shareholder and regulatory approval.

2. SIGNIFICANT ACCOUNTING POLICIES

Resource properties

All costs related to the acquisition, exploration and development of resource properties are capitalized by property. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Estimates

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future income taxes

Future income taxes are recorded using the asset and liability method. 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. 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 period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Asset retirement obligation

The Company records a liability at its fair value for the obligation associated with the retirement of a tangible long-lived asset. A corresponding asset retirement cost would be added to the carrying amount of the related asset and amortized to expense over the useful life of the asset. The Company has determined that there are no asset retirement obligations at September 30, 2005.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Exchange gains and losses arising on translation are included in the results of operations.

Stock-based compensation

The Company accounts for its stock-based compensation programs using the fair value method. Under this method, compensation expense related to these programs is recorded in the statement of operations over the vesting period.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

3. RESOURCE PROPERTIES

September 30, 2005	Lombok Property	Sumbawa Property	Flores Property	Other Property	Total
Acquisition costs					
Balance, beginning of period	\$ 1,025,852	\$ 439,651	\$ -	\$ -	\$ 1,465,503
Additions	<u>24,220</u>	<u>10,380</u>	<u>17,941</u>	<u>23,797</u>	<u>76,338</u>
Balance, end of period	<u>1,050,072</u>	<u>450,031</u>	<u>17,941</u>	<u>23,797</u>	<u>1,541,841</u>
Deferred exploration costs					
Incurred during the period:					
Assaying, testing and analysis	14,373	28,241	-	-	42,614
Camp construction, supplies and accommodation	47,503	62,464	-	-	109,967
Geological and other consulting	62,599	100,331	-	-	162,930
Drilling	-	71,789	-	-	71,789
Travel	<u>3,498</u>	<u>3,769</u>	<u>-</u>	<u>-</u>	<u>7,267</u>
Total deferred exploration costs	127,973	266,594	-	-	394,567
Balance, beginning of period	<u>670,425</u>	<u>547,948</u>	<u>-</u>	<u>-</u>	<u>1,218,373</u>
Balance, end of period	<u>798,398</u>	<u>814,542</u>	<u>-</u>	<u>-</u>	<u>1,612,940</u>
Total resource property costs	<u>\$ 1,848,470</u>	<u>\$ 1,264,573</u>	<u>\$ 17,941</u>	<u>\$ 23,797</u>	<u>\$ 3,154,781</u>

June 30, 2005	Lombok Property	Sumbawa Property	Total
Acquisition costs			
Balance, beginning of period	\$ 22,798	\$ 9,770	\$ 32,568
Additions	<u>1,003,054</u>	<u>429,881</u>	<u>1,432,935</u>
Balance, end of period	<u>1,025,852</u>	<u>439,651</u>	<u>1,465,503</u>
Deferred exploration costs			
Incurred during the period:			
Assaying, testing and analysis	72,327	27,598	99,925
Camp construction, supplies and accommodation	162,005	142,055	304,060
Geological and other consulting	137,470	133,005	270,475
Drilling	<u>58,216</u>	<u>88,879</u>	<u>147,095</u>
Total deferred exploration costs	430,018	391,537	821,555
Balance, beginning of period	<u>240,407</u>	<u>156,411</u>	<u>396,818</u>
Balance, end of period	<u>670,425</u>	<u>547,948</u>	<u>1,218,373</u>
Total resource property costs	<u>\$ 1,696,277</u>	<u>\$ 987,599</u>	<u>\$ 2,683,876</u>

3. RESOURCE PROPERTIES (cont'd...)

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral property interests as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its resource property interests and, to the best of its knowledge, title to all of its resource property interests are in good standing.

Lombok and Sumbawa Properties, Indonesia

The Company entered into an agreement with Sunda pursuant to which Sunda assigned its option to acquire certain rights on the Lombok property ("Lombok") and the Sumbawa property ("Sumbawa")(collectively the "Properties") to the Company, which Sunda had obtained from Indotan. In consideration for the assignment, the Company paid \$81,572 and issued 11,500,000 common shares valued at \$862,500 to Sunda. Effective February 25, 2005, the Company and Indotan entered into a settlement agreement with respect to certain outstanding matters related to the Properties. Pursuant to this settlement, the Company and Indotan entered into an amended and restated option agreement (the "Option Agreement") which sets out all of the rights and responsibilities of the Company and Indotan with respect to the Properties.

