SOUTHERN ARC MINERALS INC.

FINANCIAL STATEMENTS

MARCH 31, 2005

SOUTHERN ARC MINERALS INC.
Financial Statements
AS AT MARCH 31, 2005

Auditors' Report

To the Directors of
Southern Arc Minerals Inc.

We have audited the balance sheet of Southern Arc Minerals Inc. as at December 31, 2004 and the statements of operations, and deficit and cash flows for the period from August 19, 2004 to December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, and the results of its operations and its cash flows for the period from incorporation August 19, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
January 21, 2005 (except for note 9 dated ● 2005) **Chartered Accountants**

SOUTHERN ARC MINERALS INC.
BALANCE SHEET

	March 31, 2005 (unaudited)	December 31, 2004
ASSETS		
Current		
Cash	$ 53,965	$ 136,746
Receivables	17,555	6,961
Prepaid expenses	3,026	-
	74,546	143,707
Resource properties (Note 3)	1,955,934	429,386
Deferred financing costs (Note 4)	125,635	86,301
	$ 2,156,115	$ 659,394
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 178,035	$ 85,920
Shareholders' equity		
Capital stock (Note 5)	2,187,501	675,001
Contributed surplus (Note 5)	76,585	-
Deficit	(286,006)	(101,527)
	1,978,080	573,474
	$ 2,156,115	$ 659,394

Nature and continuance of operations (Note 1)
Commitment (Note 10)
Subsequent events (Note 11)

On behalf of the Board:

_____________________ Director _____________________ Director

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

SOUTHERN ARC MINERALS INC.
STATEMENT OF OPERATIONS AND DEFICIT

	Three Month Period Ended March 31, 2005 (unaudited)	For the Period from Incorporation on August 19, 2004 to December 31, 2004
EXPENSES		
Consulting fees	$ 37,400	$ 46,200
Office and miscellaneous	8,682	13,261
Professional fees	39,772	23,416
Property investigation costs	10,742	-
Rent	5,000	7,400
Stock-based compensation (Note 5)	76,585	-
Travel	6,298	11,250
Loss for the period	(184,479)	(101,527)
Deficit, beginning of period	(101,527)	-
Deficit, end of period	$ (286,006)	$ (101,527)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of shares outstanding	18,461,112	9,000,001

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

SOUTHERN ARC MINERALS INC.
STATEMENT OF CASH FLOWS

	Three Month Period Ended March 31, 2005 (unaudited)	For the Period from Incorporation on August 19, 2004 to December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (184,479)	$ (101,527)
Item not affecting cash:		
Stock-based compensation	76,585	-
Changes in non-cash working capital items:		
Increase in receivables	(10,594)	(6,961)
Increase in accounts payable and accrued liabilities	92,115	85,920
Increase in prepaid expenses	(3,026)	-
Net cash used in operating activities	(29,399)	(22,568)
CASH FLOWS FROM INVESTING ACTIVITY		
Acquisition of resource properties	(539,048)	(429,386)
Net cash used in investing activity	(539,048)	(429,386)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	525,000	675,001
Deferred financing costs	(39,334)	(86,301)
Net cash provided by financing activities	485,666	588,700
Change in cash during period	(82,781)	136,746
Cash, beginning of period	136,746	-
Cash, end of period	$ 53,965	$ 136,746
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 6)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the provisions of the Company Act of 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 entered into an agreement with Sunda Mining Corporation ("Sunda") pursuant to which Sunda assigned its option to acquire, from Indotan Inc. ("Indotan"), certain mineral properties located in Indonesia (Note 3).

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 mineral properties are capitalized by property. If economically recoverable ore 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 mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral 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, 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.

Deferred financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

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 March 31, 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 Corporation 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.

3. RESOURCE PROPERTIES

March 31, 2005 (Unaudited)	Lombok Properties	Sumbawa Properties	Total
Acquisition costs			
Balance, beginning of period	$ 22,798	$ 9,770	$ 32,568
Additions	880,781	377,478	1,258,259
Balance, end of period	903,579	387,248	1,290,827
Deferred exploration costs			
Incurred during the period:			
Assaying, testing and analysis	38,760	4,518	43,278
Camp construction, supplies and accommodation	72,248	26,559	98,807
Geological and other consulting	62,599	45,359	107,958
Drilling	18,246	-	18,246
	191,853	76,436	268,289
Balance, beginning of period	240,407	156,411	396,818
Balance, end of period	432,260	232,847	665,107
Total resource property costs	$ 1,335,839	$ 620,095	$ 1,955,934

December 31, 2004	Lombok Properties	Sumbawa Properties	Total
Acquisition costs	$ 22,798	$ 9,770	$ 32,568
Deferred exploration costs			
Incurred during the period:			
Assaying, testing and analysis	31,431	11,776	43,207
Camp construction, supplies and accommodation	53,443	49,604	103,047
Geological and other consulting	89,956	67,641	157,597
Geophysical survey	60,642	25,990	86,632
Transportation and travel	4,935	1,400	6,335
Total deferred exploration costs	240,407	156,411	396,818
Total resource property costs	$ 263,205	$ 166,181	$ 429,386

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 $20,000 and issued 11,500,000 common shares valued at $862,500 to Sunda during the period ended March 31, 2005. 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 the issuance of 1,000,000 common shares of the Company valued at $125,000 and the payment to Indotan of $180,000. The Company now has an option, until February, 2010 to acquire 50% of Indotan's 1% 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, of which $45,000 has been paid, $15,000 is due and payable upon listing on the TSX Venture Exchange ("TSX-V"), 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 is also required to prepare and file a listing application with the TSX-V and prepare and file a prospectus for a public offering (Note 11).