Pursuant to the Option Agreement, the Company has the option, directly with Indotan, to acquire all of its rights to the Properties in consideration for which the Company issued 1,000,000 common shares, valued at \$125,000, and paid \$180,000. The Company now has an option, until February, 2010 to acquire 50% of Indotan's 1% net smelter returns royalty ("NSR") on the Properties in consideration for the payment of \$500,000. Concurrently with the signing of the Option Agreement, the Company received an option to acquire 50% of the remaining 1% NSR on the Properties in consideration for \$60,000 (paid) and \$500,000, which can be paid prior to the expiry of the option in February, 2010. All of the holders of the NSR agreed that the NSR only applies to the Properties as at July 21, 2004 and not to any additional property interests which the Company acquires after that date. In accordance with the terms of the Option Agreement, the Company also filed a listing application with the TSX-V and filed a prospectus for a public offering which has been completed.

In accordance with a limited power of attorney granted by Indotan pursuant to the Option Agreement, the Company caused Indotan to enter into two joint venture agreements (the "JV Agreements") with Indotan's Indonesian partner, PT Puri Permata Mega ("PTPM"), on the Properties. The Company has an initial 90% interest in the Lombok joint venture (the "Lombok JV") and the Sumbawa joint venture (the "Sumbawa JV"). At any time after a joint venture company is formed with respect to the Lombok JV and that company enters into a COW, the Company can acquire a further 5% interest in the Lombok JV by providing funds to the Lombok JV in the amount of US\$700,000. At any time after a joint venture company is formed with respect to the Sumbawa JV and that company enters into a COW, the Company can acquire a further 5% interest in the Sumbawa JV by providing funds to the Sumbawa JV in the amount of US\$300,000. The Company has funded the respective amounts to each of the Lombok JV and Sumbawa JV.

3. RESOURCE PROPERTIES (cont'd...)

Lombok and Sumbawa Properties, Indonesia (cont'd...)

Lombok and Sumbawa are currently comprised of two separate applications to the Indonesian Government for a Contract of Work ("COW") to conduct mining activities and earn mineral rights to certain mineral tenements. Upon the approval in principle of the COW, preliminary general survey licenses ("SIPPs") were granted for the properties. The SIPP permits the Company to conduct preliminary general survey work over the COW application areas. The Sumbawa SIPP was granted on January 2, 2004 for an initial 12 month period. On April 19, 2005, an extension and expansion of the Sumbawa Property SIPP was granted until April 19, 2006. The Lombok SIPP was granted on December 4, 2002. A 12 month extension was granted on February 16, 2004. On July 15, 2005, an extension and expansion of the Lombok SIPP was granted until February 16, 2006. The granting of a SIPP is not a guarantee that a COW will be entered into.

Flores Property, Indonesia

The Company has been granted four new exploration licenses over part of West Flores Island through its locally controlled Indonesian entity. The areas have been previously explored under fourth and seventh generation COW. The licenses were granted for twelve months and can be extended for a further twelve months.

Other Property, Indonesia

On September 7, 2005, the Company entered into an arms-length letter agreement pursuant to which it can acquire a 75% interest in an Indonesian mineral property (the "Property") by paying US\$25,000 and:

Upon execution of a formal agreement:

- Paying US\$100,000;
- Issuing 100,000 common shares; and
- Paying US\$6,000 per month, increasing after one year to US\$10,000 per month.

Upon completion of the first 3,000 metres of drilling on the Property:

- Paying US\$200,000;
- Issuing 200,000 common shares; and

Upon commencement of commercial production:

- Paying US\$3,000,000 less previous advances.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at December 31, 2004	9,000,001	\$ 675,001	\$ -
Issued for cash	13,000,000	2,525,000	-
Issued for resource properties	12,500,000	987,500	-
Agent shares	100,000	25,000	-
Stock-based financing fees	-	-	67,456
Stock-based compensation	-	-	187,205
Share issuance costs	-	(384,489)	-
Agent warrants	-	(124,800)	124,800
Balance as at June 30, 2005	34,600,001	3,703,212	379,461
Exercise of warrants	166,500	54,613	(12,988)
Stock-based compensation	-	-	2,944
Share issuance costs	-	(1,057)	-
Balance as at September 30, 2005	34,766,501	\$ 3,756,768	\$ 369,417

During the three month period ended September 30, 2005, the Company issued 166,500 common shares at \$0.25 per share for total proceeds of \$41,625 pursuant to the exercise of agent option warrants previously granted. The Company incurred share issue costs totalling \$1,057.