In accordance with a limited power of attorney granted by Indotan pursuant to the Option Agreement, the Company will cause 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 JV Agreements have been signed by PTPM and when signed by the Company on behalf of Indotan they will give the Company an initial 90% interest in the Lombok joint venture (the "Lombok JV") and the Sumbawa joint venture (the "Sumbawa JV"). The Company can acquire a further 5% interest in the Lombok JV by spending $US 700,000 on Lombok and in the Sumbawa JV by spending $US 300,000 on Sumbawa.

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 Sumbawa Property SIPP was granted on January 2, 2004 for an initial 12 month period. Indotan is entitled to a 12 month extension of the SIPP and the Company intends to take such steps as are necessary to ensure such extension is granted. The Lombok SIPP was granted on December 4, 2002. A 12 month extension was granted on February 16, 2004. The Company has applied for an additional 12 month extension and concurrent expansion of the Lombok SIPP and the Sumbawa SIPP, which applications are being processed. The granting of a SIPP is not a guarantee that a COW will be entered into.

4. DEFERRED FINANCING FEES

Deferred financing costs of $125,635 consist primarily of legal and sponsorship fees for the issuance of capital stock in conjunction with a proposed financing (Note 11).

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Issued for cash	9,000,001	$ 675,001	$ -
As at December 31, 2004	9,000,001	675,001	-
Issued for cash	5,000,000	525,000	-
Issued for resource property	12,500,000	987,500	-
Stock-based compensation	-	-	76,585
As at March 31, 2005 (Unaudited)	26,500,001	$ 2,187,501	$ 76,585

During the period ended December 31, 2004, the Company issued 9,000,000 common shares at $0.075 per share for proceeds of $675,000. During the period ended March 31, 2005, the Company issued 2,000,000 common shares at $0.075 per share for proceeds of $150,000 and 3,000,000 common shares at $0.125 per share for proceeds of $375,000 as seed capital financing.

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.

During the period ended March 31, 2005, the Company granted incentive stock options to acquire 2,650,000 common shares exercisable at $0.25 expiring five years from listing on the TSX-V. The options were not exercised during the period and remain outstanding as at March 31, 2005. The Company also allotted options to acquire 550,000 common shares with the same terms to be granted concurrently with the completion of the IPO.

There were no stock options granted during the period ended December 31, 2004.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock-based compensation

The 2,650,000 stock options granted during the period ended March 31, 2005 are recorded at fair value in the statement of operations using the Black-Scholes option pricing model. Total stock-based compensation recognized in the statement of operations during the period ended March 31, 2005 was $76,585. This amount was also recorded as contributed surplus on the balance sheet.

The following assumptions were used for the valuation of stock options during the period ended March 31, 2005:

Risk-free interest rate	3.5%
Expected life	5 years
Annualized volatility	75%
Dividend rate	0.00%

6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The only significant non-cash transaction during the period ended March 31, 2005 was the issuance of 12,500,000 common shares valued at $987,500 for the acquisition of resource properties.

7. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid or accrued $24,000 (December 31, 2004 - $40,000) for consulting fees to a director of the Company.

b) Paid or accrued $19,800 (December 31, 2004 - $6,000) for professional fees to a firm in which an officer is a partner.

c) Paid or accrued $26,685 (December 31, 2004 - $58,626, prior to becoming an officer) in geological consulting fees included in resource properties to a Company 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.

8. INCOME TAXES

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

	Three Month Period Ended March 31, 2005	For the Period from Incorporation on August 19, 2004 to December 31, 2004
	(Unaudited)	
Loss before income tax recovery	$ (184,479)	$ (101,527)
Expected income tax recovery	$ 65,675	$ 36,550
Item not deductible for income tax purposes	(27,264)	-
Unrecognized benefit of non-capital losses	(38,411)	(36,550)
Total income taxes	$ -	$ -

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

	March 31, 2005	December 31, 2004
	(Unaudited)	
Future income tax assets:		
Non-capital loss carry forwards	$ 74,555	$ 36,550
Valuation allowance	(74,555)	(36,550)
Net future income tax assets	$ -	$ -

The Company has available for deduction against future years' taxable income non-capital losses of approximately $209,000. 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.

9. 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, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Included in accounts payable is US$45,746 (December 31, 2004 – US$12,982) which has been translated to CAD$55,687 (December 31, 2004 – CAD$15,641).

10. COMMITMENT

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

2005	$12,600
2006	800

11. SUBSEQUENT EVENTS

Subsequent to March 31, 2005, the Company:

a) Filed an Initial Public Offering ("IPO") for the issuance of 8,000,000 common shares at $0.25 per share for total proceeds of $2,000,000 to occur concurrently with the listing of the Company's shares for trading on the TSX-V. The Company entered into an agency agreement pursuant to which the agent will receive a commission of 8% of the gross proceeds, 100,000 common shares and agent's warrants equal to 20% of the number of common shares sold. In the event the Company withdraws from the financing, the Company will pay a break fee of $100,000.

b) Completed loans of $400,000, of which $235,000 are from directors, officers and associates of the Company, bearing interest at 5% per annum, unsecured, repayable on the earlier of one year or upon listing on the TSX-V. Additionally, the Company issued 1,280,000 warrants, of which 752,000 were issued to directors, officers and associates, exercisable at $0.125 expiring two years from the date of issuance.