The Company had 11,029,350 shares in escrow at September 30, 2005.

Stock options

The Company has a rolling stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers and certain consultants. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options can be granted for a maximum term of 5 years.

As at September 30, 2005 incentive stock options are outstanding enabling holders to acquire shares as follows:

Number of Options	Exercise Price	Expiry Date
3,400,000	\$ 0.25	June 30, 2010

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2004	-	\$ -
Granted	<u>3,400,000</u>	0.25
Outstanding, June 30, 2005 and September 30, 2005	3,400,000	\$ 0.25
Number of options currently exercisable	<u>3,300,000</u>	\$ 0.25

Warrants

As at September 30, 2005 warrants were outstanding enabling holders to acquire shares as follows:

Number of Warrants	Exercise Price	Expiry Date
1,433,500	\$ 0.25	June 30, 2006
1,280,000	\$ 0.125	April 15, 2007

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2004	-	\$ -
Granted	<u>2,880,000</u>	0.19
Outstanding, June 30, 2005	2,880,000	0.19
Exercised	<u>(166,500)</u>	0.25
Outstanding, September 30, 2005	<u>\$ 2,713,500</u>	\$ 0.19

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock-based compensation

The Company recognized stock-based compensation of \$2,944 in the statement of operations as a result of 100,000 options granted June 29, 2005, vesting as to 50,000 on June 30, 2006 and 50,000 on June 30, 2007. The fair value of compensatory options granted is estimated on the grant date using the Black-Scholes option pricing model.

5. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

- a) Paid or accrued \$24,000 (September 30, 2004 - \$8,000) for consulting fees to a company controlled by a director of the Company.
- b) Paid or accrued \$21,300 (September 30, 2004 - \$Nil) for professional fees to a firm in which an officer is a partner.
- c) Paid or accrued \$37,482 (September 30, 2004 - \$Nil) in geological consulting fees included in resource properties to companies controlled by an officer of the Company.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

6. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	Three Month Period Ended September 30, 2005	Period From Incorporation on August 19, 2004 to September 30, 2004
Loss before income tax recovery	\$ (140,814)	\$ (14,886)
Expected income tax recovery	\$ 48,046	\$ 5,079
Item not deductible for income tax purposes	(1,004)	-
Share issuance costs	6,559	-
Financing costs	1,050	-
Unrecognized benefit of non-capital losses	(54,651)	(5,079)
Total income taxes	\$ -	\$ -

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

6. INCOME TAXES (cont'd...)

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

	September 30, 2005	September 30, 2004
Future income tax assets:		
Non-capital loss carry forwards	\$ 192,458	\$ 5,079
Share issuance costs	102,273	-
Financing costs	<u>16,316</u>	<u>-</u>
	311,047	5,079
Valuation allowance	<u>(311,047)</u>	<u>(5,079)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has available for deduction against future years' taxable income non-capital losses of approximately \$596,013. Unless utilized, these losses will expire through 2015. Future tax benefits, which may arise as a result of these losses and resource expenditures, have not been recognized in these financial statements and have been offset by a valuation allowance.

7. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Currency risk

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments.

The Company does not maintain significant cash or monetary assets or liabilities in Indonesia.

8. COMMITMENT

The Company has committed to rent office space for the following annual amounts:

2006	\$ 38,140
2007	20,170

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2005

9. SUBSEQUENT EVENTS

- a) On October 12, 2005, the Company issued 6,775 common shares at \$0.25 per share for total proceeds of \$1,694 pursuant to the exercise of agent option warrants previously granted.
- b) On October 12, 2005, the Company granted stock options to a consultant to acquire 75,000 common shares exercisable at \$0.35, expiring October 12, 2010. Of which, 75,000 vest as 25,000 on December 12, 2005, 25,000 on February 12, 2005, 12,500 on July 12, 2005 and 12,500 on October 12, 2006.